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Presenter: Ian Tyler, Duncan Magrath, Basak Kotler

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Operator: Good day and welcome to the Balfour Beatty 2012 Q3 IMS conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Ian Tyler, CEO, Duncan Magrath, FD, and Basak Kotler, Head of IR. Please go ahead.

Ian Tyler: Thank you and good morning, thank you for joining our conference call for the Q3 Interim Management Statement which, as you'll see, we released this morning. Now if you'll allow me a few minutes, I'd like to summarise the developments in the quarter before Duncan and I take your questions.

Trading in the quarter in our Professional Services, Support Services and Infrastructure Investments divisions was in line with our expectations, demonstrating the resilience and strength of these businesses in what is a challenging economic environment. All three divisions performing well, with good levels of activity, and are on track to achieve the targets we outlined at the time of the half year results. Our fourth division, Construction Services, on the other hand, has experienced increasingly difficult market conditions so let me focus on Construction Services now, take the issues in three discrete pieces and explain the changes since our half year announcement. So I'll start with the US market.

In the first half, we were encouraged by the improvement in the leading indicators and the anecdotal evidence of new work we were seeing in certain pockets in the US. This, however, has not led to a consistent positive trend in the institutional building market, which accounts for the majority of our work in the US. In reality, there has continued to be a general lack of larger, complex projects where we can differentiate ourselves, and in this environment our US construction business has performed in line with our expectations in the quarter, although the order book has decreased.

In the UK we are seeing further market deterioration. On the one hand, the business is continuing to migrate towards smaller contracts in a market with very few major projects. To give you an understanding of the scale, approximately half of our order book is now in our regional business, up from a third a year ago. On the other hand, the supply chain is suffering, which in turn reduces our ability to negotiate terms that match the worsening conditions. The adverse impact of these recent developments is expected to reduce profitability slightly this year.

Looking at 2013, there is limited visibility due to smaller projects and shorter lead times, but our present assumption is that market conditions will not improve and we therefore expect a further decline in activity levels and pressure on margins. Having said that, we continue to make progress in restructuring our construction operations, both in the UK and the US. The reduced structural cost will, in part, offset the impact of volume and margin pressure. Separately, in our Rail Construction business, we expect further structural issues to adversely impact profits by around £10 million in 2012. In particular, we now have critically low activity levels in Italy and Spain and increasing commodisation of work in Germany and the UK. At this stage it's difficult to say anything more than that we're currently undertaking a review of the operations across our European rail business in the light of these structural factors.

So let me wrap up Construction Services by repeating that this is largely a cyclical business and that there are lots of unknowns for 2013. We'll keep you posted as market conditions unfold and our actions to mitigate the difficulties that we put in place.

Professional Services, Support Services and Infrastructure Investments are proving to be strong and resilient businesses and are at the heart of the infrastructure strategy we're pursuing. In the medium and long term, we're confident that our position in infrastructure markets, our focus and competitive advantage in transportation, rail, power, water and mining verticals and our initiatives to access growing markets such as Australia, Canada, Brazil and India will stand us in good stead.

So Duncan and I are now happy to take your questions so operator, over to you.

Operator: Ladies and gentlemen, if you would like to ask a question at this time please press *1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you feel that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal. And we will take our first question from David Phillips of Citi. Please go ahead.

David Phillips: Hi, good morning, everybody.

Ian Tyler: Morning.

David Phillips: Could I just ask about the UK order book as it stands today in absolute terms versus what it was 12 months ago, and with that in mind, what sort of level of volume are you thinking about is likely for 2013?

Duncan Magrath: Sure, so it's Duncan here. We saw, on the reduction in the order book, the £15 billion down to 14.4. £500 million of that was really in construction, within that £500 million, roughly three-quarters of that is within the UK – sorry, is within the US, and a one-quarter of that is within the UK. The reduction in the UK order book, whilst not terribly significant at the moment, I think it's more the outlook for the market in the future that is a concern, and the change in the composition of the order book as we see it. So the US order book, whilst it's down quite – you know, 300 million or so sterling from the half year – we are, looking forwards, we've got greater visibility of the projects that we have looking forwards on the US order book. So actually, sort of interestingly, the order book movement in the numbers perhaps doesn't necessarily tell what we see in the marketplace going forwards and how that would impact us.

David Phillips: Right, okay and I mean at the moment, at this stage are you able or thinking about giving some sort of margin guidance, how weak do you think it could get given that you're not able to pass through the pain to the supply chain. I mean, is it going back to historic industry lows on the margin front in 2013, is that – or is it not quite as bad as that?

