Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE HALF-YEAR ENDED 29 JUNE 2018

15 August 2018

Highlights

- Underlying profit from operations (PFO) increased by 69% to £66 million (2017: £39m)
- Average net cash £161 million (2017: £45m); half-year net cash £366 million (2017: £161m)
- Underlying UK Construction PFO £5 million (2017: £2m), after £15 million charge on Aberdeen Western Peripheral Route
- Higher quality order book increased 11% to £12.6 billion (2017: £11.4bn), whilst maintaining Build to Last disciplines
- Directors' valuation of Investments portfolio stable at £1.2 billion, post £108 million of sale proceeds
- Interim dividend payment up 33% to 1.6 pence per share (2017: 1.2 pence)

(£ million unless otherwise specified)	Half-year 2018		Half-year 2017	
	Underlying[3]	Total	Underlying[3]	Total
Revenue[1,2]	3,836	3,839	4,191	4,201
Profit from operations[2]	66	60	39	29
Pre-tax profit[2]	56	50	22	12
Profit for the period	52	69	23	20
Basic earnings per share[2]	7.5p	10.1p	3.2p	2.0p
Dividends per share		1.6p		1.2p

	HY 2018	HY 2017	FY 2017
Order book[1,2,3]	£12.6bn	£11.4bn	£11.4bn
Directors' valuation of Investments portfolio	1,185	1,235	1,244
Net cash – recourse	366	161	335
Net cash – non-recourse[4]	(329)	(292)	(305)

Leo Quinn, Group Chief Executive, said, "All our businesses are now either achieving industry standard margins or on track to do so in the second half. The disciplines installed under Build to Last are also enabling us to increase the order book with key infrastructure projects to translate Balfour Beatty's expert capabilities into future profitable growth.

"Given the strength of our balance sheet and the Board's confidence that the Group's full year earnings will meet expectations, we are raising the interim dividend by 33% and plan to repay the outstanding convertible bonds this year."

Notes:

[1] including share of joint ventures and associates

[2] from continuing operations

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

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

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

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Investor and Analyst presentation:

A presentation to investors and analysts will be made at The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT on 15 August 2018 at 09.00.

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

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

The Group's half-year 2018 results demonstrate Balfour Beatty's continuing transformation under the Build to Last programme with all businesses either delivering industry standard margins or on track to do so in the second half of the year.

For the first six months, the Group reported an underlying profit from operations of £66 million (2017: £39 million) and maintained its strong focus on cash. Average net cash increased substantially during the period to £161 million (2017: £45 million) with half-year net cash of £366 million (2017: £161 million).

UK Construction reported an underlying profit from operations of £5 million (2017: £2 million) after an underlying charge of £15 million for the Aberdeen Western Peripheral Route (AWPR), which experienced schedule slippage and cost increases. Part of AWPR is already open to the public, with the majority of the route scheduled to open by the end of August. Completion of the one remaining bridge is expected in the autumn. It is encouraging to note that excluding AWPR, UK Construction reported a PFO of £20 million representing a margin of 2.1%.

US Construction reported a profit from operations of £17 million (2017: £17 million), representing an improved operating margin of 1.1% (2017: 0.9%). To leverage the Group's market position, leadership of the buildings and civils businesses were reorganised at the start of the year, with two internal promotions. Gammon, the Group's 50:50 joint venture with Jardine Matheson, reported a doubling in profit from operations to £10 million.

In Support Services, profit from operations and margins were stable at £17 million (2017: £16 million) and 3.1% (2017: 3.1%) respectively.

The Group's Investments portfolio is a continuing source of value and opportunity. During the period the Group received £108 million of proceeds, mostly in respect of the sale of a 12.5% interest in Connect Plus, the company which operates and maintains the M25 London Orbital Motorway, and invested £38 million in new and existing projects. The Directors' valuation has remained stable at £1.2 billion (FY 2017: £1.2 billion).

Whilst maintaining disciplined bidding practices, the Group grew its order book to £12.6 billion (FY 2017: £11.4 billion). This was largely due to a number of wins in the US Construction business, including the Group's 30% share of the $2 billion Los Angeles Airport (LAX) Automated People Mover (APM) project. Balfour Beatty's Investments business also has a 27% stake in the APM public-private partnership (PPP) asset.

In the UK, Balfour Beatty's joint venture Balfour Beatty VINCI continues to work with HS2 to deliver detailed plans and costs for Lots N1 and N2 of HS2 (the UK's new high speed railway). The estimated value of this work (£2.5 billion) is not yet included in the order book, with the current Early Contractor Involvement (ECI) stage now expected to conclude in mid-2019.

