Balfour Beatty

News Release

11 August 2014

BALFOUR BEATTY PLC

RESULTS FOR THE HALF-YEAR ENDED 27 JUNE 2014

Balfour Beatty, the international infrastructure group, reports its financial results for the half-year ended 27 June 2014. The Group is currently in an offer period which ends on 21 August 2014. This deadline may be extended by agreement between the parties and the consent of the Takeover Panel. The Group's income statements have been re-presented to classify the Mainland European rail business in Italy within discontinued operations.

Summary

- Overall first-half results are in line with our most recent trading update.
- Review of the Directors' Valuation of our UK PPP portfolio has been completed over the first half to take into account current market conditions. An update will be released as soon as possible.
- Competitive sale process of Parsons Brinckerhoff is well advanced. Subject to satisfying the interests of key stakeholders, it is anticipated that the Group will return up to £200 million to shareholders.
- Operational issues in our UK mechanical & electrical engineering business significantly impacted overall first-half financial performance. Remedial action plan and cost efficiencies are being implemented.
- Elsewhere in Construction Services the US performed strongly, with 14% revenue growth at constant currency whilst the order book remained stable. Good wins in Asia and the Middle East.
- Professional Services performance is in line with 2013, increased profitability in Support Services.
- Infrastructure Investments delivered another good performance, with disposal proceeds significantly above the Directors' Valuation.
- Underlying[2, 3] half-year pre-tax profit of £22 million (2013: £47 million) and underlying[2, 3] EPS of 3.9 pence (2013: 6.6 pence).
- Order book[2] stable at £13.0 billion, down 1% from the year end at constant currency.
- Interim dividend of 5.6 pence per ordinary share (2013: 5.6 pence per ordinary share).

(£m unless otherwise specified)		Half-year 2014	Half-year 2013[4]	Change (%)
Revenue[1,2]		4,851	4,956	(2)
Group revenue[2]		4,174	4,311	(3)
Profit from operations	- underlying[2,3]	37	54	(31)
	- reported[2]	16	3	433
Pre-tax profit/(loss)	- underlying[2,3]	22	47	(53)
	- reported[2]	1	(4)	(125)
Profit/(loss) for the period	- underlying[3]	13	29	(55)
	- reported	(27)	(59)	(54)
Earnings per share	- underlying[2,3]	3.9p	6.6p	(41)
Loss per share - basic (total Group)		(3.9)p	(8.6)p	(55)
Dividends per share		5.6p	5.6p	-
Financing				
- net borrowings before PPP subsidiaries (non-recourse)[5]		(364)	(173)	
- net borrowings of PPP subsidiaries (non-recourse)		(224)	(380)	

[1] including joint ventures and associates; [2] from continuing operations (see Note 9); [3] before non-underlying items (see Note 7); [4] re-presented to classify the Mainland European rail business in Italy within discontinued operations; [5] including cash in discontinued operations (see Note 9)

"Balfour Beatty's key priorities are clear; the Group is being simplified and refocused. The process for recruiting a new Group CEO is well underway. The Parsons Brinckerhoff sale process has remained competitive, and is also now well advanced. Our first-half trading and financial performance is in line with our most recent trading update. Whilst our first-half performance has been significantly impacted by recent UK Engineering Services contract write-downs, the other parts of the Group have continued to perform well. The Investments business has again demonstrated its significant value to the Group."

Steve Marshall, Executive Chairman

KEY GROUP PRIORITIES

The Board is committed to restoring shareholder value. This will be achieved by addressing a number of important priorities over the coming period. The key priorities are as follows:

- Refocus the Group in order to reduce complexity and improve the risk profile.
- Conclude the Parsons Brinckerhoff sales process at a value attractive to shareholders.
- An optimal approach to restoring value from the UK construction business including progressively returning it back to peer group margins.
- Select and recruit an outstanding CEO to drive the Group forward. This process is being actively progressed.
- Balfour Beatty will be refocused as an Anglo-American construction and specialist services group, where there is strong US market opportunity and UK margin recovery potential. The Group's over-arching investments business is value creating and synergistic. Joint ventures in the Far East and the Middle East will be retained subject to them being value accretive.
- Assess other value creation opportunities on an ongoing basis.

UPDATE ON SALE OF PARSONS BRINCKERHOFF

The Parsons Brinckerhoff sale process is proceeding in line with the Board's expectations and is well advanced with strong competitive interest being maintained. Round three bids are expected very shortly.

At the point of announcing a transaction the Board will set out the application of disposal proceeds, which will need to satisfy the interests of shareholders, debt providers and the pension fund. It is anticipated that the Group will return up to £200 million to shareholders. This can only take place after the end of the offer period.

The Board will consider the implications of the disposal on the Group dividend. This is likely to be reassessed at the year end. The Board will consider the sustainability and appropriateness of the level of ongoing dividend cover. It will take into account the characteristics of the Group once Parsons Brinckerhoff is sold, whilst maintaining a prudent approach to the Group balance sheet.

TRADING OVERVIEW

Half-year 2014	Professional Services	Construction Services[4]	Support Services	Infrastructure Investments	Corporate activities	Total[4]
Revenue[1,2] (£m)	802	3,163	615	271	-	**4,851**
Profit/(loss) from operations[2,3]	26	(69)	22	72	(14)	**37**
Net financing costs (£m)						**(15)**
Pre-tax profit[2,3] (£m)						**22**

Half-year 2013						
Revenue[1,2] (£m)	870	3,140	648	295	3	**4,956**
Profit/(loss) from operations[2,3]	26	(39)	17	63	(13)	**54**
Net financing costs (£m)						**(7)**
Pre-tax profit[2,3] (£m)						**47**

[1] including joint ventures and associates; [2] from continuing operations (see Note 9); [3] before non-underlying items (see Note 7); [4] 2013 re-presented to classify the Mainland European rail business in Italy within discontinued operations.

Unless otherwise stated, all commentary in this section is on a continuing operations basis only.

Overall trading is in line with our most recent trading update on 3 July 2014. Operational issues in the mechanical and electrical engineering (Engineering Services) parts of our UK construction business have resulted in a disappointing 2014 first-half performance for the Group as a whole.

At the end of the period the order book was £13.0 billion, down 1% in constant currency since the start of the year (down 2% at actual exchange rates). Revenue increased by 2% at constant currency (down 2% at actual exchange rates), compared with the first-half of 2013. Underlying profit from continuing operations decreased to £37 million (2013: £54 million).

The Group ended the period with a resilient balance sheet supported by a strong investments portfolio. Average net debt was higher than management expectations, predominantly due to the issues in UK construction, and higher than expected working capital in Professional Services and Support Services. Working capital and net debt were also impacted by proceeds of £55 million from first half PPP disposals being received after the period end.

- At constant currency Professional Services revenues and profitability were up 1% and 6% respectively in the period. The order book reduced in the period as a number of large awards in the Middle East in the first-half of 2013 converted to revenue.
- Construction Services order book remained in line with the year-end position with good wins in the US, Hong Kong and the Middle East. At constant currency revenue was up 6% compared with the first-half of 2013. However the profit shortfall in UK construction, the vast majority of which impacted the first-half, resulted in a significant loss for the division.
- Support Services order book was down 4% in the period with new wins in relation to AMP 6, the next water asset management regulatory cycle being more than offset by anticipated reductions in the power business. Revenue declined 5% largely due to anticipated volume reductions in the power business. Profit from operations improved by 29% in the period to £22 million.
- Infrastructure Investments had a successful first-half with a 14% improvement in profit from operations in the period. Given the strength of the secondary PPP market we have reviewed the Directors' Valuation of our UK portfolio. This has included revisions to the assumed underlying cash flows to reflect expected cost savings, an update to the macroeconomic assumptions and a change in the discount rate applied to the cash flows. An update will be provided as soon as possible.

OPERATIONAL PERFORMANCE

Professional Services

In May we announced the results of a strategic review to explore ways to simplify the Group structure and create a more focused business. The review led to a decision to evaluate options for the possible sale of Parsons Brinckerhoff. The sale process is well advanced, with completion expected by the end of the year, subject to shareholder approval.

The Professional Services order book was slightly down at £1.4 billion, since the 2013 year end position. The US order book remained flat from the year end position whereas there was good recovery in Australia. The Middle East order book declined as a number of large contracts awarded in the first half of 2013 converted to revenue. Revenue increased by 1% at constant currency to £802 million (down 8% at actual exchange rates) with stable revenues across the business.

	HY 2014	HY 2013	Actual growth (%)	Constant currency growth (%)	FY 2013
Order book[3] (£bn)	1.4	1.6	(13)	(2)	1.5
Revenue[1] (£m)	802	870	(8)	1	1,661
Profit from operations[2] (£m)	26	26	-	6	54
Margin[2] (%)	3.2	3.0			3.3

[1] *including joint ventures and associates*
[2] *before non-underlying items (see Note 7)*
[3] *2013 half-year has been restated for £110 million reallocation from Professional Services to Support Services*

In the US, where 80% of our activity is in the transportation sector, we have seen growth in first half revenues and an improvement in the order book. The US power business performed at a similar level to the first half of 2013, although performance was lower than anticipated after a number of projects were delayed into the second half. Performance of the US Federal business - which performs housing inspection services for the Federal Emergency Management Agency (FEMA) - was lower than the first half of 2013, which had included a period of extensive flooding. Performance in Canada has remained flat but we continue to see opportunities in transportation and power.

There was a good first half performance in the UK with improved profitability, particularly in the highways and rail sectors. The Middle East performed in line with our expectations with good progress being made on a number of contracts in Qatar and Saudi Arabia secured during 2013. The actions to reduce costs in Australia are taking effect. We saw reduced losses and a sequentially better Q2. During the first-half we reached financial close on the Roy Hill iron ore project. Whilst the market remains challenging we are seeing some very early signs of improvement in the pipeline for transportation and mining projects.

In April we announced the outcome of the arbitration process in relation to the previously highlighted longstanding contract dispute. Other than a small level of legal costs, this has had a nil impact on the income statement. We expect to receive net cash in excess of US$20 million, primarily from an escrow account established at the time of the Parsons Brinckerhoff acquisition, subject to final agreement with the previous owners.

Construction Services

The Construction Services results below have been presented to exclude the Mainland European rail operations in Germany, Scandinavia and Spain (classified as discontinued in 2013), and Italy (classified as discontinued in 2014) following our decision to exit these businesses.

The construction order book remained broadly in line with the previous year-end, at £7.6 billion. A reduction in the UK was offset by improvements in the rest of the world, predominantly by wins in Hong Kong. US order book remained stable, as order intake grew to offset strong revenue growth of 14% at constant exchange rates (6% at actual exchange rates).

First-half trading and financial performance of the division was in line with our most recent trading update. Revenue from continuing operations was up 6% in the period, or up 1% at actual exchange rates. Improvements in the US and the rest of the world were partially offset by a 7% reduction in the UK. The division delivered a loss from continuing operations of £69 million (2013: £39 million) for the period largely due to the previously announced ongoing operational issues experienced in Engineering Services in the UK and to a lesser extent, the UK major building projects business.

	HY 2014	HY 2013[4]	Actual growth (%)	Constant currency growth (%)	FY 2013[4]
Order book[2] (£bn)	7.6	7.9	(4)	4	7.6
Revenue[1, 2] (£m)	3,163	3,140	1	6	6,545
Profit from operations[2, 3] (£m)	(69)	(39)	(77)	(68)	19
Margin[2, 3] (%)	(2.2)	(1.2)			0.3

[1] *including joint ventures and associates*
[2] *from continuing operations (see Note 9)*
[3] *before non-underlying items (see Note 7)*
[4] *2013 re-presented to classify the Mainland European rail business in Italy within discontinued operations*

UK

As previously highlighted we are on a 12-18 month programme to restore our UK construction business to a firm footing. Whilst the legacy contract portfolio within our UK construction business is being worked through, some short-term risks will still remain. Performance in the regional business has significantly improved on last year, whilst the major infrastructure projects business trading was stable. However, as we highlighted above, our financial performance has been significantly impacted by continuing operational issues in the Engineering Services business, and to a lesser extent the UK major building projects business.

The UK order book declined by 11%, and was largely due to increased selectivity in bidding activity, and reduced order intake within the Engineering Services business. The order book in our regional and major infrastructure projects were in line with the 2013 year end position. However, across the business we have seen an improvement in the quality of new order intake, with joint venture awards such as the £160 million Sellafield nuclear facility contract, and the £184 million smart motorway upgrade scheme for the M60 and M62. Furthermore we were awarded a framework contract to deliver up to £180 million of infrastructure works at Heathrow airport. The majority of this work is yet to be recorded in the order book.

In June we were appointed preferred bidder alongside the Infrastructure Investments business for the £745m Aberdeen Western Peripheral Route project in a three way joint venture, which is expected to be recorded in the order book in the second half. In July, after the period end, our major infrastructure projects business also announced the award of the £129 million M3 Smart Motorway contract and a £35 million improvement scheme to upgrade the A21.

In Engineering Services, which represents less than 10% of UK construction revenues, we highlighted in March that the business had been impacted by adverse market conditions towards the end of 2013. These conditions have continued into 2014, and poor operational delivery issues on a number of contracts have caused the business to experience an extremely challenging six months. First-half trading and financial performance was in line with our most recent trading update. A number of factors have contributed to this deterioration, including design changes, project delays, rework and contractual disputes on a number of projects. In addition, greater selectivity in a slow market coupled with better rigour in estimating and greater discipline on tender margins has resulted in a lower order intake, and consequently lower revenue and profitability.