Duncan Magrath: In fact, sorry, one other thing I'll just add to the order book just to perhaps give you a better flavour for that and then margin, and then perhaps Ian will talk about margins. The other thing I meant to say was at the half year, we showed a sort of phasing of the order book, how it would play out year-on-year and we showed that the construction order book for 2013 was down sort of 20% versus the same level last year. So we were looking at 2.8 billion of orders converting into revenue in 2013 and 3.6 the twelve months before. That sort of gap between where we were 12 months ago and where we were today has continued through Q3. So whilst the order book's grown, there's sort of a discount on the previous years. So you know, if nothing changed, that would translate into a 20% revenue drop. The reality is, as I said earlier, we don't necessarily expect that following through in terms of the US but we are seeing that sort of there will be a reduction in revenue next year overall, we believe at the moment, based on what we can see in construction.

Ian Tyler: And your point on margin I think is the crucial one in all of that. We've got, obviously we've got a number of factors in there. First of all, given what Duncan's just said about the order book, we are going to see a mixed effect between the UK and the US which just, by the very structure of it, will take margins down a little. Secondly, we are continuing to see, and certainly in the UK in particular but it's also to a large extent true in the US, an almost total absence of those very large projects which again has that margin impact. And thirdly, we're starting to see if not the actual, the absolute level of bid margin change. We're certainly seeing tightening of the supply chain, which essentially it, to all intends and purposes, just simply squeezes those margins down further. That will impact margins and that will reduce them from where are at the present time. That's inevitable. The question, the real issue for us I think is that balance of risk and reward. The reality is next year, as I see it now, but again we haven't pointed—we don't have good visibility, or as good a visibility as we would normally have, is the extent to which we will need to be pulling away from some markets where quite simply the level of margin, or the level of margin versus the risk of activity is simply too low. That will almost certainly have the effect of reducing the absolute reduction in margin but of course that will be at the expense of volume, and as we move into next year, that's something we're going to have to be looking at very closely. Do I expect it to go back to sort of historical lows back in the 1990s? I think in practice, as I think I've said before, the structure of the market is quite different now but I wouldn't underestimate the point. We are definitely in a world at the moment where we are having to look at desisting from certain areas of the market.

David Phillips: Okay, okay. Understood, thank you. And just finally on the cash position, which clearly we'd hope was going to bounce back second half and then improve in '13, can you give a sort of feel for where you think average cash debt is going to be for the second half and whether there's any sort of disposals/outlays that are going to influence it in the next couple of months as well.

Duncan Magrath: Yes, I mean at the interims, I was expecting sort of two trends on the working capital and the cash. I was expecting a further deterioration in the UK working capital and I was expecting to see some potential recovery in the US as the orders pick up, but clearly what's not going to happen based on what we just talked about in the order book is the pickup in the US. So I'm not now expecting that to happen this year. So in terms of the year end position, we will be slightly below where we talked about at the August interims. So we've got an average for the nine months of net debt of –15 and I would expect that to be around –40 for the year as a whole.

David Phillips: Okay, okay, that's great. Thank you very much.

Operator: And we will take our next question from of Manu Rimpela of Deutsche Bank. Please go ahead.

Manu Rimpela: Good morning, gentlemen. Can you hear me well?

Ian Tyler: Yes.

Manu Rimpela: Excellent. Could you just give us a bit more colour on what has changed compared to the previous first half year results and the outlook given there and then in that time between the IMS statement in terms of the leading indicators and now the lower guidance? So has there been such a sharp deterioration in these few months or is it something you observed already in the first half of the year but you were hoping that things would pick up?

Ian Tyler: There are a number of factors in all of that and again, I make the point that at this stage, it is very difficult for us to give any sort of – we can't give any guidance for 2013. All we can do is to give you our views on where that market's going at the moment. Certainly we would see a number of trends that are different now to where we would have seen them, and to your point exactly where we might have anticipated them going. I put that in several points. Number one, we are, I think it's reasonably clear, unless we see something change quite quickly in the market now, the practical consequences of 2013 are that we are not going to see a recovery in the US impacting revenue and earnings in 2013. That was certainly, I think we were a little more optimistic about that a few months ago and again, I think that's entirely – I mean, our views on that are consistent with the indicators in the market.

The second point is that we would have anticipated three or four months ago there being a number of areas which we would see coming into the market, particularly in the UK, and that would particularly be around infrastructure, infrastructure work in the UK. We're seeing at the moment, and again we've referred to this over the last month or two, an absence for example of any significant work in the power sector in the UK. Now I'm not talking about the very large projects there but the smaller projects which, had they come into our order book at this point, we would have been executing them during 2013. We've got a lot of those potentially on the horizon but none of them that we would expect now to move forward quickly enough to make an impact on 2013.