The Group's continuing cash generation has enabled redemption of $45 million of US private placement and £39 million of convertible bonds since late 2017. The Group plans to repay the outstanding £214 million of convertible notes when they fall due in December 2018. This demonstrates the strength of the Group's businesses underpinned by its Investments portfolio and average net cash position.

At the start of 2018, the Group's investment in the standardisation of its systems progressed further when the US businesses migrated onto a single JD Edwards ERP platform. This transition was achieved smoothly and follows the consolidation of the UK construction business onto Oracle R12. These moves will enable the Group to drive significant ongoing future value through increased productivity coupled with greater transparency and assurance.

Customers buy Balfour Beatty's services due to the expert capabilities of the Group and its employees. In a market where, going forward, there will be intense competition for the best talent, Balfour Beatty recruits, trains and retains the highest calibre workforce. The half-year employee survey measured employee engagement at 64% (autumn 2017: 60%), the highest level of engagement since the introduction of the measure in 2015.

Construction is an inherently dangerous industry. It is therefore essential that the safety and health of everyone who comes into contact with Balfour Beatty is a top priority. Each week the Executive Committee reviews the safety performance of each of the business units with particular attention to lessons which should be learnt from any high potential near miss incidents, as well as gauging the status of the Group's safety culture. In the recent survey of employees in the UK and US businesses, 87% of respondents said they saw evidence of Zero Harm being applied whilst 91% felt empowered to speak up about anything potentially unsafe.

The Group's Lost Time Incident Rate (excluding international joint ventures) remained constant at 0.17 (FY 2017: 0.17).

Since the start of Build to Last in 2015, Balfour Beatty has simplified and refocused the Group; strengthened leadership; improved governance and processes; and developed a culture to deliver an organisation which is Lean, Expert, Trusted and Safe.

These results again demonstrate the progress which has been made.

The Group's expert capabilities and focus on selected markets, coupled with its strong order book and balance sheet, gives confidence for profitable growth in 2019 and beyond. With the ongoing reduction to the cost base and by maintaining Build to Last disciplines, underpinned by actions which have reduced geographic, commercial, operational and financial risk, Balfour Beatty is well placed to capitalise on the anticipated increasing demand for new and renewed infrastructure in the UK & Ireland, US and Far East - thus delivering profitable growth and cash generation well into the future.

RESULTS OVERVIEW AND OUTLOOK

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

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

Group financial summary

In the first half of 2018, the Group's results demonstrate continued delivery of the Build to Last transformation as the income statement, cash flow, balance sheet and order book all strengthened in the period.

In the Group income statement, whilst revenue was down, gross profit increased and overheads reduced, resulting in increased profitability.

With regard to margin targets, the Group delivered industry standard margins for US Construction (1.1%) and Support Services (3.1%). In UK Construction, the Group delivered a PFO margin of 0.5%. However, excluding the AWPR project, Balfour Beatty delivered an underlying UK Construction PFO margin of 2.1%, inside the 2-3% industry standard margin target range.

The Group remains on track to deliver industry standard margins for all three segments in the second half of 2018.

Net cash at half-year increased to £366 million with average net cash for the first six months at £161 million. For 2018, the Group now expects to deliver average net cash at £140 to £170 million, versus the previous range of £120 to £150 million.

The Group continues to have one of the strongest balance sheets in the sector with total equity increasing to £1,240 million.

The order book increased by 11% to £12.6 billion, up 10% at constant exchange rates (CER) (FY 2017: £11.4 billion). The Group's focus on disciplined bidding is continuing to build a higher quality order book capable of delivering profitable growth from the rising infrastructure spend in the UK, US and Far East.

Underlying revenue was down 8% (4% at CER) at £3,836 million (2017: £4,191 million), following the managed reduction in the order book during 2017. Group revenue in the second half of 2018 is expected to be in line with the first half. Statutory revenue, which excludes joint ventures and associates, was £3,218 million (2017: £3,544 million).

Construction Services underlying revenue was down 13% (7% at CER) at £2,975 million (2017: £3,408 million) as a result of the expected decline in the US. Support Services underlying revenue was 5% higher at £543 million (2017: £519 million) with increases in both the utilities and transportation businesses.

Underlying profit from operations increased to £66 million (2017: £39 million), with Construction Services, Support Services and Infrastructure Investments all reporting improved profitability in the period. In local currency, underlying PFO increased at all geographical business segments within Construction Services but PFO was flat in the US in pounds sterling. Statutory profit from operations increased to £60 million (2017: £29 million), primarily driven by the increase in underlying profits.

