Balfour Beatty 2012 full-year results

Q&A transcript

7 March 2013

Mark Howson, Oriel
Thanks, a couple of questions. Can you just firstly talk about the supply chain, the UK supply chain; I think a number of your peers have talked about meetings with government in the second half about sort of paying them a bit quicker, etc. I think you sort of moved on this in the first half of this year, have there been any changes to what you said, in the second half on that?

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Ian Tyler, Chief Executive Officer
So you're talking there particularly about payment?

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Mark Howson, Oriel
Yeah, topping up the supply chain?

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Duncan Magrath, Chief Financial Officer
Yes, I mean there are a number of things probably worth highlighting, I mean a) in terms of our payables performance it's virtually exactly the same as it was at the half year. I think what the industry is doing is looking at supply chain finance; we've been running a pilot on that. There was a slight pause in that because of CIS registration, but I think that's kicking off probably now, so from our perspective the supply chain finance will be in place from later this month.

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Mark Howson, Oriel
Secondly from me, if you go back to the November warning, there was about £1.3bn worth of energy related projects - biomass and everything else, which were delayed, due to the government that couldn't make up its mind what it wanted to do. Can you just give a feel for where we are on that, how many of the £1.3bn or so projects have actually come into the market now.

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Ian Tyler, Chief Executive Officer
We're not massively further forward, but Andrew?

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Andrew McNaughton, Deputy Chief Executive
Yeah, I mean we have had some movement and certainly in the portfolio we've been involved in. The Essex Waste project has moved forward. We've financially closed on Gloucester Waste. We're still sitting on a waste to energy project at Ince Marshes in the Northwest, where we're one of two. And again, that's one where decision making is very close to a conclusion. So we're optimistic that we'll hear a conclusion to that in the very short term.

Also, the other area, not just in generation, but in power transmission; you saw that we continue to be a preferred bidder on two of the OFTO schemes and we're all bidding the next one round as well. So these are projects that are still moving forward, but the pace of them moving forward probably hasn't increased.

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Ian Tyler, Chief Executive Officer

I think it's probably fair to say that that I think we will see an increase in pace from the government's perspective in 2013. My own discussions with them would suggest that they are increasingly understanding the urgency of this, albeit that it isn't necessarily at the moment manifesting itself in any real action. But I think we will have to see that move forward, and 2013 is a period in which that will happen. That will in turn impact order book, etc, at the back-end of the year and into 2014.

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Duncan Magrath, Chief Financial Officer

And in terms of generation the pipeline is about £600m at the moment, in terms of what we're looking at.

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Mark Howson, Oriel

Okay and just finally from me just a quick question on what do you expect the European Rail operations that you're going to be disposing of, how profitable or otherwise do you expect them to be in '13? And what impact do you see from the Department of Defence cuts in the US Military for your housing business there?

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Duncan Magrath, Chief Financial Officer

In terms of European Rail, it's just under a £500m business; I mean it really ought to be making 4 to 5% type margins, in 2012 it made about 2%. Clearly the reason we took the actions - we would be expecting to see that fall further in 2013. So we anticipated it being around about a breakeven business in 2013.

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Andrew McNaughton, Deputy Chief Executive

If I take the demand in Defence work, there won't be an impact on that because those contracts that we have moved into, we have the concession for those, the terms are agreed. There was a delay on the completion of two of the contracts that we were awarded at the end of last year, while the funding - where they went round a further loop to get the funding secured for that. But we now have that in place and anticipate those going to close within the next few months.

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Manu Rimpela, Deutsche Bank
Two questions on the Construction business. Firstly can you give us a bit of an idea in terms of splitting the margin, or the earnings into the joint ventures and then excluding joint venture? So the joint venture business generated a very strong margin for the full year 2012, so is that on a sustainable level?

Then secondly, in terms of the Construction outlook, especially for the US, so you mentioned that you've seen some improvement in the early months in 2013, so can you just elaborate on exactly what segments you are seeing it in, and are you also seeing some further improvement, or expectations that order bookings are going to start coming in?

Then thirdly, in case you make any disposals in 2013, what would you be doing with the funds, it is just going to be kept on the balance sheet, or do you have something in mind? Thank you.