And thirdly, and it is a consequence of all of that, the absolute level of activity that we're now seeing, not so much from the order book at the moment but what we're seeing in the pipeline coming up and coming into next year, is lower and the impact of that, just looking at where the supply chain is at the moment in particular, is going to have an impact on absolute margins in a number of areas, and they come down to discrete elements of both our regional and our major projects market, and as those margins start to move further, we start, we have to look at whether those businesses in the short term are becoming increasingly marginal for us. So those I think are the three things particularly in the construction sector. Does that answer your question?

Manu Rimpela: Pretty much, so just kind of it seems as it's more of the volume, volume-driven issue where the pipeline is getting weaker, and have you seen cancellations of projects as well or is it just that the projects are not going ahead?

Ian Tyler: We've seen two or three things. We've seen a lot of you might call slipping to the right, a lot of things which are going to happen, they're just simply not happening very quickly. We have seen, but I'm not sure I would draw any particular conclusions from it. We have seen projects not—no projects that are in our order book. The order book is, as you know, a very secure figure, but in our ABNC figures in the US, probably for the first time for quite a while, we've had projects that have been in ABNC, things that we have been expecting to be delivered which have been cancelled. Not a material impact on the total but again, just something to be aware of. But in the end, you're quite right. This is a volume issue but let's make no bones about it. Margin in the market as a whole at the macro level will follow volume.

Manu Rimpela: Okay, and then my final question. Can you just give us a bit more idea in terms of the construction margins if you kind of would exclude the cost savings? So do you think that the underlying margin, is that on a declining trend? And then including the cost savings you are doing and the potential new ones you're going to be implementing, so are you planning to offset that decline or is margin still going to be, including cost savings, down?

Duncan Magrath: You're right, the cost savings will offset some of the trends that Ian's talked about but I think the – and Ian talked about then the mix effect between the UK and the US and the mix effect within the UK between the larger and the smaller projects. I think the net effect for that is that we are expecting pressure on the net – sort of the net delivered margin at the end of the day will probably come down slightly in 2013 compared with '12.

Ian Tyler: I mean, there's a very obvious point there in the sense that we are in the middle, as you certainly see in the UK, and now very publicly in the middle of a very large restructuring of our construction business. The scope to tactically take costs down further whilst we're in the middle of all of that, as we see the market fall further, we will certainly do that. We will certainly need to push and change that restructuring programme in the light of the markets that emerge, but right at the margin there, we are – we're set down a path of structural change. The impact of that change is already baked into our forecast for the future. We will move further but you know, we do need to ensure that we keep the organisation and the capacity and capability of the business together whilst we're doing that. So we may, right at the margin, be just a little bit limited as to how much further cost we can take out.

Manu Rimpela: Okay, thank you.

Operator: And we will take our next question from Gregor Kuglitsch of UBS. Please go ahead.

Gregor Kuglitsch: Hi, I have a few questions. The first one is just on the cash. Am I calculating correctly that you were running an average 115 million debt number in the third quarter?

Duncan Magrath: Yes, that's right.

Gregor Kuglitsch: Yes, okay, thank you. The second one is on book to bill, it is about right that your sort of Q3 book to bill was somewhere around 0.8? I don't know if that's roughly the right maths.

Duncan Magrath: Yes, that's, that's – yes, that's not a bad number. I think the – I mean picking up perhaps the comment on earlier, I mean we did see, if you look year over – I mean clearly book to bill is also affected by the revenue that's flowing through your books but we did see year-on-year order intake improve in the first two months – first two quarters – and we saw it reduce in the third quarter, which is picking up Ian's point of earlier which is what are the significant changes but yes, we did effectively around 0.8 is not a bad number for book to bill.

Gregor Kuglitsch: Okay, thank you and then maybe just a question on sort of the outlook for the UK because obviously there's been I think two national infrastructure plans but it seems like we're not actually seeing any, any of that. I was just wondering what you think ultimately the government's going to do in terms of trying to maybe come up with a new PPP scheme or something like that because obviously there is clearly a problem here because there's basically no new infrastructure work so just interested whether there's anything happening or it just seems like maybe there is nothing happening.

Ian Tyler: Well, unsurprisingly, and again we can talk about this for a long time so I won't go on into too much detail, but we have been and I've personally been engaged quite heavily with government on all of this. I think it's fair to say that the government themselves recognise that there is a gap between their aspirations in infrastructure and what they have actually delivered. I do think that we will get a new PPP structure. I think it will be – I think it has to happen and I think we'll hear something on that in the reasonably near future. The reality is that things like the guarantee scheme that they put in place, all of those sort of things are helpful but until we get for example clarity on energy policy and particularly around the reform of the energy market and things like that, we are not going to see the projects that we can see backing up unlocking. And again, there is going to be a lot of expenditure in this area but the reality is that that is looking like it's going to all flow through probably now 2014-2015, assuming that even now we start to see real progress from the government. The reality is that there is a significant lacuna between what they want to achieve in infrastructure and actually what they're delivering in the short term, and a point we've made quite specifically to them.