Since May we have appointed new leaders to the Engineering Services business to strengthen management control and project reviews. With the arrival of a new managing director in mid-August, these changes will be complete. These changes are improving transparency and introducing greater challenge and scrutiny of contract positions. The problem contracts are being stabilised, with the majority of the loss making contracts due to complete in 2014. Whilst short term risks still remain, we continue to pursue contractual entitlement. Given these issues, we have reviewed the size and geographic footprint of this business with the aim of ensuring a smaller, more focussed business. In central London, Engineering Services will only be working with Balfour Beatty Group companies, where it can influence design and add value for customers.

In the regional business (which represents over 60% of UK construction revenues), the actions we put in place during 2013 are taking effect and improving operational control and focus in the business. These changes included: strengthening of the leadership team, improvement of key disciplines such as tendering, estimating and commercial governance, and greater selectivity in our tendering opportunities. At the bid stage we are selecting larger scale contracts, particularly those comprising repeat business with customers with whom we have been able to build collaborative relationships, and gain a strong understanding of their needs. At the same time we are also reducing our exposure to the places, sectors and customers with poor quality pipelines.

We have been improving operational controls and introducing lead and lag metrics. A regional business requires a local focus, and these tools are enabling us to intervene, and place support behind our teams wherever necessary. We have undertaken significant work to ensure we are thorough in securing customer feedback, to enhance collaborative relationships with customers, and further develop the embedded supply chain knowledge needed to work locally.

The regional pipeline remains extremely active with improving market conditions. Lead indicators suggest that our strategy is working. We have seen a reduction in the proportion of live jobs at the smaller end of the market. We have also seen a steady increase in our bid margins on new orders and since the start of 2013 the bid margins in our regional business have improved by 2.8% in absolute terms. However this increase is from a low base, and will take time to feed through into profitability. Finally, as a result of stabilising and strengthening the business we have seen the number of unprofitable delivery units reduce and expect all regional delivery units (before indirect overheads) to be profitable by January 2015.

As highlighted in our Q1 IMS, the major building projects business (c.10% of UK construction revenues) experienced further cost increases of approximately £10 million and delays during the first-half. The majority of these projects are expected to complete in 2014.

Performance in our major infrastructure projects business was up on 2013 driven by good levels of activity in highways. The Major Projects business has strengthened its work winning capability, with changes to the working winning team. At the same time we have improved tender submissions through engaging earlier with our customers, and working hard on collaborative behaviours that address key client concerns. Whilst the order book remained flat since the year end, it is up 6% since this time last year. As highlighted above we will benefit from a number of new awards in the second half, which are currently Awarded But Not Contracted ('ABNC'). If we look at the total of our order book and ABNC, the level at June 2014 is up 26% on the prior year. However, given their long term nature of the awards, these will not benefit financial performance until 2016.

Across Construction Services UK our overhead and the cost improvement plans are well established, having already reduced overheads between 2011 and 2013 by over £40m. However as revenues have also declined over that period, overall overheads have remained above 6%. We continue to target further cost cutting initiatives, alongside the changes already underway. The implementation of a single ERP business data platform for the business goes live in parts of the business from Q4 this year, concluding in Q1 2015. When that is completed we will have an enhanced analytical capability, which will improve operational control and help us consolidate procurement further.

We believe our UK construction business is recovering but some short term risks remain whilst the legacy contracts are being worked through.

US

Our US construction business has performed strongly in the period with 14% revenue growth at constant currency. Order intake grew, and the visibility of future opportunities in our target sectors continues to improve.

We have worked closely with our Investments business in the period resulting in the award of two new student accommodation projects, worth US$104 million, for Texas A&M University and Tarleton State University. Furthermore, the strength of our joint offering has contributed to success in Canada with the award of the Children's and Women's Hospital redevelopment project in Vancouver.

Building on our extensive experience in military housing we have transferred knowledge and expertise to growing sectors such as multi-family housing where we were awarded US$289 million of new work.

Across the US, both government and commercial customers are increasingly seeking sustainable new buildings. By developing innovative, environmentally responsible projects, and sharing best practice, we have achieved further wins in the period.

The National Science Foundation selected us for a US$156 million contract to construct their prestigious new headquarters in Arlington, Virginia, USA. The National Science Foundation is an independent federal agency that funds research conducted by colleges and universities across the country.

The mission critical (data centres) sector made good strides with US$208 million of new orders and we continue to see strong long term growth prospects in this market.

We have won a number of significant contracts in North Carolina to develop commercial and economic infrastructure in support of its economic growth. In July, we announced a US$136 million contract to build a prestigious office building, called 300 South Tryon, in the heart of Charlotte. The 25-storey building is designed to achieve Leadership in Energy and Environmental Design (LEED) Gold certification. LEED is the internationally-recognised green building certification system established by the U.S. Green Building Council, which promotes sustainable buildings.

In May 2014, the City of Charlotte awarded our infrastructure business a US$131 million rail contract to build track and systems components to extend the city's light rail system. This award followed a US$106 million civil engineering contract in February 2014 for the same light rail system.

The Architectural Billings Index (ABI), a leading indicator for US non-residential activity, has been in positive territory for 8 out of the last 12 months. While we believe a broader market recovery is underway, it is likely to be somewhat patchy until it has been sustained over a 24 month period.

International

Outside of the UK and US construction businesses, we also operate in Southeast Asia, the Middle East, and Australia.

In Hong Kong and Singapore our construction joint venture, Gammon, has grown its order book with wins such as the new S$210 million (£100 million) Havelock Station award for Singapore's Mass Rapid Transit system. The long term nature of recent project wins and delays to a small number of existing projects mean it will take time for these to feed through into financial performance. In July Gammon won two building contracts in Hong Kong with a combined value of HK$3.91 billion (£300 million) to build a public rental housing development and a research and development office.

In the Middle East, our M&E joint venture has incurred cost overruns on a small number of building projects. The market across the region remains very difficult, and as a result we have focused our bid activity largely back on the Dubai market. The market for our construction joint venture in Dubai has continued to improve and order intake was significantly up in the first-half with wins including the Dubai Mall extension project. The outlook continues to strengthen.

Revenues in our Australian rail business were lower than anticipated, due to delays in new tender opportunities. Furthermore, we withdrew from a significant PPP tender due to the risk profile of the project. Following a review of our activities in Australia, we have now concluded that we will no longer be bidding for new rail construction contracts in the region.

Support Services

The Support Services order book has reduced by 4% since the year-end to £4.0 billion. The order book in the Water sector has significantly increased with the award of several new contracts in the first-half under the AMP6 regulatory cycle, due to commence in April 2015. These contract wins have been offset by an expected contraction of the power and transportation order books, as we continue to execute on long term contracts. Revenue for the division was down 5% on the first-half of 2013 at £615 million due to anticipated volume reductions in the power and water sectors. Underlying profit from operations increased to £22 million (HY 2013: £17 million), driven by strong performances within the transportation businesses.

	HY 2014	HY 2013	Actual growth (%)	Constant currency growth (%)	FY 2013
Order book[2,4] (£bn)	4.0	4.3	(7)	(7)	4.1
Revenue[1, 2] (£m)	615	648	(5)	(5)	1,265
Profit from operations[2, 3] (£m)	22	17	29	29	55
Margin[2, 3] (%)	3.6	2.6			4.3

[1] *including joint ventures and associates*
[2] *from continuing operations (see Note 9)*
[3] *before non-underlying items (see Note 7)*
[4] *2013 half-year has been restated for £110 million reallocation from Professional Services to Support Services*

The power business saw revenues and profitability decline as expected. The transmission sector experienced lower volumes after contracted volume targets were completed ahead of schedule in the second half of 2013, and capital replacement programmes were reduced in the first-half of 2014.

In March we were appointed to two major National Grid power infrastructure frameworks. The first is the overhead lines design and build framework, over a four year contract length with two optional two year extensions. The total work available for panel members is worth up to £2.5 billion. The second is for National Grid's onshore underground cable framework, over a four year contract length with an optional two year extension, worth up to a total of £800 million. Individual contracts are yet to be added to the order book.

In transportation, revenues from local authority work increased as we continued to mobilise the Hereford and Wiltshire contracts which started in 2013, more than offsetting revenue declines as we exited contracts in North Yorkshire and Essex. Our work for the Highways Agency continued to perform very well in the period. Revenues from our rail renewals business, which accounts for roughly 20% of the division, were higher than expected as a contract with Network Rail was extended to July before handover to the new contractor.

The Water business benefited from new contracts tendered under the AMP 6 regulatory cycles, which controls capital expenditure across the network from April 2015 through to 2020. In May we were awarded approximately £115 million of work by Anglian Water as part of their investment programme. In addition we have also won a new contract award from United Utilities valued at £125 million. We previously announced a three-way joint venture contract worth a potential £1.5 billion with Thames Water. While the 23-month early contractor involvement is in our order book, the vast majority of this work is yet to be booked.

Infrastructure Investments

Underlying profit from operations was higher at £72 million (2013: £63 million), driven by disposal gains of £51 million in the first-half (2013: £45 million) and revisions to expected lifecycle and other operating costs within the PPP investment portfolio. In line with the Group's accounting policy for PPP concession companies, as set out in the 2013 Annual Report and Accounts, movements in the fair value of PPP financial assets attributable to non-market related changes in future cash flow assumptions are recognised in the income statement. This has given rise to a fair value gain of £15 million (2013: £nil) which has been recognised within underlying profit from operations. Pre-tax profits, including net interest income, increased to £88 million (2013: £78 million).

	HY 2014	HY 2013	FY 2013
Profit from operations[1] (£m)	72	63	102
Net interest income from PPP concessions[2] (£m)	16	15	30
Pre-tax result from operations[1] (£m)	88	78	132

[1] *before non-underlying items (see Note 7)*
[2] *subordinated debt interest income and net interest income from PPP subsidiaries (see Notes 5 and 6)*

The Investments business has delivered another very strong performance in the first-half, as we continued to expand both geographically and in our existing markets. In the period we announced that we had become preferred bidder on five new projects, four of which have now reached financial close. In addition, two further projects already at the preferred bidder stage reached financial close, one being the first close of a two phase student accommodation project. We currently are appointed or remain preferred bidder on four projects.

Our UK business continued to perform well. We were appointed preferred bidder for the £745 million Aberdeen Western Peripheral Route project, as part of the Connect Roads consortium. The design, build, finance and operate contract will generate a significant amount of work for our UK construction business. Balfour Beatty will be working in joint venture to construct the project and will take sole responsibility for the management and maintenance of the road assets for 30 years once construction is complete. In June we reached financial close for the £46 million NHS Ayrshire & Arran Acute Mental Health and Community Development project, having been announced as preferred bidder in February. We will finance, design and construct the project and once complete we will operate the asset for 25 years. In May we announced delays in reaching financial close on the Thanet and Gwynt y Môr offshore transmission projects (OFTOs), but we are now making good progress, and expect to reach financial close towards the end of this year and early next year, respectively.

In North America, we reached financial close on five projects, including our first two projects in Canada. The C$350 million (£196 million) Children's and Women's Hospital redevelopment covers the design, construction, financing and facilities management for a new children's and women's acute care centre in Vancouver. The North Island Hospitals project is a 30 year PPP project which includes the financing, design, construction, and facilities management of two new acute care hospitals on Vancouver Island. In the US we reached financial close on phase one of the Texas A&M University student accommodation project valued at US$104 million, where we will earn a development fee for our participation and the US construction business will provide design and build services. We also achieved financial close on a second phase of student accommodation at Tarleton State University, valued at US$38 million, as well as close of the US Air Force ACC III military housing project valued at US$60 million. We remain preferred bidder on the University of West Florida project valued at US$500 million.

In 2014 we also continued to implement our successful PPP disposal programme. In June the disposal of the Knowsley Building Schools for the Future project and our 50% interest in the University Hospital of North Durham PPP project realised total consideration of £97 million, generating total gains on disposal of £51 million. The proceeds from these transactions exceeded the Directors' Valuation of these assets by £44 million, representing an uplift of 82%.

As a consequence of prices achieved on these and other recent disposals, we have undertaken a review of the Directors' Valuation of our UK portfolio with the intention of taking into account current market conditions. This has included a review of the assumed underlying cash flows to reflect likely cost savings, an update of the macroeconomic assumptions and a change in the discount rate applied to the cash flows. Our US portfolio has not been revalued.

The Group is in an offer period until 21 August 2014. An update will be released as soon as possible.

During the first-half Balfour Beatty Infrastructure Partners reached final close on its first fund, with total commitments of US$618 million. Balfour Beatty has a total commitment of US$110 million, which we expect to be drawn down and invested over the next three years.

Discontinued operations

Discontinued operations in 2014 comprise the Mainland European rail operations in Germany (classified as discontinued in 2013) and Italy (classified as discontinued in 2014) following our decision to exit these businesses. The 2013 comparatives also include the Spanish and Scandinavian rail operations and the UK facilities management businesses which were classified as discontinued in 2013.

