**Balfour Beatty**

## BALFOUR BEATTY PLC RESULTS FOR THE HALF-YEAR ENDED 26 JUNE 2015

12 August 2015

| (£ million unless otherwise specified) | Half-year 2015 | | Half-year 2014[4,5] | |
|---|---|---|---|---|
| | Underlying[3] | Total | Underlying[3] | Total |
| Revenue[1,2] | 4,085 | 4,191 | 4,072 | 4,225 |
| (Loss)/profit from operations[2] (PFO) | (120) | (140) | 29 | (43) |
| Pre-tax (loss)/profit[2] | (130) | (150) | 15 | (58) |
| Total (loss)/profit | (135) | (150) | 37 | (43) |
| (Loss)/earnings per share[2] | (19.4p) | (22.0p) | 3.2p | (6.2p) |
| Dividends per share | | - | | 5.6p |

| | Half-year 2015 | Full-year 2014 |
|---|---|---|
| Order book[1,2] | £11.3bn | £11.4bn |
| Directors' valuation of Investments portfolio | 1,252 | 1,300 |
| Net cash/(borrowings) – recourse | 260 | 219 |
| Net cash/(borrowings) – non-recourse | (327) | (445) |

### Financial Summary

- Order book[1,2] stable at £11.3 billion (FY 2014: £11.4 billion).
- Underlying revenue[1,2,3] stable at £4,085 million (2014: £4,072 million).
- Total underlying loss[3] in the first half of £135 million (2014: profit £37 million). Total loss in the first half of £150 million (2014: £43 million).
- First half included £152 million shortfall, in line with indicated range of July trading update, reflecting historic issues in construction.
- >90% of historic UK problem contracts expected to be at practical or financial completion by end of 2016.
- Strong performance from Infrastructure Investments – Directors' valuation £1,252 million (FY 2014: £1,300 million) after realising £112 million of disposal proceeds and £37 million in distributions, with £64 million of cash invested.

### Build to Last

- Build to Last already delivering: £260 million net cash as at 26 June 2015 (FY 2014: £219 million) - £362 million cash flow improvement half on half (2015: £41 million inflow; 2014: £321 million outflow)
- Actions underway to achieve £100 million of cost out by end of 2016 – annualised savings of £25 million executed in the first half.
- Favourable market trends – strong pipeline of opportunity, embedding 'Gated Business Lifecycle' approach to drive governance and control for project bidding and delivery.

Leo Quinn, Group Chief Executive commented: "Six months in, our Build to Last transformation programme is gaining traction throughout the business. We have a new senior leadership team and an organisation re-aligned with key customer sectors. We are on course to meet our 24-month targets for £200 million cash in and £100 million cost out.

"In rising core markets, the Group is continuing to win business on better terms across our operations. In the last few months the awards of contracts or preferred bidder status for three landmark projects – Bergstrom Expressway in Austin Texas, nuclear new build Hinkley Point C power station electrical package and a UK smart motorway package – is a further endorsement of Balfour Beatty's leading capabilities.

"Inevitably the headline numbers set out the consequences of the historic issues that are now being tackled. However the continuing confidence of our customers in Balfour Beatty's expertise, the positive response of our people to change, demonstrated by our excellent net cash performance, and the underlying strength of our balance sheet, supported by the Investments portfolio, all reinforce my conviction that over the medium term we can provide our customers, employees and shareholders with superior returns."

## Notes:
[1] including share of joint ventures and associates
[2] from continuing operations
[3] before non-underlying items (Note 7)
[4] re-presented to classify Parsons Brinckerhoff as a discontinued operation; to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations; and to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 1.9 and 9)
[5] restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7)

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### Analyst presentation:

A presentation to analysts and investors will be made at Bank of America Merrill Lynch, 2 King Edward Street, London EC1A 1HQ at 08:30 (UK time) on 12 August 2015. There will be a live webcast of this presentation on www.balfourbeatty.com/webcast

# 2015 HALF-YEAR RESULTS ANNOUNCEMENT

1. RESULTS OVERVIEW
2. BUILD TO LAST TRANSFORMATION PROGRAMME
3. DIVISIONAL OPERATING REVIEWS
4. FINANCIAL SUMMARY

## 1. RESULTS OVERVIEW

Unless otherwise stated, all commentary in this section is on a continuing operations basis only. The prior period results have been re-presented to classify Parsons Brinckerhoff as a discontinued operation, to include the results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations, to show certain legacy Engineering Services (ES) contracts as non-underlying items and restated to correct prior period errors relating to the recognition of contract losses in the UK construction business.

Underlying revenue from continuing operations including joint ventures and associates of £4,085 million was broadly in line with the first half of 2014 (2014: £4,072 million), down 4% at constant exchange rates (CER). The underlying order book has remained stable since the start of the year at £11.3 billion (FY 2014: £11.4 billion), and flat at CER.

The underlying loss from continuing operations was £120 million (2014: £29 million profit). Total loss from continuing operations in the first half, including non-underlying items, was £140 million (2014: £43 million).

Net finance costs of £10 million fell by £5 million (2014: £15 million) predominantly due to lower pension net interest expense, as well as lower borrowings. Total reported loss before tax from continuing operations was £150 million (2014: £58 million). Total loss in the first half was £150 million (2014: £43 million).

### Profit from operations

Detailed contract reviews as part of the half-year results process revealed additional losses and write-downs across a number of historic contracts. In line with the increased level of prudence set out in March, this led in turn to a further assessment of the risk-based provisions across the entire construction contract portfolio. In a trading update on 9 July 2015, it was indicated that the ongoing review of Group businesses had continued to identify historic issues in the UK, US and Middle East. This was expected to result in an additional shortfall to full-year 2015 underlying pre-tax profit of £120 million to £150 million.

The net impact, once other upsides were taken into account, reduced first half profits by approximately £152 million and can be summarised as follows:

- UK construction: as a result of schedule slippages and operational deterioration on a number of historic contracts, provisions were taken to maintain an adequate and cautious level of cover against expected end contract positions. Consistent with the approach adopted at the 2014 year end, based on current performance of the business and current market conditions, further risk-based provisions across the entire UK portfolio were also included. The net impact on the first half results was approximately £100 million.
- US construction: a number of multi-family housing unit projects, bid primarily in 2012 and 2013 by a now discontinued business unit in the South East, suffered subcontractor failures. Two projects in the federal healthcare sector, which had been bid pre 2011, have suffered programme overruns and subcontractor performance issues. In addition, provisions against a small number of other contracts, primarily awarded in 2013 or earlier, and risk-based provisions across the US portfolio were also included. The net impact on the first half results was approximately £32 million.
- Middle East construction: a review of the Middle East historic contracts has resulted in an increase in project-specific provisions, predominately in the mechanical and electrical engineering business, for

additional cost overruns and claim recovery shortfalls. The net impact on the first half results was approximately £20 million.

### Earnings per share

Underlying loss per share for continuing operations was 19.4 pence (2014: earnings 3.2 pence). Total loss per share for continuing operations was 22.0 pence (2014: 6.2 pence). Total loss per share was 21.9 pence (2014: 6.2 pence).

### Balance sheet

The Group's net cash position at 26 June 2015 was £260 million (FY 2014: £219 million), excluding £327 million (FY 2014: £445 million) of non-recourse net borrowings held in wholly owned infrastructure concessions. In addition the liability component of the preference shares was £97 million (FY 2014: £96 million).

The first half cash flow performance improved substantially on the prior first half, with cash used in operations of £36 million (2014: £286 million). Operating cash outflows, before movements in working capital were £247 million (2014: £91 million). This was mostly offset by an operating working capital inflow of £211 million (2014: outflow £195 million).

## 2. BUILD TO LAST TRANSFORMATION PROGRAMME

The Group launched the Build to Last transformation programme in February to drive continuous measurable improvement against four goals: Lean, Expert, Trusted and Safe to address performance as it affects all stakeholders.

This is a complex transformation which will be delivered over the medium term. The first 24-month self-help phase will restore Balfour Beatty to industry-standard performance and profitable growth. Many initiatives and changes are underway and already beginning to have an impact on the operations of the business. Led by an upgraded leadership team, Balfour Beatty has made significant progress against its four Build to Last goals:

### Lean

- Deliver rapid performance improvement by strengthening operational execution, raising productivity, leaning out the organisation and optimising the supply chain.
- The Group metric is cash and EBIT – in the first phase, delivering £200 million of cash in and £100 million of cost out by end 2016.

Actions to achieve £100 million of cost out by the end of 2016 are underway. Actions executed in the first half will deliver annualised savings of £25 million, with the first full year of benefit being in 2016. A consistent approach to validating savings has been adopted to reduce the risk of costs being reinstated.

Stronger discipline around cash and working capital has led to an improvement in the Group's cash position in the first half, with net cash at £260 million. Enhanced financial processes, employee training and engagement on the issue and better contract discipline have all contributed to this outcome and emphasise the potential for the business to respond positively to the Build to Last programme. A significant proportion of all management and staff performance incentives have been aligned to the Group's cash performance.

Significant progress has been made to streamline the enabling functions within the Group, with new senior leadership in place for Finance, IT, Health and Safety, Legal, Communications and Investor Relations, Risk and Assurance and Procurement across the organisation. The changes reduce costs where services have previously been duplicated in more than one business unit and ensure that best practice is delivered across Balfour Beatty in a consistent way.

A significant legacy of the rapid growth of the Group by acquisitions over the last 10 years has been multiple IT platforms. Therefore a key focus has been the rationalisation of IT systems and hardware across the UK business. The hardware implementation is now approximately 95% complete with the removal of the legacy email platforms to be completed by September. In the medium to long-term this rationalisation will lead to a lower cost to serve Balfour Beatty's IT needs and greatly reduce the volume of issues experienced by the workforce, increasing their productivity.

A new focus on procurement across the Group ensures that Balfour Beatty is positioned to negotiate the best arrangements with suppliers. Disciplined use of preferred suppliers will lead to a stronger supply chain with improved competitiveness, margin and cash flow.

### Expert

- Customers value the Group's engineering, design and delivery capability. Balfour Beatty will attract, retain and develop key employees and subcontractors in an increasingly competitive environment, by investing in training and talent to enhance the Group's engineering, design, project management and delivery capability.
- The Group metric is the annual employee engagement survey and employee retention.

Leadership of Balfour Beatty has been a major focus since the start of 2015. The Board has been strengthened with a new Chairman, Group CEO and CFO all taking up their positions. In addition two non-executive Directors have joined the Board, providing access to extensive relevant sector knowledge and experience.

Executive management has been reformed and upgraded. Two-thirds of the executive leadership team – direct reports to the Group CEO – are new to Balfour Beatty or newly promoted to their post.

The organisational structure for the UK strategic business units has been simplified to bring the Group's expertise closer to the customer enabling Balfour Beatty to deliver greater value, helping to eliminate waste and building trusted long-term partnerships. The senior leadership within the UK Regional and Engineering Services business has been strengthened by the appointment of a new managing director who, along with the managing director of Major Projects, now report directly to the Group CEO. The Support Services management layer has been disbanded and the managing directors are now reporting directly to the Group CEO, providing a stronger focus on strategically important customers in what are increasingly challenging regulated markets where Balfour Beatty believes it is uniquely positioned to add value and support its customers in complex projects.

In addition there is significant focus to up-skill colleagues, improve processes and incentivise staff to return the culture to where it needs to be for a market-leading business:

- a major training initiative "Cash is our Compass" was mandated early in the Build to Last programme. Evidence of the success of this programme can be seen in the better than expected net cash position at the half year. This also provides some evidence that the business is capable and willing to adapt to the changes that are necessary.
- My Contribution is an initiative that encourages all employees to contribute to Build to Last and was launched across Balfour Beatty in the UK and US in June. It enables and encourages employees to propose and track ideas beneficial to the business. Ideas proposed so far include suggestions to improve and digitise processes, smarter working, reducing waste and improving safety. In the first two months, 643 ideas were submitted.
- business development teams are receiving specialist training to build a culture based on selling value rather than price and to improve negotiation skills. The introduction of a Group-wide sales leadership forum has instilled short interval controls with consistent CRM (Customer Relationship Management) sales pipeline weekly reviews, underpinned by Communities of Practice (Bids & Proposals, Key Account Management, Customer Satisfaction).

- a UK-wide leadership forum has been established for project management, including introduction of COMPASS (a competency and assessment tool, aligned to the Association of Project Management competencies), to embed consistent delivery processes and practices. This will drive greater project transparency, better planning and improved risk management.
- new Group CEO awards have been introduced to align incentives of selected key staff who do not qualify for share-based bonuses.

**Trusted**

- Delivering on business promises through strengthening the successful execution of projects and services through disciplined stage-gated bidding, contracting and risk review processes underpinned by robust financial systems and processes.
- The Group metric is customer satisfaction.

Despite the challenges during the period, the order book has remained stable. This demonstrates the fundamental strengths which underpin the business, including the expertise and dedication of staff and the trust of its customer base. More standardised customer satisfaction measures are to be introduced across the business during the second half of 2015.

Balfour Beatty continues to win attractive business across its core markets and operations, a testament to the engineering expertise of its teams and the confidence and trust customers have in the Group's project delivery.

Some of the most notable successes include:

- the UK Major Projects business selected as preferred bidder for the Hinkley Point C nuclear power station £460 million electrical package, in joint venture with NG Bailey. Subject to the final investment decision, Hinkley Point C will be the first nuclear new build power station in the UK for 20 years.
- the UK Regional construction business successes include appointments to four significant frameworks worth up to £3.5 billion. Frameworks are not reflected in the order book but indicate significant future earnings potential.
- Support Services' five-year joint venture contract with Skanska and MWH Treatment for Thames Water to provide water asset solutions will generate revenue of £265 million for Balfour Beatty.
- The US construction business has secured significant new contracts in the first half including a US$154 million design and build contract for a justice facility in Seattle, Washington, and a US$176 million retail and residential development in San Francisco. In US infrastructure a joint venture with Fluor secured preferred bidder position for the US$582 million four-year design and build contract for the Bergstrom Expressway project in Austin, Texas.
- Infrastructure Investments reached preferred bidder position on six new equity projects, and advanced seven projects to financial close, across the UK, Ireland and the US, demonstrating its continuing strength.

Balfour Beatty maintains a strong balance sheet. In addition to the high-quality assets which make up the Investments portfolio, with a Directors' valuation of £1.25 billion, the Group had net cash of £260 million at the half year demonstrating that Balfour Beatty continues to have firm financial foundations from which to execute the Build to Last transformation and provide reassurance about the business' fundamental strength to customers and other stakeholders.

In the first six months of the programme, considerable progress has been made to refine, rebuild and implement changes to Balfour Beatty's business contracting, project control and financial reporting disciplines to maximise the competitive advantage that Balfour Beatty can realise as a result of the specialist expertise in the business. These include:

- a business lifecycle process, comprising of 8 stage gates, is being embedded across the Group's UK, US, Middle East and Asian businesses to drive governance and control during both the sale and delivery lifecycle phases. Starting with an analysis of whether an opportunity is one which it is appropriate and potentially profitable for Balfour Beatty to pursue, the approach ensures rigour and control is applied at each and every stage to minimise the risks of further low-quality business.
- all significant bids are formally reviewed by a panel of senior management for approval before a bid may be submitted. Lower value bids are also required to be subject to the formalised process and appropriate rigour based on the size and complexity of the project, providing enhanced oversight throughout the business.
- new, uniform reporting dashboards have been introduced across the business to provide clear, regular reporting to senior management on a consistent basis allowing straightforward comparisons on key data points.
- the finance organisation has been realigned to report directly through to the CFO. New standardised financial processes and reporting processes are being established to drive transparency, simplification and control within the Group. An important part of the investment in standardising processes has been an assessment of the UK Oracle R12 roll out. At the start of the year management decided to de-risk the programme by focusing resource on delivering the upgraded system into the UK Regional construction and Major Projects businesses where the most benefit would be gained. The system goes live in August and an assessment of further roll outs across the remaining businesses in the UK will be made post implementation.
- the Group now has a Commercial Director, whose focus is to improve commercial processes and upgrade Balfour Beatty's capability. New controls are being introduced, skills gaps identified and underperformers exited from the business.

### Safe

- Nothing is more important. If Balfour Beatty is not safe, it is not in business. Safety is a non-negotiable licence to operate – at all levels and for all employees, subcontractors, customers and communities.
- The Group metric is Zero Harm.

Many of the activities carried out by construction companies are potentially dangerous. It is therefore essential that in all the changes that are made to support Build to Last, the health and safety of employees and those who come into contact with Balfour Beatty is a paramount consideration.

To ensure an appropriate focus and oversight is constantly maintained a Safety and Sustainability Committee has been established by the Board and in the UK, the Health & Safety function has been unified with a focus on delivering best and improving practice in all activities. Whilst the Lost Time Injury Rate (LTIR) metric is showing early signs of improvement there is more to be done to achieve the objective of Zero Harm.

## 3. DIVISIONAL OPERATING REVIEWS

### CONSTRUCTION SERVICES

Revenue from continuing operations was flat compared to the prior first half (down 5% at CER). Revenue declines of 2% in the UK and 1% in the US (9% at CER) were offset by a 37% increase in Hong Kong (26% at CER). Underlying loss from continuing operations was £209 million (2014: £51 million). This was largely due to historic issues in the UK, US and Middle East that resulted in profit shortfalls. The net impact, once other upsides were taken into account, on the first half results was £152 million.

The order book remained stable in the first half at £7.7 billion. A reduction in the UK of 13% was offset by improvements in the rest of the world. The US order book increased by 3%, as order intake remained strong despite the contraction in revenue.