Gregor Kuglitsch: Okay, and the finally – thanks for that. Then finally, can I just maybe check what your thoughts are given that earnings seem to be under a bit more pressure than previously expected, how you're thinking about the dividend policy, because I think previously you were still sort of pursing a progressive dividend policy, i.e. growing the dividend. Is that now off the cards? Would you be more inclined to hold a dividend in this sort of scenario that you're painting right now or is it too early to comment?

Ian Tyler: Well, I think, I mean inevitably we would need to make decisions on the dividend at the time, that's inevitably the case, but nothing in the IMS changes our underlying approach to and our underlying policy around dividend.

Gregor Kuglitsch: Okay, thank you very much.

Operator: And we will take our next question from Joe Brent of Liberum. Please go ahead.

Joe Brent: Morning, gentlemen.

Ian Tyler: Morning.

Joe Brent: Two questions if I may, just firstly on sort of cost-cutting. I understand you don't want to cut to the bone but I think there will be some markets you could access and in particular I think you said rail is particularly subscale. Can we expect some sort of Phase 3 restructuring at some stage?

Ian Tyler: Yes, okay, I think there were two different things there. The point I was making just now it is only a question of the sort of quantum of change at any one time that the organisation can manage its way through. No, I think – yes, I think there will be a Phase 3 that you're talking about but I think that would be true anyway and I think that will be responsive to somewhat different market conditions than those that we had anticipated. Again, a lot of the focus here at the moment, if we're going to be fair, is on one piece of the business, on UK construction.

Your point about rail I think is a more – is not so much a sort of cost reduction issue. We are going to have to look at the rail market going forward and this is much more a structural issue than it is just simply a cyclical issue. We have a number of changes happening in that market and they have impacted our business in the year and we referred to some of those in the first half of the year, and they really come down to two things. One is the fact that a chunk, a large part of our European rail market which not so much recently but historically has been a very significant part of our profitability is realistically not going to be there, and that's the Italy and Spain in particular. Secondly, we're seeing, particularly in Germany and even more so in the UK, an inevitable change, structural change in the market as the process of regulation in the UK changes and we're going to start to see profit and value moving between different areas. So the sort of things that we've done historically in the renewals world, we are going to see those becoming increasingly commoditised and we'll see smaller players coming into those markets. Conversely, our major projects business in rail remain very strong and if you look forward, is an area where there is significant opportunity both in the UK, indeed in Germany and overseas. And if you align all that to the vertical market strategy that we've referred to before, it's reasonably clear that we're going to have to take a different view of our rail market going forward. So that's not really a Phase 3 cost reduction programme; that is going to be much more a different shape to that business going forward, and that's something that which we said at the moment we're currently looking at and we will come back to you in due course on.

Joe Brent: Thank you, and just a follow-up if I may, a fairly pointed question, but for 2013, clearly visibility is less than it's historically been. I'm certainly expecting PPP gains to be lower, and also you've got this headwind from the IAS 19 adjustments. Do you expect earnings to grow in '13?

Ian Tyler: Well, again I would make the point that I said upfront. We are genuinely not in a position at the moment to give you any clear guidance on 2013. The only thing I can say is relative to where we have been, our outlook for all of the divisions that we spoke about, and that would include our investment division, is – remain unchanged. So our Professional Services business, our Support Services business, our Investment business, all absolutely as they were before. The only thing that we're flagging up in 2013 is that we see the outlook for our Construction Services business in its various forms being significantly more challenging than it was in 2012. And so I don't think I could really go further than that at the present time because a lot of things have got to unfold to work out the consequence of that.

Joe Brent: Thanks very much for this.

Ian Tyler: Okay, thanks Joe.

Operator: And we will take our next question from Howard Seymour of Numis. Please go ahead.

Howard Seymour: Thank you, morning.

Duncan Magrath: Morning, Howard.

Ian Tyler: Morning.

Howard Seymour: Morning. It's a question to, relating back to focusing on the potential outlook for government but also public spending, which obviously that's where the lion's share of business comes from. And I'm just wondering, gents, in that a lot of the public sector cutbacks have already happened, how much of this would you say is the max and how much your selectivity that you're walking away from work? Because the spending patterns would assume that public sector cutbacks stop happening next year. So I'm just wondering, if the market's actually getting worse or it's just that there's – in the lack of any work out there, you just have to be much more selective to keep away from the very low-margin stuff. Just trying to get a feel for market versus your view of what you have to do strategically.