	HY 2014	HY 2013[3]	FY 2013[3]
Order book (£bn)	0.4	2.2	0.6
Revenue[1] (£m)	127	470	894
Loss from operations[2] (£m)	(12)	(11)	(5)
Margin[2] (%)	(9.4)	(2.3)	(0.6)

[1] *including joint ventures and associates*
[2] *before non-underlying items (see Note 7)*
[3] *2013 re-presented to classify the Mainland European rail business in Italy within discontinued operations*

Discussions in respect of the sale of the German rail business (which was classified as discontinued in 2013) remain ongoing with a number of potential buyers. Whilst the business has performed ahead of last year, it has delivered an underlying loss from operations of £12 million (2013: loss of £20 million) principally due to underperformance on previously highlighted contracts.

We have made good progress on advancing sale discussions on our Italian rail business and as a result have classified the business in discontinued operations. The business broadly broke even in the first-half of 2014 and 2013. Having reviewed the likely sales proceeds achievable on disposal we have written down the value of goodwill within our Italian rail business to £4 million, resulting in a non-underlying and non-cash charge of £20 million.

FINANCIAL SUMMARY

Unless otherwise stated, all commentary in this section is on a continuing operations basis.

Revenue including joint ventures and associates declined 2% in the period to £4,851 million (2013: £4,956 million). Excluding the impact of currency, underlying revenue increased by 2%.

Our share of underlying post-tax profits from continuing joint ventures and associates increased to £42 million from £30 million last year, principally due to the impact of improved profitability within the PPP investments portfolio.

Underlying profit from continuing operations decreased by 31% to £37 million (2013: £54 million), including the benefit of £51 million of gains from PPP disposals up £6 million from the first-half last year. Net finance cost of £15 million was up on the prior year (2013: £7 million) due to the impact of the US private placement and unsecured convertible bonds. Underlying pre-tax profit from continuing operations therefore decreased to £22 million (2013: £47 million).

Non-underlying items

Non-underlying items from continuing operations of £21 million (2013: £51 million) before tax were charged to the income statement. This comprised amortisation of acquired intangible assets of £10 million (2013: £16 million) and other items of £11 million (2012: £35 million). The amortisation charge declined in the year as some intangible assets became fully written down. Other items included £6 million (2013: £11 million) related to further costs of implementing shared service centres in the UK and US, £4 million (2013: £23 million) related to restructuring and reorganisation costs of continuing businesses and £1 million (2013: £nil) related to a goodwill impairment charge in connection with one of the Group's investments in a joint venture in the Middle East.

Non-underlying items from discontinued operations of £30 million (2013: £54 million) before tax were charged to the income statement. This included £20 million (2013: £38 million) in respect of a goodwill impairment charge on our Mainland European rail businesses and a £10 million (2013: £nil) IFRS 5 impairment charge in respect of our German rail business.

Taxation

The underlying tax credit for continuing operations for the period of £5 million (2013: £2 million charge), excluding the Group's share of the results of joint ventures and associates, equates to an effective tax rate of 24% (2013: 12%). Adjusting to include tax in joint ventures and associates, and comparing this to pre-tax profits for the continuing Group and joint ventures and associates, the effective tax rate was 16% (2013: 15%).

Our half-year effective tax rate is impacted by the mix of profits in the period, in particular the performance of the UK construction business. Based on our expected full year profit mix, our forecast effective tax rate (excluding joint ventures) is 42% (2013: 43%).

Earnings per share

Underlying earnings per share for continuing operations were 3.9 pence (2013: 6.6 pence), which along with an underlying loss per share from discontinued operations of 2.0 pence (2013: 2.3 pence) gave an underlying earnings per share for total operations of 1.9 pence (2013: 4.3 pence).

Dividends

The Board has declared an unchanged interim dividend of 5.6 pence per ordinary share.

Balance sheet and capital structure

We look to achieve a balance between the negative working capital, liquid funds and facilities and the PPP investments portfolio. We have seen reductions in net liquid funds during the first-half of 2014, and in the levels of negative working capital. However, after taking into account our PPP investments portfolio, we have continued to maintain good balance sheet strength.

Cash flow performance

Cash used in operations of £286 million (2013: £236 million) was impacted by a working capital outflow of £211 million (excluding PPP disposal receipts of £55 million) (2013: £153 million) and pension deficit payments of £25 million (2013: £37 million). We expect an overall cash inflow in the second half of the year.

Average net borrowings in the six month period were £424 million (2013: £298 million), with the Group's net debt at 27 June 2014 at £364 million (2013: £173 million), before taking into account the consolidation of £224 million (2013: £380 million) of non-recourse net borrowings held in wholly owned PPP project companies. The average net debt was slightly higher than anticipated, predominantly due to the issues in UK construction and proceeds from first-half PPP disposals being received later than anticipated.

Working capital

Negative working capital (where payables exceed receivables) in continuing operations ended the period at £401 million (excluding PPP disposal receivables), so total negative working capital as a percentage of annualised revenue ("WCPR") at the period end was 4.8% (2013: 7.3%). The most significant component of negative working capital at £498 million relates to Construction Services, which ended the period with WCPR of 9.4% (2013: 11.6%).

Within Professional Services, working capital became more positive (where receivables exceed payables) since the 2013 year end position partly due to delayed receipts in both the Middle East and to a lesser extent the US. Negative working capital in Construction Services decreased in the same period both in the UK and the US. In the UK this was broadly as anticipated, although it was impacted further by a revenue decline in the period. The movement in the US was consistent with the recent trend being seasonally lower at the half-year and then increasing again at the full year. The Support Services working capital became more positive in the period due to the payment profile on a previously highlighted significant contract.

Banking facilities

The Group's principal committed bank facilities total £950 million and extend through to 2016. At 27 June 2014 we had £262 million drawn against our £950 million of committed bank facilities. Additional sources of funding include a US$350 million US private placement issued in March 2013 with an average coupon of 4.94% per annum over an average maturity of 9.3 years and approximately £253 million of unsecured convertible bonds due 2018 at a coupon of 1.875% per annum.

Outlook

Balfour Beatty's key priorities are clear; the Group is being simplified and refocused. The process for recruiting a new Group CEO is well underway. The Parsons Brinckerhoff sale process has remained competitive, and is also now well advanced. Our first-half trading and financial performance is in line with our most recent trading update. Whilst our first-half performance has been significantly impacted by recent UK Engineering Services contract write-downs, the other parts of the Group have continued to perform well. The Investments business has again demonstrated its significant value to the Group.

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 27 June 2014 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

S Marshall

Executive Chairman

D J Magrath

Chief Financial Officer

Analyst/investor enquiries

Anoop Kang

Balfour Beatty plc

Tel 020 7216 6913

Media enquiries

Patrick Kerr

Balfour Beatty plc

Tel 020 7963 4258

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 and no statement in the announcement should 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.

This announcement does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any securities. The making of this announcement does not constitute a recommendation regarding any securities.

Notes to editors

Balfour Beatty (www.balfourbeatty.com) is an international infrastructure group that delivers world class services essential to the development, creation and care of infrastructure assets; from finance and development, through design and project management to construction and maintenance.

Our businesses draw on more than 100 years of experience to deliver the highest levels of quality, safety and technical expertise to our clients principally in the UK and the US, with developing businesses in Australia, Canada, the Middle East, South Africa and South East Asia.

With proven expertise in delivering infrastructure critical to support communities and society today and in the future, our key market sectors focus on infrastructure – transportation (roads, rail and aviation), power and energy, water, and complex buildings (both commercial and social).

Balfour Beatty employs 40,000 people around the world.

Additional information

A presentation to analysts and investors will be made at 9:00 (UK time) via webcast. Please register by visiting http://www.balfourbeatty.com/webcast.

Alternatively you can dial in using the numbers and password below:

+44 (0) 20 3003 2666 - Standard International Access

0808 109 0700 – UK Toll Free

Password - Balfour Beatty

The financial report for the half-year ended 27 June 2014 can also be viewed on our website at www.balfourbeatty.com/results.

Publication on website

A copy of this announcement will be made available subject to certain restrictions relating to persons resident in restricted jurisdictions on Balfour Beatty's website at www.balfourbeatty.com by no later than 12 noon (London time) on 12 August 2014.

The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

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 27 June 2014 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, 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 27 June 2014 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

10 August 2014

Condensed Group Income Statement
For the half-year ended 27 June 2014

		2014 first half unaudited			2013 first half unaudited [2]			2013 year audited [2]		
	Notes	Underlying items [1] £m	Non-underlying items (Note 7) £m	Total £m	Underlying items [1] £m	Non-underlying items (Note 7) £m	Total £m	Underlying items [1] £m	Non-underlying items (Note 7) £m	Total £m
Continuing operations										
Revenue including share of joint ventures and associates		**4,851**	**–**	**4,851**	4,956	–	4,956	10,090	–	10,090
Share of revenue of joint ventures and associates	4	**(677)**	**–**	**(677)**	(645)	–	(645)	(1,373)	–	(1,373)
Group revenue		**4,174**	**–**	**4,174**	4,311	–	4,311	8,717	–	8,717
Cost of sales		**(3,827)**	**–**	**(3,827)**	(3,924)	–	(3,924)	(7,857)	–	(7,857)
Gross profit		**347**	**–**	**347**	387	–	387	860	–	860
Gain on disposals of interests in investments	19	**51**	**–**	**51**	45	–	45	82	–	82
Amortisation of acquired intangible assets		**–**	**(10)**	**(10)**	–	(16)	(16)	–	(30)	(30)
Other net operating expenses		**(403)**	**(10)**	**(413)**	(408)	(35)	(443)	(812)	(125)	(937)
Group operating (loss)/profit		**(5)**	**(20)**	**(25)**	24	(51)	(27)	130	(155)	(25)
Share of results of joint ventures and associates	4	**42**	**(1)**	**41**	30	–	30	71	–	71
Profit/(loss) from operations		**37**	**(21)**	**16**	54	(51)	3	201	(155)	46
Investment income	5	**30**	**–**	**30**	33	–	33	65	–	65
Finance costs	6	**(45)**	**–**	**(45)**	(40)	–	(40)	(81)	–	(81)
Profit/(loss) before taxation		**22**	**(21)**	**1**	47	(51)	(4)	185	(155)	30
Taxation	8	**5**	**5**	**10**	(2)	16	14	(49)	35	(14)
Profit/(loss) for the period from continuing operations		**27**	**(16)**	**11**	45	(35)	10	136	(120)	16
Loss for the period from discontinued operations	9	**(14)**	**(24)**	**(38)**	(16)	(53)	(69)	(14)	(37)	(51)
Profit/(loss) for the period		**13**	**(40)**	**(27)**	29	(88)	(59)	122	(157)	(35)
Attributable to										
Equity holders		**13**	**(40)**	**(27)**	29	(88)	(59)	122	(157)	(35)
Non-controlling interests		**–**	**–**	**–**	–	–	–	–	–	–
Profit/(loss) for the period		**13**	**(40)**	**(27)**	29	(88)	(59)	122	(157)	(35)

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

	Notes	2014 first half unaudited pence	2013 first half unaudited [2] pence	2013 year audited [2] pence
Basic earnings/(loss) per ordinary share				
– continuing operations	10	**1.6**	1.5	2.5
– discontinued operations	10	**(5.5)**	(10.1)	(7.6)
		(3.9)	(8.6)	(5.1)
Diluted earnings/(loss) per ordinary share				
– continuing operations	10	**1.6**	1.5	2.5
– discontinued operations	10	**(5.5)**	(10.1)	(7.6)
		(3.9)	(8.6)	(5.1)
Dividends per ordinary share proposed for the period	11	**5.6**	5.6	14.1

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

Condensed Group Statement of Comprehensive Income
For the half-year ended 27 June 2014

		2014 first half unaudited £m	2013 first half unaudited [3] £m	2013 year audited £m
Loss for the period		**(27)**	(59)	(35)
Other comprehensive income/(expense) for the period				
Items which will not subsequently be reclassified to the income statement				
Retirement benefit liabilities	– actuarial movements	**18**	(55)	(114)
	– tax	**(4)**	12	17
		14	(43)	(97)
Items which will subsequently be reclassified to the income statement				
Currency translation differences		**(28)**	77	(14)
Fair value revaluations	– PPP financial assets	**64**	(124)	(192)
	– cash flow hedges	**(23)**	86	120
	– available-for-sale investments in mutual funds	**1**	3	7
Recycling of revaluation reserves to the income statement on disposal [@]		**(8)**	(10)	(21)
Tax on above		**(9)**	8	20
		(3)	40	(80)
Total other comprehensive income/(expense) for the period		**11**	(3)	(177)
Total comprehensive expense for the period		**(16)**	(62)	(212)
Attributable to				
Equity holders		**(16)**	(62)	(212)
Non-controlling interests		**–**	–	–
Total comprehensive expense for the period		**(16)**	(62)	(212)

[@] Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.
[3] Re-presented to reflect the recycling of revaluation reserves to the income statement in the statement of comprehensive income instead of the statement of changes in equity.

