Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE HALF YEAR ENDED 28 JUNE 2019

14 August 2019

Build to Last delivers increased profitability backed by strong cash performance

Highlights

- On track to deliver full year performance in line with market expectations
- Underlying profit from operations (PFO) increased 9% to £72 million (2018: £66 million)
- PFO from earnings-based businesses increased 29% to £63 million (2018: £49 million)
- Significant increase in average net cash at £290 million (2018: £161 million)
  - Increasing full year average net cash guidance range by £50 million to £280 - £300 million
- Order book increased 5% to £13.2 billion (FY 2018: £12.6 billion), whilst maintaining Build to Last disciplines
- Sector leading balance sheet, underpinned by £1.2 billion Investments portfolio
- Interim dividend payment up 31% to 2.1 pence (2018: 1.6 pence)

(£ million unless otherwise specified)	Half year 2019		Half year 2018	
	Underlying[2]	Total	Underlying[2]	Total
Revenue[1]	3,881	3,884	3,836	3,839
Profit from operations	72	71	66	60
Pre-tax profit	64	63	56	50
Profit for the period	54	48	52	69
Basic earnings per share	7.6p	6.7p	7.5p	10.1p
Dividend per share		2.1p		1.6p

	HY 2019	FY 2018	HY 2018
Order book[1,2]	£13.2bn	£12.6bn	£12.6bn
Directors' valuation of Investments portfolio	£1.16bn	£1.15bn	£1.19bn
Net cash – recourse	425	337	366
Net cash – non-recourse[3]	(330)	(309)	(329)

Leo Quinn, Group Chief Executive, said: “This is another strong set of results – increasing profits backed by a strong cash performance, plus carefully managed growth in our order book.

“Today, the Group’s geographic and operational diversity underpins our risk management, with over 50% of our business and Investments portfolio assets outside the UK.

“Combined with the strength of our balance sheet and cash flows, this positions Balfour Beatty to create and return future value to shareholders.”

Notes:

[1] revenue and order book include share of joint ventures and associates

[2] before non-underlying items (Note 8)

[3] non-recourse net borrowings are cash and debt that are ringfenced within certain infrastructure concession project companies

A reconciliation of the Group’s performance measures to its statutory results is provided in the Measuring Our Performance section.

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Investor and analyst presentation:

A presentation to investors and analysts will be made at Numis Securities plc, Floor Five, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT on 14 August 2019 at 09.00.

There will be a live webcast of this presentation on: www.balfourbeatty.com/webcast

- **GROUP CHIEF EXECUTIVE'S REVIEW**
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GROUP CHIEF EXECUTIVE'S REVIEW

Executive summary

These strong first half results demonstrate the value being created through the Build to Last programme. Balfour Beatty's transformation has gone beyond resolving the legacy issues of forced growth: the Group's chosen markets in the UK, US and Hong Kong, and the platform provided by its strong balance sheet and scalable operating model, provide the ability to deliver profitable managed growth and cash generation into the future.

The performance of the Group continues to improve across all key financial metrics. The increase in profit is backed by the cash performance, and the balance sheet continues to strengthen. The order book is also growing steadily, whilst maintaining disciplined selective bidding.

For the first six months of the year, the Group reported an underlying profit from operations of £72 million (2018: £66 million) and maintained its focus on cash. During the period, average net cash increased significantly to £290 million (2018: £161 million) with half year net cash also materially higher at £425 million (2018: £366 million).

UK Construction reported an underlying profit from operations of £17 million (2018: £5 million) representing a 1.7% underlying profit from operations (PFO) margin (2018: 0.5%). US Construction reported an increased profit from operations of £19 million (2018: £17 million), representing a stable PFO margin of 1.1% (2018: 1.1%). Gammon, the Group's 50:50 joint venture with Jardine Matheson based in Hong Kong, reported a small reduction in profit from operations at £9 million (2018: £10 million). In Support Services, profit from operations and PFO margin were ahead at £18 million (2018: £17 million) and 3.6% (2018: 3.1%) respectively. The Group remains confident that it will deliver industry standard margins in all earnings-based businesses for the full year.

The Group's continued improvement in its earnings-based businesses, is further underpinned by its Investments operations. The Group's Investments portfolio is a continuing source of value and opportunity. During the period the Group received £26 million of sales proceeds and invested £11 million in new and existing projects. The Directors' valuation has remained stable at £1.2 billion (FY 2018: £1.2 billion).

The Group delivered managed growth of 5% in its order book to £13.2 billion (FY 2018: £12.6 billion) by maintaining disciplined bidding practices. This was driven by increases at US Construction, where the Buildings business won significant mixed-use projects across a number of geographies, and Support Services where the first tranche of the Central Track Alliance has been included in the order book.

Balfour Beatty has developed a diverse portfolio operating multiple contracts across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments), all with attractive characteristics. At the same time, having over 50% of both the order book and the Investments portfolio dollar denominated reduces the Group's exposure to political uncertainty in the UK and increases its resilience to cyclicality in any single geography or sector, or to any individual project.

Markets

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable, notwithstanding that decisions to proceed with HS2 and Heathrow expansion would significantly improve the outlook.

In the US, Balfour Beatty operates in specific geographies. As the population migrates south and west, it is moving to cities, driving urbanisation in the Group's chosen markets. This leads directly to increased demand for buildings and infrastructure. With blue chip repeat customers such as Disney and Microsoft, the Group's opportunities in Buildings are robust. In Civils in December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill, was signed, providing authorised spending for a five year period. There are further opportunities being created, for example with the number of state-backed infrastructure bonds (over US$200 billion of multi-state transportation bonds; over US$35 billion of education bonds in California) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

In the UK, the Government's investment in infrastructure commitment is targeted to rise from 0.8% in 2015/16 to over 1% of GDP by 2020/21. Notwithstanding political uncertainty, there is a strong pipeline of major infrastructure projects in both transport and energy. New nuclear power at Hinkley Point C is well under construction and Balfour Beatty has built an offsite precast factory in Avonmouth to make the concrete sections to line the tunnels in line with the Group's 25 by 2025 vision. The second Road Investment Strategy (RIS2) for Highways England has a record budget of £25 billion for the Smart Motorways Alliance and the Regional Investment Programme during the 2020-2025 period. At Heathrow, the High Court's recent ruling that the Government's national policy statement, which supports Heathrow expansion, was lawful moves the expansion of Heathrow airport a step closer.

Balfour Beatty's joint venture Balfour Beatty VINCI continues to work with HS2 to deliver detailed plans and costs for the UK's new high speed railway. Importantly, the estimated value of this work for Lots N1 and N2 and Old Oak Common (combined £1.7 billion Balfour Beatty share) is not yet included in the order book, with the current Early Contractor Involvement (ECI) stage now expected to conclude by the end of 2019.

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Balfour Beatty recognises the inherent uncertainty arising from this and has been planning for all outcomes. The Group has contingency plans in place to ensure it can continue to deliver on current and future work commitments.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming, including: two new terminal buildings and other works associated with the third runway at the international airport; a ten year housing target; a ten year hospital development plan; and continued investment in transportation infrastructure.

In Support Services, the power transmission and distribution market is set to grow after a short term reduction in spend through 2019. The gas business operates in an established market and the water business is beginning to transition to the next regulatory cycle (AMP7). The transportation market, which includes major rail and road maintenance works, is expected to improve under Network Rail's Control Period 6 (CP6) programme and Highways England's RIS2.

The Infrastructure Investments business continues to see significant opportunities for future investment in its chosen geographic markets particularly in the US where the focus is on student accommodation, multifamily housing and public-private partnership (PPP) opportunities. In the UK, the focus is on student accommodation.

US Military Housing

Balfour Beatty Communities (BBC) manages properties at 55 military bases across the US under long term concessions. Recently, allegations have been reported in the media regarding the processing of property maintenance work orders and related incentive fees at two Air Force bases, Tinker and Mountain Home.

Balfour Beatty takes these allegations very seriously. BBC has appointed external counsel to examine the matter and to work with the appropriate authorities and military services to ensure a complete and thorough investigation.

The reports based on the statements of two former employees at Tinker Air Force base regarding the alleged conduct of a small number of staff and the separate issue at Mountain Home Air Force base, are, the Group believes, not representative of the high standards of customer service and conduct of the 1,200 dedicated staff across BBC.

Currently, the Group is not aware of any information in relation to the allegations with respect to military housing which causes it to change either the long term Directors' valuation of the assets or its short term financial forecasts.

Build to Last

In **Lean**, the governance and processes introduced during Build to Last continue to drive improved efficiency and effectiveness in all business segments. Costs were further reduced in the first half of 2019, with cumulative annualised cost savings at constant exchange rates of around £185 million delivered to date through Build to Last. The Group's continual focus on cash is best demonstrated by the first half average net cash of £290 million – ahead of previous guidance.

Customers buy Balfour Beatty's services due to the **Expert** capabilities of the Group and its employees. In a market where there will be intense competition for the best talent, Balfour Beatty focuses its effort to recruit, train and retain the highest calibre employees to create an engaged workforce with unrivalled engineering expertise. In the first half of 2019, the voluntary attrition rate in the UK continued to fall with the twelve month rolling average now at 11% (FY 2018: 12%). The half year employee survey results were also positive with the participation rate increasing to 76% (FY 2018: 72%). The employee engagement index score also increased to 66% (FY 2018: 65%), the highest level of engagement since the introduction of the standardised measure in 2015.

One of the initiatives that contributes to employee engagement and operational efficiency is the My Contribution programme. A new platform has been rolled out across the UK this year with extremely positive feedback. Of the more than 2,000 ideas submitted from all levels of the organisation, over 10% have been implemented by the business, generating productivity improvements through cash in, cost out and time savings. A real time digital dashboard, highlighting the benefits of the programme, is available to all employees to ensure visibility and transparency. The first round of top ideas was showcased at the Leadership Conference in March with the A14 joint venture project winning the overall award for their bridge installation using self propelled modular transporters.

Balfour Beatty is **Trusted** to "do what we say we will do" and is measured on this metric by customer satisfaction. In the first half of 2019 over 1,500 customer satisfaction reviews were carried out, primarily in the UK, with the Group customer satisfaction score remaining stable at 97% (FY 2018: 97%).

The Group continues to embed a culture of active risk management, combining Build to Last disciplines in its operations with central actions which have reduced geographic and financial risk, underpinned by its investment in IT-based processes and controls. Specifically, using the Project on a Page app, Balfour Beatty is continuing to take steps to better capture and utilise real time data on projects to provide unparalleled transparency, efficiency and forecasting. This in-house technology strengthens governance and provides competitive advantage by accelerating business intelligence for increased agility.

Construction is an inherently dangerous industry. It is therefore essential that the **Safety** and health of everyone who comes into contact with Balfour Beatty is the top priority. Each week the Executive Committee reviews the safety performance of each of the business units with particular attention to lessons which should be learnt from any high potential near miss incidents, as well as gauging the status of the Group's safety culture. The Group's Lost Time Injury Rate (excluding international joint ventures) continued to fall to 0.14 (FY 2018: 0.15), with leading indicators continuing to trend positively.

In July, Balfour Beatty was awarded first prize for Health, Safety and Wellbeing Excellence for a company at the Construction News 2019 awards, as well as winning in the same category for its work on the M6 junctions 2-4 smart motorway project as part of a joint venture with VINCI. The judges said that Balfour Beatty was "setting the benchmark and leading in the industry" and "The expertise on show is impressive. We were impressed by the sharing of knowledge, and the integration of health and safety into design." Construction News also listed Balfour Beatty as a finalist or as highly commended in several other categories, among them Supply Chain Excellence, Diversity & Inclusion Excellence, Community Engagement Project of the Year and Sustainable Project of the Year.

Conclusion

From the Group's beginnings in 1909, the combined breadth of capabilities and depth of technical expertise today make Balfour Beatty an international leader in infrastructure.

Since the inception of Build to Last in 2015, Balfour Beatty has simplified and refocused its structure; strengthened leadership; improved governance and processes; and developed a culture to deliver an organisation which is **Lean, Expert, Trusted** and **Safe**. These results again demonstrate the progress which continues to be made.

With the ongoing reduction to its cost base, the strength of its balance sheet and by maintaining Build to Last disciplines, underpinned by actions which have reduced geographic, commercial, operational and financial risk, Balfour Beatty now has the platform in place to scale the business to drive profitable managed growth and cash generation.

RESULTS OVERVIEW AND OUTLOOK

Unless otherwise stated, all commentary in this section, the Divisional operating reviews and Other financial items is on an underlying basis.

Throughout this report, Balfour Beatty has presented financial performance measures which are used to manage the Group's performance. These financial performance measures are chosen to provide a balanced view of the Group's operations and are considered useful to investors as these measures provide relevant information on the Group's past or future performance, position or cash flows. These measures are also aligned to measures used internally to assess business performance in the Group's budgeting process and when determining compensation. An explanation of the Group's financial performance measures and appropriate reconciliations to its statutory measures are provided in the Measuring Our Performance section. Non-underlying items are the cause of the differences between underlying and statutory profitability. Additionally, underlying revenue includes the Group's share of revenue in joint ventures and associates.

Group financial summary

In the first half of 2019, the Group's results demonstrate continued delivery of the Build to Last transformation as the income statement, cash flow and order book all strengthened in the period.

In the Group income statement, increases to revenue and gross profit, in combination with a reduction to overheads, resulted in increased profitability. Balfour Beatty continues to have the sector leading balance sheet, with customers increasingly recognising this competitive advantage.

Net cash at half year increased to £425 million, with average net cash for the first six months at £290 million. For the full year 2019, the Group now expects to deliver average net cash at £280 to £300 million, on average £50 million higher versus the previous range of £220 to £260 million.

The order book increased by 5% to £13.2 billion, up 5% at constant exchange rates (CER) (FY 2018: £12.6 billion). The Group's focus on disciplined bidding is continuing to build a higher quality order book capable of delivering profitable managed growth from the rising infrastructure spend in the UK, US and Hong Kong.

Underlying revenue was broadly flat at £3,881 million (up 1%, down 2% at CER; 2018: £3,836 million). Statutory revenue, which excludes joint ventures and associates, was £3,397 million (2018: £3,220 million).

Construction Services underlying revenues were up 5% (1% at CER) at £3,121 million (2018: £2,975 million) as a result of higher volume in both the UK and US. Support Services revenue decreased by 7% to £503 million (2018: £543 million) as expected following the conclusion of the Area 10 highways maintenance contract and lower volumes in the power transmission and distribution business.

Underlying profit from operations increased to £72 million (2018: £66 million), with Construction Services and Support Services both reporting improved profitability in the period. In total, these earnings-based businesses increased their contribution 29% to £63 million (2018: £49 million).

Statutory profit from operations increased to £71 million (2018: £60 million).

Underlying profit from operations[2]	HY 2019 £m	HY 2018 £m
UK Construction	17	5
US Construction	19	17
Gammon	9	10
Construction Services	45	32
Support Services	18	17
Earnings-based businesses	63	49
Infrastructure Investments pre-disposal operating profit	9	11
Infrastructure Investments profit on disposal	16	22
Corporate activities	(16)	(16)
Total	72	66

[2] before non-underlying items (Note 8)

Construction Services improved 41% to an underlying profit from operations of £45 million in the first half of 2019 (2018: £32 million). Support Services also increased, with underlying profit from operations of £18 million (2018: £17 million). Infrastructure Investments decreased from prior year, as in the first half of 2018 the third partial sell-down of the Connect Plus M25 asset generated a £22 million profit on disposal compared to £16 million of profit from assets disposed from the portfolio in the first half of 2019.

Net finance costs decreased to £8 million (2018: £10 million) as a result of lower interest costs as the Group continues to pay down debt. Underlying pre-tax profit increased to £64 million (2018: £56 million). The taxation charge on underlying profits increased to £10 million (2018: £4 million).

Underlying profit after tax increased to £54 million (2018: £52 million). Total statutory profit after tax for the period was £48 million (2018: £69 million), as a result of the net effect of non-underlying items.

Non-underlying items

The Board believes non-underlying items should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

Non-underlying items of £6 million were a net charge to the profit for the period (2018: £17 million net credit).

Items included: £2 million credit for release of provisions relating to settlements of health and safety claims; a £2 million net of tax charge relating to the amortisation of acquired intangible assets; and a £6 million taxation charge due to the actuarial loss in the period that led to the de-recognition of deferred tax liabilities which in turn led to the de-recognition of previously recognised UK deferred tax assets.

Earnings per share

Underlying basic earnings per share were 7.6 pence (2018: 7.5 pence), which, along with a non-underlying loss per share of 0.9 pence (2018: 2.6 pence gain), gave a total basic earnings per share of 6.7 pence (2018: 10.1 pence).

Cash flow performance

The total cash movement in the period resulted in a £88 million increase (2018: £31 million) in the Group's net cash position to £425 million (FY 2018: £337 million) excluding non-recourse net borrowings. This performance was driven by cash inflows from operations and dividends from joint ventures and associates, offset by IFRS 16 lease payments and capital expenditure.

Cash flow performance	HY 2019 £m	HY 2018 £m
Operating cash flows	94	44
Working capital inflow/(outflow)	11	(66)
Pension deficit payments+	(16)	(14)
Cash from/(used in) operations	89	(36)
Lease payments (reclassified under IFRS 16)	(24)	–
Dividends from joint ventures and associates∞	30	38
Capital expenditure	(13)	(12)
Infrastructure Investments		
- disposal proceeds^	26	108
- new investments	(11)	(38)
Other	(9)	(29)
Net cash movement	88	31
Opening net cash*	337	335
Closing net cash*	425	366

* excluding infrastructure concessions (non-recourse) net borrowings

∞ excludes £10 million dividends received in HY 2019 in relation to Investments asset disposals within joint ventures and associates

^ includes all cash flows in HY 2019 relating to Investments asset disposals: net assets held for sale (£8 million), dividends received from joint ventures and associates (£10 million) and return of investments from joint ventures and associates (£12 million), offset by related dividends paid to non-controlling interests (£4 million)

+includes £1 million of regular funding

Working capital

In the first half, the Group's working capital position resulted in an inflow of £11 million (2018: £66 million outflow).