Ian Tyler: Well I think that again, I think that's absolutely the right question and one that has been heavily on our mind and heavily – and will be heavily on our mind for the future. Yes, a significant chunk of where we are and it would be true of the US as well actually, is you know inevitably our order book would be higher if we had been less selective on work, and that's been a clear policy. The reality around public sector though is that this is, this is partly around absolute margin but a large chunk of the – I keep coming back to this point about the mix of work. It isn't so much that we stepped away from projects that, because somebody else has taken more in that sort of, in the market in which we have traditionally generated most margin. It is simply the fact that there are particularly in the UK, almost no projects of that type, which we are currently bidding. Many of those projects are not public sector projects. They are projects which are based around public policy, notably around power for example, and to some extent in some or two other industries but power would probably be the prime example of that. So we do expect those to come back as and when government is able to clarify its policy and put through the necessary legislation, etc., energy bill and all that sort of thing. So I don't think, I don't think that really is, it isn't so much government spending per se. The reality is that we are, we are going to see government spending I think, from where we are now, what we're seeing in the sectors that we're in, it will increase over time, for example when we get a new PPP programme, which we will, that will start to release some of the sort of things that we do back into the market. But in the – at the bottom, the bottom line of all of this, I suppose you can come down to the question are we being selective or are we losing on price, and it's kind of, sort of a – we are, we have certainly set out our stall reasonably clearly as to what we can deliver on, what margins we will accept, and on an increasing number of occasions, we are not successful at that pricing level. But the reality is that we will see this recover when we see the mix in the market change.

Howard Seymour: Yes.

Ian Tyler: Does that answer your question?

Howard Seymour: Yes, it does. Yes, absolutely. The second question, I think you mentioned before, Duncan, but just on the net debt profile, net average debt profile for net year, all things being equal, you just assume that the washthrough effectively would be, low construction revenue therefore assuming the net average debt would go up next year by the sort of quantum of what you mentioned before on construction revenue.

Duncan Magrath: On the construction piece, yes, but obviously again we're focusing on the construction element but the other three divisions are profitable and cash generative. So I'm not expecting a significant shift from the Group as a whole.

Howard Seymour: Yes, absolutely. Thank you very much.

Operator: And we will take our next question from Mark Howson of Oriel Securities. Please go ahead.

Mark Howson: Thank you, a couple of questions if I may. Just on the – has there been an increase in creditor days to suppliers and if so can you give us sort of size and quantum of that within that cash performance?

Duncan Magrath: No. I mean at the half year we talked around the fact that our creditor days had come down about 3 so we were paying people on average slightly quicker and there's been no significant shift in the quarter in that.

Mark Howson: Right and your terms of your supplier base, have you given them more of an extension again?

Duncan Magrath: Well, I think as I said at the time, we don't – we haven't got a, we're not sort of centrally controlling of policy. I think the reason the days came down a bit we think in the half year, or I think in the half year, is that we are, we are conscious of the pressures that sit in the supply chain. They, that is controlled on a project by project basis more, particularly with the subcontractors where people are making decisions as to what the individual terms are and when people should be paid. So it's not like a centralised drive in any way. I think what we are, what we are doing is we are piloting a supply chain finance initiative which I know the government is keen on and actually that pilot effectively started in November. But again, that is much more designed to help the supply chain than having a significant impact on our working capital position.

Mark Howson: Okay, and just on the restructuring, which is quite clearly, now quite public, given construction news and press releases, etc. I mean it, sitting here frankly in November, you know, when we look at the work lows around the UK and the disappointment of not winning Hinckley in June, I mean could this not have done – been done a bit quicker because it seems to me that some of the issues in the UK, the supply chain and things that were getting tougher were, kind of should have been known and if the cost savings programme would have been a bit quicker, it might have helped offset.

Duncan Magrath: I mean, I think there are two elements to that, Mark. I mean one actually is, as always, there is an element of scaling the business for volume and just to give you some idea, I mean effectively the volume change in the business, we've got 1,400 less people now than we had at the end of last year. The structural change, that we say is quite public is a much more complicated process. You are changing, a) we're consolidation—consolidating properties; b) we're changing basic processes and where activities happen, we're requiring systems changes and all of those have to be done in an orderly fashion because the quickest way to lose money is to lose grip of the operations. So I think we've got on as quickly as we can with straightforward volume reductions and what we're talking about here is positioning the Group, UK construction group, for the business going forwards which is, it takes a longer piece, it takes longer to deliver.