Condensed Group Statement of Changes in Equity
For the half-year ended 27 June 2014

					Other reserves								
	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves[3] £m	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[3, 4] £m	Non-controlling interests £m	Total[3, 4] £m
At 1 January 2013 audited	344	63	25	337	17	(109)	93	21	249	18	252	3	1,313
Total comprehensive income/(expense) for the period	–	–	–	(16)	–	33	(19)	69	–	2	(131)	–	(62)
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(58)	–	(58)
Joint ventures' and associates' dividends	–	–	–	(13)	–	–	–	–	–	–	13	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	(1)	4	–	3
Reserve transfers relating to disposals of joint ventures and associates	–	–	–	14	–	–	–	–	–	–	(14)	–	–
At 28 June 2013 unaudited	344	63	25	322	17	(76)	74	90	249	19	66	3	1,196
Total comprehensive income/(expense) for the period	–	–	–	(1)	1	17	(13)	(82)	–	3	(75)	–	(150)
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(38)	(1)	(39)
Joint ventures' and associates' dividends	–	–	–	(34)	–	–	–	–	–	–	34	–	–
Issue of ordinary shares	–	1	–	–	–	–	–	–	–	–	–	–	1
Issue of convertible bonds	–	–	–	–	26	–	–	–	–	–	–	–	26
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	–	1	–	1
Reserve transfers relating to disposals of joint ventures and associates	–	–	–	(11)	–	–	–	–	–	–	11	–	–
Other transfers	–	–	(1)	2	–	3	(5)	–	–	–	1	–	–
At 31 December 2013 audited	344	64	24	278	44	(56)	56	8	249	22	–	2	1,035
Total comprehensive income/(expense) for the period	**–**	**–**	**–**	**55**	**–**	**16**	**(7)**	**(26)**	**–**	**–**	**(54)**	**–**	**(16)**
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 disposals of joint ventures and associates	**–**	**–**	**–**	**(22)**	**–**	**–**	**–**	**–**	**–**	**–**	**22**	**–**	**–**
Other transfers	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**–**
At 27 June 2014 unaudited	**344**	**65**	**23**	**297**	**44**	**(40)**	**49**	**(18)**	**249**	**20**	**(70)**	**2**	**965**

[3] Re-presented to reflect the recycling of revaluation reserves to the income statement in the statement of comprehensive income instead of the statement of changes in equity.
[4] Restated to reflect the effects of IAS 19 Employee Benefits (Revised).

Condensed Group Balance Sheet
As at 27 June 2014

		Notes	2014 first half unaudited £m	2013 first half unaudited [4, 5] £m	2013 year audited £m
Non-current assets					
Intangible assets	– goodwill	12	**1,005**	1,103	1,048
	– other		**208**	204	204
Property, plant and equipment			**213**	204	208
Investments in joint ventures and associates		4	**679**	672	666
Investments			**93**	99	95
PPP financial assets		15	**287**	537	455
Trade and other receivables		13	**123**	115	113
Deferred tax assets			**123**	136	122
			2,731	3,070	2,911
Current assets					
Inventories and non-construction work in progress			**161**	146	135
Due from construction contract clients			**721**	644	631
Trade and other receivables		13	**1,335**	1,276	1,190
PPP term deposits greater than three months			**–**	2	–
Cash and cash equivalents	– PPP subsidiaries		**46**	31	65
	– other		**411**	531	539
Current tax assets			**17**	4	8
Derivative financial instruments			**1**	3	2
			2,692	2,637	2,570
Assets held for sale		9	**205**	497	231
			2,897	3,134	2,801
Total assets			**5,628**	6,204	5,712
Current liabilities					
Due to construction contract clients			**(342)**	(361)	(360)
Trade and other payables		14	**(2,128)**	(2,242)	(2,046)
Provisions			**(93)**	(97)	(100)
Borrowings	– non-recourse loans		**(4)**	(8)	(9)
	– other		**(367)**	(489)	(170)
Current tax liabilities			**(39)**	(31)	(33)
Derivative financial instruments			**(11)**	(18)	(19)
			(2,984)	(3,246)	(2,737)
Liabilities held for sale		9	**(179)**	(343)	(219)
			(3,163)	(3,589)	(2,956)
Non-current liabilities					
Trade and other payables		14	**(177)**	(149)	(182)
Provisions			**(89)**	(109)	(93)
Borrowings	– non-recourse loans		**(266)**	(405)	(410)
	– other		**(431)**	(231)	(435)
Liability component of preference shares			**(95)**	(93)	(94)
Retirement benefit liabilities		16	**(397)**	(345)	(434)
Deferred tax liabilities			**(4)**	(5)	(18)
Derivative financial instruments			**(41)**	(82)	(55)
			(1,500)	(1,419)	(1,721)
Total liabilities			**(4,663)**	(5,008)	(4,677)
Net assets			**965**	1,196	1,035
Equity [5]					
Called-up share capital			**344**	344	344
Share premium account			**65**	63	64
Special reserve			**23**	25	24
Share of joint ventures' and associates' reserves			**297**	322	278
Other reserves [5]			**304**	373	323
Retained profits [4]			**(70)**	66	–
Equity attributable to equity holders of the parent			**963**	1,193	1,033
Non-controlling interests			**2**	3	2
Total equity			**965**	1,196	1,035

[4] Restated to reflect the effects of IAS 19 Employee Benefits (Revised).

[5] Re-presented to amalgamate the equity component of preference shares into other reserves.

Condensed Group Statement of Cash Flows
For the half-year ended 27 June 2014

	Notes	2014 first half unaudited £m	2013 first half unaudited [6, 7] £m	2013 year audited £m
Cash flows from operating activities				
Cash used in:				
- continuing operations – underlying [6]		**(240)**	(189)	(83)
– non-underlying [6]		**(25)**	(20)	(75)
- discontinued operations [6]		**(21)**	(27)	(4)
	18.1	**(286)**	(236)	(162)
Income taxes paid		**(8)**	(9)	(13)
Net cash used in operating activities		**(294)**	(245)	(175)
Cash flows from investing activities				
Dividends received from:				
- joint ventures and associates		**14**	13	47
- discontinued operations		**–**	–	1
Interest received		**16**	15	28
Acquisition of businesses	19.1	**(3)**	(14)	(14)
Purchase of:				
- intangible assets – other relating to infrastructure concessions		**(13)**	–	(20)
- intangible assets – other		**(8)**	(11)	(18)
- property, plant and equipment – relating to infrastructure concessions		**(15)**	(2)	(11)
- property, plant and equipment – other		**(25)**	(34)	(71)
- other investments		**(3)**	(10)	(12)
Investments in and loans made to joint ventures and associates		**(4)**	(17)	(51)
Loans repaid to joint ventures and associates		**1**	–	2
PPP financial assets cash expenditure [7]	15	**(22)**	(27)	(62)
PPP financial assets cash receipts [7]	15	**20**	25	59
Disposal of:				
- investments in joint ventures		**–**	81	103
- subsidiaries, net of cash and cash equivalents disposed	19.2	**20**	(7)	152
- property, plant and equipment – underlying		**3**	13	11
- property, plant and equipment – non-underlying		**–**	–	8
- other investments		**6**	13	20
Net cash (used in)/from investing activities		**(13)**	38	172
Cash flows from financing activities				
Purchase of ordinary shares		**(2)**	(2)	(2)
Proceeds from:				
- issue of ordinary shares		**1**	–	1
- convertible bonds		**–**	–	246
- US private placement	18.4	**–**	231	231
- other new loans	18.4	**281**	47	110
- finance leases		**–**	–	1
Repayment of:				
- loans	18.4	**(18)**	(9)	(408)
- finance leases		**–**	(1)	(2)
Investment in term deposits greater than three months		**–**	(2)	–
Ordinary dividends paid		**–**	–	(96)
Ordinary dividends paid – non-controlling interest		**–**	–	(1)
Interest paid		**(28)**	(30)	(56)
Preference dividends paid		**(5)**	(5)	(11)
Net cash from financing activities		**229**	229	13
Net (decrease)/increase in cash and cash equivalents		**(78)**	22	10
Effect of exchange rate changes		**(13)**	24	3
Cash and cash equivalents at beginning of period		**526**	532	532
Net increase in cash within assets held for sale	9	**(5)**	(16)	(19)
Cash and cash equivalents at end of period	18.2	**430**	562	526

[6] Re-presented to separately identify cashflows from underlying and non-underlying continuing operations and discontinued operations.

[7] Re-presented to separately identify PPP financial assets cash inflows and outflows which were previously disclosed in the Notes.

Notes to the Financial Statements

1 Accounting policies

1.1 Basis of accounting

The condensed Group financial statements for the half-year ended 27 June 2014 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 2013, 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 10 August 2014. 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 2013 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 2013 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 page 103 of the Annual Report and Accounts 2013.

In respect of the available-for-sale financial assets, in addition to judgement on discount rates, judgement is also required when assessing the non-market related cash flows within the PPP concessions.

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:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRIC 21: Levies
- Amendments to the following standards:
  - IFRS 10, IFRS 11 and IFRS 12: Transition Guidance
  - IFRS 10, IFRS 11 and IFRS 12: Investment Entities
  - IAS 27 Separate Financial Statements
  - IAS 28 Investments in Associates and Joint Ventures
  - IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

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 27 June 2014:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- Amendments to the following standards
  - IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
  - IAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortisation
  - IAS 16 and 41: Agricultural: Bearer Plants
  - IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions
  - Improvements to IFRSs (2010 – 2012)
  - Improvements to IFRSs (2011 – 2013).

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

1.6 Change in accounting estimates

In line with the Group's accounting policy for PPP concession companies, as set out on page 102 of the Annual Report and Accounts 2013, movements in the fair value of PPP financial assets attributable to non-market related changes in future cash flow assumptions are recognised in the income statement. For the period ended 27 June 2014 this has given rise to a fair value gain of £15m (2013: first half £nil, full-year £nil) which has been recognised within underlying profit from operations.

1.7 Re-presentation of comparative information

Discontinued operations

The Income Statement has been re-presented to classify Rail Italy as part of discontinued operations. Refer to Note 9.

IAS 19 Employee Benefits (Revised)

Subsequent to the 2013 half-year, as a result of adopting IAS 19 Employee Benefits (Revised), the Railway Pension Scheme liability was revalued resulting in a £5m reduction to the retirement benefit liability with deferred tax assets and opening retained profits for the 2013 first-half being restated accordingly. The 2013 year-end has not been restated nor has the 2013 half-year income statement been restated as both were restated in accordance with IAS 19 Employee Benefits (Revised) in the relevant reporting period.

Recycling of revaluation reserves

The 2013 first half Statement of Comprehensive Income and the Statement of Changes in Equity have been re-presented to disclose the recycling of the revaluation reserves in other comprehensive income. This was previously shown within the Statement of Changes in Equity.

Segmental analysis

The 2013 first half and full-year segmental analysis has been re-presented to include the net non-recourse borrowings directly attributable to Infrastructure Investments within the Infrastructure Investments segment. All other net debt is classified within Corporate activities.

2 Exchange rates

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

Average rates

£1 buys	**2014 first half unaudited**	2013 first half unaudited	2013 year audited	28 June 2013 - 27 June 2014 % change	31 Dec 2013- 27 June 2014 % change
US$	**1.67**	1.54	1.57	8.4%	6.4%
Euro	**1.22**	1.18	1.18	3.4%	3.4%

Closing rates

£1 buys	**2014 first half unaudited**	2013 first half unaudited	2013 year audited	28 June 2013 - 27 June 2014 % change	31 Dec 2013- 27 June 2014 % change
US$	**1.70**	1.52	1.65	11.8%	3.0%
Euro	**1.25**	1.17	1.20	6.8%	4.2%

3 Segment analysis

Reportable segments of the Group

- **Professional Services** – the provision of project management, architectural, design or other technical services performed by the Group as a consultant.
- **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 refurbishments.
- **Infrastructure Investments** – acquisition, operation and disposal of infrastructure assets such as PPP concessions, student accommodation and airports.