In the UK, certain legacy Engineering Services (ES) contracts were classified as non-underlying items in 2014 as the exceptional size and nature of the losses distorted the underlying performance of the Group. These are contracts where there has been poor legacy management and in regions, such as London and the South West, where ES has withdrawn from tendering for third-party work due to the problematic delivery of these contracts. The prior year comparatives have been restated accordingly and future performance on these contracts (including any claims recovery) will be presented in non-underlying items through to their completion.

| Construction Services | HY 2015 | | | HY 2014[3,4,5] | | | FY 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Rev[1,2] | PFO[2] | Order book[1,2] | Rev[1,2] | PFO[2] | Order book[1,2] | Rev[1,2] | PFO[2] | Order book[1,2] |
| | (£m) | (£m) | (£bn) | (£m) | (£m) | (£bn) | (£m) | (£m) | (£bn) |
| US | 1,483 | (41) | 3.8 | 1,498 | 12 | 3.5 | 2,996 | 29 | 3.7 |
| UK | 1,117 | (145) | 2.0 | 1,136 | (59) | 2.0 | 2,350 | (229) | 2.3 |
| Rail UK & International | 104 | (4) | 0.2 | 185 | (7) | 0.3 | 368 | (6) | 0.3 |
| Overseas JVs | | | | | | | | | |
| - Middle East[6] | 89 | (25) | 0.4 | 87 | 4 | 0.3 | 177 | (15) | 0.3 |
| - Far East | 384 | 6 | 1.3 | 280 | (1) | 1.5 | 706 | 12 | 1.3 |
| Underlying | 3,177 | (209) | 7.7 | 3,186 | (51) | 7.6 | 6,597 | (209) | 7.9 |
| Non-underlying – ES | 25 | (1) | 0.0 | 35 | (33) | 0.1 | 62 | (88) | 0.0 |
| Non-underlying – other | 81 | (7) | 0.2 | 118 | (32) | 0.3 | 291 | (94) | 0.3 |
| Total | 3,283 | (217) | 7.9 | 3,339 | (116) | 8.0 | 6,950 | (391) | 8.2 |

[1] including share of joint ventures and associates
[2] from continuing operations
[3] re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations; to show the results of certain legacy Engineering Services contracts as non-underlying items (Notes 1.9 and 9).
[4] restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).
[5] re-presented to include Heery Inc. which was previously included in Professional Services
[6] includes Sakti which operates in the Far East

### UK

The UK construction business is organised into three business units consisting of:

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

The underlying loss from the UK construction business was £145 million (2014: £59 million), after provisions were taken to maintain an adequate level of cover against the likely end contract positions on a number of historic contracts, mainly within the Regional business, that have suffered schedule slippages and operational deterioration. Consistent with the approach adopted at the 2014 year end, based on current performance of the business and current market conditions, further risk-based provisions across the entire UK portfolio were also included. The net impact on the first half results was approximately £100 million. The total loss from the UK construction business after including the results of the non-underlying ES contracts was £146 million (2014: £92 million). Underlying revenue in the UK fell by 2% to £1,117 million as revenue growth in Major Projects was more than offset by a 6% reduction in the Regional business.

The business is focused on managing the historic problem contracts, impacting profit and cash, through to completion. As at June 2015, 31% of the historic projects are already at practical or financial completion. By the end of 2016 the number of these projects at practical or financial completion is expected to be greater than 90%. In the UK there are a handful of very complex projects where the range of potential outcomes could result in a materially positive or negative swing, the most significant of which are in Major Projects.

A number of significant changes have been made in the first half to improve the operational and financial performance of the business. The senior leadership within the UK Regional and Engineering Services business has been strengthened by the appointment of a new managing director who, along with the managing director of Major Projects, now report directly to the Group CEO. The 'Gated Business Lifecycle' risk framework has been introduced to ensure rigour and control during both the sale and delivery phases of the contract lifecycle. Financial reporting is undergoing a radical overhaul through the introduction of Oracle R12, and new, uniform reporting dashboards have been introduced across the business to provide clear, regular reporting to senior management on a consistent basis allowing straightforward comparisons on key data points.

The UK order book declined by 13%, mainly as the Regional and Major Projects order books fell. In London and South East, higher bid thresholds and an active decision to withdraw from certain types of work resulted in lower order intake. The decline in Scotland was expected, as work progressed on the Aberdeen Western Peripheral route. The Major Projects order book declined as the business continued to execute on long-term contracts, however the order book is expected to increase in the second half as contracts at preferred bidder stage enter the order book.

The Major Projects business has had a number of landmark successes in 2015. In July, it was selected, in joint venture with VINCI, to deliver a smart motorway package worth up to £607 million to upgrade sections of the M5, M6 and M4 within what is the largest of Highways England's three packages across its £1.5 billion smart motorway programme. Preferred bidder positions have been secured on other significant projects: the main works on a section of the new Thames Tideway Tunnel, as part of a 3-way joint venture with BAM and Morgan Sindall, and the £460 million Hinkley Point C electrical package in joint venture with NG Bailey.

The Regional business has also had notable success specifically in securing significant framework positions, which include: sole contractor for a £1.5 billion framework operated by Scape Group, which is open to all public sector bodies in the UK and covers projects ranging from road repairs, new bridges and coastal defence works to light rail schemes and major road projects; the University of Manchester's framework for the delivery of a £1 billion capital programme over the next eight years; the £250 million University of Reading framework for the upgrade of its estate over a ten-year building programme extending Balfour Beatty's 20-year relationship with the university; and the £800 million Southern construction framework for public sector work in the South West.

### US

Revenues in the US fell by 1% in the first half compared to the same period in the prior year (down 9% at CER), whilst the order book increased during the first half by 3% (4% at CER). Profitability in the first half was impacted by historic issues. A number of multi-family housing unit projects, bid primarily in 2012 and 2013 by a now discontinued business unit in the South-East, suffered subcontractor failures. Two projects in the federal healthcare sector, which had been bid pre 2011, have suffered programme overruns and subcontractor performance issues. In addition, provisions against a small number of other contracts, primarily awarded in 2013 or earlier, and risk-based provisions across the entire US portfolio were also included. The net impact on the first half results was approximately £32 million.

In the US approximately 85% of revenues are generated from the general building market, with the infrastructure market accounting for the remaining 15%.

In the building business, revenues were 10% lower than the prior year at CER. This is largely due to the completion of a large general building project in the prior year, which benefited revenue and profitability. In February Balfour Beatty was awarded a US$154 million design and build contract for the King County justice facility in Seattle, Washington, which includes a new courthouse building and detention facility. In San Francisco a US$176 million contract for a mixed-use development was awarded in March. In Florida, contract wins for a 50-storey luxury residential tower in Miami and a new resort hotel featuring 1,000 guest rooms, totalled approximately US$300 million.

In the Infrastructure market, whilst revenues were flat on the prior year, profitability was lower due to provisions being taken against ongoing contract disputes and favourable contract resolutions that benefited the prior year. The order book grew by 5% at CER due to a number of awards, including a US$179 million contract for the modernisation of the Rinconada water treatment plant, in California.  In May, a joint venture with Fluor Corporation was appointed preferred bidder on a US$582 million design-build contract for the Bergstrom Expressway in Austin, Texas.

### International

The Group also operates in South East Asia and the Middle East, through joint ventures. Revenue in the Group's Hong Kong and Singapore joint venture, Gammon, increased by 37% on the prior year (26% at CER), due in particular to growth in major building projects. The first half revenue benefited from new projects awarded in mid-2014, such as the Tuen Mun Area 54 housing development and the Hong Kong Science Park phase 3C. Profits in the region increased to £6 million (2014: £1 million loss). The order book remained stable during the first half (flat at CER). As previously indicated in the 2014 results a small number of contracts, which are recorded at break-even, have incorporated significant judgements over contractual entitlements.

In the Middle East, the order book has continued to improve, with significant growth in the construction joint venture in Dubai since the end of 2014. Wins included a contract with Meeras for a mixed-use development on the Dubai Creek waterfront. However a review of the Middle East historic contracts has resulted in an increase in project-specific provisions, predominately in the mechanical and electrical engineering business, for additional cost overruns and claim recovery shortfalls. The net impact on the first half results was approximately £20 million.

### Rail

Revenue and order book declined substantially in the first half, as expected, following the disposal of the Group's 50% stake in Signalling Solutions Limited (SSL) and a reduction in operations outside the UK. Losses in the first half were £4 million (2014: £7 million).

In the first half, phase 2 of the North West electrification project reached practical completion. However following a review of future schemes in the North West, it was concluded that the proposed alliance was unlikely to meet its stated objectives of delivering the scope of the work on time and to budget. In July, it was agreed with Network Rail that Balfour Beatty would not continue with the alliance framework for phases 3-7. The results of Rail Germany have been presented as non-underlying items within continuing operations, as the Group remains committed to exiting the remaining parts of the German rail business.

## SUPPORT SERVICES

Revenue for the division was flat on the first half of 2014 at £615 million. Strong growth in the Power sector was offset by an expected decline in the Water sector as the business transitions into the AMP6 regulatory cycle.

Underlying profit from operations for the first half was £4 million (2014: profit £22 million). Profits had been expected to be lower than the prior period, due to lower volumes on the Beauly Denny project in Scotland as it nears completion, and due to prior period profits being boosted by positive contract settlements and a strong performance in the transportation business. Profits in the first half of 2015 were also impacted by an increase in future loss provisions on a small number of contracts, offset by positive contract performance on completion of other contracts.

The Support Services order book increased by 2% since the year-end to £3.6 billion. Order book growth in the Water business was partially offset by reductions in the Power and Transport businesses.

| **Support Services** | HY 2015 | HY 2014 | FY 2014 |
|---|---|---|---|
| Order book[1] (£bn) | 3.6 | 4.0 | 3.5 |
| Revenue[1] (£m) | 615 | 615 | 1,273 |
| (Loss)/profit from operations[2] (£m) | 4 | 22 | 50 |
| Margin[1,2] (%) | 0.7% | 3.6% | 3.9% |

[1] *including share of joint ventures and associates*
[2] *before non-underlying items (Note 7)*

The organisational structure for the UK strategic business units has been refocused to bring the Group's expertise closer to the customer allowing Balfour Beatty to deliver greater value, helping to eliminate waste and building trusted long-term partnerships. As a result the Support Services management layer has been disbanded and the managing directors are now reporting directly to the Group CEO, providing a stronger focus on strategically important customers in what are increasingly challenging regulated markets where Balfour Beatty believes it is uniquely positioned to add value and support customers in complex projects.

In Power, revenues showed strong growth, whilst profits remained stable. Volumes in the gas distribution strategic partnership contracts with National Grid returned to more normalised levels from the lower comparatives in 2014. However these were offset by lower revenues elsewhere, following the near completion of the Beauly Denny project in Scotland and lower volumes coming from the National Grid Alliance projects. The order book fell slightly in the first half of 2015. New orders in the first half demonstrate the good medium-term opportunities for the power business, including a £40 million project for SSE in Scotland and the Nemo sub-sea cable interconnector between the UK and Belgium, the Group's first win in an expanding market. In the OFTO market, emergency cable repairs were successfully completed on both the Thanet and Gwynt y Môr sub-sea cables, and an additional 20-year O&M contract was secured with the latter in addition to the already secured Thanet and Greater-Gabbard OFTO 20-year O&M contracts.

In Transportation, revenues remained stable in the first half of 2015. The order book fell in the period as the business continued to execute on long-term contracts. Work for Highways England continued to perform well but, as anticipated, profits were lower than in 2014. Revenues from local authority work were stable, but profitability continued to be impacted by operational and commercial issues on the Wiltshire contract. The rail business remained stable in the period as rail renewal work for London Underground largely offset the loss of revenue from the Network Rail contract which completed in 2014.

In Water, revenues fell as expected, as work completed on the AMP 5 regulatory cycle and new contracts mobilised with the start of the AMP6 regulatory cycle from April 2015. However the order book grew substantially in the first half with the award of a five-year contract with Thames Water. As a one-third partner in the SMB joint venture the value to Balfour Beatty is approximately £265 million over the initial five years. The joint venture, which includes Skanska and MWH Treatment, is providing water asset solutions as part of Thames Water's 'super-alliance', and follows on from a two-year Early Contractor Involvement phase that started in March 2013.

## INFRASTRUCTURE INVESTMENTS

Underlying pre-tax profits increased to £114 million (2014: £88 million), driven by an increase in gains on disposal. The pre-disposals operating profit declined by £7 million to £14 million (2014: £21 million), but the previous period included a gain of £15 million resulting from movements in the fair value of PPP financial assets, attributable to non-market related changes in estimated future cash flows, and recognition of bid costs deferred income.

Asset sales generated £112 million of proceeds, with disposal gains increasing to £84 million (2014: £51 million), as the secondary market continued to see increased pricing tension. Net interest income, a significant element of total income, was flat on the prior year at £16 million (2014: £16 million).

The Directors' valuation of the Investments portfolio decreased since the year end to £1,252 million as at June 2015 (FY 2014: £1,300 million), after realising £112 million of disposal proceeds and £37 million of distributions with £64 million of new investments. The number of investments within the portfolio increased to 71 (FY 2014: 66) as the business continued to invest in new opportunities.

| Infrastructure Investments | **HY 2015** | HY 2014 | FY 2014 |
|---|---|---|---|
| Pre-disposals operating profit (£m) | **14** | 21 | 34 |
| Gain on disposals (£m) | **84** | 51 | 93 |
| Profit from operations[1] (£m) | **98** | 72 | 127 |
| Net interest income from PPP concessions[2] (£m) | **16** | 16 | 35 |
| Pre-tax result from operations[1] (£m) | **114** | 88 | 162 |
| Directors' valuation of PPP concessions (£m) | **1,252** | 1,051 | 1,300 |

[1] *before non-underlying items (Note 7)*
[2] *subordinated debt interest receivable and net interest receivable on PPP financial assets and non-recourse borrowings*

### New investment activity

The Investments business continued to grow with its appointment as preferred bidder on 6 new equity projects. These projects comprise: one university student accommodation project, three private rental housing projects, one healthcare project and one energy project.

As at 26 June 2015, the business had reached financial close on four of these projects, as well as reaching financial close on three of the projects which were already preferred bidder at the start of 2015. Five projects currently remain at preferred bidder stage.

In January, the business was appointed preferred bidder for the University of Sussex's East Slope Residences project, for the development of 2,000 new bedrooms and other innovative student amenities. Balfour Beatty will design, build, finance and operate the project under a 50-year contract, in partnership with the university.

The £52 million Welland Waste Wood power station project reached financial close in March. Once complete, the project will convert 60,000 tonnes of dry waste wood feedstock into 9MW of electricity – powering over 17,000 UK households a year.

In May, the Investments business, in consortium with Prime and InfraRed Capital Partners Limited was selected as preferred tenderer for the €140 million Irish Primary Care PPP project to deliver 14 primary care centres across Ireland, in the first programme of its kind in the Republic of Ireland's primary care market.

In North America, the Investments business reached financial close on the acquisition of stakes in three private rental housing developments. Balfour Beatty Communities will perform property management services for each development, leveraging the existing capabilities of the business. These include: a 398-unit garden style apartment community in Coppell, Texas, a portfolio of five apartment communities in Dallas-Fort Worth, Texas, and a 392-unit multifamily community in Rogers, Arkansas.

The Investments business continues to see significant opportunities for future investment.

### Directors' valuation

The continuing success of the Investments business resulted in substantial investment of £52 million (HY 2014: £6 million) during 2015. The bulk of this investment was in four projects: the Gwynt y Môr OFTO, the Welland Waste Wood biomass project, the University of Texas Dallas student accommodation project and a multifamily housing portfolio located in Dallas-Fort Worth, Texas. A further £12 million was invested into the fund managed by Balfour Beatty Infrastructure Partners. It is currently estimated that equity investments in the second half of the year will be approximately £50 million. Projects recognised in the Directors' valuation for the first time increased the value of the portfolio by £28 million.

The portfolio yielded £37 million in distributions during the period. In addition, total cash proceeds of £112 million were received from the sale of the Group's entire 50% interest in the Royal Infirmary of Edinburgh project and 80% of its interest in the Thanet OFTO (where the Group retains a 20% interest). Both sales realised values consistent with the revised methodology and Directors' valuation at December 2014.

The unwinding of the discount rate increased the portfolio valuation by £47 million whilst the net impact of inflation, foreign exchange, other cash receipts and operational performance was a decrease in value of £38 million.

After taking into account the movements noted above, the Directors' valuation at the half year totalled £1,252 million (£1,300 million at December 2014).

## 4. FINANCIAL SUMMARY

### Underlying items

Underlying revenue from continuing operations including joint ventures and associates was broadly in line with last year at £4,085 million (2014: £4,072 million). At constant exchange rates revenue decreased by 4%. Revenue was broadly flat across the divisions at actual exchange rates.

In Construction Services, flat revenue at actual exchange rates, included a reduction of 2% in the UK offset by a 37% increase in the Group's South East Asia joint venture. At constant exchange rates revenue in the US declined by 9%.

The Group's share of underlying post-tax profits from continuing joint ventures and associates reduced to £8 million from £42 million in 2014, principally due to a poor performance from the mechanical and electrical engineering business in the Middle East. The decrease also reflects a reduction in underlying post-tax profits from the joint ventures and associates in Investments due to £15 million of fair value gains recognised in the first half of 2014 as a result of revisions to expected lifecycle and other operating costs within the PPP investment portfolio.

The loss from continuing operations before non-underlying items was £120 million (2014: profit £29 million), with losses in Construction Services of £209 million (2014: £51 million) reflecting a poor performance from UK, US and

Middle East construction. These deteriorations are offset by good underlying performances in Investments £98 million (2014: £72 million) which included disposal gains of £84 million (2014: £51 million).