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Ian Tyler, Chief Executive Officer
Just to take those in turn. I mean the first point I'd make about your first question of course, the split between what are joint ventures and what are not joint ventures, is really an accounting issue. We run those businesses and our activities as one activity. But Duncan do you want to cover the point?

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Duncan Magrath, Chief Financial Officer
Yes, I mean really in terms of the Construction JVs I guess there are a couple of points. One is obviously we highlighted at the interims that we'd had a very strong first half, which was around some of the improving liquidity in Dubai. Generally Gammon has been performing well.

The other thing that's probably ticked up year on year is that within there, there are some activities within for instance the US, so for instance the Denver Rail project that we won, is accounted as a JV in there. So there are some of our activities within the US particularly that come through on the JV line, so it's not just Dubai and Gammon which is improving those numbers.

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Manu Rimpela, Deutsche Bank
So is that a sustainable level - where we are today?

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Duncan Magrath, Chief Financial Officer
Well in terms of the cash improvements we got in the first half, they would fall out. I mean there are - hopefully, there may be some further upside at some point in the future but I wouldn't bank on that. So there will be a drop back for that. But the rest of the business is reasonably stable.

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Andrew McNaughton, Deputy Chief Executive

If I take your question around US Construction, I mentioned in my presentation that about 80% of our business there is in the US building market. We are seeing pockets of uplift in areas in the US, for instance our business in Florida is seeing some growth coming back into it. We're seeing places like Houston in Texas, particularly in that area where organisations are spending - are beginning to spend money, increase money… expenditure on office fit-out, but also some more development work. So that means we're seeing pockets of the private sector stepping back into the market and increasing that.

I wouldn't say that you can say that it's right the way across the United States, because it's a very large market, or actually a series of markets in the United States. We have been successful in putting work into the order book in the last couple of months, but as Duncan said, also some of it is a flow from what was in our awarded but not contracted, which has now moved into a fully contracted position.

As far as looking forward, can I give you any signals as to where it's going? Well certainly those areas of activity that are picking up, we're seeing more opportunities there. But I wouldn't say - you can't take it at this point that we're seeing a wholesale increase in the US market.

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Ian Tyler, Chief Executive Officer

And on your point about the investment of proceeds I'd simply come back to what we've said now over a number of years, or I've said over a number of years, and indeed what we discussed back in December. There is a clear strategy for the business and we intend to invest behind that strategy. Andrew?

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Andrew McNaughton, Deputy Chief Executive

I take absolutely no different view to that. You know the reason that we're looking at the elements that we are, is as an output of the strategy work that we've been doing over the last two or three years. The aim is for us to invest behind that strategy in the geographies and the markets that I've outlined. So our intent would be to utilise that capital, should there be any, to put forward into those areas.

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Joe Brent, Liberum

Three questions if I may, firstly on UK Construction, I think you're guiding down roughly 20%, what are the sensitivities around that? Normally that business has quite good visibility, where could you be wrong on that number?

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Duncan Magrath, Chief Financial Officer
Yeah, in terms of even at 20% there still obviously some win and do type of activity that needs to be done, that's probably round about £500m of revenue, £400m to £500m that would need to be won, even at that level. That's likely, as I guess I implied in my speech, that's likely to come from the regional market rather than large construction, simply because of the time lag and that's the market that's fiercest at the moment. So that's the sort of question mark around UK Construction.

The other thing is also the outturn margins at the moment. We touched earlier on one of those questions around the supply chain. We have seen more failures in the supply chain and that does at times end up costing us money. So those are, if you ask me what are my questions around the UK, it's around those.

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Joe Brent, Liberum
Thank you. And in the past you've guided us to disposal gains that will be included in the 2013 number, could you do that again now please?

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Duncan Magrath, Chief Financial Officer
Yeah, it's £40m for the next two years, so it remains unchanged.

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Joe Brent, Liberum
And finally on the US order book, could you give us some sense of where that stands today?

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Duncan Magrath, Chief Financial Officer
The aggregate is very similar to the £9.7bn I said in terms of the awarded but not contracted, plus the unexecuted orders. But as Andrew just said it's shifted, so lot of the ABNC has actually gone into contract, which is obviously good news, but the aggregate at the moment of broadly in line with the year end.