Working capital flows^	HY 2019 £m	HY 2018 £m
Inventories	(10)	–
Net contract assets	(36)	–
Trade and other payables	98	52
Trade and other receivables	(37)	(63)
Provisions	(4)	(55)
Working capital inflow/(outflow)^	11	(66)

^ excluding impact of foreign exchange and disposals

Trade and other payables increased during the first half, creating a working capital inflow of £98 million which was partially offset by increases in net contract assets and trade and other receivables, creating working capital outflows of £36 million and £37 million respectively. The primary driver of these offsetting movements is the timing of construction project starts and the related working capital flows.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £728 million at 28 June 2019 (FY 2018: £680 million).

Net cash/borrowings

The Group's average net cash in the first half of 2019 improved substantially to £290 million (2018: £161 million). The Group's net cash position at 28 June 2019, excluding non-recourse net borrowings, was £425 million (FY 2018: £337 million; HY 2018: £366 million). Non-recourse net borrowings, held in infrastructure concessions entities consolidated by the Group, increased to £330 million (FY 2018: £309 million; HY 2018: £329 million). The balance sheet also includes £108 million (FY 2018: £106 million; HY 2018: £104 million) for the liability component of the preference shares and £120 million for lease liabilities following the adoption of IFRS 16 (FY 2018: £nil; HY 2018: £nil). Statutory net debt at 28 June 2019 was £133 million (FY 2018: £78 million; HY 2018: £67 million).

Banking facilities

The Group's core committed revolving credit facilities total £400 million and extend to December 2020. The purpose of the facilities is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. At 28 June 2019, these facilities were undrawn.

Adoption of IFRS 16 Leases

On 1 January 2019 the Group transitioned from IAS 17 to IFRS 16. As outlined in the year end accounts the Group elected to use the cumulative effect approach which does not require restating comparative years. On transition the Group recognised £121 million of right-of-use assets and £129 million of corresponding lease liabilities. No adjustment was made to opening equity; the difference between the assets and liabilities relates to reclassification of items previously included on the balance sheet and offset against the right-of-use assets.

For the first half of 2019, the right-of-use asset depreciation charge included in Group operating profit was £21 million and a £3 million interest expense was recognised within finance costs. Within the cash flow statement, in accordance with accounting standards, the £24 million cash expense is included in the statement of cash flows within financing activities, of which £3 million relating to interest is included in interest paid. Under IAS 17, all items would have been included in operating activities. At 28 June 2019, the Group has recognised right-of-use assets of £113 million and corresponding lease liabilities of £120 million.

The Group excludes IFRS 16 lease liabilities from its measure of net cash/borrowings as they are excluded from the definition of net debt set out in the Group's borrowing facilities.

Prompt payment code

In April 2019, Balfour Beatty, along with a number of other companies, was suspended from the Prompt Payment Code (PPC) in the UK. Balfour Beatty is committed to paying its supply chain partners on time to mutually agreed terms and the Group has submitted an action plan to achieve compliance which has been accepted by the PPC.

Over the past 18 months the Group has consistently improved its UK payment statistics. The percentage of invoices paid within 60 days, including disputed invoices, for the first six months of 2019 was 86%, up from 82% for the last six months of 2018 and 77% for the first six months of 2018. Additionally, the Group has reduced average days to pay from 50 days in the last six months of 2018 to 40 days in the first six months of 2019.

Whilst Balfour Beatty remains focused on measures which ensure continued improvement in its payment performance, it operates in a sector where supply chains and contractual terms are complex, and prompt payment is often materially impacted by resolution of disputes and alignment to agreed contractual processes.

From 1 October 2019 the UK's Government's new VAT Domestic Reverse Charge regulations come into effect which may impact the ability of the Group's supply chain to accurately invoice Balfour Beatty.

Pensions

The latest triennial valuation of the Balfour Beatty Pension Fund (BBPF) is due with effect from 31 March 2019 and the Group is in the early stage of discussions with the Trustee. Pending agreement on the new valuation and related funding plan, the agreement from the 31 March 2016 valuation remains in place. Under this agreement, the Company and the Trustee agreed a plan for the BBPF to reach self-sufficiency during 2027. This plan required Balfour Beatty to make cash contributions totalling £116 million over the five years 2019 to 2023. There is an agreed dividend sharing mechanism such that if the dividend cover ratio falls below 2x, funding to the BBPF will be accelerated.

Following the formal triennial funding valuation of the Railways Pension Scheme (RPS) as at 31 December 2016, the Group agreed to make ongoing deficit contributions of £6 million per annum which should reduce the deficit to zero by 2027. The next formal triennial valuation of the RPS will be as at 31 December 2019.

The Group's balance sheet includes net retirement benefit assets of £22 million (FY 2018: £54 million, HY 2018: £184 million) as measured on an IAS 19 basis, with the surplus on the main Balfour Beatty Pension Fund partially offset by deficits on other schemes.

Outlook

Since the inception of Build to Last in 2015, Balfour Beatty has created an open and transparent culture focused on continuous improvement throughout the business. It has simplified its operations; focused the geographical footprint; strengthened leadership and governance; all underpinned by systems and processes which provide a scalable foundation for the long term future of the business.

The Board remains confident that the Group will perform in line with market expectations in 2019, with all earnings-based businesses expected to achieve industry standard margins for the full year. The average net cash guidance range for the full year has been increased to £280 - £300 million.

Balfour Beatty now has the platform in place to scale the business to drive profitable managed growth and cash generation. The Group will look to benefit fully from its strong competitive positions in large and growing infrastructure markets to deliver market leading performance.

Dividend

The Board is declaring an interim dividend of 2.1 pence per share, a 31% increase on the 2018 interim dividend of 1.6 pence per share. The Board recognises the importance of dividends to shareholders and anticipates a progressive dividend policy going forward.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

Construction Services continued to make good progress during the period with increasing revenue, profit, PFO margin and order book.

Construction Services	HY 2019				HY 2018				FY 2018
	Rev[1]	PFO	PFO	Order book[1]	Rev[1]	PFO	PFO	Order book[1]	Order book[1]
	£m	£m	%	£bn	£m	£m	%	£bn	£bn
UK	1,014	17	1.7	3.0	947	5	0.5	2.7	3.0
US	1,727	19	1.1	5.6	1,577	17	1.1	5.4	5.2
Gammon	380	9	2.4	1.6	451	10	2.2	1.4	1.6
Underlying[2]	3,121	45		10.2	2,975	32		9.5	9.8
Non-underlying	3	1		–	3	(10)		–	–
Total	3,124	46		10.2	2,978	22		9.5	9.8

[1] revenue and order book include share of joint ventures and associates

[2] before non-underlying items (Note 8)

A reconciliation of the Group's performance measures to its statutory accounts is provided in the Measuring our financial performance section.

Underlying revenue increased by 5% to £3,121 million (2018: £2,975 million), a 1% increase at CER. Revenues increased by 10% in the US (3% at CER) and 7% in the UK, whilst at Gammon the 16% reduction (21% at CER) is a result of the timing of projects.

The 1.1% PFO margin at US Construction was within the 1-2% industry standard margin target range. In the first half of the year, UK Construction recorded a 1.7% PFO margin and the Group remains confident that for the full year it will be within the industry standard margin target range of 2-3%.

The order book at £10.2 billion (FY 2018: £9.8 billion) increased by 4% (4% at CER) since the end of 2018 due to increases in the US (8%, 8% at CER), while UK Construction and Gammon were directly in line. The overall increase occurred whilst maintaining the Group's policy of selective bidding. The £2.5 billion (Balfour Beatty 50%) HS2 main civils works won in 2017 are not yet included within the order book. They will only be included on the final signing of the main civils works contracts, now expected by the end of 2019. Additionally, the £1.0 billion Old Oak Common contract (Balfour Beatty 41.75%), which HS2 has announced it intends to award to the Group, is not yet included in the order book.

In the Construction Services portfolio, there are a small number of long term and complex projects where the Group has incorporated judgements over contractual outcomes. The range of potential outcomes as a result of uncertain future events could result in a materially positive or negative swing to profitability and cash flow. These contracts are primarily within the major infrastructure business units in the UK, US and Gammon.

Operational review

UK

Underlying revenue in the UK increased by 7% to £1,014 million (2018: £947 million) – the first time revenue has increased during the managed growth strategy under Build to Last. Underlying profit from operations showed an improvement to £17 million (2018: £5 million) with an associated PFO margin of 1.7% (2018: 0.5%). It is expected that for the full year UK Construction will be within the 2-3% industry standard margin target range.

The UK order book remained constant at £3.0 billion (FY 2018: £3.0 billion). The UK Construction business continued to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and better contract governance.

Government is a major customer in the UK construction sector, as well as policy-setter, and as such has a vital role to play in taking bold and vital decisions on infrastructure projects to: deliver inclusive growth; ensure the skills system delivers for the sector through a reformed apprentice levy; and work with the industry to help it to modernise and address the challenges it faces.

The National Infrastructure Commission has set out a vision for the future in which an increasingly digital society lives in towns and cities, where greater connectivity via roads and rail opens up business and employment opportunities. Delivering this vision would ensure the future success of the UK construction and infrastructure industry – an industry of key strategic importance.

The UK Construction business is organised into two business units consisting of:

- Major Projects: focused on complex projects in key market sectors such as transportation (road and rail), heavy infrastructure and energy; and
- Regional: civil engineering, ground engineering, mechanical and electrical engineering, and building, providing private and public customers with locally delivered flexible and fully integrated civil and building services.

The Major Projects business continues to pursue a number of key infrastructure opportunities across core transportation and energy markets. Even though vital decisions on infrastructure projects are being repeatedly delayed, over the next few years HS2, new nuclear power (Hinkley and Sizewell) and airport expansion (Heathrow) are all expected to contribute to the UK Government's investment in infrastructure, which is forecast to rise from 0.8% of GDP in 2015/16 to over 1% of GDP by 2020/21. In addition, the highways market continues to provide good growth opportunities following the UK Government's proposed £31 billion funding for Highways England's Road Investment Strategy (RIS1 and RIS2).

In February, the final section of the Aberdeen Western Peripheral Route (AWPR) project was fully open to traffic. The 58 kilometres of dual carriageway also included constructing 40 kilometres of side roads, 30 kilometres of access tracks and more than 100 new structures, including two significant focal point bridges over the rivers Dee and Don. The final financial out-turn of this contract remains dependent upon the result of ongoing claims discussions.

During the period, significant progress has been made on flagship projects. Since January, a Balfour Beatty VINCI joint venture has been mobilising the M4 Smart Motorway contract. The project is converting the hard shoulder into an additional lane for traffic and introducing electronically policed variable speed restrictions between junction 3 of the M4, just inside the M25 near Heathrow Airport, and junction 12 at Theale, west of Reading. Site works are progressing well with the central reserve completed in section one.

At the UK's largest current road project, the A14 in Cambridgeshire, construction continues to progress well. The 21-mile project between Cambridge and Huntingdon is upgrading the road from two to three lanes in each direction including a brand new 12-mile bypass south of Huntingdon. The upgrade, which is due to complete next year, also features the construction of 34 bridges and structures, including the 750-metre River Great Ouse viaduct.

On HS2, early contractor involvement (ECI) is ongoing on the main civils works, which were awarded as two-part design and build contracts in July 2017. Balfour Beatty VINCI won two Lots around Birmingham, N1 and N2, worth about £2.5 billion (Balfour Beatty 50%). These contracts are included in awarded but not contracted (ABNC) during the ECI period and will only be included in the order book on signing of the main civils works contracts. The joint venture team is currently working on the design and pricing of the two Lots, with the ECI work expected to be completed by the end of 2019.

In February 2019, HS2 announced that it intends to appoint a Balfour Beatty/VINCI/SYSTRA joint venture as the construction team that will be awarded a contract to manage the construction of the £1.0 billion Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in the venture, with Systra having the remaining 16.5%. Subsequently, Bechtel launched a legal challenge over the award of the Old Oak Common station build, keeping the contract in a standstill period. HS2 has applied to the courts to have the standstill lifted so that the award can be completed and works commenced.

Procurement processes are also underway on the rail systems contracts. In 2018, Balfour Beatty VINCI, which will work with Balfour Beatty NG Bailey as a delivery partner, submitted the HS2 pre-qualification response for the combined railway systems Lots 1 (track and overhead catenary system works) and 2 (tunnel and open route mechanical and electrical works) worth approximately £1.9 billion.

On Crossrail, Balfour Beatty's two remaining major projects – C512 (Whitechapel Station) and C530 (Woolwich Station) – made good progress during the period, with both projects delivering in line with the revised completion dates.

At Hinkley Point C, Balfour Beatty's expanding team continues to make positive progress on the project. The project involves the construction of a pair of six-metre diameter underwater tunnels to supply the nuclear power station with cooling water and a third seven-metre diameter tunnel to discharge heated water back into the Bristol Channel. Three tunnel boring machines will use rotating cutting heads to excavate a total of 9 kilometres of tunnel – the two 3.5-kilometre intake tunnels and one 1.8-kilometre outfall tunnel. In Avonmouth, Balfour Beatty has built an offsite precast factory to make the concrete sections required to line the tunnel consistent with the Group's 25 by 2025 vision to reduce onsite activity by 25% by 2025.

In May, at the Thames Tideway Tunnel project an important milestone was reached with tunnelling commencing from the site at Carnwarth Road, Wandsworth. The 'Rachel' tunnel boring machine will now continue drilling west for a further six kilometres towards Acton.

The Northern Line Extension (NLE) to Battersea on the London Underground has also made good progress. As part of the project, a Balfour Beatty team is undertaking the installation of 12 kilometres of 22kV high voltage cable through the existing Northern Line tunnels and the new extension. The first train to travel end-to-end through the NLE arrived in Battersea overnight in June.

The Regional business comprises:

- Regional Construction: four regions (Scotland & Ireland, North & Midlands, South and London) providing public and private customers with locally delivered, flexible and fully integrated civil and building services;
- Balfour Beatty Ground Engineering: specialist geotechnical contractor providing innovative piling and ground improvement solutions across all sectors; and
- Balfour Beatty Kilpatrick: heavy mechanical and electrical (M&E) installations and building services.

The Regional business is focused on opportunities across five sectors – aviation, buildings, civils, defence and energy.

Within Regional, and in line with the Group's strategy, the business has simplified with an improved span of control as it operates fewer projects. The number of live projects, which was over 400 at December 2015 has subsequently fallen to around 250 at 28 June 2019. During Build to Last, there has also been a shift towards a lower risk contract portfolio, with a reduction in the number of fixed price contracts offset by an increase in target cost (negotiated tender) contracts and framework agreements. Both target cost contracts and framework agreements require early contract involvement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties.

The Group's largest framework agreement is the Scape National Civil Engineering and Infrastructure framework. In October 2018, it was announced that Balfour Beatty had been appointed as the sole contractor to Scape's second generation civil engineering frameworks, valued at a combined total of up to £2.1 billion over four years (2019-2022). The Scape National Civil Engineering framework, which is valued at £1.6 billion, covers England, Wales and Northern Ireland, while the Scape Civil Engineering - Scotland framework, valued at £500 million, covers Scotland. The frameworks allow local authorities, local enterprise partnerships and other public sector bodies to commission works through a procurement process that provides the fastest route to market and utilises early contractor engagement to deliver best value design solutions.

In the first half of 2019, the Regional business completed the National Automotive Innovation Centre (NAIC) in Coventry for the University of Warwick. This 33,000 square metre development on the existing main campus of the University of Warwick included the construction of a four-storey 'L' shaped building that houses state-of-the-art teaching facilities, as well as research and development, design and engineering facilities. Other projects completed during the period included: engineering and training facilities at RAF Marham in Norfolk; and the Telford Footbridge project.

In the period, the Regional business has continued to make good progress at the University of Sussex student village. The first phase (East Slopes) is replacing the previous 600-bed facility on the University's campus with a new living space comprising 2,000 new bedrooms and innovative student amenities including a new student union facility. Other material ongoing projects include: the seven-storey 'MEC Hall' building at the £287 million Manchester Engineering Campus Development (MECD) project; the £150 million Madison Tower, a 53-storey residential building in Canary Wharf, London; the renovation and new-build scheme at No.1 Palace Street in St James', London; the 10-kilometre bypass connecting Caernarfon and Bontnewydd in North Wales; and phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park.

The Regional business had a number of notable new contract awards in the period including:

- Edinburgh Futures: a £70 million contract to deliver the Edinburgh Futures Institute, a flagship refurbishment and extension project on behalf of the University of Edinburgh;
- Community Hospitals: Balfour Beatty has been awarded two contracts worth a combined £38 million for the construction of two new community hospitals at Broadford (Skye) and Aviemore; and
- Union Terrace Gardens: a £26 million contract to renovate the historic Union Terrace Gardens in Aberdeen on behalf of Aberdeen City Council.

Included in ABNC at 28 June 2019, the Group has been selected as preferred bidder for the following significant projects: the completion of the Midland Metropolitan Hospital following Carillion's liquidation; a further three retirement homes for Audley Retirement; the redevelopment of the Darwin Building at the University of Edinburgh; and the next phase of the Lewisham Gateway scheme.

US

Underlying revenue in the US increased by 10% in the period (3% at CER) to £1,727 million (2018: £1,577 million) following the increase to the order book during 2018.

The business reported an underlying profit from operations for the period of £19 million (2018: £17 million). The underlying PFO margin was 1.1% (2018: 1.1%), within the 1-2% industry standard margin target range. Overall the trajectory of the US business is positive and market conditions are favourable.