Net underlying finance costs of £10 million decreased by £5 million (2014: £15 million) due to a £4 million decrease in finance charges resulting from loans under committed facilities and overdrafts being settled in full following the sale of Parsons Brinckerhoff in October 2014 and a £6 million decrease in pension net interest expense. This decrease in finance cost was partially offset by a decrease in other interest receivable of £2 million.

Underlying pre-tax loss from continuing operations was £130 million (2014: profit £15 million).

### Non-underlying items

Non-underlying items for continuing operations comprise pre-tax losses of £20 million (2014: £73 million).

These include £1 million (2014: £33 million) of losses on certain legacy ES contracts and £2 million (2014: £12 million) of trading losses in Rail Germany. Non-underlying items also include amortisation of acquired intangible assets of £5 million (2014: £5 million).

In addition to this, the Group incurred £12 million (2014: £nil) of costs relating to the Build to Last transformation programme and £5 million (2014: £6 million) of cost implementing the UK shared service centre. The Group also incurred £4 million (2014: £nil) of restructuring costs relating to Heery Inc. and £7 million (2014: £6 million) of other restructuring costs.

These costs are partially offset by a £15 million (2014: £nil) gain on disposal as a result of the Group's sale of its 50% interest in Signalling Solutions Limited.

Non-underlying gains from discontinued operations of £2 million (2014: £23 million loss) before tax were recognised in the income statement. This related to a gain of £4 million on the disposal of Parsons Brinckerhoff due to additional consideration received, offset by separation costs which the Group incurred in the period, and loss on disposals of £2 million, primarily relating to Rail Italy.

### Taxation

The Group's underlying loss before tax from continuing operations for subsidiaries of £138 million (2014: £27 million) resulted in an underlying tax charge of £4 million (2014: credit £7 million). Adjusting to include joint ventures and associates, the Group's underlying loss before tax of £125 million (2014: profit £25 million) resulted in a tax charge of £9 million (2014: £3 million). As a significant potential deferred tax asset in the UK has not been recognised, an overall tax charge has arisen on a pre-tax loss.

### Discontinued operations

On 11 March 2015, the Group completed the sale of Rail Italy for a cash consideration of £5 million.

The underlying post-tax loss from discontinued operations was £1 million (2014: profit £15 million). Total post-tax profit from discontinued operations was £1 million (2014: £nil).

### Overall result for the half-year

The results, including both underlying and non-underlying items for continuing and discontinued operations, show a total reported loss of £150 million for the half-year (2014: first-half: £43 million; full-year £59 million).

Detailed contract reviews as part of the half-year results process revealed additional losses and write-downs across a number of historic contracts. Further details on how these additional losses and write-downs have impacted the Group's performance can be found in the Results Overview: Profit from Operations section.

Following the UK and US construction business contract reviews conducted in the period, and consistent with the approach adopted in the UK at the 2014 year end to reflect an increased level of prudence in estimating contract completion costs, further risk-based provisions have been recorded in the UK and US. This is a prospective change in accounting estimate and has resulted in a £39 million expense in the first half of the year (2014: first half £nil; full-year £51 million).

### Prior period restatement

Given the scale of the losses incurred in 2014 following significant write-downs on contracts in the UK construction business resulting from failure to apply control processes properly, consideration was given as to whether any of the losses incurred in 2014 should have been identified and accounted for in previous periods.

The projects on which there was a significant deterioration in the end margin from tender were examined to identify the reasons for the change and to identify the time of the root cause for the deterioration.

The results of the exercise showed that the vast majority of the losses were due to operational issues in 2014 and appropriately accounted for in that year. However, there were certain contracts where there were errors principally due to unrealistic cost and scope assumptions which were not appropriately accounted for in the first half of 2014. As a consequence, the comparatives for the half-year ended 27 June 2014 have been restated to reduce profits from UK construction by £16 million.

Following the July 2015 Trading Update, a similar exercise was carried out. The results of this exercise showed that the vast majority of the losses were due to operational issues in 2015, and therefore appropriately accounted for in the first half of this year.

### Earnings per share

Underlying loss per share for continuing operations was 19.4 pence (2014: earnings 3.2 pence), which along with an underlying loss per share from discontinued operations of 0.1 pence (2014: earnings 2.2 pence) gave an underlying loss per share for total operations of 19.5 pence (2014: earnings 5.4 pence).

### Dividends

In line with the position at 31 December 2014, whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending an interim dividend payable for 2015. The Board will look to reinstate the dividend in March 2016, at an appropriate level.

### Goodwill

The goodwill on the Group's balance sheet at 26 June 2015 decreased by £2 million to £824 million (2014: £826 million), with the decrease relating to movements in foreign currency.

Impairment reviews have been carried out on the UK and US construction business following the July 2015 trading update. None of the carrying values were impaired. In relation to the UK construction business the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in that CGU and concluded that it would not. The stabilisation and recovery of Construction Services UK to more normal levels of performance is however a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill. In the US construction business there is limited headroom such that a change in assumptions could result in an impairment.

A full detailed impairment review will be conducted at 31 December 2015.

### Other intangible assets and PPP financial assets

Other intangible assets increased to £235 million (FY 2014: £216 million), which is primarily driven by additions in the period. These included £15 million in Infrastructure Investments from the continuing construction of Edinburgh student accommodation, and £9 million of software.

PPP financial assets have decreased to £365 million (FY 2014: £559 million). This is predominantly due to the disposal of an 80% interest in Thanet OFTO, which resulted in a £214 million decrease. The Group incurred fair value losses on its PPP financial assets (including those held within joint venture vehicles) of £175 million (FY 2014: gain of £303 million), which was driven by an increase in gilt rates during the period.

### Pensions

The Group's balance sheet includes aggregate deficits of £231 million (FY 2014: £128 million) for the Group's pension schemes.

The Group recorded net actuarial losses on those schemes totalling £133 million (FY 2014: £237 million gains). The largest item leading to this increase in the deficit under IAS19 was a contraction in credit spreads in the period.

In September 2014 agreement was reached to make two sets of additional deficit contributions to the Balfour Beatty Pension Fund (BBPF). First, in relation to the disposal of Balfour Beatty WorkPlace in December 2013, a £15 million contribution, which is being paid in monthly instalments during 2015. Second, in relation to the sale of Parsons Brinckerhoff in October 2014, an £85 million contribution.

We can now confirm that we have signed definitive documents with the BBPF and transferred infrastructure investment assets to a Scottish Limited Partnership established between the Group and Pension Fund. As a result the £85 million contribution due to be paid in 2015 is now formally deferred over the period to 2023, with the first payment of £4 million due in 2016.

### Balance sheet and capital structure

Management look to achieve a balance between the negative working capital, liquid funds and facilities and the Investments portfolio. The Group generated an improvement in working capital in the first half of the year. Liquid funds during the half-year were boosted by the sale of two Investment assets, generating total net cash consideration of £112 million. Despite these sales, the Directors' valuation of the Investments portfolio remained broadly flat at £1,252 million compared to the valuation of £1,300 million at December 2014. Overall the Group continues to maintain a strong balance sheet.

### Cash flow performance

Total cash used in operations was £36 million (2014: £286 million), before tax. Operating cash outflows, before movements in working capital were £247 million (2014: £91 million). This was mostly offset by an operating working capital inflow of £211 million (2014: outflow £195 million).

### Working capital

Including the impact of foreign exchange, negative operating working capital increased from £731 million at the end of 2014 to £965 million at June 2015. The increase is mainly driven by Construction Services, where an increase in negative working capital of £202 million has occurred. Working capital for all other segments remain broadly in line with December 2014's position, including the impact of exchange.

A portion of the Group's working capital inflow is a result of contract performance deteriorations in both the UK and US construction businesses, and risk contingencies taken on a number of contracts across both businesses. These impact the movements in the Group's due to/from construction contract customers and provision balances.

Excluding the effects of working capital movements in the Group's due to/from construction contract customers and provision balances, the Group generated a working capital inflow of £42 million from its trade and other receivables. This is a favourable movement from FY 2014 whereby the Group generated a working capital outflow of £43 million. The Group also generated a more favourable working capital inflow from inventories and non-construction work in progress, increasing favourably from an outflow of £30 million in FY 2014 to a £19 million working capital inflow in H1 2015. These movements reflect the Group's improvements in its billing and WIP management, converting debtors and WIP into cash at a quicker rate.

Offsetting this is a working capital outflow in trade and other payables of £30 million at the half-year (FY 2014: £85 million inflow).

### Net borrowings

Average net borrowings in the six-month period were £16 million (H2 2014: £318 million).

The Group's net cash position at 26 June 2015 was £260 million (FY 2014: £219 million), representing a £41 million inflow during the period, before taking into account the consolidation of £327 million (FY 2014: £445 million) of non-recourse net borrowings held in wholly owned infrastructure concessions. The balance sheet also includes £97 million for the liability component of the preference shares.

### Banking facilities

The Group's principal committed banking facilities total £760 million and extend through to November 2016. The purpose of these facilities, and other small facilities, is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities. Over time, as the Group's business has evolved and particularly reflecting the long-term nature of the Investments portfolio, the Group diversified its sources of funds away from the shorter term bank market through the issue of US$350 million of US private placement notes in March 2013 with maturities up to 2025, and £253 million of unsecured convertible bonds due in December 2018.

At 26 June 2015, the Group's £760 million of committed bank facilities were undrawn.

## Responsibility statement

We confirm that to the best of our knowledge:

- the condensed Group financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting;
- the interim management report, as required by Disclosure and Transparency Rules 4.2.7R and 4.2.8R, includes a fair review of:
    - important events during the half-year ended 26 June 2015 and their impact on the condensed Group financial statements;
    - a description of the principal risks and uncertainties for the second half of the year; and
    - related parties' transactions and changes therein.

On behalf of the Board

| **Leo Quinn** | **Phil Harrison** |
|---|---|
| Group Chief Executive | Chief Financial Officer |

11 August 2015

**ENDS**

## Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc'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 the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this announcement and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature these statements involve risk and uncertainty 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 plc 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 earnings per Balfour Beatty plc share for the current or future financial years will necessarily match or exceed the historical earnings per Balfour Beatty plc share. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

## INDEPENDENT REVIEW REPORT TO BALFOUR BEATTY PLC

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 26 June 2015 which comprises the Condensed Group Income Statement, the Condensed Group Statement of Comprehensive Income, the Condensed Group Statement of Changes in Equity, the Condensed Group Balance Sheet, the Condensed Group Statement of Cash Flows and related Notes 1 to 26. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company 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. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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 formed.

### 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 Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1.1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

### 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.

### 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 United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

### Conclusion

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 26 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, United Kingdom
11 August 2015

# Condensed Group Income Statement

## For the half-year ended 26 June 2015

| | Notes | 2015 first half unaudited Underlying Items[1] £m | 2015 first half unaudited Non-underlying items (Note 7) £m | 2015 first half unaudited Total £m | 2014 first half unaudited[2,3,4,5] Underlying items[1] £m | 2014 first half unaudited[2,3,4,5] Non-underlying items (Note 7) £m | 2014 first half unaudited[2,3,4,5] Total £m | 2014 year audited Underlying items[1] £m | 2014 year audited Non-underlying items (Note 7) £m | 2014 year audited Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | | | |
| **Revenue including share of joint ventures and associates** | | **4,085** | **106** | **4,191** | 4,072 | 153 | 4,225 | 8,440 | 353 | 8,793 |
| Share of revenue of joint ventures and associates | 4 | **(714)** | **(11)** | **(725)** | (670) | – | (670) | (1,490) | (39) | (1,529) |
| **Group revenue** | | **3,371** | **95** | **3,466** | 3,402 | 153 | 3,555 | 6,950 | 314 | 7,264 |
| Cost of sales | | **(3,381)** | **(94)** | **(3,475)** | (3,240) | (196) | (3,436) | (6,723) | (410) | (7,133) |
| **Gross (loss)/profit** | | **(10)** | **1** | **(9)** | 162 | (43) | 119 | 227 | (96) | 131 |
| Gain on disposals of interests in investments | 19 | **84** | **–** | **84** | 51 | – | 51 | 93 | – | 93 |
| Amortisation of acquired intangible assets | | **–** | **(5)** | **(5)** | – | (5) | (5) | – | (11) | (11) |
| Other net operating expenses | | **(202)** | **(16)** | **(218)** | (226) | (23) | (249) | (433) | (114) | (547) |
| **Group operating (loss)/profit** | | **(128)** | **(20)** | **(148)** | (13) | (71) | (84) | (113) | (221) | (334) |
| Share of results of joint ventures and associates | 4 | **8** | **–** | **8** | 42 | (1) | 41 | 55 | (2) | 53 |
| **(Loss)/profit from operations** | | **(120)** | **(20)** | **(140)** | 29 | (72) | (43) | (58) | (223) | (281) |
| Investment income | 5 | **26** | **–** | **26** | 30 | – | 30 | 64 | – | 64 |
| Finance costs | 6 | **(36)** | **–** | **(36)** | (44) | (1) | (45) | (86) | (1) | (87) |
| **(Loss)/profit before taxation** | | **(130)** | **(20)** | **(150)** | 15 | (73) | (58) | (80) | (224) | (304) |
| Taxation | 8 | **(4)** | **3** | **(1)** | 7 | 8 | 15 | 2 | 1 | 3 |
| **(Loss)/profit for the period from continuing operations** | | **(134)** | **(17)** | **(151)** | 22 | (65) | (43) | (78) | (223) | (301) |
| (Loss)/profit for the period from discontinued operations | 9 | **(1)** | **2** | **1** | 15 | (15) | – | 24 | 218 | 242 |
| **(Loss)/profit for the period** | | **(135)** | **(15)** | **(150)** | 37 | (80) | (43) | (54) | (5) | (59) |
| **Attributable to** | | | | | | | | | | |
| Equity holders | | **(135)** | **(15)** | **(150)** | 37 | (80) | (43) | (55) | (5) | (60) |
| Non-controlling interests | | **–** | **–** | **–** | – | – | – | 1 | – | 1 |
| **(Loss)/profit for the period** | | **(135)** | **(15)** | **(150)** | 37 | (80) | (43) | (54) | (5) | (59) |

1 Before non-underlying items (Note 7).
2 Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
3 Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).
4 Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 7).
5 Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).

| | Notes | **2015 first half unaudited pence** | 2014 first half unaudited[2,3,5] pence | 2014 year audited pence |
|---|---|---|---|---|
| **Basic (loss)/earnings per ordinary share** | | | | |
| - continuing operations | 10 | **(22.0)** | (6.2) | (43.9) |
| - discontinued operations | 10 | **0.1** | – | 35.3 |
| | | **(21.9)** | (6.2) | (8.6) |
| **Diluted (loss)/earnings per ordinary share** | | | | |
| - continuing operations | 10 | **(22.0)** | (6.2) | (43.9) |
| - discontinued operations | 10 | **0.1** | – | 35.3 |
| | | **(21.9)** | (6.2) | (8.6) |
| **Dividends per ordinary share proposed for the period** | 11 | **–** | 5.6 | 5.6 |

2 Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
3 Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).
5 Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).

## Condensed Group Statement of Comprehensive Income

### For the half-year ended 26 June 2015

| | **2015 first half unaudited £m** | 2014 first half unaudited[5] £m | 2014 year audited £m |
|---|---|---|---|
| **Loss for the period** | **(150)** | (43) | (59) |
| **Other comprehensive (expense)/income for the period** | | | |
| Items which will not subsequently be reclassified to the income statement | | | |
| Actuarial (losses)/gains on retirement benefit liabilities | **(133)** | 18 | 232 |
| Tax on above | **26** | (4) | (48) |
| | **(107)** | 14 | 184 |
| Items which will subsequently be reclassified to the income statement | | | |
| Currency translation differences | **(1)** | (28) | 32 |
| Fair value revaluations – PPP financial assets | **(175)** | 64 | 303 |
| – cash flow hedges | **53** | (23) | (156) |
| – available-for-sale investments in mutual funds | **–** | 1 | 2 |
| Recycling of revaluation reserves to the income statement on disposal^ | **(14)** | (8) | 11 |
| Tax on above | **24** | (9) | (29) |
| | **(113)** | (3) | 163 |
| **Total other comprehensive (expense)/income for the period** | **(220)** | 11 | 347 |
| **Total comprehensive (expense)/income for the period** | **(370)** | (32) | 288 |
| **Attributable to** | | | |
| Equity holders | **(370)** | (32) | 287 |
| Non-controlling interests | **–** | – | 1 |
| **Total comprehensive (expense)/income for the period** | **(370)** | (32) | 288 |

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

[5] Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).