3.1 Income statement - performance by activity from continuing operations

For the half-year ended 27 June 2014 unaudited	Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates	802	3,163	615	271	–	4,851
Share of revenue of joint ventures and associates	(8)	(510)	(12)	(147)	–	(677)
Group revenue	794	2,653	603	124	–	4,174
Underlying group operating profit/(loss) [1]	26	(79)	22	40	(14)	(5)
Share of results of joint ventures and associates	–	10	–	32	–	42
Underlying profit/(loss) from operations [1]	26	(69)	22	72	(14)	37
Non-underlying items						
- amortisation of acquired intangible assets	(5)	(2)	–	(3)	–	(10)
- other non-underlying items – Group	(2)	(4)	(4)	–	–	(10)
- other non-underlying items – joint ventures and associates	–	(1)	–	–	–	(1)
Profit/(loss) from operations	19	(76)	18	69	(14)	16
Investment income						30
Finance costs						(45)
Profit before taxation						1

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

For the half-year ended 28 June 2013 unaudited	Professional Services £m	Construction Services [2] £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total [2] £m
Revenue including share of joint ventures and associates	870	3,140	648	295	3	4,956
Share of revenue of joint ventures and associates	(8)	(433)	(18)	(186)	–	(645)
Group revenue	862	2,707	630	109	3	4,311
Underlying group operating profit/(loss) [1]	26	(52)	16	47	(13)	24
Share of results of joint ventures and associates	–	13	1	16	–	30
Underlying profit/(loss) from operations [1]	26	(39)	17	63	(13)	54
Non-underlying items						
- amortisation of acquired intangible assets	(6)	(6)	–	(4)	–	(16)
- other non-underlying items	(14)	(10)	(8)	–	(3)	(35)
Profit/(loss) from operations	6	(55)	9	59	(16)	3
Investment income						33
Finance costs						(40)
Loss before taxation						(4)

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

3 Segment analysis continued
3.1 Income statement - performance by activity from continuing operations continued

For the year ended 31 December 2013 audited	Professional Services £m	Construction Services [2] £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total [2] £m
Revenue including share of joint ventures and associates	1,661	6,545	1,265	608	11	10,090
Share of revenue of joint ventures and associates	(13)	(971)	(33)	(356)	–	(1,373)
Group revenue	1,648	5,574	1,232	252	11	8,717
Underlying group operating profit/(loss) [1]	54	(18)	54	69	(29)	130
Share of results of joint ventures and associates	–	37	1	33	–	71
Underlying profit/(loss) from operations [1]	54	19	55	102	(29)	201
Non-underlying items						
- amortisation of acquired intangible assets	(13)	(10)	–	(7)	–	(30)
- other non-underlying items	(28)	(45)	(15)	–	(37)	(125)
Profit/(loss) from operations	13	(36)	40	95	(66)	46
Investment income						65
Finance costs						(81)
Profit before taxation						30

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

3.2 Assets and liabilities by activity

As at half-year ended 27 June 2014 unaudited	**Professional Services £m**	**Construction Services £m**	**Support Services £m**	**Infrastructure Investments £m**	**Corporate activities £m**	**Total £m**
Due from construction contract clients	**191**	**342**	**188**	**–**	**–**	**721**
Due to construction contract clients	**(119)**	**(193)**	**(30)**	**–**	**–**	**(342)**
Inventories and non-construction work in progress	**1**	**75**	**81**	**–**	**4**	**161**
Trade and other receivables – current	**327**	**738**	**155**	**113**	**2**	**1,335**
Trade and other payables – current	**(252)**	**(1,395)**	**(335)**	**(58)**	**(88)**	**(2,128)**
Provisions – current	**(3)**	**(65)**	**(17)**	**(2)**	**(6)**	**(93)**
Working capital *	**145**	**(498)**	**42**	**53**	**(88)**	**(346)**

* Includes non-operating items and current working capital.

Total assets	**865**	**2,390**	**559**	**1,185**	**629**	**5,628**
Total liabilities	**(481)**	**(2,192)**	**(477)**	**(444)**	**(1,069)**	**(4,663)**
Net assets/(liabilities)	**384**	**198 +**	**82**	**741**	**(440)**	**965**

+ Includes net assets held for sale of £26m relating to the Rail disposal group (Note 9).

As at half-year ended 28 June 2013 unaudited	Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments [9] £m	Corporate activities [4, 9] £m	Total [4, 8, 9] £m
Due from construction contract clients	204	305	135	–	–	644
Due to construction contract clients	(124)	(181)	(56)	–	–	(361)
Inventories and non-construction work in progress	4	71	68	–	3	146
Trade and other receivables – current	314	750	147	58	7	1,276
Trade and other payables – current	(290)	(1,508)	(300)	(46)	(98)	(2,242)
Provisions – current [8]	(6)	(67)	(10)	(1)	(13)	(97)
Working capital *	102	(630)	(16)	11	(101)	(634)

* Includes non-operating items and current working capital.
[8] Re-presented to include current provisions only in line with all other working capital balances.

Total assets	912	2,479	731	1,328	754	6,204
Total liabilities	(513)	(2,306)	(569)	(623)	(997)	(5,008)
Net assets/(liabilities)	399	173 +	162 ^	705	(243)	1,196

+ Includes net assets held for sale of £39m relating to the Rail disposal group (Note 9).
^ Includes net assets held for sale of £115m relating to the UK facilities management disposal group (Note 9).
[4] Restated to reflect the effects of IAS 19 Employee Benefits (Revised).
[9] Re-presented to include the net non-recourse borrowings directly attributable to Infrastructure Investments within the Infrastructure Investments segment rather than within Corporate activities.

3 Segment analysis continued
3.2 Assets and liabilities by activity continued

As at year ended 31 December 2013 audited	Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments [9] £m	Corporate activities [9] £m	Total £m
Due from construction contract clients	179	316	136	–	–	631
Due to construction contract clients	(115)	(192)	(53)	–	–	(360)
Inventories and non-construction work in progress	1	62	71	–	1	135
Trade and other receivables – current	303	685	142	50	10	1,190
Trade and other payables – current	(279)	(1,400)	(283)	(58)	(26)	(2,046)
Provisions – current	(4)	(58)	(10)	(2)	(26)	(100)
Working capital *	85	(587)	3	(10)	(41)	(550)

* Includes non-operating items and current working capital.

	Professional Services £m	Construction Services £m	Support Services £m	Infrastructure Investments [9] £m	Corporate activities [9] £m	Total £m
Total assets	833	2,133	486	1,278	982	5,712
Total liabilities	(499)	(2,056)	(458)	(613)	(1,051)	(4,677)
Net assets/(liabilities)	334	77 +	28	665	(69)	1,035

\+ Includes net assets held for sale of £12m relating to the Rail disposal group (Note 9).

[9] Re-presented to include the net non-recourse borrowings directly attributable to Infrastructure Investments within the Infrastructure Investments segment rather than within Corporate activities.

3.3 Other information – continuing operations

	Professional Services £m	Construction Services [2] £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total [2] £m
For the half-year ended 27 June 2014 unaudited						
Capital expenditure on property, plant and equipment	**10**	**6**	**8**	**15**	**–**	**39**
Depreciation	**6**	**7**	**8**	**1**	**1**	**23**
Gain on disposals of interests in investments	**–**	**–**	**–**	**51**	**–**	**51**
For the half-year ended 28 June 2013 unaudited						
Capital expenditure on property, plant and equipment	15	7	4	2	5	33
Depreciation	7	8	9	1	–	25
Gain on disposals of interests in investments	–	–	–	45	–	45
For the year ended 31 December 2013 audited						
Capital expenditure on property, plant and equipment	26	16	11	11	7	71
Depreciation	13	16	18	2	1	50
Gain on disposals of interests in investments	–	–	–	82	–	82

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

3.4 Revenue by geographic destination – continuing operations

	United Kingdom £m	United States £m	Rest of world [2] £m	Total [2] £m
For the half-year ended 27 June 2014 unaudited				
Revenue including share of joint ventures and associates	**2,132**	**1,944**	**775**	**4,851**
Share of revenue of joint ventures and associates	**(171)**	**(101)**	**(405)**	**(677)**
Group revenue	**1,961**	**1,843**	**370**	**4,174**
For the half-year ended 28 June 2013 unaudited				
Revenue including share of joint ventures and associates	2,286	1,936	734	4,956
Share of revenue of joint ventures and associates	(225)	(78)	(342)	(645)
Group revenue	2,061	1,858	392	4,311
For the year ended 31 December 2013 audited				
Revenue including share of joint ventures and associates	4,607	3,921	1,562	10,090
Share of revenue of joint ventures and associates	(436)	(180)	(757)	(1,373)
Group revenue	4,171	3,741	805	8,717

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

3.5 Infrastructure Investments

Underlying profit from operations [1]	Group 2014 first half unaudited £m	Share of joint ventures and associates 2014 first half unaudited + £m	Total 2014 first half unaudited £m	Group 2013 first half unaudited £m	Share of joint ventures and associates 2013 first half unaudited + £m	Total 2013 first half unaudited £m	Group 2013 Year audited £m	Share of joint ventures and associates 2013 year audited + £m	Total 2013 year audited £m
UK ^	**1**	**29**	**30**	1	12	13	2	27	29
North America	**7**	**3**	**10**	11	4	15	21	6	27
Infrastructure Fund	**(1)**	**–**	**(1)**	(2)	–	(2)	(2)	–	(2)
Infrastructure	**(1)**	**–**	**(1)**	(1)	–	(1)	(3)	–	(3)
Gain on disposals of interests in investments	**51**	**–**	**51**	45	–	45	82	–	82
	57	**32**	**89**	54	16	70	100	33	133
Bidding costs and overheads	**(17)**	**–**	**(17)**	(7)	–	(7)	(31)	–	(31)
	40	**32**	**72**	47	16	63	69	33	102

^ Including Singapore.
+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
[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	2014 first half unaudited £m	2013 first half unaudited [10] £m	2013 year audited [10] £m
Total revenue	**677**	645	1,373
Underlying profit from operations relating to:			
- equity accounted joint ventures and associates [1]	**20**	24	56
Investment income	**102**	86	166
Finance costs	**(70)**	(74)	(142)
Taxation	**(10)**	(6)	(9)
Share of underlying results of joint ventures and associates	**42**	30	71

[1] Before non-underlying items (Note 7).
[10] Re-presented to reflect the change in IFRS 11 for joint arrangements within the Group's joint ventures and associates.

4.2 Balance Sheet

		2014 first half unaudited £m	2013 first half unaudited [10] £m	2013 year audited [10] £m
Intangible assets	– goodwill	**27**	31	29
	– Infrastructure Investments intangible	**24**	19	23
	– other	**6**	1	6
Property, plant and equipment		**52**	45	51
Investments in joint ventures and associates		**4**	2	2
PPP financial assets		**2,295**	2,234	2,292
Military housing projects		**84**	75	83
Infrastructure Fund investment		**10**	9	11
Net cash/(borrowings)	– non-recourse	**(1,593)**	(1,475)	(1,599)
	– other	**189**	205	196
Other net liabilities		**(419)**	(474)	(428)
Share of net assets of joint ventures and associates		**679**	672	666

[10] Re-presented to reflect the change in IFRS 11 for joint arrangements within the Group's joint ventures and associates.

4.3 Infrastructure Fund investment

	2014 first half unaudited £m	2013 first half unaudited £m	2013 year audited £m
At beginning of period	**11**	–	–
Capital calls	**–**	9	11
Distributions received	**(1)**	–	–
At end of period	**10**	9	11

5 Investment income

Continuing operations	2014 first half unaudited £m	2013 first half unaudited [2] £m	2013 year audited [2] £m
Subordinated debt interest receivable	**13**	13	25
Interest receivable on PPP financial assets (Note 15)	**14**	16	33
Other interest receivable and similar income	**3**	4	7
	30	33	65

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

6 Finance costs

Continuing operations		2014 first half unaudited £m	2013 first half unaudited [2] £m	2013 year audited [2] £m
Non-recourse borrowings		**11**	14	28
Preference shares		**6**	6	12
Convertible bonds		**6**	–	1
US private placement		**5**	4	9
Other interest payable	– loans under committed facilities	**3**	4	9
	– other bank loans and overdrafts	**1**	1	3
	– commitment fees	**2**	1	4
	– other finance charges	**3**	4	6
Net finance cost on pension scheme assets and liabilities		**8**	6	9
		45	40	81

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

7 Non-underlying items

	2014 first half unaudited £m	2013 first half unaudited [^,+,2] £m	2013 year audited [^,+,2] £m
Operating expenses (charged against)/credited to profit			
7.1 Continuing operations			
7.1.1 Amortisation of acquired intangible assets	**(10)**	(16)	(30)
7.1.2 Other non-underlying items			
– restructuring and reorganisation costs relating to continuing businesses [^]	**(4)**	(23)	(52)
– cost of implementing shared service centres in the UK and US [+]	**(6)**	(11)	(17)
– pension curtailment charges and related costs	**–**	–	(52)
– post-acquisition integration, reorganisation and other costs	**–**	(1)	(4)
Total other non-underlying items from continuing operations	**(10)**	(35)	(125)
	(20)	(51)	(155)
7.1.3 Share of results of joint ventures and associates – goodwill impairment in respect of Middle East	**(1)**	–	–
Charged against profit before taxation from continuing operations	**(21)**	(51)	(155)
7.1.4 Tax on items above	**5**	16	35
Non-underlying items charged against profit for the period from continuing operations	**(16)**	(35)	(120)
7.2 Discontinued operations			
7.2.1 Amortisation of acquired intangible assets	**–**	(2)	(2)
7.2.2 Other non-underlying items			
– goodwill impairment in respect of Mainland European rail businesses	**(20)**	(38)	(38)
– IFRS 5 impairment charge in respect of Mainland European rail businesses	**(10)**	–	–
– restructuring charges in respect of Mainland European rail businesses	**(4)**	(6)	(6)
– UK facilities management business disposal net gain/(transaction costs)	**3**	(2)	16
– net gain/(loss) on disposals of other businesses	**1**	(4)	(5)
– Rail Germany regulatory fine	**–**	(2)	(2)
– pension curtailment charges	**–**	–	(2)
Total other non-underlying items from discontinued operations	**(30)**	(52)	(37)
Charged against profit before taxation from discontinued operations	**(30)**	(54)	(39)
7.2.3 Tax on items above	**6**	1	2
Non-underlying items charged against profit for the period from discontinued operations	**(24)**	(53)	(37)
Charged against profit for the period	**(40)**	(88)	(157)

[^] Re-presented to amalgamate restructuring and reorganisation costs relating to Australia and other continuing businesses.
[+] Re-presented to amalgamate cost of implementing shared service centres in the UK and the US.
[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

7 Non-underlying items continued

Continuing operations

7.1.1 The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £3m (2013: first half £5m, full-year £10m); customer relationships £4m (2013: first half £6m, full-year £11m); and brand names £3m (2013: first half £5m, full-year £9m).

