

TRANSCRIPT

2014 ANALYST AND INVESTOR DAY

JUNE 19, 2014, MONTREAL

2:45 PM

PAUL DOLLIN, Chief Operating Officer
Operational Review

Isabelle Adjahi:

I think we are ready for the last part of the day. So we will end the day with the presentations for our three top executives. Just before we start, I just want to inform you that tomorrow, probably, I will be sending each of you an online survey, so that we get your feedback on this event, and this is extremely important to us. We did this two years ago and this has what allowed us to improve this event and make sure that we are tendering it as per your requirements. So I would really appreciate if you could take just a few minutes to answer this online survey.

This being said, I will now turn it over to Paul Dollin, our COO. Thank you.

Paul Dollin:

Good afternoon, everybody, and for anybody that may or may not be listening on the recording. My name is Paul Dollin. For the rest of you, it's on the slide. And you'll be pleased to know in the (inaudible) straight, and this is slide 102. That has absolutely nothing to do with the fact that England start their second round or their second football match in the World Cup in 20 minutes. But if we could move it along a little bit, there's quite a few of us in the room that would be quite pleased with that.

What I thought I'd do today is – the last time I stood up in front of many of you, I was doing a different job. Today, I have the illustrious title of Chief Operating Officer. So I wanted to try and bring that role to life a little bit for you to explain why and what, talk about some of the challenges and opportunities in the business as a general level and then finish on some of the benefits.

It's definitely worth starting with the definition of this role because while it's generally well understood, I don't think two of the people holding those titles do it the same way. And fundamentally, it's about performance. All about performance. That's why I'm here. But I said I may disappoint a few of you because I'm now couldn't mention performance in terms of numbers through the rest of my speech.

I'm not going to do that because to deliver performance, we have to deliver it through a few ways, and I want to talk about those things. You've just heard Jean-Luc talked very passionately about our people, and I will have to talk about our people because performance comes from our people.

I will be talking about optimizing our businesses because although, we're a global organization, we are effectively at the basis of portfolio countries. It's important that we optimize performance there. And finally, I'll talk about where the real value lies. The real value lies where our work in the voids between those countries to really drive the global strategy.

And underlying all of that is my role is very much tilted to the other executives in the business, particularly Pierre, to allow us to play to our strengths. I don't intend to go through what Pierre's strengths are. I'm not that brave. But many of you know where his expertise lies and freeing him up, spend more time with you, with targets, with key clients and now allowing me to focus on the operations and performance is an efficient use of our people and time, which will be the same that will run through.

So on to people. We are, as you've heard, are now a people organization. But what does that actually mean? We are a processed-light organization. We are processed light relative to our peer group. And

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whilst that may sound like a risk, it's also a huge opportunity. But we do rely on driving the performance and driving the strategy of the business through our people. Therefore, we need great people. And even great people needs to be encouraged, motivated and directed to make sure that they use their efforts and time in the most effective way to make sure that we move forward as a business.

We also employ largely scientists and engineers. Now there are equally great people, on one, I should know. But we don't always, as a profession, have the same hunger for commercial success as perhaps some of you in your profession. It's not a failing. It's just a nature of what we do. We are very proud of the projects. You've seen it all morning in the sort of technical excellence that goes into the work that we do. And in fact, the brainpower that we have in our organization rivals many, many industries and probably exceeds most of those. Yet the returns that we make out for those people aren't necessarily reflective of the quality and depth of excellence that we have.

So one of my roles is really to drive that commercial acumen, target our best people on the best opportunities to leverage what we have to make money. Obviously, you've already seen a number of the colleagues that I work with, so one might say that I haven't got much of a job because they are quite good. But we have to think about the whole globe, we have to tie everybody together and we have to try that global strategy through our people who we measure largely through the performance of their countries. And that isn't going to change, certainly not in the short term. And in my view, in the long term, the best way to achieve performance is to ensure that we run their profit and loss centers around the overhead. As soon as you start mixing the two up, you lose sites of real costs and real value. So we maintain those accountabilities that way but I will work with the people, in the voids to drive the strategy. So that's about some people stuff.

Moving on to optimize. Now we heard this morning in the presentation a number of people mentioned overheads. Overheads are an interesting thing. It will be the same in all of your organizations. Any overhead that's above you, a bit of a waste of time. Any overhead that's below you, absolutely essential, cannot be touched. There lies the challenge of working with the business to ensure that we maximize the cost that we have in the business, make sure that they're efficient and effective for what we need to do. But, again, it's about working with people to achieve those objectives. This is not a spreadsheet exercise. This is a capturing of hearts and minds, a recognition that where people go the extra mile to push cost out of the business, there's something it – back in it for them. Whether that be being more competitive and winning better work, whether that be making more money and taking a bigger slice of the reward at the end of the year. But overheads are one part of the optimization.

The other part is underperformance. Underperformance can be a unit within a country or it can be a country in its own rights. We have a very diverse portfolio of businesses, of operations, of geographies. Not everywhere is going as well as we would like. It's easy to say it's just about your productivity. It's just about your returns. It's just about your overheads. It's a lot harder to actually implement those change. Also, it's important to make sure that where we have businesses that aren't doing as well as we would like, we're taking the right strategic decisions about those sectors in markets. Some times, it's nothing to do with local management. Some times, it's nothing to do with a general market. It just may not be an environment for whatever reason that we can succeed in. And it's very important that we continue a journey, that certainly I've been focused on for a number of years now, about making sure that we're not in places that we cannot make money in however hard we try, and I can assure you they exist. There's nothing worse than spending all of your energy on those negative things, so the sooner that we can clean

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those up, make them operate, the more fun we have and the more energy and effort we can spend on some of the great things that you've seen this morning.