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Joe Brent, Liberum
Thank you.

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Howard Seymour, Numis
A couple for me please, could you start on the Rail side of things, and can you tell me where the European businesses that you are looking to dispose actually sit in the context of the businesses?

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Duncan Magrath, Chief Financial Officer
I could make a joke about in Mainland Europe, but they're in the Construction sector.

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Howard Seymour, Numis
They're all in the Construction sector?

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Duncan Magrath, Chief Financial Officer
Yeah.

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Howard Seymour, Numis
Thank you. The second question really was more general, it comes back to, Ian, you mentioned there about power and the UK government looking to try and do something. They've made a lot of statements recent on Autumn Statement PF2, etc. Just to make a more general question on UK government commitment and what they're actually doing. If you look at all those numbers there's quite a lot of numbers there, why is that not starting - or is that indeed starting to happen in the context of the various other areas of spend aside from Power that we've seen and should we expect it to start coming through, and when?

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Ian Tyler, Chief Executive Officer
Yeah, I'm likely to go on for a long time about this, as you and I have discussed before, this is an area where I've spent a lot of time talking to government about. I think let's cut through all of the nature of the dialogue, I think in practice we are going to see an element of input into the infrastructure sector, in practice not driven by the long term needs of the country and that would include the energy sector, it's going to be down to short term politics and the need to stimulate the economy and jobs.

In practice that's going to be limited because at this point in the process we have only a relatively short period to go in infrastructure terms before the next election. And that focus on the stimulation of the Construction sector will be in part on major infrastructure, but probably more in the housing sector in practice, because that's where the biggest short term impact can be had on jobs.

Now there's a lot of discussion and a lot of debate around energy, around highways and pricing, even around aviation. But all of those will play out over the, not the long term, they'll play out over the medium term and I think we'll see a lot of that stuff happening around the time of an election on the other side.

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Andrew McNaughton, Deputy Chief Executive
I mean I think it will be important to note that if you look at the major investment in infrastructure it still stands that the vast majority of that investment is not being made by the government. It's being made by the private and the regulated sector.

And if you look at the programmes of work that many of those organisations have, whether it be Network Rail, whether it be National Grid for instance, and we announced some great wins in the overhead line and the gas market for National Grid, both of those last year; those programmes are proceeding.

So when we look to the government they are actually having to see which areas they can put that expenditure into. Many of those programmes are long term and they are strategic in nature. But it's the short term local community investment that is going to drive us forward in the short term.

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David Phillips, Citi
Can you just give a bit of colour on what the average cash guidance is for 2013 and how that's going to phase through the year?

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Duncan Magrath, Chief Financial Officer
In terms of the second half as the slide showed it was at minus 126. If you go into the components of what I talked about in terms of the working capital going forwards then I'm expecting round about, with the volume drop in the UK, around about £90m - £100m working capital outflow in the UK.

The contract that Andrew just referred to when we announced that we highlighted the fact that there was about £55m working capital requirement there. So those are the two biggest items.

So I'm expecting somewhere around about £150m to £200m of working capital outflow next year, that will come through effectively on the average net cash position. So if you take where we were for the second half, £126m I would imagine it would be somewhere around £100m higher for next year.

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David Phillips, Citi
Thank you and presumably that more …

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Duncan Magrath, Chief Financial Officer
That will be more first half weighted than second half.

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David Phillips, Citi
And no huge change to the payables rate, that's sort of flat across the board? Thank you. In terms of bid costs that you've got year on year and teams that you've got actively seeking work against a market that's proving stickier to deliver. Have you made any cuts there; is that part of the people cost?

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Ian Tyler, Chief Executive Officer
Particularly in Construction.

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David Phillips, Citi
Particularly Construction yeah.

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Andrew McNaughton, Deputy Chief Executive
I mean part of the savings and the costs that we have been taking in there are reductions, structural reductions in those areas. I mentioned about the reorganisation of our UK business and we've been taking those not just here in the UK, but also in the US as well. So in response to the market conditions, those bid teams have been changing in shape. They've also been changing in scale, so that reflects through into the savings that we're generating as we go.