7.1.2.1 The Group continued to implement its plan to restructure a number of its businesses in order to increase its focus on the needs of clients and upon growth sectors, further integrate its service offering to these clients, and realise operational efficiencies. In 2014 restructuring costs of £2m were incurred (2013: first half £23m, full-year £52m) relating to: Construction Services UK £nil (2013: first half £9m, full-year £14m), where six business units have been streamlined and restructured into one business with three business streams; Support Services UK £nil (2013: first half £2m, full-year £5m); other UK entities £2m (2013: first half £6m, full-year £7m); Australia £nil (2013: first half £5m, full-year £20m) and other non-UK entities £nil (2013: first half £1m, full-year £6m).

In addition, in the first half of 2014 £2m was incurred in respect of consultancy fees relating to the potential sale of Parsons Brinckerhoff (2013: first half £nil, full-year £nil).

7.1.2.2 In the first half of 2014, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £6m (2013: first half £2m, full-year £7m). In 2013, the implementation of the US shared service centre in Lancaster, Pennsylvania with the transfer of roles from New York led to costs of £9m in the first half and £10m in the full-year.

7.1.2.3 On 31 August 2013 the majority of members of the Balfour Beatty Pension Fund ceased to accrue future defined benefits and became deferred members resulting in a charge of £nil (2013: first half £nil, full-year curtailment charge of £51m with associated costs of £1m).

7.1.2.4 Post-acquisition integration and reorganisation costs of £nil (2013: first half £1m, full-year £4m) have been incurred in the first half of 2014 of which £nil (2013: first half £1m, full-year £3m) relates to Howard S. Wright post-acquisition reorganisation costs and £nil (2013: first half £nil, full-year £1m) relates to Parsons Brinckerhoff post-acquisition reorganisation costs.

7.1.3 One of the Group's investments in a joint venture in the Middle East had a carrying value of £nil at the half-year resulting in a goodwill impairment of £1m in the first half of 2014 (2013: first half £nil, full-year £nil).

7.1.4 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £5m comprising: £3m on amortisation of acquired intangible assets and £2m on other non-underlying items (2013: first half £16m comprising: £5m on amortisation of acquired intangible assets and £11m on other non-underlying items, full-year £35m comprising: £9m on amortisation of acquired intangible assets and £26m on other non-underlying items).

Discontinued operations

7.2.1 The amortisation of acquired intangible assets from discontinued operations comprises customer contracts £nil (2013: first half £1m, full-year £1m); and customer relationships £nil (2013: first half £1m, full-year £1m). Under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, intangible assets cease to be amortised from the date an entity is classified as held for sale, therefore there is no amortisation charge in 2014.

7.2.2.1 Rail Italy met the criteria to be classified as held for sale at 27 June 2014. Rail Italy is carried at the lower of cost and net realisable value which resulted in a goodwill impairment of £20m in 2014 first half. In the first half of 2013, a goodwill impairment of £38m was recognised in respect of Rail Germany. Refer to Note 9.

7.2.2.2 In the first half of 2014, as a result of the IFRS 5 requirements to cease depreciating or amortising assets once classified as assets held for sale, an IFRS 5 impairment charge of £10m was recognised relating to assets in Rail Germany which are still in use (2013: first half £nil, full-year £nil).

7.2.2.3 Restructuring costs of £4m (2013: first half £6m, full-year £6m) were incurred in respect of Mainland European rail businesses.

7.2.2.4 On 13 December 2013 the Group disposed of the UK facilities management business, Balfour Beatty WorkPlace, resulting in a net estimated gain of £16m being recognised in the second half of 2013 with preliminary transaction costs of £2m being incurred in the 2013 first half. In the first half of 2014, the final settlement resulted in a net gain of £3m. Refer to Note 19.2.

7.2.2.5 On 8 January 2014, the Group disposed of Rail Scandinavia for a net gain of £1m. Refer to Note 19.2. On 1 March 2013 the Group disposed of Rail Spain for a net loss of £4m. On 1 August 2013, as the initial step in disposing of Rail Germany, the Group disposed of the Stassfurt Signalling Workshop to its local management for €1 resulting in a net loss of £1m.

7 Non-underlying items continued

7.2.2.6 In the first half of 2013, Rail Germany incurred a £2m fine imposed by the German competition authority in respect of allegations of historic anti-competitive behaviour occurring in Schreck-Mieves GmbH, a company acquired by Balfour Beatty in 2008.

7.2.2.7 On 31 August 2013 the majority of members of the Balfour Beatty Pension Fund ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge of £2m being incurred in relation to Balfour Beatty WorkPlace employees.

7.2.3 The non-underlying items charged against profit from discontinued operations gave rise to a tax credit of £6m comprising: £nil on amortisation of acquired intangible assets and £6m on other non-underlying items (2013: first half £1m on amortisation of acquired intangible assets, full-year £2m comprising: £nil on amortisation of acquired intangible assets and £2m on other non-underlying items).

8 Taxation – continuing operations

	Underlying Items 2014 first half unaudited [1] £m	**Non-underlying items (Note 7) 2014 first half unaudited £m**	**Total 2014 first half unaudited £m**	2013 first half unaudited [2] £m	2013 year audited [2] £m
Total UK tax	**(15)**	**(2)**	**(17)**	(14)	(13)
Total non-UK tax	**10**	**(3)**	**7**	–	27
Total tax credit ^	**(5)**	**(5)**	**(10)**	(14)	14
UK current tax	**(10)**	**–**	**(10)**	(2)	(9)
Non-UK current tax	**20**	**(7)**	**13**	4	11
Total current tax	**10**	**(7)**	**3**	2	2
UK deferred tax	**(5)**	**(2)**	**(7)**	(12)	(4)
Non-UK deferred tax	**(10)**	**4**	**(6)**	(4)	16
Total deferred tax	**(15)**	**2**	**(13)**	(16)	12
Total tax (credit)/charge from continuing operations	**(5)**	**(5)**	**(10)**	(14)	14

^ Excluding joint ventures and associates.

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

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

In addition to the Group tax credit above, tax of £13m is charged directly to equity (2013: first half £20m credit, full-year £37m credit), comprising a deferred tax charge of £5m (2013: first half £7m credit, full-year £9m credit); current tax of £nil (2013: first half £nil, full-year £nil); and a deferred tax charge in respect of joint ventures and associates of £8m (2013: first half £13m credit, full-year £28m credit).

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, as it became highly probable that these businesses would be sold within a year, they met the criteria to be classified as an asset held for sale and formed part of the Rail disposal group disclosed as discontinued operations.

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

On 1 March 2013 the Group disposed of its interest in Rail Iberica SA (Rail Spain) to its local management for a cash consideration of €1 resulting in a net £4m loss on disposal.

On 28 June 2013 it became highly probable that Rail Germany and Rail Scandinavia would be disposed and therefore met the criteria to be classified as an asset held for sale. A £38m goodwill impairment charge was recognised in the first half of 2013 as a non-underlying item. Rail Germany continues to meet the criteria to be classified as held for sale at 27 June 2014.

On 1 August 2013, as the initial step in disposing of Rail Germany, the Group disposed of the Stassfurt Signalling Workshop to its local management for €1 resulting in a net loss of £1m and closed its Switches and Crossings manufacturing facility during 2013.

9 Discontinued operations continued

On 8 January 2014 the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m. The disposal resulted in a £1m 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, and a £1m gain on recycling currency translation reserves to the income statement.

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 an asset held for sale. Accordingly a £20m goodwill impairment charge was recognised in the first half of 2014 as a non-underlying item, refer to Note 7.

At 27 June 2014, Rail Italy and Rail Germany constitute the Rail disposal group within discontinued operations. In 2013 discontinued operations included Rail Scandinavia and Rail Spain.

UK facilities management disposal group

Balfour Beatty WorkPlace (BBW) was the Group's only significant buildings facilities management business in the UK and represented a separate major line of business. The Group disposed of BBW to GDF Suez Energy Services on 13 December 2013.

On 28 June 2013, it was highly probable that BBW would be disposed within a year and therefore BBW met the criteria to be classified as an asset held for sale and consequently as a discontinued operation. In the first half of 2014, the final settlement resulted in a gain of £3m being recognised within non-underlying items. Costs of £6m which were incurred in 2013 were paid in the first half of 2014.

BBW was part of the Support Services segment.

Results of the discontinued operations included in the Condensed Group income statement	**Rail disposal group 2014 first half unaudited £m**	**Total discontinued operations 2014 first half unaudited £m**	Rail disposal group 2013 first half unaudited [2] £m	UK facilities management disposal group 2013 first half unaudited £m	Total discontinued operations 2013 first half unaudited [2] £m	Rail disposal group 2013 year audited [2] £m	UK facilities management disposal group 2013 year audited £m	Total discontinued operations 2013 year audited [2] £m
Revenue including share of joint ventures and associates	**127**	**127**	198	272	470	424	470	894
Share of revenue of joint ventures and associates	**–**	**–**	(4)	(45)	(49)	(4)	(45)	(49)
Group revenue	**127**	**127**	194	227	421	420	425	845
Underlying group operating (loss)/profit [1]	**(12)**	**(12)**	(20)	9	(11)	(24)	19	(5)
Share of results of joint ventures and associates	**–**	**–**	–	–	–	–	–	–
Underlying (loss)/profit from operations [1]	**(12)**	**(12)**	(20)	9	(11)	(24)	19	(5)
Net finance costs	**(1)**	**(1)**	(2)	–	(2)	(2)	(1)	(3)
Underlying (loss)/profit before tax [1]	**(13)**	**(13)**	(22)	9	(13)	(26)	18	(8)
Taxation on underlying (loss)/profit	**(1)**	**(1)**	(2)	(1)	(3)	(4)	(2)	(6)
Underlying (loss)/profit after tax [1]	**(14)**	**(14)**	(24)	8	(16)	(30)	16	(14)
Non-underlying items								
– amortisation of acquired intangible assets	**–**	**–**	–	(2)	(2)	–	(2)	(2)
– gain/(loss) on disposals	**1**	**4 ^**	(4)	(2)	(6)	(5)	16	11
– other non-underlying items	**(34)**	**(34)**	(46)	–	(46)	(46)	(2)	(48)
	(33)	**(30)**	(50)	(4)	(54)	(51)	12	(39)
Taxation on non-underlying items	**6**	**6**	1	–	1	1	1	2
Non-underlying (loss)/profit after tax	**(27)**	**(24)**	(49)	(4)	(53)	(50)	13	(37)
(Loss)/profit for the year from discontinued operations	**(41)**	**(38)**	(73)	4	(69)	(80)	29	(51)

^ Includes £3m gain relating to UK facilities management. Refer to Note 19.2.

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

[2] Re-presented to classify Rail Italy as a discontinued operation.

9 Discontinued operations continued

Major classes of assets and liabilities included within discontinued operations held for sale	**Rail disposal group 2014 first half unaudited £m**	Rail disposal group 2013 first half unaudited £m	UK facilities management disposal group 2013 first half unaudited £m	Total discontinued operations 2013 first half unaudited £m	Rail disposal group 2013 year audited £m
Non-current assets					
Intangible assets – goodwill	**4**	–	64	64	–
– other	**1**	3	6	9	2
Property, plant and equipment	**27**	40	4	44	42
Investments in joint ventures and associates	**7**	8	8	16	8
Trade and other receivables	**–**	3	3	6	–
Retirement benefit assets	**–**	–	8	8	–
Deferred tax assets	**–**	–	1	1	–
	39	54	94	148	52
Current assets					
Inventories and non-construction work in progress	**13**	16	25	41	13
Due from construction contract clients	**67**	100	–	100	73
Trade and other receivables	**61**	71	121	192	74
Current tax assets	**1**	–	–	–	–
Cash	**24**	16	–	16	19
	166	203	146	349	179
Total assets classified as held for sale	**205**	257	240	497	231
Current liabilities					
Due to construction contract clients	**(30)**	(44)	–	(44)	(47)
Trade and other payables	**(109)**	(122)	(108)	(230)	(120)
Provisions	**(8)**	(7)	(2)	(9)	(10)
Current tax liabilities	**(3)**	(2)	(7)	(9)	(3)
	(150)	(175)	(117)	(292)	(180)
Non-current liabilities					
Trade and other payables	**(3)**	(5)	(7)	(12)	(4)
Provisions	**–**	(4)	(1)	(5)	(3)
Borrowings	**(1)**	–	–	–	–
Retirement benefit liabilities	**(23)**	(31)	–	(31)	(30)
Deferred tax liabilities	**(2)**	(3)	–	(3)	(2)
	(29)	(43)	(8)	(51)	(39)
Total liabilities classified as held for sale	**(179)**	(218)	(125)	(343)	(219)
Net assets of disposal group	**26**	39	115	154	12

Included within the Group's cash flow for the period ended 27 June 2014 are: net £21m operating cash outflows (2013: first half £38m[2], full-year £18m[2]); net £8m investing cash outflows (2013: first half £8m[2], full-year £10m[2]); and net £1m financing cash outflows (2013: first half £1m[2], full-year £1m[2]) relating to the Rail disposal group. Included within the Group's cash flow for the period ended 27 June 2014 are: net £6m operating cash outflows (2013: first half £5m inflow, full-year £7m inflow); and net £nil investing cash inflows (2013: first half £7m outflows, full-year £139m inflows) relating to the UK facilities management disposal group.