Underlying profit from operations[2,3]	HY 2018 £m	HY 2017 £m
US Construction	17	17
UK Construction	5	2
Gammon	10	5
Construction Services	32	24
Support Services	17	16
Infrastructure Investments	33	15
Corporate activities	(16)	(16)
Total	66	39

[2] from continuing operations

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

Construction Services improved to a profit from operations of £32 million in the first half of 2018 (2017: £24 million). Support Services was stable, with underlying profit from operations of £17 million (2017: £16 million). Infrastructure Investments increased from prior year, as the third partial sell-down of the Connect Plus M25 asset helped generate a £22 million profit on disposal of assets from the portfolio (2017: £nil million).

Net finance costs decreased to £10 million (2017: £17 million) as a result of higher net finance income on the Group's retirement benefit obligations and lower interest costs as the Group continues to pay down debt. The Group now expects full year net finance costs to be around £25 million. Underlying pre-tax profit from continuing operations increased to £56 million (2017: £22 million). The taxation charge on underlying profits increased to £4 million (2017: £nil million).

Underlying profit after tax including discontinued operations for the period increased to £52 million (2017: £23 million). Total statutory profit after tax for the period was £69 million (2017: £20 million), as a result of the net effect of non-underlying items.

Non-underlying items

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

Non-underlying items of £17 million were a net credit to the profit for the period from continuing operations (2017: £8 million net charge).

During the period significant actuarial gains in the Group's main pension fund, the Balfour Beatty Pension Fund (BBPF), led to the recognition of a deferred tax liability which was accounted for through reserves in line with the treatment of the pension movement. This, in turn, led to the recognition of additional UK deferred tax assets of £20 million which resulted in a tax credit being recognised in the income statement as a non-underlying item.

As a result of Carillion's liquidation on 15 January 2018, the Group and its remaining joint venture partner on the AWPR project, Galliford Try plc, became jointly liable to deliver Carillion's remaining obligations on the contract in addition to each partner's existing 33% share. This has resulted in the Group now having a 50% interest in the AWPR contract. In the first six months of the year, Balfour Beatty recognised an additional £23 million loss on the AWPR project. A third of this charge (£8 million) has been recognised in non-underlying items as this reflects the additional loss that the Group has incurred in fulfilling Carillion's obligations on the contract. The loss incurred on Balfour Beatty's original 33% joint venture share (£15 million) is treated as part of the Group's underlying performance. The AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believe are highly probable to be agreed. The final financial outturn of this contract remains dependent upon the result of ongoing claims discussions. Based on completion in the autumn, the expected Balfour Beatty cash outflow on this project in 2018 is now forecast at £135 million, versus the previous range of £105 - £120 million.

Other items included: £7 million credit for release of provisions relating to settlements of health and safety claims; a £5 million charge for restructuring costs incurred relating to the Group's ongoing Build to Last transformation programme; and a £4 million charge relating to the amortisation of acquired intangible assets.

Earnings per share

Underlying basic earnings per share from continuing operations were 7.5 pence (2017: 3.2 pence), which, along with a non-underlying earnings per share from continuing operations of 2.6 pence (2017: 1.2 pence loss), gave a total basic earnings per share for continuing operations of 10.1 pence (2017: 2.0 pence). Discontinued operations contributed 0.0 pence (2017: 0.1 pence) to the total underlying basic earnings of 7.5 pence per share (2017: 3.3 pence). Total basic earnings per share were 10.1 pence (2017: 2.9 pence).

Cash flow performance

The total cash movement in the period resulted in a £31 million increase (2017: £12 million decrease) to the Group's net cash position of £366 million (FY 2017: £335 million, HY 2017: £161 million) excluding non-recourse net borrowings. Proceeds from Investments disposals were partially offset by a £36 million cash outflow from the Group's operations.

Cash flow performance	HY 2018 £m	HY 2017 £m
Operating cash flows	44	26
Working capital (outflow)	(66)	(9)
Pension deficit payments	(14)	(10)
Cash (used in)/generated from operations	(36)	7
Infrastructure Investments		
- disposal proceeds	108	2
- new investments	(38)	(24)
Other	(3)	3
Cash inflow/(outflow)	31	(12)
Opening net cash*	335	173
Closing net cash*	366	161

* excluding infrastructure concessions (non-recourse) net debt

Working capital

In the first six months of the year, the Group's working capital position resulted in an outflow of £66 million (2017: £9 million outflow), primarily due to costs incurred on the AWPR project.