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David Phillips, Citi
Thank you. Sort of a more general question, I mean given that the shape of the balance sheet is changing and the cost of capital is on the up because the supply chain cash isn't there, are you - when you're looking at infrastructure investments are you ascribing a higher cost of capital internally than you were maybe 18, 24 months ago?

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Duncan Magrath, Chief Financial Officer
Not particularly, I mean if you look on the Investor Day, I think Ian was probably in the audience when Ian Rylatt was talking, we targeted the IRR returns depending on the risk of the project and they were considerable in excess of our weighted average cost of capital any way. So I don't think a marginal shift in that would have an impact on the returns we look for in the investments business.

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David Phillips, Citi
Thank you.

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Andy Brown, Panmure Gordon
I've got three questions. The first one, on Support Services and the margin outlook there, have you got any large mobilisations this year going through, which are going to impact the margin?

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Duncan Magrath, Chief Financial Officer
We have renewal of a Rail contract which is it's the last year - year ten of the RT24 contract, so that's a major renewal that's going on in the year. In terms of mobilisations I don't think ...

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Andrew McNaughton, Deputy Chief Executive
The main one is National Grid, so in terms of the gas project that I talked about, one piece was a retention of a contract that we already had, but we also extended that, so we've got an extra area that we're mobilising this year, but that's already factored into the pricing and the working capital issue that Duncan talked about.

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Andy Brown, Panmure Gordon
Okay, so the margins should pick up then in '13 over '12. And as a side to that if WorkPlace is sold or disposed of does that improve the underlying margin of the Support Service business?

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Duncan Magrath, Chief Financial Officer
No.No.

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Andy Brown, Panmure Gordon
Very clear, thanks for that. The second one, I couldn't see it in the numbers, it might be in there; is it possible to break down the order book now by the segments, so Power, Water, you know the new segments that you're targeting, I know you've given us the headline number in terms of 63%, is it possible to break that down further?

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Duncan Magrath, Chief Financial Officer
We've got it; I'll have to give it to you later because I couldn't actually remember it off the top of my head.

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Andy Brown, Panmure Gordon
Thanks. The final one, by getting out of the European Rail businesses, does that mean that Europe is now off the agenda in terms of a region for Balfour Beatty?

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Andrew McNaughton, Deputy Chief Executive
I think strategically I mean we've signalled that the areas that we're going to be focussing on, certainly in the near term, through to the medium term are those that have economic growth. I guess I could leave you to figure out in your own mind

whether we see there's going to be any economic growth in Mainland Europe over the near term. Certainly our focus is going to be on those areas where we have an established footprint and pushing that forward.

So I talked about Australia, we've also got Canada, South Africa and also where we've made movement into India. Those are the areas where I'm going to focus on, on the fact that we're seeing increased expenditure and increased growth in the kind of infrastructure opportunities that we're talking about. Those are what we're going to focus on in the near to medium term.

Do you ever rule anything out? You can't ever rule anything out, but as I say, what we've got to focus on is where those economies are growing, and so Mainland Europe right for now is not going to be top of my list.

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Ian Tyler, Chief Executive Officer
I think the short answer to the question there Andy, was yes.

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Olivia Peters, RBC
Just firstly on the awarded but not contracted projects, can you give us an idea - I'm sure you'll want to say that there's never any fallout, but given the recent announcement on I think it was Suffolk, the Suffolk contract, what percentage of contracts actually end up being contracted as it were?

And also on the strategy and the regions that you're focusing on, obviously you gave us - we had the Investor Day before Christmas, can you give us an update on the progress that you're making there in the different countries. So I know that for example in South Africa I think you had a relatively small team there. Can you just tell us what's going on now? Thank you.

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Duncan Magrath, Chief Financial Officer
Yeah in terms of the awarded but not contracted, I guess that's why we don't publish the number, because items can move out of it. Generally in the awarded but not contracted, what would be more likely is it just drifts, so the timing is less certain rather than the contract not ending up in a contracted position.

You're right about Suffolk, we also, if you remember in the middle of last year, we also were somewhat surprised that there were a couple of contracts that came out of the awarded but not contracted in our US Construction business, which was unusual. But generally it doesn't happen, generally they go through - I mean I would guess, I don't know what the percentage is, but it would be 90 - 95 or possibly higher.