[2] Re-presented to classify Rail Italy as a discontinued operation.

10 Earnings/(loss) per ordinary share

Earnings/(loss)	2014 first half unaudited Basic £m	2014 first half unaudited Diluted £m	2013 first half unaudited [2] Basic £m	2013 first half unaudited [2] Diluted £m	2013 year audited [2] Basic £m	2013 year audited [2] Diluted £m
Continuing operations						
Earnings	**11**	**11**	10	10	16	16
Amortisation of acquired intangible assets net of tax	**7**	**7**	11	11	21	21
Other non-underlying items net of tax	**9**	**9**	24	24	99	99
Underlying earnings	**27**	**27**	45	45	136	136
Discontinued operations						
Loss	**(38)**	**(38)**	(69)	(69)	(51)	(51)
Amortisation of acquired intangible assets net of tax	**–**	**–**	1	1	2	2
Other non-underlying items net of tax	**24**	**24**	52	52	35	35
Underlying loss	**(14)**	**(14)**	(16)	(16)	(14)	(14)
Total operations						
Loss	**(27)**	**(27)**	(59)	(59)	(35)	(35)
Amortisation of acquired intangible assets net of tax	**7**	**7**	12	12	23	23
Other non-underlying items net of tax	**33**	**33**	76	76	134	134
Underlying earnings	**13**	**13**	29	29	122	122

	Basic m	Diluted m	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**686**	**687**	685	685	685	686

Earnings/(loss) per share	Basic pence	Diluted pence	Basic pence	Diluted pence	Basic pence	Diluted pence
Continuing operations						
Earnings per ordinary share	**1.6**	**1.6**	1.5	1.5	2.5	2.5
Amortisation of acquired intangible assets net of tax	**1.0**	**1.0**	1.6	1.6	3.0	3.0
Other non-underlying items net of tax	**1.3**	**1.3**	3.5	3.5	14.4	14.4
Underlying earnings per ordinary share	**3.9**	**3.9**	6.6	6.6	19.9	19.9
Discontinued operations						
Loss per ordinary share	**(5.5)**	**(5.5)**	(10.1)	(10.1)	(7.6)	(7.6)
Amortisation of acquired intangible assets net of tax	**–**	**–**	0.2	0.2	0.3	0.3
Other non-underlying items net of tax	**3.5**	**3.5**	7.6	7.6	5.2	5.2
Underlying loss per ordinary share	**(2.0)**	**(2.0)**	(2.3)	(2.3)	(2.1)	(2.1)
Total operations						
Loss per ordinary share	**(3.9)**	**(3.9)**	(8.6)	(8.6)	(5.1)	(5.1)
Amortisation of acquired intangible assets net of tax	**1.0**	**1.0**	1.8	1.8	3.3	3.3
Other non-underlying items net of tax	**4.8**	**4.8**	11.1	11.1	19.6	19.6
Underlying earnings per ordinary share	**1.9**	**1.9**	4.3	4.3	17.8	17.8

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

11 Dividends on ordinary shares

	2014 first half unaudited Per share pence	2014 first half unaudited Amount £m	2013 first half unaudited Per share pence	2013 first half unaudited Amount £m	2013 year audited Per share pence	2013 year audited Amount £m
Proposed dividends for the period						
Interim 2013	**–**	**–**	5.6	38	5.6	38
Final 2013	**–**	**–**	–	–	8.5	58
Interim 2014	**5.6**	**38**	–	–	–	–
	5.6	**38**	5.6	38	14.1	96
Recognised dividends for the period						
Final 2012		**–**		58		58
Interim 2013		**–**		–		38
Final 2013		**58**		–		–
		58		58		96

The interim 2014 dividend will be paid on 5 December 2014 to holders on the register on 10 October 2014 by direct credit or, where no mandate has been given, by cheque posted on 4 December 2014 payable on 5 December 2014. The ordinary shares will be quoted ex-dividend on 9 October 2014.

	2014 first half unaudited £m	2013 first half unaudited £m	2013 year audited £m
Dividends on ordinary shares	**58**	58	96
Other dividends to non-controlling interests	**–**	–	1
Total recognised dividends for the period	**58**	58	97

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2013 audited	1,299	(139)	1,160
Currency translation differences	53	(8)	45
Impairment charges in respect of Mainland European rail business (Note 7)	–	(38)	(38)
Reclassified to assets held for sale	(137)	137	–
Reclassified to assets held for sale and subsequently sold	(64)	–	(64)
At 28 June 2013 unaudited	1,151	(48)	1,103
Currency translation differences	(62)	8	(54)
Currency translation differences – on assets reclassified as held for sale	3	(3)	–
Business acquired – prior year	(1)	–	(1)
At 31 December 2013 audited	1,091	(43)	1,048
Currency translation differences	**(21)**	**2**	**(19)**
Impairment charges in respect of Mainland European rail business (Note 7)	**–**	**(20)**	**(20)**
Reclassified to assets held for sale (Note 9)	**(24)**	**20**	**(4)**
At 27 June 2014 unaudited	**1,046**	**(41)**	**1,005**

13 Trade and other receivables

	2014 first half unaudited £m	2013 first half unaudited £m	2013 year audited £m
Current			
Trade receivables	**884**	912	827
Less: Provision for impairment of trade receivables	**(25)**	(20)	(26)
	859	892	801
Other receivables	**83**	70	76
Due from joint ventures and associates	**31**	30	28
Due from jointly controlled operations	**6**	2	3
Contract retentions receivable ^	**190**	204	198
Accrued income	**30**	22	21
Prepayments	**65**	56	47
Due on acquisitions	**15**	–	16
Due on disposals	**56**	–	–
	1,335	1,276	1,190
Non-current			
Trade receivables	**2**	2	2
Other receivables	**6**	9	2
Due from joint ventures and associates	**11**	5	11
Contract retentions receivable ^	**103**	82	98
Due from jointly controlled operations	**1**	–	–
Due on acquisitions	**–**	17	–
	123	115	113
	1,458	1,391	1,303
Comprising			
Financial assets	**1,393**	1,335	1,256
Non-financial assets – prepayments	**65**	56	47
	1,458	1,391	1,303

^ Include £290m (2013: first half £284m; full-year £295m) construction contract retentions receivable.

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual clients, 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 £117m (2013: first half £110m, full-year £108m) 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

	2014 first half unaudited £m	2013 first half unaudited £m	2013 year audited £m
Current			
Trade payables and other payables	**974**	930	857
Accruals	**988**	1,096	1,044
Deferred income	**9**	15	6
Advance payments on contracts *	**11**	20	14
VAT, payroll taxes and social security	**80**	98	115
Due to joint ventures and associates	**–**	15	1
Dividends on preference shares	**5**	5	5
Dividends on ordinary shares	**58**	58	–
Due on acquisitions	**3**	5	4
	2,128	2,242	2,046
Non-current			
Trade and other payables	**103**	90	112
Accruals	**32**	15	20
Deferred income	**1**	2	7
Due to joint ventures and associates	**27**	25	27
Due on acquisitions	**14**	17	16
	177	149	182
	2,305	2,391	2,228
Comprising			
Financial liabilities	**2,156**	2,277	2,025
Non-financial liabilities	**149**	114	203
	2,305	2,391	2,228

* Include £8m (2013: first half £15m; full-year £11m) 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 £149m (2013: first half £125m, full-year £148m) 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 2013 audited	217	280	45	542
Income recognised in the income statement				
– construction contract margin	–	1	–	1
– interest income (Note 5)	6	8	2	16
Losses recognised in the statement of comprehensive income				
– fair value movements	(10)	(14)	–	(24)
Other movements				
– cash expenditure	–	18	9	27
– cash received	(9)	(14)	(2)	(25)
At 28 June 2013 unaudited	204	279	54	537
Income recognised in the income statement				
– interest income (Note 5)	6	9	2	17
(Losses)/gains recognised in the statement of comprehensive income				
– fair value movements	(4)	(7)	10	(1)
Other movements				
– cash expenditure	–	22	13	35
– cash received	(10)	(11)	(13)	(34)
– disposal of interest in CNDR	–	(99)	–	(99)
At 31 December 2013 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**

16 Retirement benefit liabilities

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes		**2014 first half unaudited %**	2013 first half unaudited %	2013 year audited %
Discount rate on obligations		**4.20**	4.60	4.35
Inflation rate	– RPI	**3.25**	3.30	3.30
	– CPI	**2.05**	2.30	2.10
Future increases in pensionable salary	– certain members of the Balfour Beatty Pension Fund that have a protected right to a defined benefit membership	**2.05**	2.30	2.10
	– other members	**–**	4.80	–
	– Railways Pension Scheme	**2.05**	2.30	2.10

Amounts recognised in the Balance Sheet	**2014 first half unaudited £m**	2013 first half unaudited [4] £m	2013 year audited £m
Present value of obligations	**(3,287)**	(3,133)	(3,229)
Fair value of plan assets	**2,890**	2,788	2,795
Liability in the Balance Sheet	**(397)**	(345)	(434)

[4] Restated to reflect the effects of IAS 19 Employee Benefits (Revised).

Analysis of liability	**2014 first half unaudited £m**	2013 first half unaudited [4] £m	2013 year audited £m
Balfour Beatty Pension Fund	**(284)**	(238)	(323)
Railways Pension Scheme	**(39)**	(33)	(38)
Other schemes *	**(74)**	(74)	(73)
Liability in the Balance Sheet	**(397)**	(345)	(434)

* Available-for-sale investments in mutual funds of £61m (2013: first half £59m, full-year £60m) are held by the Group to satisfy the Group's deferred compensation obligations.

[4] Restated to reflect the effects of IAS 19 Employee Benefits (Revised).

Movement in retirement benefit liabilities for the period		**2014 first half unaudited £m**	2013 first half unaudited [2, 4] £m	2013 year audited [2] £m
At beginning of period		**(434)**	(333)	(333)
Currency translation differences		**1**	(6)	1
Current service cost from continuing operations		**(5)**	(20)	(30)
Curtailment cost	– ceasing future accrual	**–**	–	(51)
	– restructuring	**–**	(1)	(1)
Net finance cost – continuing operations		**(8)**	(6)	(9)
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**–**	38	74
	– on obligations from other financial actuarial movements	**(58)**	(62)	(135)
	– on obligations from a change in the demographic assumptions	**–**	–	(28)
	– on obligations from experience adjustments	**(9)**	(1)	16
	– on assets	**85**	(30)	(44)
Contributions from employer	– regular funding	**2**	15	23
	– ongoing deficit funding – continuing operations	**25**	32	50
	– ongoing deficit funding – discontinued operations	**–**	1	2
	– conditional deficit funding	**–**	4	7
Contributions from members		**–**	–	(1)
Benefits paid		**3**	5	8
Total defined benefit charges charged to income statement – discontinued operations		**–**	(4)	(11)
Reclassified to liabilities held for sale		**1**	31	30
Reclassified to assets held for sale and subsequently sold		**–**	(8)	(2)
At end of period		**(397)**	(345)	(434)

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

[4] Restated to reflect the effects of IAS 19 Employee Benefits (Revised).

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 129 to 130 and 134 of the Annual Report and Accounts 2013.

16 Retirement benefit liabilities continued

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 revised total 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 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 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 in which the one-off return was made. The Group has the ability to use surplus funds in the defined benefit section of the BBPF to pay its contributions towards future service benefits in the defined benefit and defined contribution sections of the scheme.

On 31 August 2013 the majority of members of the BBPF ceased to accrue future defined benefits and became deferred members resulting in a curtailment charge of £53m, recognised as a non-underlying item, of which £2m related to discontinued operations. During 2013 various group restructurings resulted in an additional £1m curtailment charge.

17 Share capital

During the half-year ended 27 June 2014, 73,862 ordinary shares were issued following the exercise of savings-related share options and 318,840 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £0.9m.