The 8% (8% at CER) increase in the US order book since the end of 2018 to £5.6 billion (FY 2018: £5.2 billion) follows another six months of strong work winning. The quality of bookings is consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities.

In December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill was signed, providing authorised spending for a five year period. This bill permits longer term project planning horizons in the public market and is leading to improved visibility for publicly funded projects that had been slow to come to market. There are further opportunities being created with the number of state backed infrastructure bonds (over US$35 billion of education bonds in California; over US$200 billion of multi-state transportation bonds) and increases in US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

In the US approximately 80% of revenues are generated from the general building market (Buildings), with the civil infrastructure market (Civils) accounting for the remaining 20%.

The Buildings business remains focused on working with repeat customers and in known geographies where it can deliver value. The business is focused on specific geographies, known internally as 'The Southern Smile'. This starts in the Pacific North West, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington DC. The core markets remain as commercial offices, education, hospitality, residential and healthcare.

In the period, Buildings completed a number of notable projects including:

- The Altaire: located in Arlington, Virginia, this 20-storey project included 500 luxury apartment units across two towers;
- The Epic Office Tower: a 251,000 square foot contemporary office building, located in Dallas, Texas; and
- Pixon Apartments: located in Orlando, Florida, this 201-unit apartment building features the area's first micro-apartments.

During the period good progress has been made on flagship projects including:

- 500 Folsom: in January, Balfour Beatty topped out the 43-storey building which will provide 545 residential units in the South of Market (SOMA) district of San Francisco, California;
- The University of North Carolina – Wilmington: in February, Balfour Beatty broke ground on over 1,000 student housing beds located on campus;
- LAX: in March, the project joint venture broke ground on the Los Angeles International Airport's (LAX) Automated People Mover (APM) project for Los Angeles World Airports (LAWA). This project involves both the Buildings and Civils parts of the business; and
- The Pavilion at the Hospital of the University of Pennsylvania: in May, Balfour Beatty, in joint venture, topped out a 1.5 million square foot project located in Philadelphia, Pennsylvania which will provide 500 private patient rooms and 47 operating rooms.

The Buildings business had several notable new contract awards in the period including:

- Block 216: a mixed-use US$370 million contract to build five levels of below ground garage, eight levels of offices, 11 levels of hotel (253 rooms), and 14 levels of high-end apartments located in Portland, Oregon;
- The Wharf: Balfour Beatty has been selected to initiate Phase 2, which consists of US$305 million work contracts for all horizontal and public spaces, including site work, utilities, hardscape and parks. It also includes construction of office buildings and below ground parking garages in Washington D.C.;
- Jacksonville International Airport, Florida: the Jacksonville Aviation Authority has awarded Balfour Beatty a US$150 million contract for its terminal expansion project. The project includes construction of the new Concourse B that will add six gates;
- Plano Commercial Office: Balfour Beatty has been awarded a US$150 million 12-storey corporate office building consisting of 540,000 square feet of office space in Plano, Texas;
- 2100 Penn: Balfour Beatty has been contracted to build the US$137 million, 12-storey, 460,000 square foot building in Washington, D.C. with two wings connected by a ten-storey atrium, featuring new offices, 30,000 square feet of ground floor retail and three levels of below ground parking;
- Avocet Tower: located in Bethesda Maryland, this US$130 million project will include 370,000 square feet of office space as well as a 220-room hotel; and
- Virginia Center for Behavioral Redevelopment: located in Burkeville, Virginia, this US$103 million project includes a 190,000 square foot addition to the existing facility, 258 new beds, additional treatment and support spaces, and enhanced security.

Included in ABNC at 28 June 2019, the business has been made preferred bidder for: a US$230 million contract for a mixed-use project including residential, retail and hotel accommodation in Dallas; a US$190 million contract for a nine-storey patient health and surgery centre in Fort Worth, Texas; a US$170 million contract for a 500,000+ square foot office building and 500,000+ square foot garage in Dallas; and a US$252 million contract (50:50 joint venture) for a c.1 million square foot town centre project in Alexandria, Virginia.

Further in August, Buildings signed a US$780 million construction agreement for the Broward County Convention Center Expansion and Headquarters Hotel in Fort Lauderdale, Florida.

The Civils business continues to operate in the largely regulated markets of rail, water and road. In May 2019, Civils completed two rail projects in Denver, Colorado. Firstly, construction of the 11-mile Gold Line (G Line) connecting Union Station in downtown Denver to Wheat Ridge Station in the city's western suburbs and, secondly, the 2.3-mile extension of the Denver Regional Transportation District's E, F and R light rail lines. Known as the Southeast Rail Extension during construction, the project added three new stations: Sky Ridge, Lone Tree City Center and Ridgegate Parkway.

Additionally during the period, progress has been made on key contracts with mobilisation at both the US$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor) and US$1.08 billion Green Line extension (25% Balfour Beatty) projects. At Southern Gateway, an 11-mile stretch of road in Dallas, Texas, the widening of frontage roads and mainline barrier demolition is well underway alongside construction of bridges and extensive drainage works. At Green Line, a 4.7-mile commuter rail extension in Boston, Massachusetts, the design is near complete and construction activities have commenced with key activities underway including the building of noise walls, drilled shaft work and drainage. At Caltrain, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, design work is near complete with foundation works and overhead catenary system construction ongoing.

The most notable award for the Civils business in the period was the US$1.7 billion (c. £1.3 billion) Interstate 635 LBJ East project, for the Texas Department of Transportation. Balfour Beatty has a 45 percent share in the joint venture with Fluor Corporation holding 55 percent. At 28 June 2019, this project is included in ABNC with final contract signing expected in the second half of 2019. Works include the reconstruction and widening of 11 miles of the interstate highway around the North and East of Dallas, including the I-30 interchange, as well as the construction of service roads and numerous intersection improvements along the route.

Gammon

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of underlying revenue decreased by 16% (21% decrease at CER) to £380 million (2018: £451 million). At Gammon, the timing of projects is more variable around a small number of large contracts.

Importantly, both the underlying profit from operations and the order book were broadly stable at £9 million (2018: £10 million) and £1.6 billion (FY 2018: £1.6 billion) respectively. At CER the order book was also stable.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming, including: two new terminal buildings and other works associated with the third runway at the international airport; a ten year housing target; a ten year hospital development plan; and continued investment in transportation infrastructure. The order book is spread across a number of public and private customers. In Buildings, the focus is on the use of design for manufacture and assembly and modular construction to improve productivity and efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever engineering excellence with a key area of future work likely to be from significant infrastructure programmes in Hong Kong and the new MRT lines in Singapore.

During the period, the Buildings business completed work on the redevelopment of Somerset House into a 48-storey office building and the Civils business completed the Tuen Mun-Chek Lap Kok (TMCLK) South Viaduct project, which included the design and construction of a dual two-lane 1.6-kilometre viaduct over the sea.

Work has continued on major Buildings projects including: the construction of the Lyric Theatre Complex in the West Kowloon Cultural District of Hong Kong; Lohas Park, a project to deliver three 54-56 storey residential towers; and a data centre for Global Switch in Hong Kong. Work has also continued on a number of Civils projects in Hong Kong, including Tuen Mun-Chek Lap Kok Link Northern Connection, where Gammon is providing electrical and mechanical facilitation to serve the newly constructed 5-kilometre tunnel, and the Sai Sha Road widening project.

Gammon had a number of notable new contract awards in the period including two Macau projects totalling HK$3.6 billion for Sands China. These projects will rebrand the Sands Cotai Central into the Londoner Macau.

SUPPORT SERVICES

Financial review

The Support Services segment comprises utilities and transportation businesses. Utilities operates across power transmission and distribution and the gas and water sectors. Transportation operates across rail, highways and managed road schemes for local authorities.

Support Services revenue decreased by 7% to £503 million (2018: £543 million), as expected following the conclusion of the Area 10 highways maintenance contract and lower volumes in the power transmission and distribution business. Underlying profit from operations and PFO margin for the period increased to £18 million (2018: £17 million) and 3.6% (2018: 3.1%) respectively. The order book also increased by 7% since the end of 2018 to £3.0 billion (FY 2018: £2.8 billion) following the award of the Central Track Alliance contract in transportation.

Support Services	HY 2019	HY 2018
Order book[1] (£bn)	3.0	3.1
Revenue[1] (£m)	503	543
Profit from operations[2] (£m)	18	17
Non-underlying items (£m)	–	4
Statutory profit from operations (£m)	18	21
Underlying PFO margin[2] (%)	3.6%	3.1%

[1] revenue and order book include share of joint ventures and associates

[2] before non-underlying items (Note 8)

A reconciliation of the Group's performance measures to its statutory results is provided in the Measuring our financial performance section.

For the full year 2019, the Group continues to expect a revenue decline in Support Services following the conclusion of the Area 10 highways maintenance contract and a reduction in power transmission and distribution. Support Services underlying profit from operations is expected to be broadly in line with 2018 (£46 million) with the underlying PFO margin percentage expected to increase year on year (FY 2018: 4.2%).

Operational review

Underlying utilities revenue decreased by 10% to £276 million (2018: £308 million), driven by a decrease at power transmission and distribution. The utilities order book was stable at £0.9 billion (FY 2018: £0.9 billion) as an increase at power was offset by the expected decline in gas and water as the current regulatory cycles approach the end of their periods in 2021 and 2020 respectively.

The power transmission and distribution business has now stabilised, following significant restructuring and cost removal, with the business consolidating its strategy to focus primarily on core clients and markets.

In the period, power transmission and distribution successfully completed the South Wales 400kV power line refurbishment for National Grid and has continued its good progress on both the Beauly-Keith and Fort Augustus-Fort William 132kV power line refurbishments for SSE. These three schemes provide critical regional refurbishments to existing lines originally constructed over 50 years ago. The business recently won and has commenced construction on the National Grid Hinkley Point 400kV cabling project and has continued its work on the Eleclink project, in conjunction with the Rail business, to lay two 50-kilometre cables through the Channel Tunnel and connect them to converter stations in Northern France and Kent.

Notable new contract awards in the period included:

- Hinkley Point Overhead Lines: a £214 million contract to provide 400kV overhead lines from Hinkley Point C on behalf of National Grid. As part of the contract, Balfour Beatty will design, supply, install, test and commission a new overhead line spanning 48 kilometres and crossing through the Mendip Hills in Somerset. On completion, the new line will connect the power station with a new substation in Avonmouth, Bristol. This contract represents the fourth major piece of work won by Balfour

Beatty for the new power station, following the electrical works package in 2015, the tunnelling and marine works package in 2017 and the 8.5-kilometre cabling contract won in 2018;

- Littlebrook Power Station: a £50 million contract to replace a high-voltage substation at Littlebrook Power Station in Kent on behalf of National Grid. Balfour Beatty will design, supply and construct the large 400kV substation, utilising the capabilities of Balfour Beatty Ground Engineering to complete the ground engineering works. The project includes the installation of the cabling and overhead line connections to the national grid; and
- Fleet-Lovedean Overhead Lines: a £22 million contract to refurbish the Fleet-Lovedean overhead lines in Hampshire.

In gas, Balfour Beatty delivers network maintenance and asset enhancements for the largest gas distribution companies in the UK and Ireland. The Group expands and renews underground mains, often in busy and high-impact residential and commercial areas. Working on long term contracts, the business manages and delivers essential work, minimising the impact on local communities. The gas market is in the RIIO-GD1 period until early 2021. The Group continues to manage two long term gas contracts which have historically performed below expectations. In 2018, leadership changes were made, and a comprehensive recovery plan is well underway, including improved commercial terms. These contracts conclude in 2021.

The water business is now coming towards the end of the UK water regulatory cycle (AMP6 2015-2020). Balfour Beatty has existing contracts with Thames Water, Anglian Water and United Utilities. Extension opportunities into the AMP7 regulatory period (2021-2026) are currently being pursued with Thames Water and Anglian Water.

Underlying transportation revenues decreased by 3% to £227 million (2018: £235 million) as the conclusion of the Area 10 highways maintenance contract was only partially offset by higher volumes at other road maintenance contracts. The transportation order book increased since the end of 2018 to £2.1 billion (FY 2018: £1.9 billion), due to a number of contract wins for Network Rail. At 28 June 2019, only £0.2 billion (out of Balfour Beatty's £1.2 billion share) of the ten year Central Track Alliance contract has been included in the order book.

Balfour Beatty continues to maintain, manage and operate major highway and road networks across the UK. The largest contract, M25 Connect Plus, will continue for another 20 years.

In Rail services, the Group recently completed a term contract for the provision of tamping services to the railways in the Republic of Ireland. This project helped transfer railway operations best practice into the Irish environment. In addition, Rail services recently completed track and civils contracts which have been instrumental in the delivery of the Thameslink project, transforming one of London and the South East's busiest commuter networks. The works have included technologically complex track re-modelling and enabling civils works.

After Balfour Beatty's successful completion of the Crossrail electrification work between Stockley Junction and Maidenhead, Network Rail awarded the company a £200 million contract to electrify the track from Bristol to Cardiff. This is a major project and is expected to be completed by the end of 2019. In order to minimise disruption to the travelling public most work is being completed at night.

The rail services business won several contracts in the period including:

- Central Track Alliance: selected for Network Rail's £1.5 billion Central Track Alliance contract, Balfour Beatty has an 80% share in the ten year alliance which will be responsible for the development, design and delivery of track renewals and crossings, as well as associated infrastructure works across the London North West, London North East and East Midland routes; and
- London Underground: Transport for London re-appointed Balfour Beatty in February to deliver the new London Underground track renewals contract, valued at up to £220 million over four years. Balfour Beatty was first appointed in 2002, with the contract already extended on a number of occasions. The Group's detailed knowledge and experience of London Underground's infrastructure and systems, as well as its commitment to championing innovation, was instrumental in securing the contract.

In ABNC the rail services business has been selected for a £65 million five year contract to operate and maintain 21 of Network Rail's seasonal treatment multi-purpose vehicles across the South of England, Anglia and the London North Western (LNW) routes. Balfour Beatty has been successfully delivering operational and maintenance works for Network Rail's fleet of seasonal treatment vehicles in Kent and Sussex since 2013 and has now expanded this expertise to the LNW route as well as Anglia and Wessex.

INFRASTRUCTURE INVESTMENTS

Financial review

The Infrastructure Investments business delivered another good performance, having continued its strategy of optimising value through the disposal of operational assets, whilst also continuing to invest in new opportunities.

The Group achieves enhanced returns when Infrastructure Investments, Construction Services and Support Services deliver as one. There is an inherent advantage in bidding for projects when the Infrastructure Investments business utilises the expertise of Construction Services and Support Services. Additionally, the negative working capital generated in the Construction Services business provides opportunity for Infrastructure Investments.

Pre-disposals underlying operating profit decreased to £9 million (2018: £11 million), following prior year disposals. Underlying profit from operations at £25 million (2018: £33 million) was lower than the prior year, due to a decrease in profit on disposals following the £22 million profit from the partial sell down (5%) of Connect Plus in the prior year. Net interest income remained broadly consistent at £10 million (2018: £10 million) with underlying profit before tax at £35 million (2018: £43 million).

Infrastructure Investments	HY 2019 £m	HY 2018 £m
Pre-disposals operating profit[2]	9	11
Profit on disposals[2]	16	22
Profit from operations[2]	25	33
Net interest income from PPP concessions[+]	10	10
Profit before tax[2]	35	43
Non-underlying items	(2)	–
Statutory profit before tax	33	43

[2] before non-underlying items (Note 8)

[+] subordinated debt interest receivable and net interest receivable on PPP financial assets and non-recourse borrowings

A reconciliation of the Group's performance measures to its statutory results is provided in the Measuring Our Performance section.

Operational review

In the period, the Infrastructure Investments business added two new projects and disposed of four projects.

In the private rented and regeneration sector, the North American business purchased: a 50% stake at the 278-unit Waterchase Apartments in Largo, Florida; and a 50% stake at the Legends of Wolfchase 300-unit community at Bartlett, Tennessee. Balfour Beatty Communities will perform property management services for the properties, leveraging its existing capabilities as the Group continues to focus on growth through value-add multifamily investments.

In the period, the Group disposed of its entire 50% interest in the Borden Data Centre project in Ontario, Canada and also disposed of its entire interests in three multifamily housing projects. In addition, the Group reached financial close on the first phase of the East Wick and Sweetwater project. At 28 June 2019, two projects had not yet reached financial close (FY 2018: three projects).

In the US, the annual National Defense Authorization Act (NDAA) is currently under review, which covers the Military Housing Privatization Initiative (MHPI) established in 1996. As a result, standards of military housing provided by private developers are under heightened scrutiny by US Government agencies.

Under the MHPI, 43,000 family housing properties across 55 Army, Navy and Air Force bases are managed by Balfour Beatty Communities (BBC) under long term concessions. This spans financing the project development, designing and constructing new houses and community amenities, renovating older legacy properties inherited from the military so that they meet modern requirements, and managing day to day property leasing and maintenance services, within the project's budget that is approved by the Government and third party lenders. BBC has over 1,200 employees, who take pride in providing a high quality service to military families.

Recently, allegations have been reported in the media regarding the processing of property maintenance work orders and related incentive fees at two Air Force bases, Tinker and Mountain Home.

Balfour Beatty takes these allegations very seriously. BBC has appointed external counsel to examine the matter and to work with the appropriate authorities and military services to ensure a complete and thorough investigation. The reports based on the statements of two former employees at Tinker Air Force base regarding the alleged conduct of a small number of staff and the separate issue at Mountain Home Air Force base, are, the Group believes, not representative of the high standards of customer service and conduct of the dedicated staff across BBC.

Currently, the Group is not aware of any information in relation to the allegations with respect to military housing which causes it to change either the long term Directors' valuation of the assets or its short term financial forecasts. In 2018, BBC's annual profit was US$33 million. Property maintenance incentive fees for the 21 Air Force bases represented 13% of this total at c.US$4 million. Work order incentive fees, which are the subject of the allegations, represented broadly half of the maintenance incentive fees at c.US$2 million.