# Condensed Group Statement of Changes in Equity

**For the half-year ended 26 June 2015**

| | 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 | Hedging reserves £m | PPP financial assets £m | Currency translation reserve £m | Merger reserve £m | Other £m | Retained profits £m | Non-controlling interests £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 audited | 344 | 64 | 24 | 278 | 44 | (56) | 56 | 8 | 249 | 22 | – | 2 | 1,035 |
| Total comprehensive income/(expense) for the period[5] | – | – | – | 55 | – | 16 | (7) | (26) | – | – | (70) | – | (32) |
| Ordinary dividends | – | – | – | – | – | – | – | – | – | – | (58) | – | (58) |
| Joint ventures' and associates' dividends | – | – | – | (14) | – | – | – | – | – | – | 14 | – | – |
| Issue of ordinary shares[+] | 1 | – | – | – | – | – | – | – | – | – | – | – | 1 |
| Movements relating to share-based payments | – | – | – | – | – | – | – | – | – | (2) | 5 | – | 3 |
| Reserve transfers relating to joint venture and associate disposals | – | – | – | (22) | – | – | – | – | – | – | 22 | – | – |
| Other transfers | – | – | (1) | – | – | – | – | – | – | – | 1 | – | – |
| At 27 June 2014[+] | 345 | 64 | 23 | 297 | 44 | (40) | 49 | (18) | 249 | 20 | (86) | 2 | 949 |
| Total comprehensive income/(expense) for the period | – | – | – | 87 | – | (34) | 52 | 73 | – | (5) | 146 | 1 | 320 |
| Ordinary dividends | – | – | – | – | – | – | – | – | – | – | (38) | – | (38) |
| Joint ventures' and associates' dividends | – | – | – | (42) | – | – | – | – | – | – | 42 | – | – |
| Movements relating to share-based payments | – | – | – | – | – | – | – | – | – | (1) | – | – | (1) |
| Reserve transfers relating to joint venture and associate disposals | – | – | – | (2) | – | – | – | – | – | – | 2 | – | – |
| Other transfers | – | – | – | – | – | – | – | – | (249) | – | 249 | – | – |
| At 31 December 2014 | 345 | 64 | 23 | 340 | 44 | (74) | 101 | 55 | – | 14 | 315 | 3 | 1,230 |
| Total comprehensive (expense)/income for the period | **–** | **–** | **–** | **(89)** | **–** | **15** | **(34)** | **–** | **–** | **–** | **(262)** | **–** | **(370)** |
| Joint ventures' and associates' dividends | **–** | **–** | **–** | **(23)** | **–** | **–** | **–** | **–** | **–** | **–** | **23** | **–** | **–** |
| Movements relating to share-based payments | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(3)** | **(3)** | **–** | **(6)** |
| Reserve transfers relating to disposals | **–** | **–** | **–** | **(6)** | **–** | **1** | **(6)** | **–** | **–** | **–** | **11** | **–** | **–** |
| At 26 June 2015 | **345** | **64** | **23** | **222** | **44** | **(58)** | **61** | **55** | **–** | **11** | **84** | **3** | **854** |

[5] Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).

[+] Called-up share capital and share premium account have been re-presented at 27 June 2014 to reflect an increase of £1m in share capital rather than share premium.

# Condensed Group Balance Sheet
## At 26 June 2015

| | Notes | 2015 first half unaudited £m | 2014 first half unaudited[5,+] £m | 2014 year audited £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets – goodwill | 12 | **824** | 1,005 | 826 |
| – other | | **235** | 208 | 216 |
| Property, plant and equipment | | **162** | 213 | 171 |
| Investments in joint ventures and associates | 4 | **699** | 679 | 759 |
| Investments | | **47** | 93 | 51 |
| PPP financial assets | 15 | **365** | 287 | 559 |
| Trade and other receivables | 13 | **108** | 123 | 111 |
| Deferred tax assets | | **73** | 123 | 52 |
| | | **2,513** | 2,731 | 2,745 |
| **Current assets** | | | | |
| Inventories and non-construction work in progress | | **151** | 161 | 170 |
| Due from construction contract customers | | **449** | 721 | 562 |
| Trade and other receivables | 13 | **941** | 1,335 | 966 |
| Cash and cash equivalents – infrastructure concessions | 18.2 | **16** | 46 | 40 |
| – other | 18.2 | **724** | 411 | 691 |
| Current tax assets | | **2** | 17 | 8 |
| Derivative financial instruments | | **1** | 1 | 2 |
| | | **2,284** | 2,692 | 2,439 |
| Assets held for sale | 9 | **–** | 205 | 60 |
| | | **2,284** | 2,897 | 2,499 |
| **Total assets** | | **4,797** | 5,628 | 5,244 |
| **Current liabilities** | | | | |
| Due to construction contract customers | | **(385)** | (358) | (350) |
| Trade and other payables | 14 | **(1,969)** | (2,128) | (1,959) |
| Provisions | | **(152)** | (93) | (120) |
| Borrowings – non-recourse loans | 18.3 | **(14)** | (4) | (14) |
| – other | 18.3 | **–** | (367) | (4) |
| Current tax liabilities | | **(5)** | (39) | (5) |
| Derivative financial instruments | | **(13)** | (11) | (14) |
| | | **(2,538)** | (3,000) | (2,466) |
| Liabilities held for sale | 9 | **–** | (179) | (47) |
| | | **(2,538)** | (3,179) | (2,513) |
| **Non-current liabilities** | | | | |
| Trade and other payables | 14 | **(109)** | (177) | (134) |
| Provisions | | **(78)** | (89) | (77) |
| Borrowings – non-recourse loans | 18.3 | **(329)** | (266) | (471) |
| – other | 18.3 | **(464)** | (431) | (468) |
| Liability component of preference shares | | **(97)** | (95) | (96) |
| Retirement benefit liabilities | 16 | **(231)** | (397) | (128) |
| Deferred tax liabilities | | **(38)** | (4) | (49) |
| Derivative financial instruments | | **(59)** | (41) | (78) |
| | | **(1,405)** | (1,500) | (1,501) |
| **Total liabilities** | | **(3,943)** | (4,679) | (4,014) |
| **Net assets** | | **854** | 949 | 1,230 |
| **Equity** | | | | |
| Called-up share capital | 17 | **345** | 345 | 345 |
| Share premium account | | **64** | 64 | 64 |
| Special reserve | | **23** | 23 | 23 |
| Share of joint ventures' and associates' reserves | | **222** | 297 | 340 |
| Other reserves | | **113** | 304 | 140 |
| Retained profits | | **84** | (86) | 315 |
| **Equity attributable to equity holders of the parent** | | **851** | 947 | 1,227 |
| Non-controlling interests | | **3** | 2 | 3 |
| **Total equity** | | **854** | 949 | 1,230 |

[5] Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).
[+] Called-up share capital and share premium account have been re-presented at 27 June 2014 to reflect an increase of £1m in share capital rather than share premium.

# Condensed Group Statement of Cash Flows

**For the half-year ended 26 June 2015**

| | Notes | **2015 first half unaudited £m** | 2014 first half unaudited[2,3,4,5] £m | 2014 year audited £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash (used in)/generated from: | | | | |
| - continuing operations – underlying[1] | 18.1 | **2** | (198) | (192) |
| – non-underlying | 18.1 | **(37)** | (51) | (114) |
| - discontinued operations | 18.1 | **(1)** | (37) | (46) |
| Income taxes received/(paid) | | **6** | (8) | (20) |
| **Net cash used in operating activities** | | **(30)** | (294) | (372) |
| **Cash flows from investing activities** | | | | |
| Dividends received from joint ventures and associates – infrastructure concessions[6] | | **15** | 13 | 28 |
| Dividends received from joint ventures and associates – other [6] | | **8** | 1 | 28 |
| Interest received – infrastructure concessions[6] | | **10** | 13 | 23 |
| Interest received – other[6] | | **5** | 3 | 5 |
| Acquisition of businesses, net of cash and cash equivalents acquired | 19.1 | **(3)** | (3) | (3) |
| Purchases of: - intangible assets – infrastructure concessions | | **(15)** | (13) | (28) |
| - intangible assets – other | | **(16)** | (8) | (35) |
| - property, plant and equipment – infrastructure concessions | | **(2)** | (15) | (23) |
| - property, plant and equipment – other | | **(10)** | (25) | (43) |
| - other investments | | **(3)** | (3) | (8) |
| Investments in and long-term loans to joint ventures and associates – infrastructure concessions | | **(61)** | (4) | (40) |
| Short-term loans to joint ventures and associates | | **(3)** | – | (4) |
| Loans repaid from joint ventures and associates – infrastructure concessions | | **1** | 1 | 2 |
| PPP financial assets cash expenditure | 15 | **(38)** | (22) | (232) |
| PPP financial assets cash receipts | 15 | **15** | 20 | 37 |
| Disposals of: - investments in joint ventures – infrastructure concessions[6] | 19.2 | **71** | – | 117 |
| - investments in joint ventures – other[6] | 19.2 | **20** | – | – |
| - subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions[6] | 19.2 | **23** | 34 | 34 |
| - subsidiaries net of cash disposed, separation and transaction costs – other[6] | 19.2 | **3** | (14) | 701 |
| - property, plant and equipment | | **2** | 3 | 16 |
| - other investments | | **8** | 6 | 12 |
| **Net cash from/(used in) investing activities** | | **30** | (13) | 587 |
| **Cash flows from financing activities** | | | | |
| Purchase of ordinary shares | 17 | **(7)** | (2) | (2) |
| Proceeds from: - issue of ordinary shares | | **–** | 1 | 1 |
| - loans – infrastructure concessions[6] | 18.4 | **33** | 19 | 236 |
| - loans – other[6] | 18.4 | **–** | 262 | 11 |
| - finance leases | 18.4 | **–** | – | 1 |
| Repayments of: - loans – infrastructure concessions[6] | 18.4 | **(4)** | (4) | (7) |
| - loans – other[6] | 18.4 | **–** | (14) | (83) |
| - finance leases | 18.4 | **–** | – | (3) |
| Ordinary dividends paid | | **–** | – | (96) |
| Interest paid – infrastructure concessions[6] | | **(9)** | (14) | (21) |
| Interest paid – other[6] | | **(19)** | (14) | (29) |
| Preference dividends paid | | **(5)** | (5) | (11) |
| **Net cash (used in)/from financing activities** | | **(11)** | 229 | (3) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(11)** | (78) | 212 |
| Effects of exchange rate changes | | **6** | (13) | (12) |
| Cash and cash equivalents at beginning of period | | **727** | 526 | 526 |
| Net decrease/(increase) in cash within assets held for sale | 9 | **3** | (5) | 1 |
| Cash previously held within assets held for sale disposed of during the period | 19.2 | **15** | – | – |
| **Cash and cash equivalents at end of period** | 18.2 | **740** | 430 | 727 |

1 Before non-underlying items (Note 7).
2 Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
3 Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).
4 Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 7).
5 Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).
6 Re-presented to separately identify cash flows from infrastructure concessions and other.

# Notes to the condensed financial statements

### 1.1 Basis of accounting

The condensed Group financial statements for the half-year ended 26 June 2015 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 2014, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The condensed Group financial statements have been reviewed, not audited, and were approved for issue by the Board on 11 August 2015. 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 Company's audited statutory accounts for the year ended 31 December 2014 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 auditors 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 2014 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 101 and 102 of the Annual Report and Accounts 2014.

### 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 23.

### 1.4 Adoption of new and revised standards

The following new and revised standards have been adopted in the current period and do not have a material effect on the Group:

- Amendments to the following standards:
  - IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions
  - Improvements to IFRSs (2010 – 2012)
  - Improvements to IFRSs (2011 – 2013).

### 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 26 June 2015:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- Amendments to the following standards
    - IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
    - IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
    - IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
    - IAS 1 Disclosure Initiative
    - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
    - IAS 16 and IAS 41: Agricultural: Bearer Plants
    - IAS 27 Equity Method in Separate Financial Statements
    - Improvements to IFRSs (2012 – 2014).

The Group does not expect the above standards to have a material quantitative effect.

### 1.7 Restatement of prior period result

Given the scale of the losses incurred in 2014 following significant write-downs on contracts resulting from the failure to apply control processes properly, consideration was given as to whether any of the losses incurred in 2014 should have been identified and accounted for in previous periods in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The projects on which there was a significant deterioration in the end margin from tender were examined to identify the reasons for the change and to identify the time of the root cause for the deterioration.

The results of the exercise showed that the vast majority of the losses were due to operational issues in 2014 and appropriately accounted for in that year. However, there were certain contracts where there were errors principally due to unrealistic cost and scope assumptions which were not appropriately accounted for in the first half of 2014. As a consequence, the comparatives for the half-year ended 27 June 2014 have been restated to reduce profits from UK construction by £16m, with a corresponding impact to amounts due to construction contract customers on the balance sheet. Refer to Note 26.

Following the July 2015 Trading Update, a similar exercise was carried out. The results of this exercise showed that the vast majority of the losses were due to operational issues in 2015, and therefore appropriately accounted for in the first half of this year.

### 1.8 Changes in accounting estimates

Following the UK and US construction business contract reviews conducted in the period, and consistent with the approach adopted in the UK at the 2014 year end to reflect an increased level of prudence in estimating contract completion costs, further risk-based provisions have been recorded in the UK and US. This is a prospective change in accounting estimate and has resulted in a £39m expense in the first half of the year (2014: first half £nil; full-year £51m).

### 1.9 Re-presentation of comparative information

#### Discontinued operations

The comparative information for the half-year ended 27 June 2014 has been re-presented to classify Parsons Brinckerhoff as a discontinued operation. Refer to Notes 9 and 26.

Rail Germany was reclassified from discontinued operations in the second half of 2014 and is now being presented as part of the Group's non-underlying items within continuing operations. The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. When initially classified as a discontinued operation in 2013 the German business was being marketed to be sold as an entire unit. Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014 and completed in January 2015. As a result, Rail Germany did not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation at 31 December 2014 and the comparative information for the half-year ended 27 June 2014 has been restated accordingly. Refer to Notes 9 and 26.

#### Engineering Services

The performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work were also classified as non-underlying items in the second half of 2014 as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group. ES has stopped bidding external work in London, South East and the South West. At 26 June 2015, 10 of these contracts were still active, with the last of these contracts currently scheduled to complete in March 2016. Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group. Performance on these contracts including any claims recovery will be presented in non-underlying items through to their completion. The comparative information for the half-year ended 27 June 2014 has been restated accordingly. Refer to Note 26.

#### Segmental analysis

The Group no longer presents a Professional Services segment following the sale of Parsons Brinckerhoff on 31 October 2014 which constituted the vast majority of this segment. The remaining continuing operations, which were previously reported in Professional Services and principally comprised the operations of Heery Inc., now report into Construction Services management and consequently have been re-presented within the Construction Services segment. The comparative information for the half-year ended 27 June 2014 has been restated accordingly.

### 2 Exchange rates

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

#### Average rates

| £1 buys | **2015 first half unaudited** | 2014 first half unaudited | 2014 year audited | 27 June 2014 - 26 June 2015 % change | 31 Dec 2014- 26 June 2015 % change |
|---|---|---|---|---|---|
| US$ | **1.53** | 1.67 | 1.65 | (8.4)% | (7.3)% |
| Euro | **1.36** | 1.22 | 1.24 | 11.5% | 9.7% |

#### Closing rates

| £1 buys | **2015 first half unaudited** | 2014 first half unaudited | 2014 year audited | 27 June 2014 - 26 June 2015 % change | 31 Dec 2014- 26 June 2015 % change |
|---|---|---|---|---|---|
| US$ | **1.57** | 1.70 | 1.56 | (7.6)% | 0.6% |
| Euro | **1.41** | 1.25 | 1.28 | 12.8% | 10.2% |

## 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, schools, student accommodation, military housing, offshore transmission networks and other concessions.

Refer to Notes 1.7 and 1.9 for a description of the re-presentations of the comparative information for the half-year ended 27 June 2014.

### 3.1 Income statement – performance by activity from continuing operations

| For the half-year ended 26 June 2015 unaudited | Construction Services £m | Support Services £m | Infrastructure Investments £m | Corporate activities £m | Total £m | Rail Germany £m | Certain legacy ES contracts £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Revenue including share of joint ventures and associates | 3,177 | 615 | 293 | – | 4,085 | 81 | 25 | 4,191 |
| Share of revenue of joint ventures and associates | (559) | (13) | (142) | – | (714) | (11) | – | (725) |
| Group revenue | 2,618 | 602 | 151 | – | 3,371 | 70 | 25 | 3,466 |
| Group operating (loss)/profit^ | (198) | 4 | 79 | (13) | (128) | (2) | (1) | |
| Share of results of joint ventures and associates | (11) | – | 19 | – | 8 | – | – | |
| (Loss)/profit from operations^ | (209) | 4 | 98 | (13) | (120) | (2) | (1) | |
| Non-underlying items | | | | | | | | |
| - include results from certain legacy ES contracts within Construction Services | (1) | – | – | – | (1) | | | |
| - include results from Rail Germany within Construction Services | (2) | – | – | – | (2) | | | |
| - amortisation of acquired intangible assets | (2) | – | (3) | – | (5) | | | |
| - other non-underlying items | (3) | (4) | (1) | (4) | (12) | | | |
| | (8) | (4) | (4) | (4) | (20) | | | |
| (Loss)/profit from operations | (217) | – | 94 | (17) | (140) | | | |
| Investment income | | | | | 26 | | | |
| Finance costs | | | | | (36) | | | |
| Loss before taxation | | | | | (150) | | | |

^ Segments presented before non-underlying items for underlying operations (Note 7).