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Ian Tyler, Chief Executive Officer
I mean it is quite rare and it's one off instances, but certainly I think typically we would look at a figure of somewhere around 90% certainty, those sort of areas.

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Andrew McNaughton, Deputy Chief Executive
Taking your other question about progress, clearly it's a continuum that we're doing now. And the point I was making around stepping up over the next few weeks as to where our focus is, we're moving - the action that we've been taking over the last few months is taking us from our capability based business, to establishing country leadership. So over the last couple of weeks and over the next few weeks we're appointing the management teams that are therefore looking after all of our business operations in those particular countries.

The progress, each of them are moving in particular directions, there's bidding activities going on in each of those countries, and that's why I've said that the right place for me to do that would be to come back in August and tell you where we are with each of them.

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Stephen Rawlinson, Whitman Howard
Two from me. Firstly, you spoke quite positively in the statement about UK Support Services, in particular local and central government. And yet actually we don't see that many projects, you withdrew from Suffolk for reasons that weren't completely explained at the time and there are probably five or six companies that are quite large in that area already.

So I just wondered if you could talk to me a little bit about the margin growth progression that you see, but particularly also the terms of trade in there, because obviously people will be looking across at the investment that's to be made in the Staffordshire project that Capita won, and also your working capital arrangements on National Grid. I mean is that going to remain the sort of attractive market that you've described in here, in the future, given what's going on in that marketplace?

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Ian Tyler, Chief Executive Officer
That's just one question; there was a lot in there.

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Stephen Rawlinson, Whitman Howard
A number of points, but one question.

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Andrew McNaughton, Deputy Chief Executive
Let's take Suffolk specifically; we withdrew from Suffolk because there were some specific risks in there, which we could not come to the proper reconciliation with between ourselves and the customer. Our offer was based on a particular premise and we couldn't reconcile that with the customer and therefore it was, in our mind, the right decision if they wished to move in a particular direction. So it focuses exactly to your point around, you know what are the terms and what is the risk transfer.

If you look at National Grid for instance, that working capital, we judge that as a good use of working capital, because wrapped into that contract, the current returns that we're going to see from that are quite favourable for us. So in terms of how we would allocate the use of our working capital, that contract is quite a good contract for us. Hence the reason why we were quite welcoming the fact that we extended the scale of that rather than where we were before.

I think to take your point of where it progresses, I think each of the models you have to look at on their own merits because there is no single model in terms of whether it be outsourcing from different sectors.

One of the fortunate pieces we have it in, and National Grid was a good example of it, is that we are a scale of organisation that can actually look at those in a particular way and therefore we can have the kind of conversations with customers in terms of how we would structure those kinds of contracts. So we're going to have to look at them each one in its turn, is it an attractive market? Currently yes.

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Stephen Rawlinson, Whitman Howard
And the second question, I'll try and keep it a little briefer. On the cost reduction side of life, sometimes when companies enter this sort of phase it becomes a bit of a habit and they find more cost reductions so the questions are twofold. Firstly is that what you might expect to happen? And secondly would you see the pound for pound cost of reducing costs, at the moment I think on slide 19 it's cost you £61m to achieve £36m of savings this year. Is that the sort of ratio we would expect to see going forward or is there something special that's happened in that first phase? Because normally you'd expect a pound for pound sort of thing.

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Duncan Magrath, Chief Financial Officer
Yeah if you look at the 61, that relates to we gave guidance of between £50m and £75m for that and that's within that guidance. I think if you look at the graph that we showed in terms of the colours, you've obviously got the procurement benefits, you've then got the red element which is related to people and then the lighter blue element related to IT and property. Some of the things like the property benefits will take quite a while to come through. In terms of the IT some of that's quite back-end loaded as well. The people one are coming through as we speak, as those are going through. So in terms of

the ratio, the ratio should flip the other way. I mean we've incurred a lot of the costs now so the ratio going forward will definitely improve.

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Ian Tyler, Chief Executive Officer
To be clear about that, the £61m will drive cost savings in 2012 and 2013. So some of that is in the graph on the 2013 bar so you can't look at the comparison of 36 to 61, that would be the wrong comparison and your figures are not a million miles out.