Ian Tyler: I think it's a fair question, so it is a fair question, sort of with hindsight, just put that in context. We have been pretty well in constant process of cost reduction and reorganisation since 2010 from Phase 1 through Phase 2. To have pushed that through quicker would have materially destabilised the business, and our business delivers what it delivers by stability of both process and people. So yes, and of course we do always reflect on whether we could have done things faster and quicker. I think the simple answer to that is in reality, that we probably have got that about right and I don't think, I think to have gone faster would have been quite dangerous and as I say, bear in mind that we did kick this off and indeed as Duncan said, this is a sequential series of changes . We kicked that off back in 2010.

Duncan Magrath: And again, a long time before we…

Ian Tyler: Yeah, could have visibility in the size of the market we're talking about now.

Mark Howson: Yes, a separate question. Could you sort of re-look in December, clearly we wait to see what you say in December when there's the strategy review but could you re-look at potentially the pace of PFI disposals or the disposals gains coming through the P&L in light of the weaker conditions that you see elsewhere?

Ian Tyler: Well, the answer to the question is absolutely and obviously we will talk about that in December. The reality of course is that the two, the issue of the maximisation of value of our PFI portfolio and the market conditions we're now seeing are themselves not directly related but absolutely, we will be talking about that in December.

Mark Howson: Okay, thank you.

Operator: And we will take our next question from Stephen Rawlinson of Whitman Howard. Please go ahead.

Stephen Rawlinson: Morning, chaps. Just looking at 2013, could you just – the difficulty's often presented as a funding one of projects, but if there was funding available, are there sufficient shovel-ready projects actually in the UK to make a significant difference to the numbers in 2013. Is there not a time phase that is probably like more – more likely to come through in '14-'15? And the second question, the second area of questions was around your comments on the power sector and the comment also in your statement that though you expect a modest decline in the infrastructure area and more from power. Could you just talk a little bit more about that because clearly I recognise we're mid-regulatory period but you are pointing there to perhaps a modest decline next year in performance in the utilities sector, which so far has held up pretty well.

Duncan Magrath: If I deal with that last point, I mean the water is essentially just the natural process of the cycle, so we are burning through the orders that we won a couple of years ago through the cycle, so there's nothing, there's nothing market-related to the fact that the order book in water is down. Power is a combination of I think possibly the lumpiness of some of the project wins but also possibly a reflection of some delays but I think that was just, that was an explanation of the movement in the order book for the quarter, which I don't think are necessarily hugely significant from the utility perspective.

Ian Tyler: I'll just put that in perspective, Stephen, I— the comment there was backward-looking, not forward-looking. If I look at the utility sector as a whole, I think we would see reasonably constant demand out of water and as we've said before, growing demand out of power and particularly power transmission, and we're just, that's probably one thing we will see coming through in 2013. So I'm certainly with you entirely on that, so it's held up well in the past and there's no reason to see that that will change in the future. Your point about funding and financing I think is again, we could get into more of a philosophical discussion here. My belief, I'm not sure that I'm necessarily on the same wavelength as Treasury on this, is that what is holding up investment is not financing at the moment. That is something that we have to get through. It is the, it is the basic revenue model around many of these projects. In the power sector, and I keep coming back to that point, it's very much around the certainty of the revenue line and you can see that in of course the very large projects as well as the smaller projects.

The financing side, and certainly the things that are going to make a difference to our numbers in 2013 and 2014 I think the financing is actually there for those. It's the longer-term financing that's the issue, and the reality is I think that with things like government guarantee schemes, now desperate to find an outlet, I think we're going to find that some of the big project funding in due course will come through. I'm much less worried actually about infrastructure financing and funding than Treasury seem to be. What we are missing at the moment is the underlying business case which allows these projects to move forward.

Stephen Rawlinson: Okay, thanks.

Operator: We will take our next question from Andrew Gibb of Investec. Please go ahead.

Andrew Gibb: Morning, guys.

Duncan Magrath: Morning.

Andrew Gibb: Can we just go back to the construction margins and just in terms of the US and the UK, because I think at the interims you were talking about the US margin was kind of going to be flattened from where you were at the half year. Is that still the case or is the margin in the US coming under a bit of pressure as well?

Duncan Magrath: No, the margins in the US are pretty stable. The only thing that would potentially happen in the US is I think we've focused a lot of our comments around the construction market on the US building market where, you know, our … the outlook I think is, you know, the recovery is probably further away than we thought when we talked in August.

Andrew Gibb: Yes.

Duncan Magrath: But the reality is the market I think is reasonably stable, just that the recovery is further away, but the infrastructure market in the US, still there are the bigger projects available. Obviously we have to win some of them. If we were successful on winning those projects, by their nature and by the way that we would call the profit, we would start booking a lot of revenue with no profit to start with and that would dilute margins.