Directors' valuation

The Directors' valuation increased by £13 million to £1,164 million (FY 2018: £1,151 million), primarily due to the unwinding of the discount on the portfolio, offset by distributions and disposals. The number of projects in the portfolio decreased to 72 (FY 2018: 74).

Movement in value FY 2018 to HY 2019

£m	FY 2018	Equity invested	Distributions received	Sales proceeds	Unwind of discount	New project wins	Gains on sales	Operational performance gains (inc. FX movements)	HY 2019
UK	491	–	(8)	–	20	–	–	8	**511**
North America	660	11	(24)	(26)	25	1	–	6	**653**
Total	1,151	11	(32)	(26)	45	1	–	14	**1,164**

The Group invested £11 million (2018: £38 million) in new and existing projects. Cash yield from distributions amounted to £32 million (2018: £39 million) as the portfolio continued to generate cash flow to the Group net of investment.

The business continued its strategy of maximising value through recycling equity from operationally proven projects, whilst preserving interests in strategic projects that offer opportunities to the wider Group.

In the first half of 2019, the Group received £6 million from a sale of its 50% stake in Borden Data Centre in Canada, and £20 million from the sale of its stakes in three multifamily housing projects, the Dallas 5 portfolio, the Ranch at Pinnacle Point in Arkansas and the Mobile Alabama portfolio.

Unwind of discount at £45 million (2018: £48 million) is a function of moving the valuation date forward by six months with the result that future cash flows are discounted by six months less. Operational performance movements resulted in an £14 million increase in the value of the portfolio (2018: £4 million decrease), consisting mainly of minor revisions of forecasts on projects in both the US and the UK based on reviews of the individual projects.

The methodology used for the Directors' valuation is unchanged, producing a valuation that reflects market value and which therefore changes with movements in the market. Cash flows for each project are forecast based on historical and present performance, future risks and macroeconomic forecasts and which factor in current market assumptions. These cash flows are then discounted using different discount rates based on the risk and maturity of individual projects and reflecting secondary market transaction experience. As in previous periods, the Directors' valuation may differ significantly from the accounting book value of investments shown in the financial statements, which are produced in accordance with International Financial Reporting Standards rather than using a discounted cash flow approach.

Demand for high quality infrastructure assets in the secondary market continues to exceed supply and the Group will continue to sell investment assets timed to maximise value to shareholders.

The Investments portfolio is more heavily weighted to North America (UK 44%, North America 56% at 28 June 2019). Within the UK, roads is still the largest sector, whilst in North America US military housing represents the majority of the portfolio. The Investments portfolio includes over £1 billion of projects that have completed the construction phase and are operational.

Portfolio valuation June 2019

Value by sector

Sector	**HY 2019**	FY 2018	**HY 2019**	FY 2018
	No. projects	No. projects	**£m**	£m
Roads	**13**	13	**209**	205
Healthcare	**3**	3	**114**	109
Student accommodation	**4**	4	**44**	43
OFTOs	**3**	3	**52**	50
Waste and biomass	**4**	4	**39**	41
Other	**5**	5	**53**	43
UK total	**32**	32	**511**	491
US military housing	**21**	21	**528**	532
Healthcare and other PPP	**3**	4	**34**	35
Student accommodation	**7**	7	**55**	46
Residential housing	**9**	10	**36**	47
North America total	**40**	42	**653**	660
Total	**72**	74	**1,164**	1,151

Value by phase

Phase	**HY 2019**	FY 2018	**HY 2019**	FY 2018
	No. projects	No. projects	**£m**	£m
Operations	**61**	64	**1,009**	1,003
Construction	**9**	7	**155**	130
Preferred bidder	**2**	3	**–**	18
Total	**72**	74	**1,164**	1,151

Value by income type

Income type	**HY 2019**	FY 2018	**HY 2019**	FY 2018
	No. projects	No. projects	**£m**	£m
Availability based	**24**	25	**431**	414
Demand – operationally proven (2+ years)	**39**	40	**611**	614
Demand – early stage (less than 2 years)	**9**	9	**122**	123
Total	**72**	74	**1,164**	1,151

UK portfolio

In aggregate operational performance movements resulted in an £8 million increase in value arising from the net effect of revised cash flow forecasts and discount rates for certain projects.

Discount rates applied to the UK portfolio range between 7% and 11.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.6% (FY 2018: 8.5%). A 1% change in discount rate would change the value of the UK portfolio by approximately £50 million.

Consistent with other infrastructure funds, Balfour Beatty's experience is that there is limited correlation between the discount rates used to value PPP (and similar infrastructure investments) and long term interest rates. In the event that interest rates increase in response to rising inflation, the impact of any increase in discount rates would be mitigated by the positive correlation between the value of the UK portfolio and changes in inflation.

North American portfolio

In the period, the business won two projects: both investments in private rental housing portfolios at Largo (Florida) and Bartlett (Tennessee), and additionally reached financial close at a further phase at the University of Texas, Dallas student accommodation project. Investment of £11 million was made during the period in these projects.

In the first half of the year, the Group completed the sale of its investment in three multifamily housing projects: the Dallas 5 portfolio; the Mobile Alabama portfolio; and the Ranch at Pinnacle Point in Arkansas, generating cash proceeds of £20 million. In addition, the Group sold its investment in the Borden Data Centre which generated cash proceeds of £6 million.

Operational performance movements resulted in a £6 million increase in the value of the portfolio, consisting mainly of minor revisions to forecast cashflows and discount rate assumptions for certain projects (£4 million increase) and an increase of £2 million due to exchange rate movements.

Discount rates applied to the North American portfolio range between 7.5% and 10.5%. The implied weighted average discount rate is 8.0% (FY 2018: 8.2%) and a 1% change in the discount would change the value of the North American portfolio by approximately £85 million.

Under the Tax Cuts and Jobs Act passed by the US Government in December 2017 there are provisions to restrict the tax deductibility of interest expense. The Group's assessment of the provisions is that the restriction will not have a material effect on the Directors' valuation.

OTHER FINANCIAL ITEMS

Financial risk factors and going concern

The key financial risk factors for the Group remain largely unchanged.

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 28 June 2019, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

The Group is forecasting to remain within its banking covenants during the going concern assessment period.

The Directors have acknowledged the guidance Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 published by the Financial Reporting Council in October 2009. In reviewing the future prospects of the Group, the following factors are relevant:

- the Group has a strong order book;
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates;
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had net cash balances of £425 million at 28 June 2019;
- the Group's portfolio of Infrastructure Investments comprises reasonably realisable securities which can be sold to meet funding requirements as necessary; and
- the Group has access to committed credit facilities totalling £400 million through to December 2020. At 28 June 2019, this facility was wholly undrawn.

Based on the above and having made appropriate enquiries and reviewed medium term cash forecasts, the Directors consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Leo Quinn	Phil Harrison
Group Chief Executive	Chief Financial Officer
13 August 2019	

Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by Balfour Beatty in good faith based on the information available to it at the date of this announcement and reflect the beliefs and expectations of Balfour Beatty. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, and failure in Balfour Beatty's health, safety or environmental policies.

No representation or warranty is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Forward-looking statements speak only as at the date of this announcement and Balfour Beatty and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this announcement. No statement in the announcement is intended to be, or intended to be construed as, a profit forecast or profit estimate or to be interpreted to mean that Balfour Beatty plc's earnings per share for the current or future financial years will necessarily match or exceed the historical earnings per share for Balfour Beatty plc. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

MEASURING OUR PERFORMANCE

Providing clarity on the Group's alternative performance measures

Following the issuance of the Guidelines on Alternative Performance Measures (APMs) by the European Securities and Markets Authorities (ESMA) in June 2015, the Group has included this section in this announcement with the aim of providing transparency and clarity on the measures adopted internally to assess performance.

Throughout this announcement, the Group has presented financial performance measures which are considered most relevant to Balfour Beatty and are used to manage the Group's performance.

These measures are chosen to provide a balanced view of the Group's operations and are considered useful to investors as these measures provide relevant information on the Group's past or future performance, position or cash flows.

The APMs adopted by the Group are also commonly used in the sectors it operates in and therefore serve as a useful aid for investors to compare Balfour Beatty's performance to its peers.

The Board believes that disclosing these performance measures enhances investors' ability to evaluate and assess the underlying financial performance of the Group's operations and the related key business drivers.

These financial performance measures are also aligned to measures used internally to assess business performance in the Group's budgeting process and when determining compensation.

Equivalent information cannot be presented by using financial measures defined in the financial reporting framework alone.

Readers are encouraged to review this announcement in its entirety.

Performance measures used to assess the Group's operations in the year

Underlying profit from operations (PFO)

Underlying PFO is presented before non-underlying items, finance cost and interest income and is the key measure used to assess the Group's performance in the Construction Services and Support Services segments. This is also a common measure used by the Group's peers operating in these sectors.

This measure reflects the returns to the Group from services provided in these operations that are generated from activities that are not financing in nature and therefore an underlying pre-finance cost measure is more suited to assessing underlying performance.

Underlying profit before tax (PBT)

The Group assesses performance in its Infrastructure Investments segment using an underlying PBT measure. This differs from the underlying PFO measure used to measure the Group's Construction Services and Support Services segments because in addition to margins generated from operations, there are returns to the Investments business which are generated from the financing element of its projects.

These returns take the form of subordinated debt interest receivable and interest receivable on PPP financial assets which are included in the Group's income statement in investment income. These are then offset by the finance cost incurred on the non-recourse debt associated with the underlying projects, which is included in the Group's income statement in finance costs.

Measuring the Group's performance

The following measures are referred to in this announcement when reporting performance, both in absolute terms and also in comparison to earlier periods:

Statutory measures

Statutory measures are derived from the Group's reported financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and as issued by the International Accounting Standards Board (IASB).

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 120 to 127 of the Annual Report and Accounts 2018.

The Group's statutory measures take into account all of the factors, including those that it cannot influence (principally foreign currency fluctuations) and also large non-recurring items which do not reflect the ongoing underlying performance of the Group.

Performance measures

In assessing its performance, the Group has adopted certain non-statutory measures because, unlike its statutory measures, these cannot be derived directly from its financial statements. The Group commonly uses the following measures to assess its performance:

a) Order book

The Group's disclosure of its order book is aimed to provide insight into its pipeline of work and future performance. The Group's order book is not a measure of past performance and therefore cannot be derived from its financial statements.

The Group's order book comprises the unexecuted element of orders on contracts that have been secured. Where contracts are subject to variations, only secured contract variations are included in the reported order book.

Where contracts fall under framework agreements, an estimate is made of orders to be secured under that framework agreement. This is based on historical trends from similar framework agreements delivered in the past and the estimate of orders included in the order book is that which is probable to be secured.

In accordance with IFRS 15 Revenue from Contracts with Customers*,* the Group is required to disclose the remaining transaction price allocated to performance obligations not yet delivered. This can be found in Note 4.3 in the Annual Report and Accounts 2018. This is similar to the Group's order book disclosure, however it differs for the following reasons:

- the Group's order book includes its share of orders that are reported within its joint ventures and associates. In line with section (e), the Board believes that including orders that are within the pipeline of its joint ventures and associates better reflects the size of the business and the volume of work to be carried out in the future. This differs from the statutory measure of transaction price to be allocated to remaining performance obligations which is only inclusive of secured revenue from the Group's subsidiaries.
- as stated above, for contracts that fall under framework agreements, the Group includes in its order book an estimate of what the orders under these agreements will be worth. Under IFRS 15, each instruction under the framework agreement is viewed as a separate performance obligation and is included in the statutory measure of the remaining transaction price when received but estimates for future instructions are not.
- the Group's order book does not include revenue to be earned in its Infrastructure Investments segment as the value of this part of the business is driven by the Directors' valuation of the Investments portfolio. Refer to section (h).

Reconciliation of order book to transaction price to be allocated to remaining performance obligations

		2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Order book (performance measure)		**13,227**	12,599	12,625
Less:	Share of orders included within the Group's joint ventures and associates	**(1,983)**	(1,745)	(2,013)
	Estimated orders under framework agreements included in the order book disclosure	**(332)**	(494)	(358)
Add:	Transaction price allocated to remaining performance obligations in Infrastructure Investments	**2,597**	2,051	2,641
Transaction price allocated to remaining performance obligations for the Group (statutory measure)		**13,509**	12,411	12,895

b) Underlying performance

The Group adjusts for certain non-underlying items which the Board believes assists in understanding the performance achieved by the Group. These items include:

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions;
- costs of major restructuring and reorganisation of existing businesses;
- costs of integrating newly acquired businesses;
- acquisition and similar costs related to business combinations such as transaction costs;
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets); and
- impairment of goodwill.

These are non-underlying costs as they do not relate to the underlying performance of the Group. From time to time, it may be appropriate to disclose further items as non-underlying items in order to reflect the underlying performance of the Group.

The results of Rail Germany have been treated as non-underlying items as the Group is committed to exiting this part of the business.

Further details of these non-underlying items are provided in Note 8.

A reconciliation has been provided below to show how the Group's statutory results are adjusted to exclude non-underlying items and their impact on its statutory financial information, both as a whole and in respect of specific line items.

Reconciliation of the half-year ended 28 June 2019 statutory results to performance measures

	2019 first half unaudited statutory results £m	Non-underlying items: Intangible amortisation £m	Non-underlying items: Provision release on health & safety claims £m	Non-underlying items: Results of Rail Germany £m	Non-underlying items: UK deferred tax asset £m	2019 first half unaudited performance measures £m
Revenue including share of joint ventures and associates (performance)	**3,884**	–	–	(3)	–	**3,881**
Share of revenue of joint ventures and associates	**(487)**	–	–	3	–	**(484)**
Group revenue (statutory)	**3,397**	–	–	–	–	**3,397**
Cost of sales	**(3,221)**	–	–	–	–	**(3,221)**
Gross profit	**176**	–	–	–	–	**176**
Gain on disposals of interests in investments	**3**	–	–	–	–	**3**
Amortisation of acquired intangible assets	**(3)**	3	–	–	–	**–**
Other net operating expenses	**(135)**	–	(2)	–	–	**(137)**
Group operating profit	**41**	3	(2)	–	–	**42**
Share of results of joint ventures and associates	**30**	–	–	–	–	**30**
Profit from operations	**71**	3	(2)	–	–	**72**
Investment income	**19**	–	–	–	–	**19**
Finance costs	**(27)**	–	–	–	–	**(27)**
Profit before taxation	**63**	3	(2)	–	–	**64**
Taxation	**(15)**	(1)	–	–	6	**(10)**
Profit for the period	**48**	2	(2)	–	6	**54**

Reconciliation of the half-year ended 28 June 2019 statutory results to performance measures by segment

Profit/(loss) from operations	2019 first half unaudited statutory results £m	Non-underlying items: Intangible amortisation £m	Non-underlying items: Provision release on health & safety claims £m	Non-underlying items: Results of Rail Germany £m	Non-underlying items: UK deferred tax asset £m	2019 first half unaudited performance measures £m
Segment						
Construction Services	**46**	1	(2)	–	–	**45**
Support Services	**18**	–	–	–	–	**18**
Infrastructure Investments	**23**	2	–	–	–	**25**
Corporate activities	**(16)**	–	–	–	–	**(16)**
Total	**71**	3	(2)	–	–	**72**

Reconciliation of the half-year ended 29 June 2018 statutory results to performance measures

	2018 first half unaudited statutory results £m	Non-underlying items: Build to Last restructuring costs £m	Intangible amortisation £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	Provision release on health & safety claims £m	BB Infrastructure Partners £m	UK deferred tax asset £m	2018 first half unaudited performance measures £m
Revenue including share of joint ventures and associates (performance)	3,839	–	–	(3)	–	–	–	–	3,836
Share of revenue of joint ventures and associates	(619)	–	–	1	–	–	–	–	(618)
Group revenue (statutory)	3,220	–	–	(2)	–	–	–	–	3,218
Cost of sales	(3,057)	–	–	1	8	–	–	–	(3,048)
Gross profit	163	–	–	(1)	8	–	–	–	170
Gain on disposals of interests in investments	22	–	–	–	–	–	–	–	22
Amortisation of acquired intangible assets	(4)	–	4	–	–	–	–	–	–
Other net operating expenses	(140)	5	–	–	–	(7)	(3)	–	(145)
Group operating profit	41	5	4	(1)	8	(7)	(3)	–	47
Share of results of joint ventures and associates	19	–	–	–	–	–	–	–	19
Profit from operations	60	5	4	(1)	8	(7)	(3)	–	66
Investment income	20	–	–	–	–	–	–	–	20
Finance costs	(30)	–	–	–	–	–	–	–	(30)
Profit before taxation	50	5	4	(1)	8	(7)	(3)	–	56
Taxation	19	(2)	(1)	–	–	–	–	(20)	(4)
Profit for the period	69	3	3	(1)	8	(7)	(3)	(20)	52

Reconciliation of the half-year ended 29 June 2018 statutory results to performance measures by segment

Profit/(loss) from operations	2018 first half unaudited statutory results £m	Non-underlying items: Build to Last restructuring costs £m	Intangible amortisation £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	Provision release on health & safety claims £m	BB Infrastructure Partners £m	UK deferred tax asset £m	2018 first half unaudited performance measures £m
Segment									
Construction Services	22	2	1	(1)	8	–	–	–	32
Support Services	21	3	–	–	–	(7)	–	–	17
Infrastructure Investments	33	–	3	–	–	–	(3)	–	33
Corporate activities	(16)	–	–	–	–	–	–	–	(16)
Total	60	5	4	(1)	8	(7)	(3)	–	66

Reconciliation of the year ended 31 December 2018 statutory results to performance measures