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Andrew McNaughton, Deputy Chief Executive
I think taking on your first point about it becoming a habit, I suppose in the forever drive to become efficient that becoming a habit is probably not too bad I think provided we actually see and quite rightly we see the run rate being generated and the benefit to shareholders. So we've got to look at - and each time as we're looking at the way we're restructuring the business and with the move to a country model, I've no doubt we're going to see some further synergies that we can take advantage of.

So I wouldn't rule out us actually foreseeing further cost efficiencies that are going to come out and there may well be some costs associated with that. If it's the right thing to do then we'll implement it.

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Ian Tyler, Chief Executive Officer
Just to make one obvious point there, the programmes of cost saving, this is structural cost saving. There is, if you talk about habit and a way of life, there is within the normal trading of the business the cost of downsizing the trading operations of the business particularly in the construction sector. That happens every year but perhaps more so in 2012 than - and it will happen in 2013 as well.

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Will Morgan, Goldman Sachs
Good morning. I have three questions I think. The first one is on construction. Ex the JVs it looks like your margin has halved from about 2% to 1%. Could you just talk a little bit about how the margin is currently splitting between the US and the UK and just talk a little bit about how you're thinking about the evolution especially in the UK into 2013.

The second question is in the US we've heard from a number of companies that large civil contracts are starting to see a little bit of a comeback. I think in the past you've been a little bit hesitant about pursuing this type of business due to the high risk associated with some of the high margin. Is that still the case?

And finally just on the slide where you showed the balance between your net cash, the value of your infrastructure portfolio against working capital, that's obviously in balance.

Is it therefore appropriate to think that when you're looking at potential future acquisitions we can think about it as a sort of one in, one out with you know you sell an old business to buy a new one or are there other sources of funds such as the private placement you did that could add a bit more flexibility? Thanks.

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Duncan Magrath, Chief Financial Officer
Shall I deal with the first and third one, Andrew can talk about the second one. In terms of the margins, as I said the margins in the US are pretty stable, they're around about the 1% level. Just remember that that is largely an 80% building business, that's a CM at risk business. Within the UK, that margins in the UK are around about the 2% type level and then in addition in there you've got things like a) you've got some overhead and b) you've got some of the rail activity as well that sits within there. So when I'm talking UK I'm talking about UK Construction as oppose to Rail. So those are the mixes.

In terms of the UK as I talked about earlier, we are going to see probably increasing pressure on those margins going forwards. Whether it will go down for the individual UK bit below 2% we'll have to see but that's the sort of probably level we're operating at, at the moment. It was better than that in 2012.

In terms of the third one around the balance of the balance sheet, yes I mean essentially our funding of bolt-on acquisitions is likely to be a churning of the existing capital given in the current environment. Clearly when the market starts to recover and we generate additional cash not only through more profit but also from working capital, then we can potentially look at that again.

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Andrew McNaughton, Deputy Chief Executive
I think your observation around US infrastructure projects and the rumour of larger ones coming about is quite correct. There are large infrastructure projects that are coming about. Our appetite for them, seeing an interesting twist in our appetite for them, I mean we mentioned Horseshoe in November, that's a pretty substantial infrastructure project in Texas for us. But the interesting twist for us is since we've acquired Parsons Brinckerhoff of course it gives us a different and additional lens on those types of projects.

Horseshoe for instance is a project that was won with our construction business and PB working together. We've got several other bids that we're not only working on but have submitted where the team are working together. This gives us an extra ability to examine the risk profile in those.

It also give us an extra avenue to actually take part in those kind of projects where Parsons Brinckerhoff are not only working as designer on those kind of projects but increasingly becoming a partner for major constructors like Skanska in the US. So we are accessing a bigger portfolio of those kind of projects and being able to do it in a different way.

The last thing I'd put into there is that sources of funding are becoming interesting as well. So there is an upsurge in the US of PPP style projects in infrastructure which again gives us the ability to absolutely maximise our input through our investments business, the design capability through PB and our construction activities. So there's a whole new canvas for us to work on in those projects where we can understand better the risks associated with them.

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Ian Tyler, Chief Executive Officer
I think we've got a couple of questions from outside the room.

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Basak Kotler, Head of Investor Relations
Just one question from the webcast and it reads, what is your dividend policy going forward?