## 3 Segment analysis continued

### 3.1 Income statement – performance by activity from continuing operations continued

| For the half-year ended 27 June 2014 unaudited | Construction Services[2,3,4,5,7] £m | Support Services £m | Infrastructure Investments £m | Corporate activities £m | Total £m | Rail Germany[3] £m | Certain legacy ES contracts[4] £m | Total[2,3,5] £m |
|---|---|---|---|---|---|---|---|---|
| Revenue including share of joint ventures and associates | 3,186 | 615 | 271 | – | 4,072 | 118 | 35 | 4,225 |
| Share of revenue of joint ventures and associates | (511) | (12) | (147) | – | (670) | – | – | (670) |
| Group revenue | 2,675 | 603 | 124 | – | 3,402 | 118 | 35 | 3,555 |
| Group operating (loss)/profit^ | (61) | 22 | 40 | (14) | (13) | (11) | (33) | |
| Share of results of joint ventures and associates | 10 | – | 32 | – | 42 | – | – | |
| (Loss)/profit from operations^ | (51) | 22 | 72 | (14) | 29 | (11) | (33) | |
| Non-underlying items | | | | | | | | |
| - include results from certain legacy ES contracts within Construction Services | (33) | – | – | – | (33) | | | |
| - include results from Rail Germany within Construction Services | (11) | – | – | – | (11) | | | |
| - amortisation of acquired intangible assets | (2) | – | (3) | – | (5) | | | |
| - other non-underlying items | (19) | (4) | – | – | (23) | | | |
| | (65) | (4) | (3) | – | (72) | | | |
| (Loss)/profit from operations | (116) | 18 | 69 | (14) | (43) | | | |
| Investment income | | | | | 30 | | | |
| Finance costs | | | | | (45) | | | |
| Loss before taxation | | | | | (58) | | | |

^ Segments presented before non-underlying items for underlying operations (Note 7).
2 Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
3 Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).
4 Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 7).
5 Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).
7 Re-presented to include Heery Inc. which was previously included in Professional Services.

| For the year ended 31 December 2014 audited | Construction Services+ £m | Support Services £m | Infrastructure Investments+ £m | Corporate activities £m | Total £m | Rail Germany £m | Certain legacy ES contracts £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Revenue including share of joint ventures and associates | 6,597 | 1,273 | 570 | – | 8,440 | 291 | 62 | 8,793 |
| Share of revenue of joint ventures and associates | (1,168) | (26) | (296) | – | (1,490) | (39) | – | (1,529) |
| Group revenue | 5,429 | 1,247 | 274 | – | 6,950 | 252 | 62 | 7,264 |
| Group operating (loss)/profit^ | (217) | 49 | 81 | (26) | (113) | (22) | (88) | |
| Share of results of joint ventures and associates | 8 | 1 | 46 | – | 55 | (1) | – | |
| (Loss)/profit from operations^ | (209) | 50 | 127 | (26) | (58) | (23) | (88) | |
| Non-underlying items | | | | | | | | |
| - include results from certain legacy ES contracts within Construction Services | (88) | – | – | – | (88) | | | |
| - include results from Rail Germany within Construction Services | (23) | – | – | – | (23) | | | |
| - amortisation of acquired intangible assets | (5) | – | (6) | – | (11) | | | |
| - other non-underlying items | (66) | (27) | (3) | (5) | (101) | | | |
| | (182) | (27) | (9) | (5) | (223) | | | |
| (Loss)/profit from operations | (391) | 23 | 118 | (31) | (281) | | | |
| Investment income | | | | | 64 | | | |
| Finance costs | | | | | (87) | | | |
| Loss before taxation | | | | | (304) | | | |

^ Segments presented before non-underlying items for underlying operations (Note 7).
+ £10m of costs relating to the acceleration of the completion of construction works is included within Infrastructure Investments.

## 3 Segment analysis continued

### 3.2 Assets and liabilities by activity

| As at half-year ended 26 June 2015 unaudited | Construction Services[+] £m | Support Services £m | Infrastructure Investments £m | Corporate activities £m | Total £m |
|---|---|---|---|---|---|
| Due from construction contract customers | **281** | **168** | – | – | **449** |
| Due to construction contract customers | **(354)** | **(31)** | – | – | **(385)** |
| Inventories and non-construction work in progress | **68** | **79** | – | **4** | **151** |
| Trade and other receivables – current | **775** | **108** | **45** | **13** | **941** |
| Trade and other payables – current | **(1,568)** | **(280)** | **(79)** | **(42)** | **(1,969)** |
| Provisions – current | **(111)** | **(17)** | **(1)** | **(23)** | **(152)** |
| Working capital* | **(909)** | **27** | **(35)** | **(48)** | **(965)** |

* Includes non-operating items and current working capital.

| | | | | | |
|---|---|---|---|---|---|
| Total assets | **2,134** | **517** | **1,276** | **870** | **4,797** |
| Total liabilities | **(2,323)** | **(390)** | **(528)** | **(702)** | **(3,943)** |
| Net (liabilities)/assets | **(189)** | **127** | **748** | **168** | **854** |

[+] Includes Heery Inc. representing negative working capital of £6m and net assets of £8m.

| As at half-year ended 27 June 2014 unaudited | Professional Services[+] £m | Construction Services[5,^,+] £m | Support Services £m | Infrastructure Investments £m | Corporate activities £m | Total[5] £m |
|---|---|---|---|---|---|---|
| Due from construction contract customers | 179 | 354 | 188 | – | – | 721 |
| Due to construction contract customers | (105) | (223) | (30) | – | – | (358) |
| Inventories and non-construction work in progress | 1 | 75 | 81 | – | 4 | 161 |
| Trade and other receivables – current | 305 | 760 | 155 | 113 | 2 | 1,335 |
| Trade and other payables – current | (225) | (1,422) | (335) | (58) | (88) | (2,128) |
| Provisions – current | (3) | (65) | (17) | (2) | (6) | (93) |
| Working capital from continuing operations* | 152 | (521) | 42 | 53 | (88) | (362) |
| Classified as net assets held for sale (Note 9) | – | (6) | – | – | – | (6) |
| Adjusted working capital* | 152 | (527) | 42 | 53 | (88) | (368) |

* Includes non-operating items and current working capital.

| | | | | | | |
|---|---|---|---|---|---|---|
| Total assets | 796 | 2,459 | 559 | 1,185 | 629 | 5,628 |
| Total liabilities | (424) | (2,265) | (477) | (444) | (1,069) | (4,679) |
| Net assets/(liabilities) | 372 | 194 | 82 | 741 | (440) | 949 |

[5] Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).
[^] Includes net assets held for sale of £26m relating to the Rail disposal group (Note 9).
[+] Re-presented to include Heery Inc. within Construction Services, representing negative working capital of £7m and net assets of £12m.

| As at year ended 31 December 2014 audited | Construction Services[^,+] £m | Support Services £m | Infrastructure Investments £m | Corporate activities £m | Total £m |
|---|---|---|---|---|---|
| Due from construction contract customers | 406 | 156 | – | – | 562 |
| Due to construction contract customers | (317) | (33) | – | – | (350) |
| Inventories and non-construction work in progress | 82 | 84 | – | 4 | 170 |
| Trade and other receivables – current | 807 | 104 | 55 | – | 966 |
| Trade and other payables – current | (1,596) | (278) | (75) | (10) | (1,959) |
| Provisions – current | (89) | (15) | – | (16) | (120) |
| Working capital from continuing operations* | (707) | 18 | (20) | (22) | (731) |
| Classified as net assets held for sale (Note 9) | (2) | – | – | – | (2) |
| Adjusted working capital* | (709) | 18 | (20) | (22) | (733) |

* Includes non-operating items and current working capital.

| | | | | | |
|---|---|---|---|---|---|
| Total assets | 2,419 | 491 | 1,530 | 804 | 5,244 |
| Total liabilities | (2,274) | (365) | (701) | (674) | (4,014) |
| Net assets | 145 | 126 | 829 | 130 | 1,230 |

[^] Includes net assets held for sale of £13m relating to the Rail disposal group (Note 9).
[+] Includes Heery Inc. representing negative working capital of £1m and net assets of £11m.

## 3 Segment analysis continued

### 3.3 Other information – continuing operations

| | Construction Services[7] £m | Support Services £m | Infrastructure Investments £m | Corporate activities £m | Total £m |
|---|---|---|---|---|---|
| **For the half-year ended 26 June 2015 unaudited** | | | | | |
| Capital expenditure on property, plant and equipment | **7** | **3** | **2** | **–** | **12** |
| Depreciation | **9** | **6** | **1** | **1** | **17** |
| Gain on disposals of interests in investments | **–** | **–** | **84** | **–** | **84** |
| **For the half-year ended 27 June 2014 unaudited[2,3]** | | | | | |
| Capital expenditure on property, plant and equipment | 7 | 8 | 15 | – | 30 |
| Depreciation | 7 | 8 | 1 | 1 | 17 |
| Gain on disposals of interests in investments | – | – | 51 | – | 51 |
| **For the year ended 31 December 2014 audited** | | | | | |
| Capital expenditure on property, plant and equipment | 15 | 11 | 23 | – | 49 |
| Depreciation | 25 | 15 | 2 | 1 | 43 |
| Gain on disposals of interests in investments | – | – | 93 | – | 93 |

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).
[7] Re-presented to include Heery Inc. which was previously included in Professional Services.

### 3.4 Revenue by geographic destination – continuing operations

| | United Kingdom £m | United States £m | Rest of World £m | Total £m |
|---|---|---|---|---|
| **For the half-year ended 26 June 2015 unaudited** | | | | |
| Revenue including share of joint ventures and associates | **1,982** | **1,560** | **649** | **4,191** |
| Share of revenue of joint ventures and associates | **(99)** | **(81)** | **(545)** | **(725)** |
| Group revenue | **1,883** | **1,479** | **104** | **3,466** |
| **For the half-year ended 27 June 2014 unaudited[2,3]** | | | | |
| Revenue including share of joint ventures and associates | 2,072 | 1,556 | 597 | 4,225 |
| Share of revenue of joint ventures and associates | (171) | (94) | (405) | (670) |
| Group revenue | 1,901 | 1,462 | 192 | 3,555 |
| **For the year ended 31 December 2014 audited** | | | | |
| Revenue including share of joint ventures and associates | 4,271 | 3,123 | 1,399 | 8,793 |
| Share of revenue of joint ventures and associates | (329) | (180) | (1,020) | (1,529) |
| Group revenue | 3,942 | 2,943 | 379 | 7,264 |

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).

## 3 Segment analysis continued

### 3.5 Infrastructure Investments

| Underlying profit from operations[1] | **Group 2015 first half unaudited £m** | **Share of joint ventures and associates 2015 first half unaudited[+] £m** | **Total 2015 first half unaudited £m** | Group 2014 first half unaudited £m | Share of joint ventures and associates 2014 first half unaudited[+] £m | Total 2014 first half unaudited £m | Group 2014 year audited £m | Share of joint ventures and associates 2014 year audited[+] £m | Total 2014 year audited £m |
|---|---|---|---|---|---|---|---|---|---|
| UK ^ | **1** | **14** | **15** | 1 | 29 | 30 | 2 | 40 | 42 |
| North America | **8** | **4** | **12** | 7 | 3 | 10 | 15 | 6 | 21 |
| Infrastructure Fund | **–** | **1** | **1** | (1) | – | (1) | – | – | – |
| Infrastructure | **–** | **–** | **–** | (1) | – | (1) | (2) | – | (2) |
| Gain on disposals of interests in investments | **84** | **–** | **84** | 51 | – | 51 | 93 | – | 93 |
| | **93** | **19** | **112** | 57 | 32 | 89 | 108 | 46 | 154 |
| Bidding costs and overheads | **(14)** | **–** | **(14)** | (17) | – | (17) | (27) | – | (27) |
| | **79** | **19** | **98** | 40 | 32 | 72 | 81 | 46 | 127 |

[+] 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 Australia.
[1] Before non-underlying items (Note 7).

## 4 Share of results and net assets of joint ventures and associates

### 4.1 Income Statement

| Continuing operations | **2015 first half unaudited £m** | 2014 first half unaudited[2] £m | 2014 year audited £m |
|---|---|---|---|
| Underlying revenue[1] | **714** | 670 | 1,490 |
| Underlying profit from operations relating to: | | | |
| - equity accounted joint ventures and associates[1] | **1** | 20 | 30 |
| Investment income | **80** | 102 | 179 |
| Finance costs | **(68)** | (70) | (139) |
| Profit before taxation[1] | **13** | 52 | 70 |
| Taxation | **(5)** | (10) | (15) |
| Profit after taxation before non-underlying items | **8** | 42 | 55 |
| Share of results within non-underlying items | **–** | (1) | (2) |
| Profit after taxation | **8** | 41 | 53 |

[1] Before non-underlying items (Note 7).
[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).

### 4.2 Balance Sheet

| | | **2015 first half unaudited £m** | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|---|
| Intangible assets | – goodwill | **29** | 27 | 29 |
| | – Infrastructure Investments intangible | **27** | 24 | 24 |
| | – other | **11** | 6 | 6 |
| Property, plant and equipment | | **82** | 52 | 61 |
| Investments in joint ventures and associates | | **5** | 4 | 5 |
| PPP financial assets | | **2,351** | 2,295 | 2,359 |
| Military housing projects | | **93** | 84 | 91 |
| Infrastructure Fund investment | | **33** | 10 | 20 |
| Net (borrowings)/cash – non-recourse | | **(1,695)** | (1,593) | (1,520) |
| | – other | **255** | 189 | 250 |
| Other net liabilities | | **(492)** | (419) | (566) |
| Share of net assets of joint ventures and associates | | **699** | 679 | 759 |

### 4.3 Infrastructure Fund investment

| | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| At beginning of period | **20** | 11 | 11 |
| Capital calls | **12** | – | 9 |
| Distributions received | **–** | (1) | (1) |
| Gain on fair value movements | **2** | – | – |
| Currency translation differences | **(1)** | – | 1 |
| At end of period | **33** | 10 | 20 |

## 5 Investment income

| Continuing operations | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| Subordinated debt interest receivable | **13** | 13 | 29 |
| Interest receivable on PPP financial assets | **12** | 14 | 26 |
| Other interest receivable and similar income | **1** | 3 | 9 |
| | **26** | 30 | 64 |

## 6 Finance costs

| Continuing operations | | 2015 first half unaudited £m | 2014 first half unaudited[2,3] £m | 2014 year audited £m |
|---|---|---|---|---|
| Non-recourse borrowings | – bank loans and overdrafts | **9** | 11 | 20 |
| Preference shares | – finance cost | **5** | 5 | 11 |
| | – accretion | **1** | 1 | 2 |
| Convertible bonds | – finance cost | **3** | 3 | 5 |
| | – accretion | **3** | 3 | 6 |
| US private placement | – finance cost | **6** | 5 | 10 |
| Other interest payable | – loans under committed facilities | **–** | 3 | 6 |
| | – other bank loans and overdrafts | **–** | 1 | – |
| | – commitment fees | **3** | 2 | 5 |
| | – other finance charges | **4** | 3 | 6 |
| Net finance cost on pension scheme assets and liabilities | | **2** | 8 | 16 |
| | | **36** | 45 | 87 |

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).

## 7 Non–underlying items

| | 2015 first half unaudited £m | 2014 first half unaudited[2,3,4,5] £m | 2014 year audited £m |
|---|---|---|---|
| **Items (charged against)/credited to (loss)/profit** | | | |
| **7.1 Continuing operations** | | | |
| **7.1.1** Trading results from Rail Germany (including £4m (2014: first half £1m, full-year £15m) of other net operating expenses and £nil (2014: first half £1m, full-year £1m) of finance cost) | **(2)** | (12) | (23) |
| **7.1.2** Results of certain legacy ES contracts | **(1)** | (33) | (88) |
| **7.1.3** Amortisation of acquired intangible assets | **(5)** | (5) | (11) |
| **7.1.4** Other non-underlying items: | | | |
| – Build to Last transformation costs | **(12)** | – | – |
| – cost of implementing the shared service centre in the UK | **(5)** | (6) | (14) |
| – restructuring and reorganisation costs relating to continuing businesses | **(11)** | (6) | (23) |
| – gain on disposal of Signalling Solutions Limited | **15** | – | – |
| – pension fund settlement gain | **1** | – | 2 |
| – impairment of assets within Rail Germany | **–** | (10) | (30) |
| – Rail Germany regulatory matters | **–** | – | (6) |
| – cost incurred in relation to the aborted merger discussions with Carillion plc | **–** | – | (7) |
| – impairment of Oracle R12 intangible asset | **–** | – | (21) |
| – cost associated with the liquidation of Blackpool Airport | **–** | – | (1) |
| Total other non-underlying items from continuing operations | **(12)** | (22) | (100) |
| | **(20)** | (72) | (222) |
| **7.1.5** Share of results of joint ventures and associates – goodwill impairment in respect of Middle East | **–** | (1) | (1) |
| **7.1.6** Share of results of joint ventures and associates – trading results from Rail Germany | **–** | – | (1) |
| **Charged against (loss)/profit before taxation from continuing operations** | **(20)** | (73) | (224) |
| **7.1.7** Tax on items above | **3** | 8 | 1 |
| **Non-underlying items charged against (loss)/profit for the period from continuing operations** | **(17)** | (65) | (223) |
| **7.2 Discontinued operations** | | | |
| **7.2.1** Amortisation of acquired intangible assets | **–** | (5) | (8) |
| **7.2.2** Other non-underlying items: | | | |
| – (loss)/gain on disposal of other businesses | **(2)** | 4 | – |
| – gain/(loss) on disposal of Parsons Brinckerhoff | **4** | (2) | 234 |
| – goodwill impairment in respect of Rail Italy | **–** | (20) | (24) |
| – impairment of assets within Rail Italy | **–** | – | (2) |
| – restructuring charges in respect of discontinued businesses | **–** | – | (1) |
| Total other non-underlying items from discontinued operations | **2** | (18) | 207 |
| **Credited to/(charged against) (loss)/profit before taxation from discontinued operations** | **2** | (23) | 199 |
| **7.2.3** Tax on items above | **–** | 8 | 19 |
| **Non-underlying items (charged against)/credited to (loss)/profit for the period from discontinued operations** | **2** | (15) | 218 |
| **Charged against (loss)/profit for the period** | **(15)** | (80) | (5) |

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations.
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items.
[5] Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).

## 7 Non–underlying items continued

### Continuing operations

**7.1.1** Rail Germany was reclassified from discontinued operations in the second half of 2014 and its results have been presented as part of the Group's non-underlying items within continuing operations. This is because Rail Germany no longer met the definition of discontinued operations at 31 December 2014 under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, however the Group remains committed to exiting the business. In the first half of 2015, Rail Germany generated a loss before tax excluding share of joint ventures and associates of £2m (2014: first half £12m, full-year £23m).