		Non-underlying items								
	2018 statutory results £m	Build to Last restructuring costs £m	Intangible amor-tisation £m	Additional loss on AWPR contract £m	Loss on GMP equal-isation £m	(Gain)/loss on disposals £m	Provision release on health & safety claims £m	Joint venture items £m	Results of Rail Germany £m	2018 performance measures £m
Revenue including share of joint ventures and associates (performance)	7,814	–	–	–	–	–	–	–	(12)	7,802
Share of revenue of joint ventures and associates	(1,180)	–	–	–	–	–	–	–	9	(1,171)
Group revenue (statutory)	6,634	–	–	–	–	–	–	–	(3)	6,631
Cost of sales	(6,263)	–	–	10	–	–	–	–	3	(6,250)
Gross profit	371	–	–	10	–	–	–	–	–	381
Gain on disposals of interests in investments	80	–	–	–	–	–	–	–	–	80
Amortisation of acquired intangible assets	(8)	–	8	–	–	–	–	–	–	–
Other net operating expenses	(319)	11	–	–	28	9	(13)	–	–	(284)
Group operating profit	124	11	8	10	28	9	(13)	–	–	177
Share of results of joint ventures and associates	23	–	–	–	–	–	–	5	–	28
Profit from operations	147	11	8	10	28	9	(13)	5	–	205
Investment income	35	–	–	–	–	–	–	–	–	35
Finance costs	(59)	–	–	–	–	–	–	–	–	(59)
Profit before taxation	123	11	8	10	28	9	(13)	5	–	181
Taxation	12	(2)	(2)	(2)	(5)	(3)	–	–	–	(2)
Profit for the period	135	9	6	8	23	6	(13)	5	–	179

Reconciliation of the year ended 31 December 2018 statutory results to performance measures by segment

		Non-underlying items								
Profit/(loss) from operations	2018 statutory results £m	Build to Last restructuring costs £m	Intangible amor-tisation £m	Additional loss on AWPR contract £m	Loss on GMP equal-isation £m	(Gain)/loss on disposals £m	Provision release on health & safety claims £m	Joint venture items £m	Results of Rail Germany £m	2018 performance measures £m
Segment										
Construction Services	46	6	3	10	15	12	(2)	5	–	95
Support Services	39	5	–	–	13	–	(11)	–	–	46
Infrastructure Investments	95	–	5	–	–	(3)	–	–	–	97
Corporate activities	(33)	–	–	–	–	–	–	–	–	(33)
Total	147	11	8	10	28	9	(13)	5	–	205

c) Underlying profit before tax

As explained, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

		2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Underlying profit from operations (section (b) and Note 3)		**25**	33	97
Add:	Subordinated debt interest receivable^	**13**	13	21
	Interest receivable on PPP financial assets^	**4**	4	9
Less:	Non-recourse borrowings finance cost^	**(7)**	(7)	(14)
Underlying profit before tax (performance)		**35**	43	113
Non-underlying items (section (b) and Note 3)		**(2)**	–	(2)
Statutory profit before tax		**33**	43	111

^ Refer to Note 6 and Note 7.

d) Underlying earnings per share

In line with the Group's measurement of underlying performance, the Group also presents its earnings per share (EPS) on an underlying basis. The table below reconciles this to the statutory earnings per share.

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Statutory basic earnings per ordinary share	**6.7**	10.1	19.7
Amortisation of acquired intangible assets net of tax	**0.4**	0.6	0.9
Other non-underlying items net of tax	**0.5**	(3.2)	5.7
Underlying basic earnings per ordinary share (performance)	**7.6**	7.5	26.3

e) Revenue including share of joint ventures and associates (JVAs)

The Group uses a revenue measure which is inclusive of its share of revenue generated from its JVAs. As the Group uses revenue as a measure of the level of activity performed by the Group during the period, the Board believes that including revenue that is earned from its JVAs better reflects the size of the business and the volume of work carried out and more appropriately compares to PFO.

This differs from the statutory measure of revenue which presents Group revenue from its subsidiaries.

A reconciliation of the statutory measure of revenue to the Group's performance measure is shown in the tables in section (b). A comparison of the growth rates in statutory and performance revenue can be found in section (i).

f) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the period end. This is analysed using only elements that are recourse to the Group and excludes the liability component of the Company's preference shares, which is debt in nature according to statutory measures. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, as a result of adopting IFRS 16 Leases at 1 January 2019, the Group recognised £129m of lease liabilities on its balance sheet, which are also deemed to be debt in nature under statutory measures. Refer to Note 1.4.

The Group has excluded these elements from its measure of net cash/borrowings as they are excluded from the definition of net debt set out in the Group's borrowing facilities.

Net cash/borrowings reconciliation

	2019 first half unaudited statutory £m	**Adjustment £m**	**2019 first half unaudited performance £m**	2018 first half unaudited statutory £m	Adjustment £m	2018 first half unaudited performance £m	2018 year audited statutory £m	Adjustment £m	2018 year audited performance £m
Total cash within the Group	**730**	**(50)**	**680**	926	(104)	822	661	(70)	591
Cash and cash equivalents									
– infrastructure concessions	**50**	**(50)**	**–**	104	(104)	–	70	(70)	–
– other	**680**	**–**	**680**	822	–	822	591	–	591
Total debt within the Group	**(863)**	**608**	**(255)**	(993)	537	(456)	(739)	485	(254)
Borrowings – non-recourse loans	**(380)**	**380**	**–**	(433)	433	–	(379)	379	–
– other	**(255)**	**–**	**(255)**	(456)	–	(456)	(254)	–	(254)
Liability component of preference shares	**(108)**	**108**	**–**	(104)	104	–	(106)	106	–
Lease liabilities	**(120)**	**120**	**–**	–	–	–	–	–	–
Net (borrowings)/cash	**(133)**	**558**	**425**	(67)	433	366	(78)	415	337

g) Average net cash/borrowings

The Group uses an average net cash/borrowings measure as this reflects its financing requirements throughout the period. The Group calculates its average net cash/borrowings based on the average of opening and closing figures for each month through the period.

The average net cash/borrowings measure excludes non-recourse cash and debt, the liability component of the Company's preference shares and the lease liabilities recognised as a result of adopting IFRS 16 Leases at 1 January 2019, and this performance measure shows average net cash of £290m (2018: first half £161m; full-year £194m).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and the lease liabilities) gives average net borrowings of £106m (2018: first half £70m; full-year £76m).

h) Directors' valuation of the Investments portfolio

The Group uses a different methodology to assess the value of its Investments portfolio. As described in the Directors' valuation section, the Directors' valuation has been undertaken using forecast cash flows for each project based on progress to date and market expectations of future performance. These cash flows have been discounted using different discount rates depending on project risk and maturity, reflecting secondary market transaction experience. As such, the Board believes that this measure better reflects the potential returns to the Group from this portfolio.

h) Directors' valuation of the Investments portfolio continued

The Directors have valued the Investments portfolio at £1.16bn at the half-year (2018: first half £1.19bn; full-year £1.15bn). The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

Reconciliation of the net assets of the Infrastructure Investments segment to the comparable statutory measure of the Investments portfolio included in the Directors' valuation

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Net assets of the Infrastructure Investments segment (refer to Note 3.2)	**646**	565	653
Less: recourse loans presented within Corporate activities relating to Infrastructure Investments projects	**(16)**	(14)	(15)
Less: net assets not included within the Directors' valuation – Housing division	**(29)**	(24)	(25)
Comparable statutory measure of the Investments portfolio under IFRS	**601**	527	613

Comparison of the statutory measure of the Investments portfolio to its performance measure

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Statutory measure of the Investments portfolio (as above)	**601**	527	613
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: ▪ historical cost; ▪ amortised cost; and ▪ fair value	**563**	658	538
Directors' valuation (performance measure)	**1,164**	1,185	1,151

The difference between the statutory measure and the Directors' valuation (performance measure) of the Group's Investments portfolio is not equal to the gain on disposal that would result if the portfolio was fully disposed at the Directors' valuation. This is because the gain/loss on disposal would be affected by the recycling of items which were previously recognised directly within reserves, which are material and can alter the resulting gain/loss on disposal.

The statutory measure and the Directors' valuation are fundamentally different due to the different methodologies used to derive the valuation of these assets within the Investments portfolio.

As referred to in the Directors' valuation section, the Directors' valuation is calculated using discounted cash flows. In deriving these cash flows, assumptions have been made and different discount rates used which are updated at each valuation date.

Unlike the Directors' valuation, the assets measured under statutory measures using the appropriate IFRS accounting standards are valued using a combination of the following methods:

- historical cost;
- amortised cost; and
- fair value for certain assets and liabilities within the PPP portfolio, for which some assumptions are set at inception and some are updated at each reporting period.

There is also an element of the Directors' valuation that is not represented by an asset in the Group's balance sheet. This relates to the management services contracts within the Investments business that are valued in the Directors' valuation based on the future income stream expected from these contracts.

i) Constant exchange rates (CER)

The Group operates across a variety of geographic locations and in its statutory results, the results of its overseas entities are translated into the Group's presentational currency at average rates of exchange for the period. The Group's key exchange rates applied in deriving its statutory results are shown in Note 2.

To measure changes in the Group's performance compared with the previous period without the effects of foreign currency fluctuations, the Group provides growth rates on a CER basis. These measures remove the effects of currency movements by retranslating the prior period's figures at the current period's exchange rates, using average rates for revenue and closing rates for order book. A comparison of the Group's statutory growth rate to the CER growth rate is provided in the table below:

2019 statutory growth compared to performance growth

	Construction Services						
	UK	**US**	**Gammon**	**Total**	**Support Services**	**Infrastructure Investments**	**Total**
Revenue (£m)							
2019 first half statutory	1,014	1,721	–	2,735	489	173	3,397
2018 first half statutory	949	1,571	–	2,520	529	171	3,220
Statutory growth (%)	7%	10%	–	9%	(8)%	1%	5%
2019 first half performance^	1,014	1,727	380	3,121	503	257	3,881
2018 first half performance retranslated^	947	1,675	479	3,101	543	327	3,971
Performance CER growth (%)	7%	3%	(21)%	1%	(7)%	(21)%	(2)%
Order book (£bn)							
2019 first half	3.0	5.6	1.6	10.2	3.0	–	13.2
2018 year	3.0	5.2	1.6	9.8	2.8	–	12.6
Growth (%)	–%	8%	–%	4%	7%	–	5%
2019 first half	3.0	5.6	1.6	10.2	3.0	–	13.2
2018 year retranslated	3.0	5.2	1.6	9.8	2.8	–	12.6
CER growth (%)	–%	8%	–%	4%	7%	–	5%

^ Performance revenue is underlying revenue including share of revenue from joint ventures and associates as set out in section (e).

INDEPENDENT REVIEW REPORT TO BALFOUR BEATTY PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 28 June 2019 which comprises the Condensed Group Income Statement, Condensed Group Statement of Comprehensive Income, Condensed Group Statement of Changes in Equity, Condensed Group Balance Sheet, Condensed Group Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 28 June 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Paul Sawdon
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL
13 August 2019

Condensed Group Income Statement

For the half-year ended 28 June 2019

		2019 first half unaudited			2018 first half unaudited#			2018 year audited#		
	Notes	Underlying items[1] £m	Non-underlying items (Note 8) £m	Total £m	Underlying items[1] £m	Non-underlying items (Note 8) £m	Total £m	Underlying items[1] £m	Non-underlying items (Note 8) £m	Total £m
Revenue including share of joint ventures and associates		**3,881**	**3**	**3,884**	3,836	3	3,839	7,802	12	7,814
Share of revenue of joint ventures and associates	5.1	**(484)**	**(3)**	**(487)**	(618)	(1)	(619)	(1,171)	(9)	(1,180)
Group revenue		**3,397**	**–**	**3,397**	3,218	2	3,220	6,631	3	6,634
Cost of sales		**(3,221)**	**–**	**(3,221)**	(3,048)	(9)	(3,057)	(6,250)	(13)	(6,263)
Gross profit/(loss)		**176**	**–**	**176**	170	(7)	163	381	(10)	371
Gain on disposals of interests in investments	19.2	**3**	**–**	**3**	22	–	22	80	–	80
Amortisation of acquired intangible assets		**–**	**(3)**	**(3)**	–	(4)	(4)	–	(8)	(8)
Other net operating (expenses)/income		**(137)**	**2**	**(135)**	(145)	5	(140)	(284)	(35)	(319)
Group operating profit/(loss)		**42**	**(1)**	**41**	47	(6)	41	177	(53)	124
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**17**	**–**	**17**	19	–	19	26	(5)	21
Gain on disposals of interests in investments	19.2	**13**	**–**	**13**	–	–	–	2	–	2
Share of results of joint ventures and associates	5.1	**30**	**–**	**30**	19	–	19	28	(5)	23
Profit/(loss) from operations		**72**	**(1)**	**71**	66	(6)	60	205	(58)	147
Investment income	6	**19**	**–**	**19**	20	–	20	35	–	35
Finance costs	7	**(27)**	**–**	**(27)**	(30)	–	(30)	(59)	–	(59)
Profit/(loss) before taxation		**64**	**(1)**	**63**	56	(6)	50	181	(58)	123
Taxation	9	**(10)**	**(5)**	**(15)**	(4)	23	19	(2)	14	12
Profit/(loss) for the period		**54**	**(6)**	**48**	52	17	69	179	(44)	135
Attributable to										
Equity holders		**52**	**(6)**	**46**	52	17	69	179	(44)	135
Non-controlling interests		**2**	**–**	**2**	–	–	–	–	–	–
Profit/(loss) for the period		**54**	**(6)**	**48**	52	17	69	179	(44)	135

[1] Before non-underlying items (Note 8).

Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

	Notes	2019 first half unaudited pence	2018 first half unaudited pence	2018 year audited pence
Earnings per ordinary share				
- Basic	10	**6.7**	10.1	19.7
- Diluted	10	**6.6**	10.0	19.5
Dividends per ordinary share proposed for the period	11	**2.1**	1.6	4.8

Condensed Group Statement of Comprehensive Income

For the half-year ended 28 June 2019

	2019 first half unaudited			2018 first half unaudited			2018 year audited		
	Group £m	**Share of joint ventures and associates £m**	**Total £m**	Group £m	Share of joint ventures and associates £m	Total £m	Group £m	Share of joint ventures and associates £m	Total £m
Profit for the period	**18**	**30**	**48**	50	19	69	112	23	135
Other comprehensive (loss)/income for the period									
Items which will not subsequently be reclassified to the income statement									
Actuarial (losses)/gains on retirement benefit assets/liabilities	**(49)**	**–**	**(49)**	138	–	138	22	(1)	21
Tax on above	**6**	**–**	**6**	(20)	–	(20)	–	–	–
	(43)	**–**	**(43)**	118	–	118	22	(1)	21
Items which will subsequently be reclassified to the income statement									
Currency translation differences	**1**	**2**	**3**	15	(3)	12	18	7	25
Fair value revaluations – PPP financial assets	**3**	**12**	**15**	(2)	(12)	(14)	(4)	9	5
– cash flow hedges	**(4)**	**(7)**	**(11)**	3	20	23	3	15	18
– investments in mutual funds measured at fair value through OCI	**1**	**–**	**1**	1	–	1	(1)	–	(1)
Recycling of revaluation reserves to the income statement on disposal^	**–**	**–**	**–**	–	(21)	(21)	–	(5)	(5)
Tax on above	**–**	**(1)**	**(1)**	–	(1)	(1)	–	(3)	(3)
	1	**6**	**7**	17	(17)	–	16	23	39
Total other comprehensive (loss)/income for the period	**(42)**	**6**	**(36)**	135	(17)	118	38	22	60
Total comprehensive (loss)/income for the period	**(24)**	**36**	**12**	185	2	187	150	45	195
Attributable to									
Equity holders			**10**			187			195
Non-controlling interests			**2**			–			–
Total comprehensive income for the period			**12**			187			195

^ Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.