During the half-year ended 27 June 2014, 538,075 ordinary shares were purchased for £1.6m 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 Statement of Cash Flows

18.1 Cash (used in)/generated from operations

	Continuing operations					
	Underlying items 2014 first half unaudited £m	Non-underlying Items (Note 7) 2014 first half unaudited £m	Discontinued operations 2014 first half unaudited £m	Total 2014 first half unaudited £m	Total 2013 first half unaudited [2] £m	Total 2013 year audited [2] £m
Profit/(loss) from continuing operations	37	(21)	–	16	3	46
Loss from discontinued operations	–	–	(42)	(42)	(65)	(44)
Share of results of joint ventures and associates – continuing operations	(42)	1	–	(41)	(30)	(71)
Dividends received – discontinued operations	–	–	–	–	–	(1)
Depreciation of property, plant and equipment	23	–	–	23	31	56
Amortisation of other intangible assets	4	10	–	14	20	35
Pension deficit payments						
– ongoing deficit funding	(25)	–	–	(25)	(33)	(52)
– conditional deficit funding	–	–	–	–	(4)	(7)
Pension curtailment cost – ceasing future accrual	–	–	–	–	–	53
Pension curtailment cost – restructuring	–	–	–	–	1	1
Movements relating to share-based payments	4	–	–	4	4	6
Gain on disposal of interests in investments	(51)	–	–	(51)	(45)	(82)
Loss/(profit) on disposal of property, plant and equipment	1	–	–	1	(5)	(6)
Contingent consideration for acquisitions	–	–	–	–	(4)	(4)
Net (gain)/loss on disposal of other businesses	–	–	(4)	(4)	4	(11)
Goodwill impairment in respect of Mainland European rail businesses	–	–	20	20	38	38
IFRS 5 impairment charge in respect of Mainland European rail businesses	–	–	10	10	–	–
Other non-cash items	–	–	–	–	2	(1)
Operating cash flows before movements in working capital	(49)	(10)	(16)	(75)	(83)	(44)
Increase in operating working capital	(191)	(15)	(5)	(211)	(153)	(118)
Due from construction contract clients	(103)	–	4	(99)	(99)	(81)
Due to construction contract clients	(11)	–	(15)	(26)	10	33
Inventories and non-construction work in progress	(19)	(5)	(2)	(26)	(16)	2
Trade and other receivables	(140)	–	10	(130)	(215)	(192)
Trade and other payables	78	1	1	80	179	148
Provisions	4	(11)	(3)	(10)	(12)	(28)
Cash used in operations	(240)	(25)	(21)	(286)	(236)	(162)

[2] Re-presented to classify Rail Italy as a discontinued operation (Note 9).

18.2 Cash and cash equivalents

	2014 first half unaudited £m	2013 first half unaudited £m	2013 year audited £m
Cash and deposits	362	481	472
Term deposits	49	50	67
Bank overdrafts	(27)	–	(78)
Non-PPP cash and cash equivalents	384	531	461
PPP cash balances	46	31	65
	430	562	526

18.3 Analysis of net cash/(borrowings)

	2014 first half unaudited £m	2013 first half unaudited £m	2013 year audited £m
Non-PPP cash and cash equivalents	**384**	531	461
Finance leases	**(2)**	(3)	(3)
US private placement loans	**(206)**	(231)	(212)
Liability component of convertible bonds	**(224)**	–	(221)
Loans under committed facilities expiring in more than one year	**(262)**	(485)	–
Other short-term loans	**(77)**	(1)	(91)
	(387)	(189)	(66)
PPP cash and cash equivalents	**46**	31	65
PPP term deposits greater than three months	**–**	2	–
PPP non-recourse project finance loans with final maturity between 2027 and 2037	**(270)**	(413)	(419)
	(224)	(380)	(354)
Net borrowings	**(611)**	(569)	(420)

18.4 Analysis of movement in net (borrowings)/cash

	PPP 2014 first half unaudited £m	Other 2014 first half unaudited £m	2014 first half unaudited £m	2013 first half unaudited £m	2013 year audited £m
Opening net borrowings	**(354)**	**(66)**	**(420)**	(333)	(333)
Currency translation differences	**–**	**(7)**	**(7)**	24	3
Net (decrease)/increase in cash and cash equivalents	**(19)**	**(59)**	**(78)**	22	10
Net increase in term deposits greater than 3 months	**–**	**–**	**–**	2	–
Proceeds from US private placement	**–**	**–**	**–**	(231)	(231)
Proceeds from liability component of convertible bonds and interest accretion	**–**	**(3)**	**(3)**	–	(221)
Proceeds from new loans	**(19)**	**(262)**	**(281)**	(47)	(110)
Proceeds from new finance leases	**–**	**–**	**–**	–	(1)
Repayment of loans	**4**	**14**	**18**	9	408
Repayment of finance leases	**–**	**–**	**–**	1	2
Disposal of non-recourse borrowings	**164**	**–**	**164**	–	72
Movement in net assets held for sale	**–**	**(4)**	**(4)**	(16)	(19)
Closing net borrowings	**(224)**	**(387)**	**(611)**	(569)	(420)

18.5 Borrowings

During the first half of 2014, the significant movements in borrowings were: a net drawdown of short term loans of £248m (2013: first half £18m, full-year £nil); a drawdown of US private placement loans of £nil (2013: first half £231m, full-year £231m); issuing unsecured convertible bonds with a liability component of £nil (2013: first half £nil, full-year £221m); a net repayment of short term loans of £nil (2013: first half £nil, full-year £396m); a £51m net decrease in bank overdrafts (2013: first half £10m net decrease, full-year £68m net increase); a £19m increase in non-recourse borrowings funding the development of financial assets in PPP subsidiaries (2013: first half £29m, full-year £110m), disposal of non-recourse borrowings in Transform Schools (Knowsley) Holdings Limited of £164m (2013: first half £nil; 2013 full-year: £nil) and Connect CNDR Ltd of £nil (2013: first half £nil; 2013 full-year: £72m) and a £4m repayment of non-recourse loans (2013: first half £9m, full-year £12m).

19 Acquisitions and disposals

19.1 Acquisitions

No acquisitions were made in the first half of 2014 and in 2013.

Deferred consideration paid during the 2014 half-year in respect of acquisitions completed in earlier years was £1m relating to the acquisition of Subsurface, and £2m on previous acquisitions.

19 Acquisitions and disposals continued

19.2 Disposals

On 8 January 2014 the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m. The disposal resulted in a £1m net 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, and a £1m gain on recycling currency translation reserves to the income statement.

On 22 May 2014 the Group disposed of its 50% interest in Consort Healthcare (Durham) Holdings Limited (CHDHL) for an agreed cash consideration of £55m. On this date the Group ceased to jointly control CHDHL by virtue of a put / call structure with a preferred bidder. The disposal was completed on 30 June 2014 and therefore the consideration is included in trade and other receivables. The disposal resulted in a net gain of £27m being recognised within underlying operating profit for the half-year ended 27 June 2014, comprising a gain of £12m in respect of the disposal of the investment in the joint venture and a £15m gain in respect of revaluation reserves recycled to the income statement.

On 30 May 2014 the Group disposed of its 100% interest in Transform Schools (Knowsley) Holdings Limited (TSKHL) for an agreed cash consideration of £42m. On this date the Group ceased to jointly control TSKHL by virtue of a put / call structure with a preferred bidder. The disposal of the subsidiary was completed on 12 June 2014. The disposal resulted in a net gain of £24m being recognised within underlying operating profit, comprising a gain of £32m in respect of the fair value of net assets disposed and a £8m loss in respect of revaluation reserves recycled to the income statement. This includes cash disposed of £9m.

In the first half of 2014, the Group finalised the cash consideration due on the disposal of its UK facilities management business, amounting to additional consideration for the Group of £1m. At the same time, an agreement was reached to discharge the Group's obligation to a certain indemnity provision resulting in a release of a provision amounting to £2m. The additional consideration was received on 10 July 2014 and is included in trade and other receivables. A £3m gain on disposal was recognised in non-underlying items. Costs of £6m were incurred in 2013 relating to the disposal of the UK facilities management business and subsequently paid in the first half of 2014.

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 obligations of the Balfour Beatty Pension Fund and the Railways Pension Scheme. Where such agreements are entered into they are considered to be and are accounted for as insurance arrangements. 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 management's 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 management considers, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential liability.

21 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £303m (2013: first half £372m, full-year £777m). 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 charged at cost with no mark-up. The amount due from joint ventures and associates from trading activities, including those within discontinued operations, was £42m (2013: first half £47m, full-year £39m). The amount due to joint ventures and associates from trading activities, including those within discontinued operations, was £27m (2013: first half £47m, full-year £28m).

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisors' fees borne by the Group amounting to £3m in the half-year ended 27 June 2014 (2013: first half £4m; full-year £8m).

On 8 January 2014 Rail Scandinavia was sold to Strukton Rail, the Group's joint operation partner, for a cash consideration of £2m. Refer to Note 19.2.

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.

22 Financial instruments continued

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 the 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 or preceding year.

Financial instruments at fair value	**2014 first half unaudited £m**	2013 first half unaudited £m	2013 year audited £m
Financial assets			
Level 1			
Available-for-sale mutual fund financial assets	**61**	59	60
Level 2			
Financial assets – foreign currency contracts	**1**	3	2
Level 3			
Available-for-sale PPP financial assets (Note 15)	**287**	537	455
Investment in the Infrastructure Fund (Note 4.3)	**10**	9	11
Total assets measured at fair value	**359**	608	528
Financial liabilities			
Level 2			
Financial liabilities – foreign currency contracts	**(3)**	(1)	(5)
Financial liabilities – PPP interest rate swaps	**(49)**	(99)	(69)
Total liabilities measured at fair value	**(52)**	(100)	(74)

The carrying value less impairment provision of trade and other receivables and payables approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

22 Financial instruments continued

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 £14m decrease (2013: first half £23m; full-year £21m) / £15m increase (2013: first half £25m; full-year £22m) 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 £1m. 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 27 June 2014, 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 nature of the principal risks and uncertainties which could adversely affect the Group's performance and its ability to achieve its strategic objectives in the second half of the year are more fully described on pages 20 to 23 and Note 2.27 on page 103 of the Annual Report and Accounts 2013 respectively. These risks include: external risks arising from the residual effects of the previous global economic downturn and the complex and evolving legal and regulatory environments in which the Group operates; strategic risks which may arise as the Group moves into new territories and expands through acquisitions; organisation and management risks including business conduct and people related risks; and operational risks arising from bidding, project execution, supply chain and health, safety and sustainability matters.

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Annual Report and Accounts 2013. However, the Directors' assessment of their likelihood and potential impact continues to evolve.

During 2014 there has been a further worsening in the trading performance of the mechanical and electrical engineering part of the Group's UK construction services business (Engineering Services) since our Full Year 2013 reporting and the subsequent Q1 Interim Management Statement. A number of factors led to this including design changes, project delays, rework on projects and contractual disputes.

Given these issues the size and footprint of the business is under review with the aim of creating a smaller, more focussed business. In central London, Engineering Services will only be working with Group companies where it can influence design and add value for customers.

The Board has considered the progress that has been made in reinforcing the controls in the UK construction services business, and confirms that it is satisfied that the necessary actions have been taken or are being taken to rectify any weaknesses or failures in the application of procedural controls.

The difficult conditions for the Group's Mainland European rail businesses have continued, supporting the Board's decision to exit from these businesses.

24 Seasonality

In 2014, due to the anticipated recovery in the performance of the UK construction services business, profit is expected to be significantly weighted to the second half.

25 Events after the reporting date

On 28 July 2014 the Group disposed of its rail trackside plant and equipment rental business to Vp plc for £5.5m.

26 Prior year comparisons

The 2013 half-year and full-year income statements have been re-presented to classify Rail Italy as part of discontinued operations at the half-year. Refer to Note 9.

The effect on the financial statements is as follows.

Income Statement	As previously reported 2013 first half £m	Effect of discontinued operations 2013 first half £m	As re-presented 2013 first half £m	As previously reported 2013 year £m	Effect of discontinued operations 2013 year £m	As re-presented 2013 year £m
Continuing operations						
Revenue including share of joint ventures and associates	**4,967**	(11)	**4,956**	**10,118**	(28)	**10,090**
Share of revenue of joint ventures and associates	**(645)**	–	**(645)**	**(1,373)**	–	**(1,373)**
Group revenue	**4,322**	(11)	**4,311**	**8,745**	(28)	**8,717**
Underlying group operating profit[1]	**22**	2	**24**	**132**	(2)	**130**
Share of results of joint ventures and associates	**30**	–	**30**	**71**	–	**71**
Underlying profit from operations[1]	**52**	2	**54**	**203**	(2)	**201**
Investment income	**33**	–	**33**	**65**	–	**65**
Finance costs	**(40)**	–	**(40)**	**(81)**	–	**(81)**
Underlying profit before taxation	**45**	2	**47**	**187**	(2)	**185**
Taxation on underlying profit	**(2)**	–	**(2)**	**(50)**	1	**(49)**
Underlying profit for the period[1]	**43**	2	**45**	**137**	(1)	**136**
Non-underlying items after tax	**(35)**	–	**(35)**	**(120)**	–	**(120)**
Profit/(loss) for the period from continuing operations	**8**	2	**10**	**17**	(1)	**16**
Underlying loss for the period from discontinued operations after tax	**(14)**	(2)	**(16)**	**(15)**	1	**(14)**
Non-underlying items after tax from discontinued operations	**(53)**	–	**(53)**	**(37)**	–	**(37)**
Loss for the period from discontinued operations	**(67)**	(2)	**(69)**	**(52)**	1	**(51)**
Loss for the period	**(59)**	–	**(59)**	**(35)**	–	**(35)**

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

Earnings per share						
Basic earnings per ordinary share from continuing operations	**1.2**	0.3	**1.5**	**2.5**	–	**2.5**
Basic loss per ordinary share from discontinued operations	**(9.8)**	(0.3)	**(10.1)**	**(7.6)**	–	**(7.6)**
Basic loss per ordinary share	**(8.6)**	–	**(8.6)**	**(5.1)**	–	**(5.1)**
Diluted earnings per ordinary share from continuing operations	**1.2**	0.3	**1.5**	**2.5**	–	**2.5**
Diluted loss per ordinary share from discontinued operations	**(9.8)**	(0.3)	**(10.1)**	**(7.6)**	–	**(7.6)**
Diluted loss per ordinary share	**(8.6)**	–	**(8.6)**	**(5.1)**	–	**(5.1)**