Optimization doesn't stop there. It's also about – not about consistency of how we do things. That is the obvious thing that everyone always asks. We don't actually need that. We need moderate consistency to ensure that we comply with global requirements, but we don't need everywhere to do it the same way. In fact, with the countries that we operate in it, it's almost essential that we don't, because we have to comply to local legislation and requirements and local cultures to be able to deliver the business. But what we desperately do need to target and are targeting is a consistent level of maturity across all of our businesses. It's quite different to a consistent process and way of doing things. It's about a consistent understanding of the markets and the commercial realities of what we do. It's about the maturity to the way that we approach the issues and the managements of the business. And it's about maturity and outlook about how longer and greater goals are being global. Once we have those common stand as a maturity, that's where we can really learn from one another and leverage the greatness that we have throughout the business.

But the most important area in terms of optimizing is driving our gross margin. This is the number above our overheads. And this is the number that directly relates to that richness of talents that I said that we have in our people. It starts very simply from charging our clients more. Mark Naysmith talked about after a long hard recession, the fact that fee rates take a long time to come back. Couple that with the natural tendency, an overly modest approach that most scientists and engineers take, we'd sometimes rather give it away than actually charge and push the number that we truly deserve. That's a key area that we need to focus on. It goes even greater beyond that. It's about the source of projects that we actually win. Not so much for the margin, particularly on those individual projects, but actually about making sure that we have an efficient portfolio that allow us to maintain high rates of utilization.

It goes on beyond that as well. Our cost base to deliver. You've heard this morning about our increased passion for the use of low cost centers. That's not just about sending work to India. It's about leveraging the cost base of the whole business. There are marked variations across many of our countries. Just in the Nordics, between Norway, Sweden and Finland, there is a declining trend in terms of the cost base. Therefore, certainly into Finland into Sweden, Sweden into Nordics, doing in that way around provides a competitive advantage or an increased margin.

The final area, although there are many other parts to look at, is our productivity. This differs from what I termed in utilization, and that's just how many hours we booked to fee, time and work. Our productivity is about the efficiency of how we deliver. Both Tom and David and the U.S. talked about this as a key metric. There are many, many advantage to be gained of innovating and improving our model around the design process.

We've been constructing things for many, many, many years. And many of you would be surprised at how far behind the process of construction is for many other industries that have radically innovated their process to drive cost down to the business. This a journey that the construction sector has been slow to embrace. And I can see around the world today that there are huge variances in this approach to this model from country to country. Places like Sweden and the U.K. are quite advanced, including the U.S., and certainly developing that capability in those countries to understand how to use technology, how to innovate around the process to take the hours out of the work that we do will have a huge impact and will

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certainly make us want to actually increase our fix priced work where we can actually leverage the value from doing things right the first time in the most efficient manner. And nobody yet has really practiced in something that we can focus on.

The final area are about the gross margin is very much about driving the strategy, and the strategy around being global. And when I use the word strategy, I'm not referring to acquisition. I'm referring how to – how we leverage, what we have in the business to the best effect. You've heard many of the opportunities that we've had this morning. How this relates to improve performance is not something that we've articulated well to date. But where we are working for these clients that require us to have a global presence, where we are working for clients that rely on our ability to be able to talk to them Mandarin yet deliver in Toronto, where we rely on clients that wants us to do increasingly complex jobs that require huge levels of resource that we can deliver from around the world, we are moving ourselves away from much of the competition that we work in on a day-to-day basis within each country. The more percentage that we do of that kind of work will increase our margin as a result of limiting the competition of which we're up against and being able to charge more, leverage the value of our corporate overhead and take away, not necessarily about huge growth but stopped doing work for clients that don't give us the return.

Beyond that, the global strategy allows us to track great people. This business is clearly growing hugely through acquisition. But we must remember today that we are 17,000 people around the world, and we've been made up of smaller acquisitions. The ability to attract and retain the very, very best talents is one of the key benefits of being a global organization. When I speak to people about joining the company no longer, although they may sit in the U.K. or in Canada or in New York, no longer did they just want to work for a single country, they want to work for an organization that is global, with a global outlook, a global mindset and global opportunities. The difference that these individuals make in no different to your own business models is huge to our organization.

The benefits of all this are clear in terms of performance. And as I've said, I'm not here to talk about the numbers behind it, but just to give you a feel for some of the aspects that I will certainly be looking at to drive with my colleagues around the world to improve what we do. But the future is very encouraging. The world is changing. We know and we've seen these huge investments around the globe and infrastructure. This is no longer going to be delivered through clients in the public sector alone. The increasing introduction of private sector investment into public-type works of the old age means that we have a huge opportunity by combining our skills. And I don't simply mean technical. I mean the ability to understand some of those markets, some of those drivers, the difference between the expectation of the private and public sector, to deliver it in a sustainable way that provides an asset that has real value.

We understand the value of the assets that we advice on, we design and we operate. Actually, that comes from our deep-rooted DNA in the private sector, which is very much a driven around the asset value, as opposed to the public sector that is very much delivered around just reaching the endpoints of a product. It's a compelling competitive advantage and something that, again, we've been working on strongly and deliver a huge improvement in our performance over the coming years.

And I move on to slide two, which is – oh, yes, you can ask a question if you like. Slightly embarrassing, but it's two minutes to kick off now. I will go. Thank you.