Condensed Group Statement of Changes in Equity

For the half-year ended 28 June 2019

	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves: Equity component of preference shares and convertible bonds £m	Other reserves: Hedging reserves £m	Other reserves: PPP financial assets £m	Other reserves: Currency translation reserve £m	Other reserves: Other £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2018 audited	345	65	22	113	42	(27)	27	105	28	339	10	1,069
Total comprehensive income/(loss) for the period	–	–	–	2	–	3	(2)	15	1	168	–	187
Joint ventures' and associates' dividends	–	–	–	(38)	–	–	–	–	–	38	–	–
Ordinary dividends	–	–	–	–	–	–	–	–	–	(16)	–	(16)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	1	(1)	–	–
Reserve transfers relating to joint venture and associate disposals	–	–	–	(9)	–	–	–	–	–	9	–	–
Convertible bonds repurchase	–	–	–	–	(2)	–	–	–	–	2	–	–
At 29 June 2018 unaudited	345	65	22	68	40	(24)	25	120	30	539	10	1,240
Total comprehensive income/(loss) for the period	–	–	–	43	–	(1)	(1)	3	(2)	(34)	–	8
Joint ventures' and associates' dividends	–	–	–	(38)	–	–	–	–	–	38	–	–
Ordinary dividends	–	–	–	–	–	–	–	–	–	(11)	–	(11)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	3	1	–	4
Transfers	–	–	–	–	–	–	–	–	(9)	9	–	–
Reserve transfers relating to joint venture and associate disposals	–	–	–	(10)	–	–	–	–	–	10	–	–
Convertible bonds repayment	–	–	–	–	(22)	–	–	–	–	22	–	–
At 31 December 2018 audited	345	65	22	63	18	(25)	24	123	22	574	10	1,241
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**36**	**–**	**(4)**	**3**	**1**	**1**	**(27)**	**2**	**12**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(40)**	**–**	**–**	**–**	**–**	**–**	**40**	**–**	**–**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22)**	**–**	**(22)**
Non-controlling interest dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**8**	**–**	**5**
At 28 June 2019	**345**	**65**	**22**	**59**	**18**	**(29)**	**27**	**124**	**20**	**573**	**8**	**1,232**

Condensed Group Balance Sheet
At 28 June 2019

		Notes	**2019 first half unaudited £m**	2018 first half unaudited £m	2018 year audited £m
Non-current assets					
Intangible assets	– goodwill	12	**904**	885	903
	– other		**274**	306	258
Property, plant and equipment			**156**	156	168
Right-of-use assets[2]			**113**	–	–
Investment properties			**32**	40	33
Investments in joint ventures and associates		5.2	**519**	522	524
Investments			**29**	34	30
PPP financial assets		15	**156**	159	156
Trade and other receivables		13	**263**	241	212
Retirement benefit assets		16	**153**	283	171
Deferred tax assets			**81**	54	80
			2,680	2,680	2,535
Current assets					
Inventories			**94**	52	84
Contract assets			**413**	409	363
Trade and other receivables		13	**900**	940	902
Cash and cash equivalents	– infrastructure concessions	18.2	**50**	104	70
	– other	18.2	**680**	822	591
Current tax assets			**2**	8	5
Derivative financial instruments		21	**1**	1	1
			2,140	2,336	2,016
Assets held for sale			**–**	–	16
			2,140	2,336	2,032
Total assets			**4,820**	5,016	4,567
Current liabilities					
Contract liabilities			**(504)**	(464)	(489)
Trade and other payables		14	**(1,465)**	(1,590)	(1,373)
Provisions			**(166)**	(224)	(167)
Borrowings	– non-recourse loans	18.3	**(48)**	(43)	(48)
	– other	18.3	**(51)**	(215)	(15)
Lease liabilities[2]			**(38)**	–	–
Current tax liabilities			**(13)**	(14)	(17)
Derivative financial instruments		21	**(4)**	(4)	(4)
			(2,289)	(2,554)	(2,113)
Liabilities held for sale			**–**	–	(11)
			(2,289)	(2,554)	(2,124)
Non-current liabilities					
Contract liabilities			**(2)**	(3)	(2)
Trade and other payables		14	**(165)**	(163)	(143)
Provisions			**(146)**	(122)	(149)
Borrowings	– non-recourse loans	18.3	**(332)**	(390)	(331)
	– other	18.3	**(204)**	(241)	(239)
Lease liabilities[2]			**(82)**	–	–
Liability component of preference shares			**(108)**	(104)	(106)
Retirement benefit liabilities		16	**(131)**	(99)	(117)
Deferred tax liabilities			**(100)**	(74)	(90)
Derivative financial instruments		21	**(29)**	(26)	(25)
			(1,299)	(1,222)	(1,202)
Total liabilities			**(3,588)**	(3,776)	(3,326)
Net assets			**1,232**	1,240	1,241
Equity					
Called-up share capital			**345**	345	345
Share premium account			**65**	65	65
Special reserve			**22**	22	22
Share of joint ventures' and associates' reserves			**59**	68	63
Other reserves			**160**	191	162
Retained profits			**573**	539	574
Equity attributable to equity holders of the parent			**1,224**	1,230	1,231
Non-controlling interests			**8**	10	10
Total equity			**1,232**	1,240	1,241

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 1.4).

Condensed Group Statement of Cash Flows

For the half-year ended 28 June 2019

	Notes	**2019 first half unaudited £m**	2018 first half unaudited £m	2018 year audited £m
Cash flows from/(used in) operating activities				
Cash from/(used in) operations:				
– underlying[1]	18.1	**98**	7	(54)
– non-underlying	18.1	**(9)**	(43)	(78)
Income taxes (paid)/received		**(1)**	(2)	2
Net cash from/(used in) operating activities		**88**	(38)	(130)
Cash flows from/(used in) investing activities				
Dividends received from: - joint ventures and associates – infrastructure concessions		**25**	17	36
- joint ventures and associates – other		**15**	21	40
Interest received – infrastructure concessions – joint ventures		**3**	3	7
Interest received – infrastructure concessions – subsidiaries		**–**	2	8
Acquisition of businesses, net of cash and cash equivalents acquired		**–**	(3)	(3)
Purchases of: - intangible assets – infrastructure concessions		**(23)**	(30)	(63)
- intangible assets – other		**(2)**	(1)	(3)
- property, plant and equipment		**(11)**	(11)	(38)
Investments in and long-term loans to joint ventures and associates		**(11)**	(38)	(56)
Return of investments from joint ventures and associates		**12**	–	–
PPP financial assets cash expenditure	15	**(1)**	(1)	(2)
PPP financial assets cash receipts	15	**8**	7	14
Disposals of: - investments in joint ventures – infrastructure concessions		**–**	104	160
- investments in joint ventures – other		**–**	4	4
- net assets held for sale – infrastructure concessions	19.2	**8**	–	–
- subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions		**–**	–	21
- property, plant and equipment		**2**	3	7
- investment properties		**–**	4	7
- other investments		**3**	6	11
Net cash from investing activities		**28**	87	150
Cash flows (used in)/from financing activities				
Purchase of ordinary shares	17	**–**	(2)	(4)
Proceeds from other new loans relating to infrastructure concessions assets	18.4	**3**	–	4
Repayments of: - loans – infrastructure concessions	18.4	**(2)**	(8)	(6)
- loans – other	18.4	**–**	(32)	(33)
Repurchase/repayment of convertible bonds	18.4	**–**	(17)	(231)
Repayment of lease liabilities[2]		**(21)**	–	–
Ordinary dividends paid		**–**	(16)	(27)
Other dividends paid – non-controlling interest		**(4)**	–	–
Interest paid – infrastructure concessions		**(7)**	(7)	(15)
Interest paid – other		**(11)**	(7)	(25)
Preference dividends paid		**(6)**	(6)	(12)
Net cash used in financing activities		**(48)**	(95)	(349)
Net increase/(decrease) in cash and cash equivalents		**68**	(46)	(329)
Effects of exchange rate changes		**1**	4	22
Cash and cash equivalents at beginning of period		**661**	968	968
Cash and cash equivalents at end of period	18.2	**730**	926	661

[1] Before non-underlying items (Note 8).
[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 1.4).

Notes to the financial statements

1.1 Basis of accounting

The condensed Group financial statements for the half-year ended 28 June 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed Group financial statements should be read in conjunction with the financial statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The condensed Group financial statements, which are not audited, have been reviewed and were approved for issue by the Board on 13 August 2019. The financial information included in this report does not constitute statutory accounts for the purposes of Section 434 of the Companies Act 2006. A copy of the Group's audited statutory accounts for the year ended 31 December 2018 has been delivered to the Registrar of Companies. The independent auditor's report on those accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The condensed Group financial statements have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts 2018 except as described in Note 1.4 below.

1.2 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty remain unchanged since the year-end and are set out in Note 2.27 on pages 126 and 127 of the Annual Report and Accounts 2018.

1.3 Going concern

Having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Group has adequate resources to continue for a period of not less than 12 months from the date of this report and, for this reason, have continued to adopt the going concern basis in preparing the half-year condensed Group financial statements. Refer to Note 22.

1.4 Adoption of new and revised standards

The following accounting standards, interpretations and amendments have been adopted by the Group in the current period:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  - IAS 19 Plan Amendment, Curtailment or Settlement
  - IAS 28 Long-term Interests in Associates and Joint Ventures
  - IFRS 9 Prepayment Features with Negative Compensation
- Improvements to IFRSs (2015 – 2017).

The above new and amended standards do not have a material effect on the Group except as described below:

IFRS 16 Leases

The Group has adopted IFRS 16 from 1 January 2019. The Group has adopted IFRS 16 retrospectively and has chosen to apply the cumulative effect approach. This transition option does not require the Group to restate its comparative year. There was no impact on the Group's opening equity as a result of adopting this standard. At 28 June 2019, the Group has recognised right-of-use (ROU) assets of £113m and corresponding lease liabilities of £120m.

Under the old leasing standard, lease hire costs were recorded within cost of sales or overheads as incurred. Under IFRS 16, depreciation charges are recognised on depreciation of the ROU assets within cost of sales or overheads. There are also interest costs on the unwind of the corresponding lease liabilities which are recognised as part of finance costs. In the first half of 2019, the Group incurred depreciation costs on its ROU assets of £21m and interest costs on the corresponding lease liabilities of £3m.

1.4 Adoption of new and revised standards continued

IFRS 16 Leases continued

The Group's revised accounting policy for leases following adoption of IFRS 16 can be found in Note 2.1 on page 121 of the Annual Report and Accounts 2018.

1.5 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 28 June 2019:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IFRS 3 Business Combinations
  - IAS 1 and IAS 8 Definition of Material
- References to the Conceptual Framework.

The Directors do not expect the standards above to have a material quantitative effect on the Group and have chosen not to adopt any of the above standards and interpretations earlier than required.

2 Exchange rates

The following key exchange rates were applied in these financial statements.

Average rates

£1 buys	**2019 first half unaudited**	2018 first half unaudited	2018 year audited	29 June 2018 – 28 June 2019 % change	31 Dec 2018 - 28 June 2019 % change
US$	**1.29**	1.37	1.33	(5.8)%	(3.0)%
HK$	**10.12**	10.75	10.46	(5.9)%	(3.3)%
Euro	**1.14**	1.14	1.13	–%	0.9%

Closing rates

£1 buys	**2019 first half unaudited**	2018 first half unaudited	2018 year audited	29 June 2018 - 28 June 2019 % change	31 Dec 2018 - 28 June 2019 % change
US$	**1.27**	1.32	1.27	(3.8)%	–%
HK$	**9.92**	10.36	9.97	(4.2)%	(0.5)%
Euro	**1.12**	1.13	1.11	(0.9)%	0.9%

3 Segment analysis

Reportable segments of the Group:

Construction Services – activities resulting in the physical construction of an asset.

Support Services – activities which support existing assets or functions such as asset maintenance and refurbishment.

Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, student accommodation, military housing, offshore transmission networks, waste and biomass, housing investments and other concessions. This segment also includes the Group's housing development division.

3.1 Income statement – performance by activity

For the half-year ended 28 June 2019 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	**3,121**	**503**	**257**	**–**	**3,881**
Share of revenue of joint ventures and associates[1]	**(386)**	**(14)**	**(84)**	**–**	**(484)**
Group revenue[1]	**2,735**	**489**	**173**	**–**	**3,397**
Group operating profit/(loss)[1]	**36**	**19**	**3**	**(16)**	**42**
Share of results of joint ventures and associates[1]	**9**	**(1)**	**22**	**–**	**30**
Profit/(loss) from operations[1]	**45**	**18**	**25**	**(16)**	**72**
Non-underlying items:					
- amortisation of acquired intangible assets	**(1)**	**–**	**(2)**	**–**	**(3)**
- other non-underlying items	**2**	**–**	**–**	**–**	**2**
	1	**–**	**(2)**	**–**	**(1)**
Profit/(loss) from operations	**46**	**18**	**23**	**(16)**	**71**
Investment income					**19**
Finance costs					**(27)**
Profit before taxation					**63**

For the half-year ended 29 June 2018 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	2,975	543	318	–	3,836
Share of revenue of joint ventures and associates[1]	(457)	(14)	(147)	–	(618)
Group revenue[1]	2,518	529	171	–	3,218
Group operating profit/(loss)[1]	20	18	25	(16)	47
Share of results of joint ventures and associates[1]	12	(1)	8	–	19
Profit/(loss) from operations[1]	32	17	33	(16)	66
Non-underlying items:					
- additional loss on the AWPR contract as a result of Carillion's liquidation	(8)	–	–	–	(8)
- amortisation of acquired intangible assets	(1)	–	(3)	–	(4)
- other non-underlying items	(1)	4	3	–	6
	(10)	4	–	–	(6)
Profit/(loss) from operations	22	21	33	(16)	60
Investment income					20
Finance costs					(30)
Profit before taxation					50

[1] Before non-underlying items (Note 8).

3 Segment analysis continued

3.1 Income statement – performance by activity

For the year ended 31 December 2018 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	6,127	1,104	571	–	7,802
Share of revenue of joint ventures and associates[1]	(913)	(28)	(230)	–	(1,171)
Group revenue[1]	5,214	1,076	341	–	6,631
Group operating profit/(loss)[1]	67	48	95	(33)	177
Share of results of joint ventures and associates[1]	28	(2)	2	–	28
Profit/(loss) from operations[1]	95	46	97	(33)	205
Non-underlying items:					
- additional loss on the AWPR contract as a result of Carillion's liquidation	(10)	–	–	–	(10)
- amortisation of acquired intangible assets	(3)	–	(5)	–	(8)
- other non-underlying items	(36)	(7)	3	–	(40)
	(49)	(7)	(2)	–	(58)
Profit/(loss) from operations	46	39	95	(33)	147
Investment income					35
Finance costs					(59)
Profit before taxation					123

[1] Before non-underlying items (Note 8).

3.2 Assets and liabilities by activity

As at 28 June 2019 unaudited	**Construction Services £m**	**Support Services £m**	**Infrastructure Investments £m**	**Corporate activities £m**	**Total £m**
Contract assets – current	**299**	**101**	**13**	**–**	**413**
Contract liabilities – current	**(417)**	**(85)**	**(2)**	**–**	**(504)**
Inventories	**53**	**11**	**30**	**–**	**94**
Trade and other receivables – current	**754**	**108**	**33**	**5**	**900**
Trade and other payables – current	**(1,168)**	**(197)**	**(49)**	**(51)**	**(1,465)**
Provisions – current	**(126)**	**(5)**	**(11)**	**(24)**	**(166)**
Working capital*	**(605)**	**(67)**	**14**	**(70)**	**(728)**

* Includes non-operating items and current working capital.

Total assets[2]	**2,311**	**517**	**1,163**	**829**	**4,820**
Total liabilities[2]	**(2,090)**	**(349)**	**(517)**	**(632)**	**(3,588)**
Net assets	**221**	**168**	**646**	**197**	**1,232**

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 1.4).

3 Segment analysis continued

3.2 Assets and liabilities by activity continued

As at 29 June 2018 unaudited	**Construction Services £m**	**Support Services £m**	**Infrastructure Investments £m**	**Corporate activities £m**	**Total £m**
Contract assets – current	276	112	21	–	409
Contract liabilities – current	(384)	(78)	(2)	–	(464)
Inventories	14	11	27	–	52
Trade and other receivables – current	798	103	23	16	940
Trade and other payables – current	(1,233)	(222)	(68)	(67)	(1,590)
Provisions – current	(188)	(8)	(9)	(19)	(224)
Working capital*	(717)	(82)	(8)	(70)	(877)

* Includes non-operating items and current working capital.

Total assets	2,241	545	1,146	1,084	5,016
Total liabilities	(2,091)	(315)	(581)	(789)	(3,776)
Net assets	150	230	565	295	1,240

As at 31 December 2018 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Contract assets – current	251	97	15	–	363
Contract liabilities – current	(411)	(76)	(2)	–	(489)
Inventories	46	12	26	–	84
Trade and other receivables – current	741	126	28	7	902
Trade and other payables – current	(1,117)	(195)	(43)	(18)	(1,373)
Provisions – current	(128)	(8)	(7)	(24)	(167)
Working capital*	(618)	(44)	17	(35)	(680)

* Includes non-operating items and current working capital.

Total assets	2,171	509	1,162	725	4,567
Total liabilities	(1,966)	(289)	(509)	(562)	(3,326)
Net assets	205	220	653	163	1,241

3 Segment analysis continued

3.3 Other information

	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
For the half-year ended 28 June 2019 unaudited					
Capital expenditure on property, plant and equipment	**5**	**6**	**–**	**–**	**11**
Capital expenditure on intangible assets	**–**	**1**	**24**	**–**	**25**
Depreciation[2]	**12**	**26**	**2**	**5**	**45**
Gain on disposals of interests in investments	**–**	**–**	**3**	**–**	**3**
For the half-year ended 29 June 2018 unaudited					
Capital expenditure on property, plant and equipment	6	2	–	3	11
Capital expenditure on intangible assets	1	–	30	–	31
Depreciation	5	7	3	2	17
Gain on disposals of interests in investments	–	–	22	–	22
For the year ended 31 December 2018 audited					
Capital expenditure on property, plant and equipment	18	19	–	1	38
Capital expenditure on intangible assets	1	2	63	–	66
Depreciation	11	10	3	5	29
Gain on disposals of interests in investments	–	–	80	–	80

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 1.4).

3.4 Infrastructure Investments

Underlying profit from operations[1]	**Group 2019 first half unaudited £m**	**Share of joint ventures and associates 2019 first half unaudited[+] £m**	**Total 2019 first half unaudited £m**	Group 2018 first half unaudited £m	Share of joint ventures and associates 2018 first half unaudited[+#] £m	Total 2018 first half unaudited £m	Group 2018 year audited £m	Share of joint ventures and associates 2018 year audited[+#] £m	Total 2018 year audited £m
UK[^]	**3**	**1**	**4**	3	(2)	1	9	(17)	(8)
North America	**9**	**8**	**17**	11	10	21	24	17	41
Gain on disposals of interests in investments	**3**	**13**	**16**	22	–	22	80	2	82
	15	**22**	**37**	36	8	44	113	2	115
Bidding costs and overheads	**(12)**	**–**	**(12)**	(11)	–	(11)	(18)	–	(18)
	3	**22**	**25**	25	8	33	95	2	97

[+] The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.

[^] Including Singapore and Ireland.

[#] Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

[1] Before non-underlying items (Note 8).

4 Revenue

4.1 Nature and services of goods

4.1.1 Construction Services

The Group's Construction Services segment encompasses activities in relation to the physical construction of assets provided to public and private customers. Revenue generated in this segment is measured over time as control passes to the customer as the asset is constructed. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's end of job forecast (the input method). Payment terms are based on a schedule of value that is set out in the contract and fairly reflect the timing and performance of service delivery. Contracts with customers are typically accounted for as one performance obligation (PO).