**7.1.2** The Group has presented the results of certain external legacy Engineering Services (ES) contracts as non-underlying. This is because the performance of these ES contracts is linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work due to the problematic delivery of these contracts and the size and nature of the losses are exceptional to the extent that they distort the underlying performance of the Group. These contracts resulted in a loss before tax for the Group of £1m in the first half of 2015 (2014: first half £33m, full-year £88m). No tax credit has been recognised on this loss (2014: first half £5m credit, full-year £nil).

**7.1.3** The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £3m (2014: first half £3m, full-year £6m); customer relationships £1m (2014: first half £2m, full-year £4m); and brand names £1m (2014: first half £nil, full-year £1m).

**7.1.4.1** The Group launched its Build to Last transformation programme in February 2015. The transformation programme is aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies.

As a result of this programme, in the first half of 2015 restructuring costs of £12m were incurred relating to: Construction Services UK £7m; Support Services UK £2m; and other UK entities £3m. These restructuring costs comprise: redundancy costs £6m; external advisers £1m; and property related costs £5m.

**7.1.4.2** In the first half of 2015, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £5m (2014: first half £6m, full-year £14m).

**7.1.4.3** In the first half of 2015, following the disposal of Parsons Brinckerhoff on 31 October 2014, the Group incurred £4m of costs relating to restructuring the continuing operations of Heery Inc. which was previously reliant on Parsons Brinckerhoff for its back office functions.

In the first half of 2015 other restructuring costs of £7m were also incurred (2014: first half £6m, full-year £23m) relating to: Construction Services UK £1m (2014: first half £nil, full-year £11m); other UK entities £2m (2014: first half £2m, full-year £3m); and other non-UK entities £4m (2014: first half £4m, full-year £9m).

The total first half 2015 restructuring costs comprise: redundancy costs £3m (2014: first half £3m, full-year £13m); external advisers £3m (2014: first half £2m, full-year £5m); other property related costs £nil (2014: first half £nil, full-year £1m); and other restructuring costs £5m (2014: first half £1m, full-year £4m).

**7.1.4.4** On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Limited for a cash consideration of £17m, resulting in a £15m gain in the first half of 2015. Refer to Note 19.2.6.

**7.1.4.5** In the first half of 2015, a settlement gain of £1m (2014: first half £nil, full-year £2m) was recognised in relation to the Balfour Beatty Pension Fund following the continuation of a commutation exercise commenced in 2014.

**7.1.4.6** In 2014, an assessment of the carrying value of assets within Rail Germany was carried out, which resulted in an impairment of £10m in the first half of the year and a further £20m in the second half of the year.

## 7 Non–underlying items continued

### Continuing operations continued

**7.1.4.7** In the second half of 2014, Rail Germany booked costs of £6m in relation to allegations of historical anti-competitive behaviour occurring in Schreck-Mieves GmbH, a company acquired by Balfour Beatty in 2008.

**7.1.4.8** In the second half of 2014, costs of £7m were incurred in relation to the aborted merger discussions with Carillion plc.

**7.1.4.9** In the second half of 2014, an impairment charge of £21m was recorded to write down the cost capitalised in relation to the Oracle R12 software within intangible assets.

**7.1.4.10** Blackpool Airport Ltd went into creditors' voluntary liquidation on 16 October 2014 which resulted in costs of £1m in the second half of 2014.

**7.1.5** In the first half of 2014, a goodwill impairment charge of £1m was recognised in relation to one of the Group's investments in a joint venture in the Middle East.

**7.1.6** In the second half of 2014, joint ventures and associates within Rail Germany generated a loss of £1m for the Group.

**7.1.7** The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £3m comprising: £2m credit on amortisation of acquired intangible assets and £1m credit on other non-underlying items (2014: first half £8m credit comprising: £5m credit on results of certain legacy ES contracts; £nil on the results of Rail Germany; £3m credit on amortisation of acquired intangible assets and £nil on other non-underlying items, full-year £1m tax credit comprising: £4m charge on the results of Rail Germany; £4m credit on amortisation of acquired intangible assets and £1m credit on other non-underlying items).

### Discontinued operations

**7.2.1** The amortisation of acquired intangible assets from discontinued operations comprises: customer contracts £nil (2014: first half £nil, full-year £1m); customer relationships £nil (2014: first half £2m, full-year £2m); and brand names £nil (2014: first half £3m, full-year £5m).

**7.2.2.1** On 11 March 2015, as part of the ongoing process to exit the Mainland European rail business, the Group disposed of Rail Italy for a cash consideration of £5m, resulting in a £3m loss being recognised in the period. Refer to Note 19.2.3. In addition, the Group received a refund of £1m from pension contributions made in previous years in relation to Balfour Beatty WorkPlace, which was the Group's UK facilities management business disposed in 2013.

**7.2.2.2** On 31 October 2014, the Group disposed of its 100% interest in Parsons Brinckerhoff, resulting in a gain on disposal of £234m. In the first half of 2015, the Group finalised the cash consideration due on the disposal of PB, amounting to an additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. Offsetting this net gain of £9m within non-underlying items are separation costs of £5m which are being incurred in the year in relation to separation activities to fully separate the remainder of the Group and PB. Refer to Note 19.2.7.

**7.2.2.3** Rail Italy met the criteria to be classified as held for sale at 27 June 2014. Rail Italy was carried at the lower of cost and net realisable value which resulted in a goodwill impairment of £24m in 2014, of which £20m arose in the first half and £4m arose after its transfer to assets held for sale.

**7.2.2.4** In the second half of 2014, an assessment of the carrying value of assets within Rail Italy was carried out in the year which resulted in an impairment of £2m.

### 7 Non–underlying items continued

### Discontinued operations continued

**7.2.2.5** In the second half of 2014, restructuring costs of £1m were incurred in respect of discontinued businesses relating to Rail Italy. These fully relate to redundancy costs.

**7.2.3** The non-underlying items charged against profit from discontinued operations gave rise to a tax credit of £nil comprising: £nil on amortisation of acquired intangible assets (2014: first half £nil, full-year £2m) and £nil on other non-underlying items (2014: first half £8m, full-year £17m).

### 8 Taxation – continuing operations

| | **Underlying items 2015 first half unaudited[1] £m** | **Non-underlying items (Note 7) 2015 first half unaudited[1] £m** | **Total 2015 first half unaudited £m** | 2014 first half unaudited[2,3] £m | 2014 year audited £m |
|---|---|---|---|---|---|
| Total UK tax | **10** | **–** | **10** | (17) | (15) |
| Total non-UK tax | **(6)** | **(3)** | **(9)** | 2 | 12 |
| **Total tax charge/(credit) from continuing operations[x]** | **4** | **(3)** | **1** | (15) | (3) |
| | | | | | |
| UK current tax | **–** | **–** | **–** | (8) | (13) |
| Non-UK current tax | **1** | **–** | **1** | (4) | (14) |
| Total current tax | **1** | **–** | **1** | (12) | (27) |
| UK deferred tax | **10** | **–** | **10** | (9) | (2) |
| Non-UK deferred tax | **(7)** | **(3)** | **(10)** | 6 | 26 |
| Total deferred tax | **3** | **(3)** | **–** | (3) | 24 |
| **Total tax charge/(credit) from continuing operations[x]** | **4** | **(3)** | **1** | (15) | (3) |

[x] Excluding joint ventures and associates.
[1] Before non-underlying items (Note 7).
[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).

In addition to the Group tax charge above, tax of £50m is credited (2014: first half £13m charge, full-year £77m charge) directly to other comprehensive income, comprising: a deferred tax credit of £26m in respect of actuarial losses on retirement benefits (2014: first half £5m charge, full-year £54m charge) and a deferred tax credit in respect of joint ventures and associates of £24m (2014: first half £8m charge, full-year £23m charge).

On 8 July 2015, the Chancellor announced that the rate of corporation tax will decrease to 19% from 1 April 2017 and to 18% from 1 April 2020. As these tax rates were not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period.

The future rate change to 18% is estimated to give rise to a reduction in the Group's net deferred tax asset of £8m during the second half of the year, with £5m being charged to the income statement and £3m being charged to reserves. The actual impact will be dependent on the Group's deferred tax position at that time.

## 9 Discontinued operations

### Rail disposal group

Following a strategic review in light of low activity levels and the commoditisation of work, the Group decided to divest all of its Mainland European rail businesses over time. The Group has been actively marketing its Mainland European rail businesses and accordingly, when it was probable that these businesses would be sold within a year and met the criteria to be classified as an asset held for sale, or were sold or abandoned, they would form part of the Rail disposal group and be disclosed as discontinued operations.

To be classified as a discontinued operation, the businesses must represent a separate major line of business or geographical area of operation. Other than the Mainland European rail businesses there were no significant Group operations in Mainland Europe and therefore by exiting these businesses, the Group was exiting from a separate major geographical operation and met the criteria to classify these businesses as discontinued operations.

On 8 January 2014 the Group disposed of Rail Scandinavia for a cash consideration of £2m. The disposal resulted in a £nil gain being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed, including cash disposed of £9m, a £1m gain on recycling currency translation reserves to the income statement, and costs incurred and indemnity provisions of £1m.

On 27 June 2014, following progression of talks with potential purchasers, it became highly probable that Rail Italy would be disposed within a year and met the criteria to be classified as a discontinued operation and held for sale. A £24m goodwill impairment charge was recognised in the year as a non-underlying item. Refer to Note 7.2.2.3. On 11 March 2015, the Group completed the sale of Rail Italy for a cash consideration of £5m. Refer to Note 19.2.3.

Rail Germany was reclassified from discontinued operations in the second half of 2014 and is now being presented as part of the Group's non-underlying items within continuing operations. The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. When initially classified as a discontinued operation in 2013 the German business was being marketed to be sold as an entire unit. Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014 and completed in January 2015. As a result, Rail Germany did not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation at 31 December 2014 and the comparative information for the half-year ended 27 June 2014 has been restated accordingly. The parts of Rail Germany, which were subsequently sold to in January 2015, have been included as part of the Group's assets and liabilities held for sale.

There are no remaining operations within the Rail disposal group classified as discontinued operations or held for sale at 26 June 2015.

The Rail disposal group was part of the Construction Services segment.

## 9 Discontinued operations continued

### Parsons Brinckerhoff

On 28 October 2014 shareholder approval was granted for the disposal of the Group's 100% interest in Parsons Brinckerhoff (PB). The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m with the proceeds being received on that day. The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations in 2014. In the first half of 2015, the Group finalised the cash consideration due on the disposal of PB, amounting to an additional consideration for the Group of £16m. Refer to Notes 7.2.2.2 and 19.2.7.

Parsons Brinckerhoff represented the majority of the Group's Professional Services segment.

### Results of the discontinued operations included within the Condensed Group Income Statement

| | **Rail disposal group 2015 first half unaudited £m** | Parsons Brinckerhoff 2014 first half unaudited[2] £m | Rail disposal group 2014 first half unaudited[3] £m | Total discontinued operations 2014 first half unaudited[2,3] £m | Parsons Brinckerhoff 2014 year audited £m | Rail disposal group 2014 year audited £m | Total discontinued operations 2014 year audited £m |
|---|---|---|---|---|---|---|---|
| **Revenue including share of joint ventures and associates** | **1** | 744 | 9 | 753 | 1,266 | 23 | 1,289 |
| Share of revenue of joint ventures and associates | **–** | (7) | – | (7) | (13) | – | (13) |
| **Group revenue** | **1** | 737 | 9 | 746 | 1,253 | 23 | 1,276 |
| **Underlying group operating (loss)/profit** | **(1)** | 25 | (1) | 24 | 38 | 1 | 39 |
| Share of results of joint ventures and associates | **–** | – | – | – | – | – | – |
| **Underlying (loss)/profit from operations** | **(1)** | 25 | (1) | 24 | 38 | 1 | 39 |
| Net finance costs | **–** | (1) | – | (1) | – | – | – |
| **Underlying (loss)/profit before tax** | **(1)** | 24 | (1) | 23 | 38 | 1 | 39 |
| Taxation on underlying (loss)/profit | **–** | (7) | (1) | (8) | (14) | (1) | (15) |
| **Underlying (loss)/profit after tax** | **(1)** | 17 | (2) | 15 | 24 | – | 24 |
| Non-underlying items: | | | | | | | |
| – amortisation of acquired intangible assets | **–** | (5) | – | (5) | (8) | – | (8) |
| – net gain on disposal of businesses | **2+** | – | 1 | 4^ | 234 | – | 234 |
| – other non-underlying items | **–** | (2) | (20) | (22) | – | (27) | (27) |
| | **2** | (7) | (19) | (23)^ | 226 | (27) | 199 |
| Taxation on non-underlying items | **–** | 2 | 6 | 8 | 13 | 6 | 19 |
| **Non-underlying profit/(loss) after tax** | **2** | (5) | (13) | (15)^ | 239 | (21) | 218 |
| **Profit/(loss) for the period from discontinued operations** | **1** | 12 | (15) | –^ | 263 | (21) | 242 |

^ Includes £3m gain relating to UK facilities management.

+ Includes £4m gain relating to Parsons Brinckerhoff (refer to Note 19.2.7) and £1m gain relating to UK facilities management (Note 19.2.8).

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation.

[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).

## 9 Discontinued operations continued

### Major classes of assets and liabilities included within net assets held for sale

There are no remaining assets or liabilities held for sale within the Rail disposal group as at 26 June 2015.

At 27 June 2014, assets and liabilities held for sale include Rail Germany and Rail Italy. At 31 December 2014, assets and liabilities held for sale include Rail Italy and the parts of Rail Germany which were sold in January 2015. Refer to Notes 19.2.1 and 19.2.3.

| | Rail disposal group 2014 first half unaudited £m | Rail disposal group 2014 year audited £m |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets – goodwill | 4 | – |
| Intangible assets – other | 1 | – |
| Property, plant and equipment | 27 | – |
| Investments in joint ventures and associates | 7 | – |
| Deferred tax assets | – | 1 |
| | 39 | 1 |
| **Current assets** | | |
| Inventories and non-construction work in progress | 13 | 2 |
| Due from construction contract customers | 67 | 14 |
| Trade and other receivables | 61 | 24 |
| Current tax assets | 1 | 1 |
| Cash | 24 | 18 |
| | 166 | 59 |
| **Total assets classified as held for sale** | 205 | 60 |
| **Current liabilities** | | |
| Due to construction contract customers | (30) | (1) |
| Trade and other payables | (109) | (39) |
| Provisions | (8) | (2) |
| Borrowings | – | (3) |
| Current tax liabilities | (3) | – |
| | (150) | (45) |
| **Non-current liabilities** | | |
| Trade and other payables | (3) | – |
| Provisions | – | – |
| Borrowings | (1) | – |
| Retirement benefit liabilities | (23) | (2) |
| Deferred tax liabilities | (2) | – |
| | (29) | (2) |
| **Total liabilities classified as held for sale** | (179) | (47) |
| **Net assets of disposal group** | 26 | 13 |

Included within the Group's cash flows for the period ended 26 June 2015 are: net £1m operating cash outflows (2014: first half £1m, full-year £1m); net £nil investing cash inflows (2014: first half £nil, full-year £9m outflows) and £2m of foreign exchange movement relating to the Rail disposal group.

Included within the Group's cash flows for the period ended 26 June 2015 are: net £nil operating cash outflows (2014: first half £18m, full-year £43m); net £8m investing cash inflows (2014: first half £110m outflows, full-year £703m inflows); and net £nil financing cash outflows (2014: first half £1m, full-year £1m) relating to Parsons Brinckerhoff.

Included within the Group's cash flows for the period ended 26 June 2015 are: net £1m investing cash inflows (2014: first half £nil, full-year £14m outflows) relating to the UK facilities management disposal group.

## 10 Earnings per ordinary share

| Earnings | 2015 first half unaudited Basic £m | Diluted £m | 2014 first half unaudited[2,3,4,5] Basic £m | Diluted £m | 2014 year audited Basic £m | Diluted £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Loss | **(151)** | **(151)** | (43) | (43) | (302) | (302) |
| Amortisation of acquired intangible assets net of tax | **3** | **3** | 3 | 3 | 7 | 7 |
| Other non-underlying items net of tax | **14** | **14** | 62 | 62 | 216 | 216 |
| Underlying (loss)/earnings | **(134)** | **(134)** | 22 | 22 | (79) | (79) |
| **Discontinued operations** | | | | | | |
| Earnings | **1** | **1** | – | – | 242 | 242 |
| Amortisation of acquired intangible assets net of tax | **–** | **–** | 3 | 3 | 6 | 6 |
| Other non-underlying items net of tax | **(2)** | **(2)** | 12 | 12 | (224) | (224) |
| Underlying (loss)/earnings | **(1)** | **(1)** | 15 | 15 | 24 | 24 |
| **Total operations** | | | | | | |
| Loss | **(150)** | **(150)** | (43) | (43) | (60) | (60) |
| Amortisation of acquired intangible assets net of tax | **3** | **3** | 6 | 6 | 13 | 13 |
| Other non-underlying items net of tax | **12** | **12** | 74 | 74 | (8) | (8) |
| Underlying (loss)/earnings | **(135)** | **(135)** | 37 | 37 | (55) | (55) |

| | Basic m | Diluted m | Basic m | Diluted m | Basic m | Diluted m |
|---|---|---|---|---|---|---|
| Weighted average number of ordinary shares | **687** | **687** | 686 | 687 | 686 | 686 |

| Earnings per share | Basic pence | Diluted pence | Basic pence | Diluted pence | Basic pence | Diluted pence |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Loss per ordinary share | **(22.0)** | **(22.0)** | (6.2) | (6.2) | (43.9) | (43.9) |
| Amortisation of acquired intangible assets net of tax | **0.5** | **0.5** | 0.5 | 0.5 | 1.1 | 1.1 |
| Other non-underlying items net of tax | **2.1** | **2.1** | 8.9 | 8.9 | 31.3 | 31.3 |
| Underlying (loss)/earnings per ordinary share | **(19.4)** | **(19.4)** | 3.2 | 3.2 | (11.5) | (11.5) |
| **Discontinued operations** | | | | | | |
| Earnings per ordinary share | **0.1** | **0.1** | – | – | 35.3 | 35.3 |
| Amortisation of acquired intangible assets net of tax | **–** | **–** | 0.5 | 0.5 | 0.8 | 0.8 |
| Other non-underlying items net of tax | **(0.2)** | **(0.2)** | 1.7 | 1.7 | (32.6) | (32.6) |
| Underlying (loss)/earnings per ordinary share | **(0.1)** | **(0.1)** | 2.2 | 2.2 | 3.5 | 3.5 |
| **Total operations** | | | | | | |
| Loss per ordinary share | **(21.9)** | **(21.9)** | (6.2) | (6.2) | (8.6) | (8.6) |
| Amortisation of acquired intangible assets net of tax | **0.5** | **0.5** | 1.0 | 1.0 | 1.9 | 1.9 |
| Other non-underlying items net of tax | **1.9** | **1.9** | 10.6 | 10.6 | (1.3) | (1.3) |
| Underlying (loss)/earnings per ordinary share | **(19.5)** | **(19.5)** | 5.4 | 5.4 | (8.0) | (8.0) |

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).
[4] Re-presented to show the results of certain legacy Engineering Services contracts as non-underlying items (Note 7).
[5] Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).