Andrew Gibb: Yes.

Duncan Magrath: But other than that, the US…

Ian Tyler: But in the fullness of time, those projects will be, would have a significantly higher margin.

Andrew Gibb: A higher margin. Yes. No, no, understood and just on the UK because I think again at the interims, you were pretty clear that the cost cutting, you know, how that would underpin the margins and clearly things have somewhat moved on, which is quite a change in that period of time given where the order book was. Is there any, are there specific contracts in there that are causing any problems or is it just very much the stuff that's getting booked, as you say, 50% of the order book now, now regional, that is where the pain is on the margin. It's just, you know, it's quite a move to what you were saying at the interims.

Ian Tyler: Well again, it is a move by degree. I come back to the point that the two things that I would point to that are different and when we just project forward that give us concern, one is the fact, and it is probably the most significant point, is that where we might have assumed that there would be an element of higher-margin work coming through in 2013, as indeed we have in 2012, I think the answer – the simple fact of the matter is that there is very little of that that we can point to and that, in order for that to have been the case, we would have had to have seen that come through if not in our order book, certainly in our ABNC and in our pipeline in the third quarter. So that's probably the most significant factor.

The second I think is, a clear reflection of the fact that we are – and again it's always a difficulty in calling the timing of it but the extent to which we are essentially caught between the supply chain and the … and our clients there is probably becoming more a factor even at … will become more a factor in 2013 than it has been in 2012. And as I roll that forward, I keep coming back to the fact, if you just let that flow through, it will have an impact on margins which, you know, in terms of average margins is a number of basis points. We may well not see that happen but we will not see that, it won't happen only because we will take our volume down in response to that. Those are the two things which have most clearly changed.

Andrew Gibb: Which have moved, yes, and so nothing kind of, there's no specific kind of one-offs in terms of underlying contracts, problems with.

Duncan Magrath: No, I mean I think the only other thing in the quarter, just to emphasise what Ian said, is I think increasingly the pressure that sits on the supply chain has become evident. We have had some more – more supply chain failures, subcontractor failures in Q2 than we had earlier in the year.

Andrew Gibb: Yes. Sure, sure.

Ian Tyler: The answer to your question, 2013 is a reflection of the market at that time, not a reflection of any operating issues.

Andrew Gibb: Okay, yes, and just maybe on working capital, I mean clearly you spend a lot of time on the interims explaining the various movements. Obviously Construction's slightly worse than expected but elsewhere, is everything else more in line in terms of Professional Services and the services side?

Duncan Magrath: Yes, I mean everything is, everything else is in line. The construction, just to be clear, the construction at the moment will be in line where I expect it, but the difference is I'm now not expecting an improvement in Q4 which I was somewhat expecting to come through from the US.

Andrew Gibb: Sure, sure. Sure, understood. And finally, I mean in terms of the financing position, does that – obviously you've been quite clear on growth strategies and acquisitions as well. Does short term, in terms of kind of acquisition, is that going to put a hold to or are you still comfortable maybe gearing up further?

Duncan Magrath: I mean there's two elements to that. One is are we continuing to look at growing the business through acquisitions, absolutely we are. In terms of the capital structure, I think as I said in August, I think over time we will look at that and look to diversify the funding that we have, and that's a thing that I want to put in place over the next few years anyway. So nothing here is changing that position.

Andrew Gibb: It's changing, okay, that's great. Thanks, guys.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question today please press *1 on your telephone and we will take our next question from Kevin Cammack of Cenkos. Please go ahead.

Kevin Cammack: Morning, chaps. Three please, two very brief and I suppose factual ones. Firstly, could you just flesh out a little bit what you mean in terms of the reference to the lower tax this year? Secondly, can you just update us on what physically has been completed and booked in terms of PFI sales up to now. And the third one, could you just, relating to the US more specifically, if you look at that, I think it was about 300 million drop in the third quarter order intake that you referred to, but if you look at where that's – if you sort of analyse where that's come from, either regionally or by sort of nature of work, is there any linkage that one can make between what you may therefore see happening in the Parsons Brinckerhoff type of business? I mean, there must be some, I would have throught, correlation between levels of tendering activity, you know, in the construction side and the likely demand for services in, within PB, and I just wondered if you can talk around that a little bit. I suppose what I'm asking is is there a risk that actually six months down the road, Parsons in the States hits the buffers a bit as well?

Duncan Magrath: Perhaps I'll deal with your two easy ones and then let Ian deal with the longer one. I mean in terms of tax rate, in August I talked about being under an effective tax rate of around about 31% and I think we may just be slightly under that, and it's just to do with the mix between geographies and investments and disposals and the underlying trading, so it's a small move in relation to that which is slightly different from where we were in August.