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction service, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit-out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However for certain types of contracts, services relating to fit-out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small scale infrastructure works 24 to 60 months for large scale complex construction	The Group provides construction services to three main types of infrastructure assets: highways, railways and other large scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK and the US. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway construction services primarily in the UK and US include design and managing the construction of railway systems delivering major multi-disciplinary projects, track work, electrification and power supply. The Group serves both public and private railways including high-speed passenger railways, freight and mixed traffic routes, dense commuter networks, metros and light rail. Other infrastructure assets include construction, design and build services on large-scale complex assets predominantly servicing the waste, water and energy sectors. Contracts entered into relating to these infrastructure assets can take the form of fixed price or target-cost contracts with shared pain/gain mechanisms. Contract lengths vary according to the size and complexity of the asset build and can range from a few months for small scale infrastructure works to four to five years for large-scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses the maintenance element as a separate PO and revenue from this PO is recognised in the Support Services segment. Refer to Note 4.1.2.

4 Revenue continued

4.1 Nature and services of goods continued

4.1.2 Support Services

The Group's work in this segment supports existing assets through maintaining, upgrading and managing services across utilities and infrastructure assets. Revenue generated in this segment is measured over time as control passes to the customer as and when services are provided. Progress is measured by reference to the cost incurred on contract to date compared to the contract's end of job forecast (the input method). Payments are structured as milestone payments set out in the respective contracts.

Types of assets	Nature, timing of satisfaction of performance obligations and significant payment terms
Utilities	Within the Group's services contracts, the Group provides support services to various types of utility assets. For contracts servicing utility assets, the Group provides services such as renewal, upgrade and expansion of underground main pipelines for assets within the gas network. Within the water network, services include clean and waste water mains renewal and repair, metering and treatment facilities. Contracts are typically delivered through framework agreements which are normally granted on a regulatory cycle period of five years for water contracts and eight years for gas contracts. Individual instructions delivered under the framework agreements can vary in size and duration but usually last between one to six weeks for smaller projects or up to one to two years for major projects. Each instruction is accounted for as a separate PO. Payments are normally set according to a schedule of rates and may include a pain/gain element. For contracts servicing power transmission and distribution assets, the Group constructs and maintains electricity networks, including replacement or new build of overhead lines, underground cabling, cable tunnels and offshore windfarm maintenance. Contracts entered into are normally fixed-price and contract lengths can vary from 12 to 36 months, and up to 20 years for offshore windfarm maintenance contracts. Each contract is normally assessed to contain one PO. However, where a contract contains both a construction phase and a maintenance phase, these are assessed to contain two separate POs.
Infrastructure	The Group provides maintenance, asset and network management and design services in respect of highways, railways and other publicly available assets. The customer in this area of the Group is mainly government bodies. Types of contract include a fixed schedule of rates, fixed price, target cost arrangements and cost-plus. Contract terms range from 1 to 25 years. Where contracts include lifecycle elements, this is accounted for as a separate PO and recognised when the work is delivered.

4 Revenue continued

4.1 Nature and services of goods continued

4.1.3 Infrastructure Investments

The Group invests directly in a variety of assets, predominantly consisting of infrastructure assets where there are opportunities to manage the asset upon completion of construction. The Group also invests in real estate type assets, in particular private residential and student accommodation assets. Revenue generated in this segment is from the provision of construction, maintenance and management services and also from the recognition of rental income. The Group's strategy is to hold these assets until optimal values are achieved through disposal of mature assets.

Types of services	Nature, timing of satisfaction of performance obligations and significant payment terms
Service concessions	The Group operates a UK and North America portfolio of service concession assets comprising of assets in the roads, healthcare, student accommodation, biomass and waste and offshore transmission sectors. The Group accounts for these assets under IFRIC 12 Service Concession Arrangements. Where the Group constructs and maintains these assets, the two services are deemed to be separate performance obligations and accounted for separately. If the maintenance phase includes lifecycle elements, then this is considered to be a separate PO. Contract terms can be up to 40 years. The Group recognises revenue over time using the input method. Consideration is paid through a fixed unitary payment charge spread over the life of the contract. *Revenue from this service is presented across Buildings, Infrastructure or Utilities in Note 4.2.*
Management services	The Group provides real estate management services such as property, development and asset management services. Contract terms can be up to 50 years. The Group recognises revenue over time as and when service is delivered to the customer. *Revenue from this service is presented within Buildings in Note 4.2.*
Housing development	The Group also develops housing units on land that is owned by the Group. Revenue is recognised on the sale of individual units at a point in time, which depicts when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. *Revenue from this service is presented within Buildings in Note 4.2.*

4 Revenue continued

4.2 Disaggregation of revenue

The Group presents a disaggregation of its revenue according to the primary geographical markets in which the Group operates as well as the types of assets serviced by the Group. The nature of the various services provided by the Group is explained in Note 4.1. This disaggregation of revenue is also presented according to the Group's reportable segments as described in Note 3.

The revenue disaggregation below represents the Group's underlying revenue excluding the Group's revenue generated by Rail Germany which is presented as non-underlying.

For the half-year ended 28 June 2019 unaudited

Segment	Primary geographical markets	United Kingdom £m	United States £m	Rest of the World £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	1,003	1,727	391+	3,121
	Group revenue	1,003	1,722	10+	2,735
Support Services	Revenue including share of joint ventures and associates	476	–	27	503
	Group revenue	476	–	13	489
Infrastructure Investments	Revenue including share of joint ventures and associates	93	156	8	257
	Group revenue	53	119	1	173
Total revenue	**Revenue including share of joint ventures and associates**	**1,572**	**1,883**	**426**	**3,881**
	Group revenue	**1,532**	**1,841**	**24**	**3,397**

Segment	Revenue by types of assets serviced	Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	1,990	891+	229	11	3,121
	Group revenue	1,738	758+	228	11	2,735
Support Services	Revenue including share of joint ventures and associates	–	222	276	5	503
	Group revenue	–	222	262	5	489
Infrastructure Investments	Revenue including share of joint ventures and associates	190	53	13	1	257
	Group revenue	171	1	–	1	173
Total revenue	**Revenue including share of joint ventures and associates**	**2,180**	**1,166**	**518**	**17**	**3,881**
	Group revenue	**1,909**	**981**	**490**	**17**	**3,397**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	3,118+	502	248	3,868
At a point in time	3	1	9	13
Revenue including share of joint venture and associates	**3,121**	**503**	**257**	**3,881**
Over time	2,732+	488	164	3,384
At a point in time	3	1	9	13
Group revenue	**2,735**	**489**	**173**	**3,397**

+ Excludes revenue earnt in Rail Germany of £3m including share of joint ventures and associates or £nil excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the half-year ended 29 June 2018 unaudited

Segment	Primary geographical markets	United Kingdom £m	United States £m	Rest of the World £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	933	1,577	465+	2,975
	Group revenue	933	1,570	15+	2,518
Support Services	Revenue including share of joint ventures and associates	506	–	37	543
	Group revenue	506	–	23	529
Infrastructure Investments	Revenue including share of joint ventures and associates	148	148	22	318
	Group revenue	60	110	1	171
Total revenue	**Revenue including share of joint ventures and associates**	**1,587**	**1,725**	**524**	**3,836**
	Group revenue	**1,499**	**1,680**	**39**	**3,218**

Segment	Revenue by types of assets serviced	Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	1,850	845+	157	123	2,975
	Group revenue	1,592	719+	154	53	2,518
Support Services	Revenue including share of joint ventures and associates	–	214	308	21	543
	Group revenue	–	214	294	21	529
Infrastructure Investments	Revenue including share of joint ventures and associates	203	84	30	1	318
	Group revenue	168	2	–	1	171
Total revenue	**Revenue including share of joint ventures and associates**	**2,053**	**1,143**	**495**	**145**	**3,836**
	Group revenue	**1,760**	**935**	**448**	**75**	**3,218**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	2,972+	539	301	3,812
At a point in time	3	4	17	24
Revenue including share of joint venture and associates	**2,975**	**543**	**318**	**3,836**
Over time	2,515+	525	154	3,194
At a point in time	3	4	17	24
Group revenue	**2,518**	**529**	**171**	**3,218**

+ Excludes revenue earnt in Rail Germany of £3m including share of joint ventures and associates or £2m excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the year ended 31 December 2018

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	1,885	3,324	918+	6,127
	Group revenue	1,885	3,309	20+	5,214
Support Services	Revenue including share of joint ventures and associates	1,041	–	63	1,104
	Group revenue	1,041	–	35	1,076
Infrastructure Investments	Revenue including share of joint ventures and associates	238	298	35	571
	Group revenue	124	214	3	341
Total revenue	**Revenue including share of joint ventures and associates**	**3,164**	**3,622**	**1,016**	**7,802**
	Group revenue	**3,050**	**3,523**	**58**	**6,631**

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	3,891	1,840+	391	5	6,127
	Group revenue	3,363	1,459+	387	5	5,214
Support Services	Revenue including share of joint ventures and associates	–	444	651	9	1,104
	Group revenue	–	444	623	9	1,076
Infrastructure Investments	Revenue including share of joint ventures and associates	398	127	43	3	571
	Group revenue	336	3	–	2	341
Total revenue	**Revenue including share of joint ventures and associates**	**4,289**	**2,411**	**1,085**	**17**	**7,802**
	Group revenue	**3,699**	**1,906**	**1,010**	**16**	**6,631**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	6,120+	1,096	536	7,752
At a point in time	7	8	35	50
Revenue including share of joint ventures and associates	**6,127**	**1,104**	**571**	**7,802**
Over time	5,207+	1,068	306	6,581
At a point in time	7	8	35	50
Group revenue	**5,214**	**1,076**	**341**	**6,631**

+ Excludes revenue earnt in Rail Germany of £12m including share of joint ventures and associates or £3m excluding share of joint ventures and associates.

5 Share of results and net assets of joint ventures and associates

5.1 Income statement

	2019 first half unaudited £m	2018 first half unaudited[#] £m	2018 year audited[#] £m
Underlying revenue[1]	**484**	618	1,171
Underlying operating profit excluding gain on disposals of interests in investments[1]	**16**	17	42
Gain on disposals of interests in investments[1]	**13**	–	2
Underlying operating profit[1]	**29**	17	44
Investment income	**56**	55	111
Finance costs	**(53)**	(50)	(120)
Profit before taxation[1]	**32**	22	35
Taxation	**(2)**	(3)	(7)
Profit after taxation before non-underlying items	**30**	19	28
Share of results within non-underlying items	**–**	–	(5)
Profit after taxation	**30**	19	23

[1] Before non-underlying items (Note 8).
[#] Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

5.2 Balance sheet

		2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Intangible assets	– goodwill	**31**	33	31
	– Infrastructure Investments intangible	**47**	28	45
	– other	**15**	14	15
Property, plant and equipment		**60**	73	63
Investment properties		**131**	121	114
Investments in joint ventures and associates		**2**	3	2
PPP financial assets		**1,732**	1,788	1,742
Military housing projects		**111**	108	110
Net borrowings		**(1,353)**	(1,387)	(1,362)
Other net liabilities		**(431)**	(442)	(411)
Share of net assets of joint ventures and associates		**345**	339	349
Loans to joint ventures and associates		**174**	183	175
Total investment in joint ventures and associates		**519**	522	524

6 Investment income

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Subordinated debt interest receivable	**13**	13	21
Interest receivable on PPP financial assets	**4**	4	9
Other interest receivable and similar income	**1**	2	3
Net finance income on pension scheme assets and obligations (Note 16)	**1**	1	2
	19	20	35

7 Finance costs

		2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Non-recourse borrowings	– bank loans and overdrafts	**7**	7	14
Preference shares	– finance cost	**6**	6	12
	– accretion	**2**	1	3
Convertible bonds	– finance cost	**–**	2	4
	– accretion	**–**	2	5
US private placement	– finance cost	**6**	6	12
Interest on lease liabilities[2]		**3**	–	–
Other interest payable	– committed facilities	**1**	1	1
	– letter of credit fees	**1**	1	3
	– other finance charges	**1**	4	5
		27	30	59

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 1.4).

8 Non-underlying items

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Items (charged against)/credited to profit			
8.1 Amortisation of acquired intangible assets	**(3)**	(4)	(8)
8.2 Other non-underlying items:			
– provision release relating to settlements of health and safety claims	**2**	7	13
– Build to Last transformation costs	**–**	(5)	(11)
– additional loss on the AWPR contract as a result of Carillion's liquidation	**–**	(8)	(10)
– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	–	(28)
– loss on disposal of Heery International inc	**–**	–	(12)
– additional gain on disposal of Balfour Beatty Infrastructure Partners	**–**	3	3
Total other non-underlying items	**2**	(3)	(45)
8.3 Trading results of Rail Germany	**–**	1	–
	(1)	(6)	(53)
8.4 Share of results of joint ventures and associates			
– costs relating to the liquidation of the Malaysia joint venture	**–**	–	(5)
Charged against profit before taxation	**(1)**	(6)	(58)
8.5 Tax (charges)/credits:			
– non-underlying (derecognition)/recognition of deferred tax assets in the UK	**(6)**	20	–
– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	–	5
– tax on other items above	**1**	3	9
Total tax (charge)/credit	**(5)**	23	14
Non-underlying items (charged against)/credited to profit for the period	**(6)**	17	(44)

8.1 The amortisation of acquired intangible comprises: customer contracts £2m (2018: first half £3m; full-year £5m); and customer relationships £1m (2018: first half £1m; full-year £3m).

The charge was recognised in the following segments: Construction Services £1m (2018: first half £1m; full-year £3m) and Infrastructure Investments £2m (2018: first half £3m; full-year £5m).

8.2 In the first half of 2019, the Group recognised a provision release of £2m relating to the settlement of health and safety claims (2018: first half £7m; full-year £13m). These claims were previously included as part of the Group's overall reassessment of potential liabilities relating to historical health and safety breaches following new sentencing guidelines which was conducted in 2016. As a result of this reassessment, a non-underlying charge of £25m was recognised in the first half of 2016.

The credit of £2m was recognised in the Construction Services segment.

8.5 In 2017 and in the first half of 2018, significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of deferred tax liabilities. As required by accounting standards, the UK Group recognises deferred tax on an overall net basis. Hence, the recognition of the additional deferred tax liabilities arising from the pension surplus led to the recognition of deferred tax assets for tax losses. Given the size and nature of the credit for these tax losses these were included as non-underlying items.

In the second half of 2018 and the first half of 2019, actuarial losses in the BBPF led to the de-recognition of deferred tax liabilities. Applying the same methodology as in 2017, this in turn led to the de-recognition of previously recognised UK deferred tax assets of £20m and £6m respectively and these charges were included as non-underlying items.

8 Non-underlying items continued

The non-underlying items charged against Group operating profit, other than the loss arising from the recognition of GMP equalisation, gave rise to a tax credit of £1m (2018: first half £3m; full-year £9m) comprising £1m tax credit on amortisation of acquired intangible assets (2018: first half: £1m; full-year £2m) and £nil tax credit on other non-underlying items (2018: first half £2m; full-year £7m).

9 Taxation

	Underlying items 2019 first half unaudited[1] £m	**Non-underlying items (Note 8) 2019 first half unaudited £m**	**Total 2019 first half unaudited £m**	2018 first half unaudited £m	2018 year audited £m
Total UK tax	**(1)**	**6**	**5**	(22)	(26)
Total non-UK tax	**11**	**(1)**	**10**	3	14
Total tax charge/(credit)[x]	**10**	**5**	**15**	(19)	(12)
UK current tax	**–**	**–**	**–**	–	2
Non-UK current tax	**6**	**(6)**	**–**	1	–
Total current tax	**6**	**(6)**	**–**	1	2
UK deferred tax	**(1)**	**6**	**5**	(22)	(28)
Non-UK deferred tax	**5**	**5**	**10**	2	14
Total deferred tax	**4**	**11**	**15**	(20)	(14)
Total tax charge/(credit)[x]	**10**	**5**	**15**	(19)	(12)

[1] Before non-underlying items (Note 8).

[x] Excluding joint ventures and associates.

In addition to the Group tax charge above, tax of £5m is credited (2018: first half £21m charged; full-year £3m charged) directly to other comprehensive income, comprising: a deferred tax credit of £6m for subsidiaries (2018: first half £20m charge; full-year £nil) and a deferred tax charge in respect of joint ventures and associates of £1m (2018: first half £1m; full-year £3m).

10 Earnings per ordinary share

	2019 first half unaudited		2018 first half unaudited		2018 year audited	
Earnings	**Basic £m**	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings	**46**	**46**	69	69	135	135
Amortisation of acquired intangible assets net of tax	**2**	**2**	4	4	6	6
Other non-underlying items net of tax	**4**	**4**	(21)	(21)	38	38
Underlying earnings	**52**	**52**	52	52	179	179
	Basic m	**Diluted m**	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**685**	**688**	680	688	682	687
Earnings per share	**Basic pence**	**Diluted pence**	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings per ordinary share	**6.7**	**6.6**	10.1	10.0	19.7	19.5
Amortisation of acquired intangible assets net of tax	**0.4**	**0.4**	0.6	0.6	0.9	0.9
Other non-underlying items net of tax	**0.5**	**0.5**	(3.2)	(3.2)	5.7	5.6
Underlying earnings per ordinary share	**7.6**	**7.5**	7.5	7.4	26.3	26.0

11 Dividends on ordinary shares

	2019 first half unaudited		2018 first half unaudited		2018 year audited	
	Per share pence	**Amount £m**	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period						
Interim 2018	**–**	**–**	1.6	11	1.6	11
Final 2018	**–**	**–**	–	–	3.2	22
Interim 2019	**2.1**	**14**	–	–	–	–
	2.1	**14**	1.6	11	4.8	33
Recognised dividends for the period						
Final 2017		–		16		16
Interim 2018		–		–		11
Final 2018		**22**		–		–
		22		16		27

The interim 2018 dividend was paid on 30 November 2018. The final 2018 dividend was paid on 5 July 2019 to holders on the register on 17 May 2019. The ordinary shares were quoted ex-dividend on 16 May 2019.