## 11 Dividends on ordinary shares

| | **2015 first half unaudited** | | 2014 first half unaudited | | 2014 year audited | |
|---|---|---|---|---|---|---|
| | **Per share pence** | **Amount £m** | Per share pence | Amount £m | Per share pence | Amount £m |
| **Proposed dividends for the period** | | | | | | |
| Interim 2014 | **–** | **–** | 5.6 | 38 | 5.6 | 38 |
| Final 2014 | **–** | **–** | – | – | – | – |
| Interim 2015 | **–** | **–** | – | – | – | – |
| | **–** | **–** | 5.6 | 38 | 5.6 | 38 |
| **Recognised dividends for the period** | | | | | | |
| Final 2013 | | **–** | | 58 | | 58 |
| Interim 2014 | | **–** | | – | | 38 |
| Final 2014 | | **–** | | – | | – |
| | | **–** | | 58 | | 96 |

Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending an interim dividend payable for 2015. The Board will look to reinstate the dividend in March 2016, at an appropriate level.

| | **2015 first half unaudited £m** | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| Dividends on ordinary shares of the Company | **–** | 58 | 96 |
| Other dividends to non-controlling interests | **–** | – | – |
| Total recognised dividends for the period | **–** | 58 | 96 |

## 12 Intangible assets – goodwill

| | Cost £m | Accumulated impairment losses £m | Carrying amount £m |
|---|---|---|---|
| At 1 January 2014 audited | 1,091 | (43) | 1,048 |
| Currency translation differences | (21) | 2 | (19) |
| Impairment charges in respect of Mainland European rail businesses (Note 7) | – | (20) | (20) |
| Reclassified to assets held for sale relating to Rail Italy | (24) | 20 | (4) |
| At 27 June 2014 unaudited | 1,046 | (41) | 1,005 |
| Currency translation differences | 45 | 3 | 48 |
| Reclassified from assets held for sale relating to Rail Germany | 113 | (113) | – |
| Reclassified to assets held for sale and subsequently sold | (227) | – | (227) |
| At 31 December 2014 audited | 977 | (151) | 826 |
| Currency translation differences | **(13)** | **11** | **(2)** |
| At 26 June 2015 unaudited | **964** | **(140)** | **824** |

The Group has conducted a full impairment assessment on the cash generating units within Construction Services as at 26 June 2015, following contract performance deteriorations in both the UK and US construction businesses in the first half of 2015.

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the discount rate and the long-term growth rate.

In light of the significant losses incurred within Construction Services UK in the first half of 2015 and 2014 full-year, the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in that CGU and concluded that it would not. The stabilisation and recovery of Construction Services UK to more normal levels of performance is however a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

Using a pre-tax discount rate of 14.1% and revenue growth rate of 3.25% the recoverable amount of the remaining goodwill in Balfour Beatty Construction Group Inc. is £369m based on value in use, with consequent headroom of £14m. A 1.0% increase in the discount rate and a 1.0% reduction in the growth rate would lead to an impairment of £52m.

A full detailed impairment review will be conducted at 31 December 2015.

## 13 Trade and other receivables

| | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| **Current** | | | |
| Trade receivables | **540** | 884 | 583 |
| Less: provision for impairment of trade receivables | **(21)** | (25) | (26) |
| | **519** | 859 | 557 |
| Other receivables | **43** | 83 | 56 |
| Due from joint ventures and associates | **36** | 31 | 33 |
| Due from joint operations | **19** | 6 | 29 |
| Contract retentions receivable+ | **217** | 190 | 210 |
| Accrued income | **47** | 30 | 39 |
| Prepayments | **60** | 65 | 42 |
| Due on acquisitions | **–** | 15 | – |
| Due on disposals | **–** | 56 | – |
| | **941** | 1,335 | 966 |
| **Non-current** | | | |
| Trade receivables | **2** | 2 | – |
| Other receivables | **2** | 6 | 7 |
| Due from joint ventures and associates | **17** | 11 | 16 |
| Due from joint operations | **3** | 103 | 4 |
| Contract retentions receivable+ | **78** | 1 | 84 |
| Prepayments | **6** | – | – |
| | **108** | 123 | 111 |
| Total trade and other receivables | **1,049** | 1,458 | 1,077 |
| | | | |
| **Comprising** | | | |
| Financial assets | **983** | 1,393 | 1,035 |
| Non-financial assets – prepayments | **66** | 65 | 42 |
| | **1,049** | 1,458 | 1,077 |

+ Including £292m (2014: first half £290m, full-year £291m) construction contract retentions receivable.

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Directors believe no further credit risk provision is required in respect of trade receivables.

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. The fair value of non-current trade and other receivables amounts to £101m (2014: first half £117m, full-year £107m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

## 14 Trade and other payables

| | **2015 first half unaudited £m** | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| **Current** | | | |
| Trade and other payables | **1,005** | 974 | 905 |
| Accruals | **836** | 988 | 961 |
| Deferred income | **12** | 9 | 5 |
| Advance payments on contracts* | **5** | 11 | 1 |
| VAT, payroll taxes and social security | **85** | 80 | 79 |
| Dividends on preference shares | **5** | 5 | 5 |
| Dividends on ordinary shares | **–** | 58 | – |
| Due to joint ventures and associates | **18** | – | – |
| Due on acquisitions | **3** | 3 | 3 |
| | **1,969** | 2,128 | 1,959 |
| **Non-current** | | | |
| Trade and other payables | **66** | 103 | 65 |
| Accruals | **17** | 32 | 24 |
| Deferred income | **2** | 1 | 3 |
| Due to joint ventures and associates | **11** | 27 | 27 |
| Due on acquisitions | **13** | 14 | 15 |
| | **109** | 177 | 134 |
| Total trade and other payables | **2,078** | 2,305 | 2,093 |
| | | | |
| **Comprising** | | | |
| Financial liabilities | **1,975** | 2,156 | 1,972 |
| Non-financial liabilities | **103** | 149 | 121 |
| | **2,078** | 2,305 | 2,093 |

* Including £nil (2014: first half £8m; full-year £nil) advances on construction contracts.

The Directors consider that the carrying values of current trade and other payables approximate their fair values. The fair value of non-current financial liabilities included above amounts to £93m (2014: first half £149m, full-year £123m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

## 15 PPP financial assets

| | Schools £m | Roads £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2014 audited | 196 | 193 | 66 | 455 |
| Income recognised in the income statement | | | | |
| – interest income (Note 5) | 5 | 7 | 2 | 14 |
| Gains recognised in the statement of comprehensive income | | | | |
| – fair value movements | 4 | 7 | 2 | 13 |
| Other movements | | | | |
| – cash expenditure | – | 19 | 3 | 22 |
| – cash received | (8) | (10) | (2) | (20) |
| – disposal of interest in Knowsley | (197) | – | – | (197) |
| At 27 June 2014 unaudited | – | 216 | 71 | 287 |
| Income recognised in the income statement | | | | |
| – construction contract margin | – | 1 | – | 1 |
| – interest income (Note 5) | – | 9 | 3 | 12 |
| Gains recognised in the statement of comprehensive income | | | | |
| – fair value movements | – | 25 | 41 | 66 |
| Other movements | | | | |
| – cash expenditure | – | 20 | 190 | 210 |
| – cash received | – | (11) | (6) | (17) |
| At 31 December 2014 audited | – | 260 | 299 | 559 |
| Income recognised in the income statement | | | | |
| – construction contract margin | **–** | **1** | **–** | **1** |
| – interest income (Note 5) | **–** | **8** | **4** | **12** |
| Losses recognised in the statement of comprehensive income | | | | |
| – fair value movements | **–** | **(14)** | **(2)** | **(16)** |
| Other movements | | | | |
| – cash expenditure | **–** | **21** | **17** | **38** |
| – cash received | **–** | **(12)** | **(3)** | **(15)** |
| – disposal of interest in Thanet | **–** | **–** | **(214)** | **(214)** |
| At 26 June 2015 unaudited | **–** | **264** | **101** | **365** |

## 16 Retirement benefit liabilities

| Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes | | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|---|
| Discount rate on obligations | | **3.65** | 4.20 | 3.60 |
| Inflation rate | – RPI | **3.15** | 3.25 | 2.95 |
| | – CPI | **1.75** | 2.05 | 1.55 |
| Future increases in pensionable salary | | **1.75** | 2.05 | 1.55 |

| Amounts recognised in the Balance Sheet | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| Present value of obligations | **(3,550)** | (3,287) | (3,518) |
| Fair value of plan assets | **3,319** | 2,890 | 3,390 |
| Liability in the Balance Sheet | **(231)** | (397) | (128) |

| Analysis of liability | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| Balfour Beatty Pension Fund | **(114)** | (284) | (12) |
| Railways Pension Scheme^ | **(62)** | (39) | (58) |
| Other schemes* | **(55)** | (74) | (58) |
| Liability in the Balance Sheet | **(231)** | (397) | (128) |

* Other schemes include the Rail Germany pension scheme from the second half of 2014. This was held as a liability held for sale at 27 June 2014. Other schemes also include the Group's deferred compensation obligations for which available-for-sale investments in mutual funds of £20m (2014: first half £61m, full year £20m) are held by the Group to satisfy these obligations.

^ The valuation of the Railways Pension Scheme as at 31 December 2013 is ongoing.

| Movements in the retirement benefit liabilities for the period | | 2015 first half unaudited £m | 2014 first half unaudited[2,3] £m | 2014 year audited £m |
|---|---|---|---|---|
| At beginning of period | | (128) | (434) | (434) |
| Currency translation differences | | **3** | 1 | (1) |
| Current service cost – continuing operations | | **(4)** | (3) | (7) |
| Finance cost – continuing operations | | **(62)** | (67) | (135) |
| Interest income – continuing operations | | **60** | 59 | 119 |
| Income statement costs relating to discontinued operations | | **–** | (2) | (5) |
| Actuarial movements | – on obligations from reassessing the difference between RPI and CPI | **–** | – | 31 |
| | – on obligations from changes to other financial assumptions | **(51)** | (58) | (372) |
| | – on obligations from changes in demographic assumptions | **–** | – | 11 |
| | – on obligations from experience losses | **(2)** | (9) | (7) |
| | – on assets | **(80)** | 85 | 574 |
| Contributions from employer | – regular funding | **2** | 2 | 5 |
| | – ongoing deficit funding – continuing operations | **28** | 25 | 49 |
| Benefits paid | | **2** | 3 | 9 |
| Settlements | | **1** | – | 5 |
| Reclassified to liabilities held for sale for Rail Italy | | **–** | 1 | 1 |
| Reclassified from liabilities held for sale for Rail Germany | | **–** | – | (21) |
| Reclassified to liabilities held for sale and subsequently sold | | **–** | – | 50 |
| At end of period | | **(231)** | (397) | (128) |

[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).

### 16 Retirement benefit liabilities continued

The investment strategy of the Balfour Beatty Pension Fund (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 133 to 134 and 139 of the Annual Report and Accounts 2014.

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2013. As a result the Group agreed with effect from April 2013 to make ongoing deficit payments of £50m per annum, increasing to: £55m per annum from April 2016; £60m per annum from April 2017; and £65m per annum from April 2018 to May 2020, increasing each year by CPI (minimum 0% and capped at 5%) plus (in the period before the next actuarial valuation is agreed) 200% of any increase in the Company's dividend in excess of capped CPI. If the Company makes any one-off return of value to shareholders in excess of £200m such as a special dividend, share buy-back, capital payment or similar before the next actuarial valuation is agreed, there will be an additional increase in the deficit payment for the following year only, calculated as the regular deficit payment for that year multiplied by 75%, multiplied by the value of the one-off return of value, divided by the total of the regular dividends for the year prior to the year in which the one-off return was made. This agreement constitutes a minimum funding requirement under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Under the terms of the trust deed and subject to the agreement of the trustees (who would need to balance their responsibility to set contribution rates in accordance with the trust rules together with the interests of the beneficiaries at the time), the Group has the ability to use surplus funds, should they arise, in the defined benefit section of the BBPF to pay its contributions towards further service benefits in the defined benefit and defined contribution sections of the scheme. The Directors consider that, as the Group is permitted to assume that it would not be required to make contributions to maintain a surplus, should one arise, these further service benefits will exceed the minimum funding requirement.

In the first half of 2015, the Group continued a commutation exercise for pensioner members and dependants. This gave members the option to extinguish their benefits within the BBPF in exchange for a cash lump sum and was offered to pensioner members and dependants with benefits with a value of less than £10,000 and £18,000, respectively. The acceptance of this offer by certain members and dependants gave rise to a settlement event resulting in a decrease in liabilities of £1m in the period to 26 June 2015, which was recognised in non-underlying income. Refer to Note 7.1.4.5.

In anticipation of the disposal of Parsons Brinckerhoff (PB) and the then proposed £200m return of capital to shareholders, and following the scheme apportionment arrangement made in relation to the disposal of Balfour Beatty WorkPlace (BBW), agreement was reached on 24 September 2014 with the trustees of the BBPF for additional deficit payments of £100m in 2015, of which £15m was in respect of BBW and £85m was in respect of PB. The £15m relating to BBW is being paid to the BBPF in 2015 in agreed monthly instalments.

On 1 July 2015 the Group established a Scottish Limited Partnership (SLP) structure into which its investment in Consort Healthcare (Birmingham) Holdings Limited (Consort Birmingham), which owns the Group's 40% interest in the Birmingham Hospital PFI investment, was transferred. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in Consort Birmingham for other investments from time to time. Alongside the establishment of the SLP, definitive documents were signed which defer the payment of £85m which had been due to be paid to the BBPF in 2015 over the period to 2023, with the first payment of £4m due in 2016. Under IAS 19 the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension deficit presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis.

## 17 Share capital

During the half-year ended 26 June 2015, 4,296 (2014: first half 73,862, full-year 101,540) ordinary shares were issued following the exercise of savings-related share options and nil (2014: first half 318,840, full-year 318,840) ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £nil (2014: first half £1m, full-year £1m).

During the half-year ended 26 June 2015, 3,340,737 (2014: first half 538,075, full-year 587,707) ordinary shares were purchased for £7m (2014: first half £2m, full-year £2m) by the Group's employee discretionary trust to satisfy awards under the Balfour Beatty Performance Share Plan and the Balfour Beatty Deferred Bonus Plan.

## 18 Notes to the Condensed Statement of Cash Flows

### 18.1 Cash generated from/(used in) operations

| | Continuing operations | | | | | |
|---|---|---|---|---|---|---|
| | **Underlying items 2015 first half unaudited[1] £m** | **Non-underlying items 2015 first half unaudited £m** | **Discontinued operations 2015 first half unaudited £m** | **Total 2015 first half unaudited £m** | Total 2014 first half unaudited[2,3,5] £m | Total 2014 year audited £m |
| Loss from continuing operations | **(120)** | **(20)** | **–** | **(140)** | (43) | (281) |
| Profit from discontinued operations | **–** | **–** | **1** | **1** | 1 | 238 |
| Share of results of joint ventures and associates | **(8)** | **–** | **–** | **(8)** | (41) | (53) |
| Depreciation of property, plant and equipment | **16** | **1** | **–** | **17** | 23 | 54 |
| Amortisation of other intangible assets | **8** | **5** | **–** | **13** | 14 | 25 |
| Impairment of Oracle R12 intangible asset | **–** | **–** | **–** | **–** | – | 21 |
| Pension deficit payments – ongoing deficit funding | **(28)** | **–** | **–** | **(28)** | (25) | (49) |
| Pension fund settlement gain | **–** | **(1)** | **–** | **(1)** | – | (2) |
| Movements relating to share-based payments | **1** | **–** | **–** | **1** | 4 | 5 |
| Gain on disposals of interests in investments | **(84)** | **–** | **–** | **(84)** | (51) | (93) |
| (Profit)/loss on disposal of property, plant and equipment | **(1)** | **–** | **–** | **(1)** | 1 | (7) |
| Net gain on disposal of other businesses | **–** | **(15)** | **(2)** | **(17)** | (4) | (234) |
| Goodwill impairment in respect of Mainland European rail businesses | **–** | **–** | **–** | **–** | 20 | 24 |
| Impairment of assets in Rail Germany | **–** | **–** | **–** | **–** | 10 | 30 |
| Impairment of assets in Rail Italy | **–** | **–** | **–** | **–** | – | 2 |
| Impairment of property, plant and equipment | **–** | **–** | **–** | **–** | – | 1 |
| Other non-cash items | **–** | **–** | **–** | **–** | – | (2) |
| Operating cash flows before movements in working capital | **(216)** | **(30)** | **(1)** | **(247)** | (91) | (321) |
| Decrease/(increase) in operating working capital | **218** | **(7)** | **–** | **211** | (195) | (31) |
| Inventories and non-construction work in progress | **16** | **3** | **–** | **19** | (26) | (30) |
| Due from construction contract customers | **109** | **10** | **(1)** | **118** | (99) | (92) |
| Trade and other receivables | **16** | **21** | **5** | **42** | (130) | (43) |
| Due to construction contract customers | **47** | **(16)** | **–** | **31** | (10) | 50 |
| Trade and other payables | **13** | **(39)** | **(4)** | **(30)** | 80 | 85 |
| Provisions | **17** | **14** | **–** | **31** | (10) | (1) |
| Cash generated from/(used) in operations | **2** | **(37)** | **(1)** | **(36)** | (286) | (352) |

[1] Before non-underlying items (Note 8).
[2] Re-presented to classify Parsons Brinckerhoff as a discontinued operation (Note 9).
[3] Re-presented to include results of Rail Germany, which no longer meets the definition of a discontinued operation, as non-underlying items within continuing operations (Note 7).
[5] Restated to correct prior period error relating to the recognition of contract losses in the UK construction business (Note 1.7).