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Duncan Magrath, Chief Financial Officer
Yeah so I'll repeat what I said earlier. We held the final dividend in line with last year. Clearly we understand the importance of growing dividends to shareholders. We'll make any decision around the dividend at the time when we get there so that will be at the interims.

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Kevin Cammack, Cenkos
Two please. Firstly I think you mentioned short term the margin going back in Professional Services this year. Could you just sort of explain to me why that's the case?

And secondly I understand, appreciate what you said about holding back on some of the detail and the deeper thoughts on the country model. But can you just say a little bit about what this may mean for your sort of risk strategies bearing in mind the economies that you've talked about going into, and also sort of any implication for overhead as you switch the model in the sense that the cost savings you're talking about are fairly focused in the UK. Ultimately will it mean that all those savings disappear into an overhead establishing in other countries?

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Ian Tyler, Chief Executive Officer
I'll just take those questions one at a time. I'll let Duncan deal with the detail but the point I would say about Parsons Brinckerhoff is that the margin trend is a very clear upward trend and we are moving towards that 6 or 7%. It isn't an absolutely linear trend which is really the point that we're coming onto, but in terms of the details.

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Duncan Magrath, Chief Financial Officer
Yeah well I mean I think the only thing to add was that I guess what we were highlighting was that there's an improving underlying trend within Professional Services that is moving it forwards towards the target. If you remember there were three phases, three ways that we were going to get to our 6 to 7% target. One was the original sort of initial cost savings of the corporate costs which obviously happened '09/'10. The second was focusing on a more profitable, cost effective model which is what they've been working on. And the third phase was trying to attract and look at more what we might call PS plus type projects where you can get incentive and upsides from those projects for successful completion rather than simply being a pure man hours business.

And we got some of that, in power in the US and in Australia in 2012. I'm not ruling out getting it in 2013 in which case I may be sitting here in a year's time saying we hit the same margin percentage again, but as we sit today I wouldn't necessarily bank on those incentive payments. So it's just around that bit, it's just at the margin.

. . . .

Andrew McNaughton, Deputy Chief Executive
I'll take the two points Kevin that you raised about the country model. First of all risk, I presume you're referring to acquisition of work type risk in terms of our assessment of that. Yeah, good question. I mean the purpose of this is to bring all of our activities under a single leadership in a country so that they can focus a strategy around what we deliver in a country. The aim of that is for us to provide expertise from around the world in whatever the specific sector is to ensure that when we acquire new business it's doing so with the full knowledge and the full expertise of the business, so in other words we are actually strengthening the ability of those countries to actually take on new types of work.

In terms of overhead, I mean the whole point of this is to drive synergy and therefore savings in overhead. So I mean if I give you an example for instance, in India we had an established PB business. We were in the process of establishing a Balfour Beatty construction type led business, or looking at that in our joint venture with Tata. By bringing those together we're actually bringing the management team together and therefore we're having the ability to take savings out of it. So we're doing that in similar ways in other parts of the world as well. So I don't envisage an explosion of overhead in doing this. I'm anticipating quite the contrary.

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Kevin Cammack, Cenkos
So just to go back to the risk analysis thing. Are you confident that you actually have that mobility of skill and labour? Because presumably, I understand what you're saying but you're sort of saying if the skills for a particular project are in America and you win

work in Africa or Australia you believe that it's reasonably easy to shift that skill. The mobility of that skill is - I mean is it technology moveable or is it people moveable?

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Andrew McNaughton, Deputy Chief Executive
If I give you two examples between the UK and Australia right now. I mentioned one earlier in terms of highways maintenance. So we're already taking the skills in terms of people and the processes that we're operating here in the UK and taking those to Australia to support the team in developing and bidding for that work. Equally if we look at water opportunities in Australia, our utilities business here is already in the process. They are actually bidding with resources from here. And the anticipation is that being successful in those contracts we will transfer people from the UK to Australia and those individuals are already identified. So we're able to actually take the resources and move them into those locations to support.

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David Phillips, Citi
Hi a quick follow up on the European rail disposal and I guess is there a risk that an intention to dispose of the assets for a reasonable price becomes a phased wind down which means that actually the cash inflow that results and it always - you know selling a business that's moving from profit to break even is always harder. How do you think this whole thing is going to play out and would you put a target on the cash that you think is available?