In terms of the physically booked, we had 52 million of gains in the first half and there were no gains in Q3, so no change there from the half year position.

Ian Tyler: And also just to – on that one, we don't anticipate there is a possibility that we may have one further but it will be a very small transaction actually driven by customer needs rather than our needs, but that may happen but it won't materially change the figures. So the biggest element of that, as you'll appreciate, is University College, which we mentioned before.

Kevin Cammack: Yes.

Ian Tyler: Your question about the US, I think the answer to that is, most importantly, there is no linkage there. Bear in mind the market that we're talking about here, and it is worth just stressing it, it is the buildings construction marketing in the US, which is by far and away the largest part of our construction business there. Parsons Brinckerhoff has very little activity in that market. Parsons Brinckerhoff is predominantly a transportation and power engineer programme manager and indeed EPC contractor. So the linkage there is with our civils activity and the one, although it's a relatively small part of the total, the one thing that is, that I would say, and to Duncan's point just now is quite clear, is we are seeing a definite pickup in infrastructure spend in our markets, our civil engineering markets in the US, and that's particularly in Texas and to some extent in California. They are not going to materially move the dial for 2013. If we are successful in those markets, they could certainly have an impact on 2014, and that is entirely consistent with what we're seeing in, within PB. At the present time, all the indications are, both at a state by state level and indeed to a large extent at the federal level, that we're going to see continuity of the market for PB across the US, and again there's always a possibility that life will change but there's no, nothing that we see at the present time that we think is likely to change that position and that is consistent with what we're seeing downstream in the civil engineering side of our construction business, but what I'm talking about here, what we're talking about today about the future is in building construction, which is unrelated to PB.

Kevin Cammack: Okay. Is there any sense, Ian, that some of the shortfall in the third quarter has anything whatsoever to do with the sort of election period?

Ian Tyler: Well, I don't think it – I don't think it's to do with the election period. I mean the one thing that is clear, and again I don't think we should necessarily over-extrapolate on it but we have seen – part of our position in the US, we have been very, very successful historically. We've bucked the market by maintaining activity levels and to some extent margin as well, in a market which has declined 30-40%. A chunk of that has been through the success we've had in previous years around the federal markets. It is definitely true that the amount of large federal work at the present time is lower than it was a year ago. So I don't think that's directly connected with the election, and it's very difficult – these projects have a long gestation period so it would be kind of unusual if it was. But it is one particular factor in the whole mix of work that we're seeing in the US that is having an impact, but I don't think it's directly election-related.

Kevin Cammack: Okay, thanks for your help.

Operator: And we will take our next question from Mark Howson of Oriel Securities. Please go ahead.

Mark Howson: Hi again, chaps. Just briefly, can you just, because I missed the first or second question about the actual order levels in UK construction and US orders. I think the half year, UK was 2.7 billion. Can you just say what that is as of now, and the US was 3.4.

Duncan Magrath: Yes, so there's a 500 million sterling reduction in the third quarter and about 75% of that reduction is sitting in the US and 25% of that reduction is in the UK. So if you just knock those numbers off, so 0.1, just over 0.1 billion reduction in the UK and 0.35 reduction in the US number.

Mark Howson: Right, okay, thank you.

Operator: And we will take our next question from Chris Moore of Berenberg Bank. Please go ahead.

Chris Moore: Good morning, just one question just on the working capital again. I think in June you had working capital to sales in the Construction division of around 12% negative and I think you were saying you expected that to come down by 1-2%. I just wondered what your expectation is now for that ratio?

Duncan Magrath: It's not changed materially. I mean I think there is, as we talked about in August, there is a different ratio between the UK and the US in that the US working capital as a percentage of revenue has always been somewhat less negative than the UK, so there's a mix effect again, as we referred to earlier, in terms of the construction as a whole. But my expectation of where the UK will end up as a percentage of revenue is not significantly different. The issue really comes back to the fact that I don't see a big change in the percentages but I was expecting a volume pickup through order intake in the US that would have driven the absolute level of working capital. So the mix effect on the UK, which is the larger projects, the smaller projects effects, will continue to play out, as I said, there'll be a continual slight reduction in that percentage. It hasn't been hugely significant in the third quarter.

Chris Moore: Okay, yes. That makes sense. Thanks very much.

Operator: As there are no further questions in the queue, I would like to hand the call back to Mr. Ian Tyler for any closing or additional comments.

Ian Tyler: Just very quickly, thanks for your attention there. Appreciate all of that. Obviously if there are any further questions, please don't hesitate to come back to any of the three of us. We're very happy to talk to you. Okay, thanks very much indeed.

Operator: That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.