## 18 Notes to the statement of cash flows continued

### 18.2 Cash and cash equivalents

| | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| Cash and deposits | **680** | 362 | 653 |
| Term deposits | **44** | 49 | 38 |
| Bank overdrafts | **–** | (27) | (4) |
| Cash and cash equivalents, excluding cash balances within infrastructure concessions | **724** | 384 | 687 |
| Cash balances within Infrastructure concessions | **16** | 46 | 40 |
| | **740** | 430 | 727 |

### 18.3 Analysis of net borrowings

| | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| Cash and cash equivalents, excluding cash balances within infrastructure concessions | **724** | 384 | 687 |
| US private placement | **(223)** | (206) | (224) |
| Liability component of convertible bonds | **(230)** | (224) | (227) |
| Loans under committed facilities expiring in more than one year | **–** | (262) | – |
| Other short-term loans | **(10)** | (77) | (16) |
| Finance leases | **(1)** | (2) | (1) |
| | **260** | (387) | 219 |
| Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2015 and 2027 | **(343)** | (270) | (485) |
| Infrastructure concessions cash and cash equivalents | **16** | 46 | 40 |
| | **(327)** | (224) | (445) |
| Net borrowings | **(67)** | (611) | (226) |

### 18.4 Analysis of movement in net (borrowings)/cash

| | Infrastructure concessions non-recourse project finance 2015 first half unaudited £m | Other 2015 first half unaudited £m | Total 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|---|---|
| Opening net (borrowings)/cash | **(445)** | **219** | **(226)** | (420) | (420) |
| Currency translation differences | **–** | **7** | **7** | (6) | (21) |
| Net (decrease)/increase in cash and cash equivalents | **(24)** | **13** | **(11)** | (78) | 212 |
| Accretion on convertible bonds | **–** | **(3)** | **(3)** | (3) | (6) |
| Proceeds from new loans | **(33)** | **–** | **(33)** | (281) | (247) |
| Proceeds from new finance leases | **–** | **–** | **–** | – | (1) |
| Repayments of loans | **4** | **–** | **4** | 18 | 90 |
| Repayments of finance leases | **–** | **–** | **–** | – | 3 |
| Disposal of non-recourse borrowings | **177** | **–** | **177** | 163 | 163 |
| Change of loan from recourse to non-recourse | **(6)** | **6** | **–** | – | – |
| Net decrease/(increase) in cash within assets held for sale (Note 9) | **–** | **3** | **3** | (4) | 1 |
| Cash previously held within assets held for sale disposed of during the period | **–** | **15** | **15** | – | – |
| Closing net (borrowings)/cash | **(327)** | **260** | **(67)** | (611) | (226) |

### 18.5 Borrowings

During the first half of 2015, the significant movements in net borrowings within the infrastructure concessions non-recourse project finance were: a net decrease in cash of £24m (2014: first half £19m; full-year: £25m); an increase of £33m (2014: first half £19m, full-year £236m) in non-recourse loans funding the development of financial assets in infrastructure concession subsidiaries and joint ventures; and disposal of non-recourse borrowings in Thanet OFTO HoldCo Limited £177m (2014: £163m on disposal of Transform Schools (Knowsley) Holdings Limited).

During the first half of 2015, significant movements in net cash within the Group's other financing arrangements were: a net increase in cash of £13m (2014: first half £59m decrease, full-year £237m increase); a net decrease in cash within assets held for sale of £3m (2014: first half £4m increase; full-year: £1m decrease) and cash which was previously held within assets held for sale subsequently disposed of during the period of £15m (2014: first half £nil, full-year £nil).

## 19 Acquisitions and disposals

### 19.1 Acquisitions

No acquisitions were made in the first half of 2015 and in 2014.

Deferred consideration paid during the 2015 half-year in respect of acquisitions completed in earlier years was £3m.

### 19.2 Disposals

| Notes | Disposal date | Entity/business | | Percentage disposed % | Gross cash consideration £m | Net assets disposed £m | Amount recycled from reserves £m | Direct costs incurred, indemnity provisions created and fair value uplift £m | Underlying gain £m | Non-underlying gain £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **19.2.1** | 31 January 2015 | Parts of Rail Germany# | * | 100 | 5 | (5) | (1) | (1) | – | (2) |
| **19.2.2** | 16 February 2015 | Thanet OFTO HoldCo Limited# | * | 80 | 40 | (29) | 18 | – | 29 | – |
| **19.2.3** | 11 March 2015 | Rail Italy# | * | 100 | 5 | (6) | (2) | – | – | (3) |
| **19.2.4** | 12 March 2015 | Baoji BaoDeLi Electrification Limited | ^ | 25 | 4 | (1) | – | (1) | – | 2 |
| **19.2.5** | 28 April 2015 | Edinburgh Royal Infirmary | ^ | 50 | 72 | (15) | (1) | (1) | 55 | – |
| **19.2.6** | 27 May 2015 | Signalling Solutions Limited | ^ | 50 | 17 | (2) | – | – | – | 15 |
| | | | | | **143** | **(58)** | **14** | **(3)** | **84** | **12** |

* Subsidiary.
^ Joint venture.
# Total net cash consideration received on the disposal of subsidiaries during the period after deducting cash disposed and transaction costs paid, amounts to a cash outflow of £6m. During the period the Group also received net proceeds of £16m relating to the disposal of Parsons Brinckerhoff and £1m of proceeds relating to the disposal of Balfour Beatty WorkPlace. Separation costs relating to the disposal of Parsons Brinckerhoff of £8m were paid in the period. The total net cash consideration received in respect of subsidiaries amounts to £3m.

**19.2.1** On 31 January 2015, as part of the ongoing process to exit the Mainland European rail business, the Group disposed of part of its Rail business in Germany and its Rail business in Austria for a cash consideration of £5m. The disposal resulted in a £2m loss being recognised as a non-underlying item within continuing operations, comprising a £1m loss on recycling currency translation reserves to the income statement and costs of disposal of £1m. The disposal included cash disposed of £12m.

**19.2.2** On 16 February 2015, the Group disposed of a 80% interest in Thanet OFTO HoldCo Limited (TOHL) for a cash consideration of £40m. This infrastructure concession disposal resulted in a net gain of £29m being recognised within underlying operating profit comprising: a gain of £11m in respect of the investment in the subsidiary, a £13m gain in respect of revaluation reserves recycled to the income statement and a £5m gain recycled to the income statement representing the fair value uplift of the interest retained. The Group retains a 20% interest in TOHL which will be accounted for as a joint venture using the equity method. The disposal included cash disposed of £17m.

**19.2.3** On 11 March 2015, as part of the ongoing process to exit the mainland European Rail business, the Group disposed of its Rail business in Italy for a cash consideration of £5m. The disposal resulted in a £3m loss being recognised as a non-underlying item within discontinued operations, comprising a £1m loss in respect of the fair value of net assets disposed and a £2m loss on recycling currency translation reserves to the income statement. The disposal included cash disposed of £3m.

**19.2.4** On 12 March 2015, as part of the ongoing process to exit the mainland European Rail business, the Group disposed of its 25% interest in Baoji BaoDeLi Electrification Equipment Limited for a cash consideration of £4m. The disposal resulted in a £2m gain being recognised as a non-underlying item within continuing operations in respect of the investment in the joint venture, after deducting disposal costs of £1m.

## 19 Acquisitions and disposals continued

### 19.2 Disposals continued

**19.2.5** On 28 April 2015, the Group disposed of its 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Limited (Edinburgh Royal Infirmary) for a cash consideration of £72m. This infrastructure concession disposal resulted in a net gain of £55m being recognised within underlying operating profit, comprising: a gain of £57m in respect of the investment in the joint venture, a £1m loss in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

**19.2.6** On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Limited for a cash consideration of £17m. The disposal resulted in a £15m gain being recognised in non-underlying items within continuing operations in respect of the disposal of the investment in the joint venture.

**19.2.7** In the first half of 2015, the Group finalised the cash consideration due on the disposal of its professional services business, Parsons Brinckerhoff (PB), amounting to an additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. Offsetting this net gain of £9m within non-underlying items are separation costs of £5m which are being incurred in the year in relation to separation activities to fully separate the remainder of the Group and PB, resulting in an overall net gain of £4m.

**19.2.8** In the first half of 2015, the Group received a refund of £1m from pension contributions made in previous years in relation to Balfour Beatty WorkPlace, which was the Group's UK facilities management business disposed in 2013.

## 20 Contingent liabilities

The Group 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.

## 21 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £235m (2014: first half £303m, full-year £673m). 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 which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 13 and 14 respectively.

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £nil in the first half of 2015 (2014: first half £3m, full-year £7m).

## 22 Financial instruments

### PPP financial assets

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. The consequent movement in the fair value is taken to other comprehensive income.

### Investment in the Infrastructure Fund

The Group's investment in the Infrastructure Fund (the Fund) is subject to the terms and conditions of the Fund's offering documentation. The investment in the Fund is primarily valued based on the latest available financial information provided by the Fund's General Partner, which is a related party of the Group. Management reviews the details of the reported valuation obtained from the Fund and considers: (i) the valuation of the underlying investments; (ii) the value date of the net asset value (NAV) provided; (iii) cash flows (calls/distributions) since the latest value date; and (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair value information provided by the Fund's General Partner.

Where the information provided by the Fund's General Partner is not considered appropriate, management will make amendments to the NAV obtained as noted above in order to present a carrying value that more appropriately reflects the fair value of the Group's investment at the reporting date. In determining the continued appropriateness of the valuation, management reviews the valuation reports received from the Fund's General Partner. The terms of the Fund's partnership agreement require these valuation reports to be supported by an annual external valuation.

### Fair value estimation

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

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

The Group holds available-for-sale investments in mutual funds 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.

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

### 22 Financial instruments continued

| Financial instruments at fair value | 2015 first half unaudited £m | 2014 first half unaudited £m | 2014 year audited £m |
|---|---|---|---|
| **Financial assets** | | | |
| **Level 1** | | | |
| Available-for-sale mutual fund financial assets | **20** | 61 | 20 |
| **Level 2** | | | |
| Financial assets – foreign currency contracts | **1** | 1 | 2 |
| **Level 3** | | | |
| Available-for-sale PPP financial assets (Note 15) | **365** | 287 | 559 |
| Investment in the Infrastructure Fund (Note 4.3) | **33** | 10 | 20 |
| Total assets measured at fair value | **419** | 359 | 601 |
| | | | |
| **Financial liabilities** | | | |
| **Level 2** | | | |
| Financial liabilities – foreign currency contracts | **(4)** | (3) | (2) |
| Financial liabilities – infrastructure concessions interest rate swaps | **(68)** | (49) | (90) |
| Total liabilities measured at fair value | **(72)** | (52) | (92) |

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.

#### Level 3 financial assets

#### PPP financial assets

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 £15m decrease (2014: first half £14m; full-year £27m) / £15m increase (2014: first half £15m; full-year £27m) 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.

#### Investment in the Infrastructure Fund

Management has determined that an absolute shift of 15% represents a reasonably possible change in the fair value of the Group's investment in the Fund and would result in an absolute change of £5m (2014: first half £1m, full-year £3m). In arriving at this value management have considered the economic assumptions and discount rates used in the valuation of the underlying investments. Refer to Note 4.3 for a reconciliation of the movement from the opening balance to the closing balance.

At 26 June 2015, management considered that the NAV provided by the Fund's General Partner appropriately reflected the fair value of the Group's investment.

## 23 Principal risks and uncertainties

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 2014. However, the Directors' assessment of their likelihood and potential impact is an evolving and continuous process.

In the 2014 Annual Report and Accounts it was noted that performance of parts of the UK construction business had been very poor and had a material impact on Group. KPMG's independent review identified the three main causes; tendering for lump sum contracts at very low margins, inadequate contract management and commercial reporting processes and poor cost and programme forecasting.

To address these issues and refocus the Group, several key steps have been taken including the appointment of a new executive team and a refreshed Board; the launch of the transformation programme 'Build to Last' aimed at making the Group more simplified and efficient; and the introduction of a revised and more challenging Group risk management framework.

Within Build to Last there are a number of initiatives underway to increase commercial awareness across the Group and to drive the increased governance and operational controls into all of the Group's businesses to ensure project level accountability is understood and evidenced.

As part of this ongoing commercial scrutiny of the Group's businesses, contract by contract in the UK and US, more prudent judgements have been taken on contract positions compared to previous periods. This has resulted in an additional charge to the income statement in the first half of 2015 of £39m (2014: first half £nil, full-year £51m).

In addition the disposals of Rail Italy and parts of Rail Germany have been concluded, thereby simplifying and de-risking the Group's international rail operation.

The Board confirms that it is satisfied that the necessary actions, including the implementation of control enhancements, have been taken or are being taken to rectify any weaknesses or failures in the application of procedural controls.

## 24 Seasonality

The Group's activities are generally not subject to significant seasonal variation.

## 25 Events after the reporting date

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

## 26 Prior year comparisons

| Income Statement | As previously reported 2014 first half unaudited £m | Effect of Parsons Brinckerhoff 2014 first half unaudited £m | Effect of Rail Germany 2014 first half unaudited £m | Effect of certain legacy ES contracts 2014 first half unaudited £m | Effect of contract loss error 2014 first half unaudited £m | As re-presented 2014 first half unaudited £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| **Revenue including share of joint ventures and associates** | **4,851** | (744) | – | (35) | – | **4,072** |
| Share of revenue of joint ventures and associates | **(677)** | 7 | – | – | – | **(670)** |
| **Group revenue** | **4,174** | (737) | – | (35) | – | **3,402** |
| **Underlying group operating loss**[1] | **(5)** | (25) | – | 28 | (11) | **(13)** |
| Share of results of joint ventures and associates | **42** | – | – | – | – | **42** |
| **Underlying profit from operations**[1] | **37** | (25) | – | 28 | (11) | **29** |
| Investment income | **30** | – | – | – | – | **30** |
| Finance costs | **(45)** | 1 | – | – | – | **(44)** |
| **Underlying profit before taxation**[1] | **22** | (24) | – | 28 | (11) | **15** |
| Taxation on underlying profit | **5** | 7 | – | (5) | – | **7** |
| **Underlying profit for the period**[1] | **27** | (17) | – | 23 | (11) | **22** |
| Non-underlying items after tax | **(16)** | 5 | (26) | (23) | (5) | **(65)** |
| **Profit/(loss) for the period from continuing operations** | **11** | (12) | (26) | – | (16) | **(43)** |
| **Underlying (loss)/profit for the period from discontinued operations after tax**[1] | **(14)** | 17 | 12 | – | – | **15** |
| Non-underlying items from discontinued operations after tax | **(24)** | (5) | 14 | – | – | **(15)** |
| **(Loss)/profit for the period from discontinued operations** | **(38)** | 12 | 26 | – | – | – |
| **Loss for the period** | **(27)** | – | – | – | (16) | **(43)** |

[1] Before non-underlying items (Note 7).

| Earnings per share | | | | | | |
|---|---|---|---|---|---|---|
| Basic earnings/(loss) per ordinary share from continuing operations | **1.6** | (1.7) | (3.8) | – | (2.3) | **(6.2)** |
| Basic (loss)/earnings per ordinary share from discontinued operations | **(5.5)** | 1.7 | 3.8 | – | – | – |
| **Basic loss per ordinary share** | **(3.9)** | – | – | – | (2.3) | **(6.2)** |
| Diluted earnings/(loss) per ordinary share from continuing operations | **1.6** | (1.7) | (3.8) | – | (2.3) | **(6.2)** |
| Diluted (loss)/earnings per ordinary share from discontinued operations | **(5.5)** | 1.7 | 3.8 | – | – | – |
| **Diluted loss per ordinary share** | **(3.9)** | – | – | – | (2.3) | **(6.2)** |

| Statement of Comprehensive Income | | | | | | |
|---|---|---|---|---|---|---|
| **Loss for the period** | **(27)** | – | – | – | (16) | **(43)** |
| **Total comprehensive expense for the period** | **(16)** | – | – | – | (16) | **(32)** |

| Balance Sheet | | | | | | |
|---|---|---|---|---|---|---|
| Due to construction contract customers | **(342)** | – | – | – | (16) | **(358)** |
| **Net assets** | **965** | – | – | – | (16) | **949** |
| Retained profits | **(70)** | – | – | – | (16) | **(86)** |
| **Equity** | **965** | – | – | – | (16) | **949** |