. . . .

Duncan Magrath, Chief Financial Officer
It's not one business so as we said we've managed to dispose of Spain to the management. The big lumps are Italy, Sweden, Germany and I think there'll be a different solution for each of them and they will each take potentially different lengths of time. So it will be a phased transition and some of them will be easier than others.

In terms of putting a number on it, I guess what I was flagging up was we effectively written down the goodwill from 156 to 61 and essentially there's net assets of about £100m in there so we'd be aiming to crystallise that.

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David Phillips, Citi
But ultimately it's still a £500m business in aggregate but it's not £500m becoming 350 over the next 12 months? It's still going to sustain a level of revenue?

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Duncan Magrath, Chief Financial Officer
Yeah.

. . . .

David Phillips, Citi
Thank you.

. . . .

Andrew Gibb, Investec
Just two very quick ones from me. I think you mentioned in UK Construction about project completions, you know successful completions there. Could you quantify the impact that would have had on the total margin there in the business?

And then secondly, just on where peak debt was during the year and new facilities in place now with the private placement, what total facilities now you have in place?

. . . .

Duncan Magrath, Chief Financial Officer
In terms of the first one I guess we've highlighted a number of things. One is we've had some successful project completions in the UK Construction but we also, as we talked last year, we had some hits as well. I mean the effect of those broadly match out to be honest so I wouldn't take one out without the other to be honest.

In terms of the facilities, under our main banking facility we've got £850m committed through to 2016. There's another £100m facility so that's £950m, also through to 2016. And then the PP is over nine years.

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Andrew Gibb, Investec
And just where peak debt was for the 2012?

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Duncan Magrath, Chief Financial Officer
Yeah you can basically look at the average net debt position and at peak it's probably normally about £200m worse than that.

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Andrew Gibb, Investec
That's great thanks.

. . . .

Andy Brown, Panmure Gordon
Just going back on the dividends and the policy. I think in the past you've talked about using disposal profits to ensure a progressive dividend. I can't remember if that's right or not but if it is right is that now changing on the basis that you've held the final dividend flat?

. . . .

Duncan Magrath, Chief Financial Officer

Well when looking at the dividend effectively we calculated if you look at something like - we look at a number of different things but dividend covers one of the things we look at within the dividend cover of 2.5 there are the disposal profits sitting there.

. . . .

Andy Brown, Panmure Gordon

So in terms of a target dividend cover where are you now? Is there a range in which you're trying to keep within or ...?

. . . .

Duncan Magrath, Chief Financial Officer

Not particularly. I think it very much depends on the outlook in terms of, you know, if you've got a short term dip then you'd look through it. If you thought there was a longer term period you'd be more worried about what the actual dividend cover is any point in time.

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Marcin Wojtal, Bank of America Merill Lynch

Just one quick question on the US construction. You indicated that you expect more or less flat growth in revenue in 2013 in the press release. Is it in US dollar terms or it's in sterling terms with some positive impact from FX at 0% growth?

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Duncan Magrath, Chief Financial Officer

I'm not sure I was going to be that precise. Yeah it's broadly flat in dollar terms probably.

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Mark Howson, Oriel

Conscious of time so it's not actually a question. I'd just like to say obviously Ian Tyler's last meeting. You know there's been some real highs within my time working with him, the highs of winning work on the London Underground PFIs to the lows of having won work on the London Underground PFIs.

Laughter

There's been some great analyst trips along the way including Disney's Animal Kingdom which was all very cute. Some great bars were taken in Savannah, I can't quite recall what the message was on any of these trips but probably the time in the bar helped with that. I just want to say I think on behalf of all the analysts here I think you've done a great job. You've always been quite friendly and always come across as relaxed despite whatever is going on in the business. So great job. I think it would be a good idea if everybody could give thanks in the usual way.

Applause

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Ian Tyler, Chief Executive Officer
Just to say Mark thank you. I genuinely wasn't expecting that. That's very kind of you indeed and I meant what I said earlier. To everybody in the room here thank you very much for all of your support and all of your friendship over the years; it's been absolutely tremendous, thank you. And Mark thank you very much for those words, that's very kind of you. Thank you.

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