The Board is declaring an interim dividend of 2.1 pence per share, a 31% increase on the prior year (1.6 pence per share), which will be payable on 6 December 2019 to holders on the register on 25 October 2019. The Board anticipates a progressive dividend policy going forward.

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2018 audited	1,037	(163)	874
Currency translation differences	12	(1)	11
At 29 June 2018 unaudited	1,049	(164)	885
Currency translation differences	22	(4)	18
At 31 December 2018 audited	1,071	(168)	903
Currency translation differences	**1**	–	**1**
At 28 June 2019 unaudited	**1,072**	**(168)**	**904**

As at 28 June 2019, the Group performed an assessment to identify indicators of impairment relating to goodwill allocated to cash-generating units (CGUs). This included a review of internal and external indicators of impairment and consideration of the year-to-date performance of the relevant CGUs and any changes in key assumptions. The result of this assessment did not identify any indicators of impairment which could reasonably be expected to eliminate the headroom computed at 31 December 2018 and therefore no impairment charges were recorded in the first half of 2019 (2018: first half £nil; full-year £nil).

A full detailed impairment review will be conducted at 31 December 2019.

13 Trade and other receivables

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Current			
Trade receivables	**631**	665	599
Less: provision for impairment of trade receivables	**(5)**	(6)	(5)
	626	659	594
Due from joint ventures and associates	**21**	19	24
Due from joint operation partners	**10**	22	19
Contract retentions receivable	**155**	180	192
Contract fulfilment assets∞	**24**	–	20
Accrued income	**5**	4	3
Prepayments	**29**	40	30
Due on disposals	**1**	1	1
Other receivables∞	**29**	15	19
	900	940	902
Non-current			
Due from joint ventures and associates	**60**	51	51
Contract retentions receivable	**194**	183	150
Contract fulfilment assets∞	**3**	–	4
Due on disposals	**4**	5	5
Other receivables∞	**2**	2	2
	263	241	212
Total trade and other receivables	**1,163**	1,181	1,114

∞ Re-presented to show Contract fulfilment assets separately from Other receivables.

14 Trade and other payables

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Current			
Trade and other payables	**868**	913	758
Accruals	**527**	576	580
VAT, payroll taxes and social security	**39**	65	26
Due to joint ventures and associates	**–**	11	–
Dividends on preference shares	**6**	6	6
Dividends on ordinary shares	**22**	16	–
Due on acquisitions	**3**	3	3
	1,465	1,590	1,373
Non-current			
Trade and other payables	**141**	128	108
Accruals	**9**	20	18
Due to joint ventures and associates	**9**	7	9
Due on acquisitions	**6**	8	8
	165	163	143
Total trade and other payables	**1,630**	1,753	1,516

15 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
At 31 December 2017 audited	30	133	163
Income recognised in the income statement			
– interest income (Note 6)	–	4	4
Losses recognised in the statement of comprehensive income			
– fair value movements	–	(2)	(2)
Other movements			
– cash expenditure	–	1	1
– cash received	(2)	(5)	(7)
At 29 June 2018 unaudited	28	131	159
Income recognised in the income statement			
– interest income (Note 6)	2	3	5
Losses recognised in the statement of comprehensive income			
– fair value movements	(1)	(1)	(2)
Other movements			
– cash expenditure	1	–	1
– cash received	(2)	(5)	(7)
At 31 December 2018 audited	28	128	156
Income recognised in the income statement			
– interest income (Note 6)	**1**	**3**	**4**
Gains recognised in the statement of comprehensive income			
– fair value movements	**–**	**3**	**3**
Other movements			
– cash expenditure	**1**	**–**	**1**
– cash received	**(2)**	**(6)**	**(8)**
At 28 June 2019 unaudited	**28**	**128**	**156**

16 Retirement benefit assets and liabilities

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes		**2019 first half unaudited %**	2018 first half unaudited %	2018 year audited %
Discount rate on obligations		**2.20**	2.80	2.80
Inflation rate	– RPI	**3.20**	3.05	3.20
	– CPI	**2.20**	1.95	2.20
Future increases in pensionable salary		**2.20**	1.95	2.20
Rate of increases in pensions in payment (or such other rate as is guaranteed)^		**2.95**	2.85	2.95

^ Actuarial assumption applied to the Railways Pension Scheme was 2.30% (2018: first half 2.10%; full-year 2.30%).

Analysis of net assets in the Balance Sheet	**2019 first half unaudited £m**	2018 first half unaudited £m	2018 year audited £m
Balfour Beatty Pension Fund	**153**	283	171
Railways Pension Scheme	**(83)**	(46)	(68)
Other schemes*	**(48)**	(53)	(49)
	22	184	54

* Other schemes include the Group's deferred compensation obligations for which investments in mutual funds of £22m (2018: first half £22m, full-year £21m) are held by the Group to satisfy these obligations.

Amounts recognised in the Balance Sheet	**2019 first half unaudited £m**	2018 first half unaudited £m	2018 year audited £m
Present value of obligations	**(4,074)**	(3,689)	(3,742)
Fair value of plan assets	**4,096**	3,873	3,796
Net assets in the Balance Sheet+	**22**	184	54

+ This amount represents the aggregate of the retirement benefit assets of £153m (2018: first half £283m; full-year £171m) and the retirement benefit liabilities of £131m at 28 June 2019 (2018: first half £99m; full-year £117m). These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position.

Movements in the retirement benefit net assets for the period		**2019 first half unaudited £m**	2018 first half unaudited £m	2018 year audited £m
At beginning of period		**54**	32	32
Currency translation differences		**–**	–	(2)
Current service cost		**(2)**	(2)	(5)
Past service cost as a result of GMP equalisation		**–**	–	(28)
Interest cost		**(51)**	(49)	(98)
Interest income		**52**	50	100
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**–**	–	(16)
	– on obligations from changes to other financial assumptions	**(371)**	178	133
	– on obligations from changes in demographic assumptions	**–**	26	26
	– on obligations from experience gains/(losses)	**2**	5	(4)
	– on assets	**320**	(71)	(117)
Contributions from employer	– regular funding	**1**	1	3
	– ongoing deficit funding	**15**	13	27
Administrative expenses		**–**	–	(1)
Benefits paid		**2**	1	4
At end of period+		**22**	184	54

+ This amount represents the aggregate of the retirement benefit assets of £153m (2018: first half £283m; full-year £171m) and the retirement benefit liabilities of £131m at 28 June 2019 (2018: first half £99m; full-year £117m). These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position.

16 Retirement benefit assets and liabilities continued

In the first half of 2019, the Group recorded net actuarial losses on its retirement benefit schemes of £49 million (2018: first half £138m net gains; full-year £22m net gains) primarily driven by a decrease in the discount rate used to measure liabilities, offset by higher than expected returns on assets.

The investment strategy of the BBPF and the sensitivity analysis of the Group's retirement benefit obligations and assets to different actuarial assumptions are set out in Note 28 on pages 160 and 166, respectively, of the Annual Report and Accounts 2018.

17 Share capital

During the half-year ended 28 June 2019 nil (2018: first half 0.7m; full-year 1.5m) ordinary shares were purchased for £nil (2018: first half £1.9m; full-year £4.0m) by the Group's employee discretionary trust to satisfy awards under the Performance Share Plan, the Deferred Bonus Plan and the Restricted Share Plan.

18 Notes to the statement of cash flows

18.1 Cash from/(used in) operations	Underlying items 2019 first half unaudited[1] £m	Non-underlying items 2019 first half unaudited £m	Total 2019 first half unaudited £m	Total 2018 first half unaudited £m	Total 2018 year audited £m
Profit/(loss) from operations	**72**	**(1)**	**71**	60	147
Share of results of joint ventures and associates	**(30)**	**–**	**(30)**	(19)	(23)
Depreciation of property, plant and equipment	**23**	**–**	**23**	16	28
Depreciation of right-of-use assets[2]	**21**	**–**	**21**	–	–
Depreciation of investment properties	**1**	**–**	**1**	1	1
Amortisation of other intangible assets	**5**	**3**	**8**	11	20
Impairment of IT intangible assets	**–**	**–**	**–**	–	2
Impairment of property, plant & equipment	**–**	**–**	**–**	–	2
Pension payments including deficit funding	**(16)**	**–**	**(16)**	(14)	(30)
Movements relating to share-based payments	**4**	**–**	**4**	3	8
Gain on disposal of investments in infrastructure concessions	**(3)**	**–**	**(3)**	(22)	(80)
Profit on disposal of property, plant and equipment	**(1)**	**–**	**(1)**	(2)	(5)
(Profit)/loss on disposal of investment properties	**–**	**–**	**–**	(1)	2
Net gain on disposal of other businesses	**–**	**–**	**–**	(3)	(3)
Loss on GMP equalisation	**–**	**–**	**–**	–	28
Operating cash flows before movements in working capital	**76**	**2**	**78**	30	97
Decrease/(increase) in operating working capital	**22**	**(11)**	**11**	(66)	(229)
Inventories	**(10)**	**–**	**(10)**	–	(16)
Contract assets	**(50)**	**–**	**(50)**	15	53
Trade and other receivables	**(38)**	**1**	**(37)**	(63)	12
Contract liabilities	**14**	**–**	**14**	(15)	(2)
Trade and other payables	**101**	**(3)**	**98**	52	(196)
Provisions	**5**	**(9)**	**(4)**	(55)	(80)
Cash from/(used in) operations	**98**	**(9)**	**89**	(36)	(132)

[1] Before non-underlying items (Note 8).

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 1.4).

18 Notes to the statement of cash flows continued

18.2 Cash and cash equivalents

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Cash and deposits	**546**	546	587
Term deposits	**134**	276	4
Cash and cash equivalents, excluding cash balances within infrastructure concessions	**680**	822	591
Cash balances within infrastructure concessions	**50**	104	70
	730	926	661

18.3 Analysis of net cash/(borrowings)

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Cash and cash equivalents, excluding cash balances within infrastructure concessions	**680**	822	591
US private placement	**(239)**	(231)	(239)
Liability component of convertible bonds	**–**	(211)	–
Other loans	**(16)**	(14)	(15)
Net cash excluding infrastructure concessions	**425**	366	337
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2072	**(380)**	(433)	(379)
Infrastructure concessions cash balances	**50**	104	70
	(330)	(329)	(309)
Net cash	**95**	37	28

18.4 Analysis of movements in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Convertible bonds £m	Other £m	Total £m
At 1 January 2018	(440)	(259)	(226)	(13)	(938)
Currency translation differences	(2)	(13)	–	(1)	(16)
Accretion on convertible bonds	–	–	(5)	–	(5)
Proceeds from new loans	(4)	–	–	–	(4)
Repayments of loans	6	33	231	–	270
Disposal of interest in Holyrood Holdings Ltd	61	–	–	–	61
Amortisation of arrangement fees	–	–	–	(1)	(1)
At 31 December 2018	(379)	(239)	–	(15)	(633)
Proceeds from new loans	**(3)**	**–**	**–**	**–**	**(3)**
Repayments of loans	**2**	**–**	**–**	**–**	**2**
Amortisation of arrangement fees	**–**	**–**	**–**	**(1)**	**(1)**
At 28 June 2019	**(380)**	**(239)**	**–**	**(16)**	**(635)**

The Group has committed facilities of £400m which expire in December 2020. These facilities were undrawn at 28 June 2019.

19 Acquisitions and disposals

19.1 Acquisitions

There were no acquisitions made in the first half of 2019.

19.2 Disposals

In the first half of 2019, the Group disposed of several Infrastructure Investments assets as detailed below. These disposals were structured as asset sales rather than the sale of equity interests. The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates. Refer to Note 5.1.

Notes	Disposal date	Asset disposed	Cash consideration £m	Net assets disposed £m	Underlying gain £m
19.2.1	2 January 2019	Ranch at Pinnacle Point+	**8**	**(5)**	**3**
19.2.2	1 February 2019	Borden Data Centre^	**6**	**(3)**	**3**
19.2.3	13 February to 28 March 2019	Dallas 5 portfolio^	**11**	**(4)**	**7**
19.2.4	28 March 2019	Mobile Alabama portfolio^	**5**	**(2)**	**3**
			30∞	**(14)**	**16**

+ Disposal of asset within a subsidiary entity.
^ Disposal of asset within a joint venture entity.
∞ Proceeds from the sale within joint venture entities are included within Dividends received from joint ventures and associates – infrastructure concessions and within Return of investments from joint ventures and associates in the Statement of Cash Flows. The proceeds shown above include a non-controlling interest element of £4m.

19.2.1 On 2 January 2019, the Group disposed of its Ranch at Pinnacle Point asset, a 392 unit residential property located in Rogers, Arkansas for a cash consideration of £8m. The asset disposal resulted in a net gain of £3m being recognised in underlying operating profit.

19.2.2 On 1 February 2019, the Group disposed of its Borden data centre asset located in Ontario, Canada. The asset disposal resulted in a net gain of £3m being recognised in the Group's share of joint ventures and associates.

19.2.3 On 13 February 2019, 15 March 2019, 22 March 2019 and 28 March 2019, the Group disposed of its Dallas 5 Portfolio asset, a 1,593 residential unit portfolio located throughout Dallas, Texas for a total consideration of £11m. These asset disposals resulted in a net gain of £7m being recognised in the Group's share of joint ventures and associates. Part of the consideration and gain recognised by the Group is attributable to a non-controlling interest, this amounts to £4m cash consideration and £2m gain respectively.

19.2.4 On 28 March 2019, the Group disposed of its Mobile Alabama portfolio, a 320 residential unit portfolio located in Mobile, Alabama. The asset disposal resulted in a net gain of £3m being recognised in the Group's share of joint ventures and associates.

20 Related party transactions

The Group has contracted with, provided services to, and received management fees from certain joint ventures and associates amounting to £153m (2018: first half £121m, full-year £269m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 13 and 14 respectively.

During the half-year ended 28 June 2019, the Group also entered into transactions and had amounts outstanding with related parties which are not members of the Group as set out below. These companies were related parties as they are controlled or jointly controlled by a non-executive director of Balfour Beatty plc.

	2019 first half unaudited £m	2018 first half unaudited £m	2018 year audited £m
Anglian Water Group Ltd			
Sale of goods and services	**9**	17	26
Amounts owed by related parties	**–**	4	–
URENCO Ltd			
Sale of goods and services	**2**	14	19
Amounts owed by related parties	**–**	3	2

All transactions with these related parties were conducted on normal commercial terms, equivalent to those conducted with external parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

21 Financial instruments

Fair value estimation

The Group holds certain financial instruments on the balance sheet at their fair values. The following hierarchy classifies each class of financial asset or liability in accordance with the valuation technique applied in determining its fair value.

There have been no transfers between these categories in the current period or preceding year.

Financial instruments at fair value	**2019 first half unaudited £m**	2018 first half unaudited £m	2018 year audited £m
Financial assets			
Level 1			
Investments in mutual fund financial assets	**22**	22	21
Level 2			
Financial assets – foreign currency contracts	**1**	1	1
Level 3			
PPP financial assets (Note 15)	**156**	159	156
Total assets measured at fair value	**179**	182	178
Financial liabilities			
Level 2			
Financial liabilities – foreign currency contracts	**–**	(1)	–
Financial liabilities – infrastructure concessions interest rate swaps	**(33)**	(29)	(29)
Total liabilities measured at fair value	**(33)**	(30)	(29)

Financial assets

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds investments in mutual funds measured at fair value through other comprehensive income which are traded in active markets and valued at the closing market price at the reporting date.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date and taking into account own credit risk. Own credit risk for Infrastructure Investments' swaps is not material and is calculated using the following credit valuation adjustment (CVA) calculation: loss given default multiplied by exposure multiplied by probability of default.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts. Own credit risk for the other derivative liabilities is not material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party.

Level 3 – The fair value is based on unobservable inputs.

The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin by reference to the construction margin on non-PPP projects reflecting the construction risks retained by the construction contractor, and fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in other comprehensive income and other movements recognised in the income statement. Amounts originally recognised in other comprehensive income are transferred to the income statement upon disposal of the asset.

21 Financial instruments continued

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis points increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £6m decrease (2018: first half £7m; full-year £6m) / £7m increase (2018: first half £7m; full-year £7m) in the fair value of the assets taken through equity. Refer to Note 15 for a reconciliation of the movement from the opening balance to the closing balance.

Financial liabilities

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

22 Principal risks and uncertainties

The nature of the principal risks and uncertainties which could adversely impact the Group's profitability and ability to achieve its strategic objectives include: external risks arising from the effects of national or market trends and political change and the complex and evolving legal and regulatory environments in which the Group operates; organisation and management risks including business conduct, data governance, cyber security and people related risks; financial risks arising from failure to forecast material exposures and manage financial resources; and operational risks arising from work winning, project delivery, joint ventures, supply chain, health and safety and sustainability matters.

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Annual Report and Accounts 2018.

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Balfour Beatty recognises the inherent uncertainty arising from this and has been planning for all outcomes. The Group has contingency plans in place to ensure it can continue to deliver on current and future work commitments.

23 Contingent liabilities

The Company and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of their share of certain contractual obligations of joint ventures and associates and certain retirement benefit liabilities of the Balfour Beatty Pension Fund and the Railways Pension Scheme. Guarantees are treated as contingent liabilities until such time as it becomes probable payment will be required under the terms of the guarantee.

Provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

24 Events after the reporting date

There are no material post balance sheet events between the balance sheet date and the date of this report.