Working capital flows^*	HY 2018 £m	HY 2017 £m
Inventories	-	(1)
Net contract assets	-	(9)
Trade and other payables	52	49
Trade and other receivables	(63)	(55)
Provisions	(55)	7
Working capital outflow^*	(66)	(9)

^ Excludes impact of foreign exchange and disposals

* The movement in operating working capital has been presented to exclude movements arising from IFRS15 *Revenue from Contracts with Customers* reclassification adjustments

Trade and other payables increased during the first six months of the year, creating a working capital inflow of £52 million (2017: £49 million inflow). This was offset by a working capital outflow of £63 million (2017: £55 million outflow) from trade and other receivables. The offsetting increase in payables and receivables balances is primarily due to contract mobilisations in US Buildings where several larger jobs have started construction. The cash outflow of £55 million in provisions is primarily driven by costs incurred on the AWPR project.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital decreased to £877 million at 29 June 2018 (FY 2017: £888 million).

Net cash/borrowings

The Group's average net cash in the first half of 2018 improved substantially to £161 million (2017: £45 million). The Group's net cash position at 29 June 2018, excluding non-recourse net borrowings, was £366 million (FY 2017: £335 million; HY 2017: £161 million). Non-recourse net borrowings, held in infrastructure concessions entities consolidated by the Group, increased to £329 million (FY 2017: £305 million; HY 2017: £292 million). The balance sheet also includes £104 million (FY 2017: £103 million; HY 2017: £101 million) for the liability component of the preference shares. Statutory net debt at 29 June 2018 was £67 million (FY 2017: £73 million; HY 2017: £232 million).

Pensions

Following the formal triennial funding valuation of the Balfour Beatty Pension Fund (BBPF) at 31 March 2016, the Company and the trustees agreed the key commercial principles of a plan for the BBPF to reach self-sufficiency during 2027, some three years earlier than previously planned. Under this plan Balfour Beatty will make cash contributions totalling £142 million over the six years 2018 to 2023. There is an agreed dividend sharing mechanism such that if the dividend cover ratio falls below 2x from 2018 onwards, funding to the BBPF will be accelerated.

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

The Group's balance sheet includes net retirement benefit assets of £184 million (FY 2017: £32 million, HY 2017: £208 million liabilities) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. The increase in pension surplus in the period is mainly due to actuarial changes, including a small reduction in life expectancy based on the latest mortality studies and an increase in the net discount rate used to measure liabilities.

Outlook

The Build to Last transformation programme is designed to deliver superior returns over the medium term for all stakeholders, from a Group which is Lean, Expert, Trusted and Safe. As a result of the successful self-help actions taken in Phase One, Balfour Beatty has a strong foundation on which to deliver sustainable, profitable growth.

In Phase Two (24-month period to the end of 2018), the Group expects each of its Construction Services and Support Services businesses to continue their positive trajectory to achieve industry standard margins. Specifically, for these earnings based businesses, the underlying profit from operations margin targets are as follows:

	Target
UK Construction	2%-3%
US Construction	1%-2%
Support Services	3%-5%

The Group is on track to achieve industry standard margins in the second half of 2018 as it continues to drive three key levers for improved financial performance: finalising the remaining historical contracts through to completion; reducing costs and raising productivity across its operations; and executing on the improved quality of the order book.

For Infrastructure Investments, during Phase Two of Build to Last, the Group will continue to sell assets, as appropriate, to maximise value to shareholders and invest in new opportunities.

In Phase Three (2019+), Balfour Beatty aims to command a premium to industry standard margins as market-leading strength should be matched by market-leading performance.

Markets

The Group primarily operates across three geographies (UK & Ireland, US and the Far East) and three sectors (Construction Services, Support Services and Infrastructure Investments). This provides resilience as the Group is less exposed to a downturn in a single geography or sector.

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable.

In the UK, Government policy is helping to drive a strong pipeline of major infrastructure projects in transport and energy. Over the next few years, the '4Hs' – HS2 (high speed rail), new nuclear power stations at Hinkley Point C and Wylfa, smart motorways for Highways England and the third runway at Heathrow airport – will contribute to the Government's investment in infrastructure commitment, which is targeted to rise from 0.8% in 2015/6 to over 1% of GDP by 2020-21.

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. At this stage Balfour Beatty has not seen an impact but remains vigilant to respond to any changes in market conditions.

Within the UK commercial building sector, Balfour Beatty continues to see growth opportunities across regional markets although there has been a slowdown of projects coming to market in London.

In the US, Balfour Beatty operates in specific geographies. As the population migrates south and west, it is moving to cities, driving urbanisation in the Group's chosen markets. This leads directly to increased demand for buildings and infrastructure. Even before the 2016 Presidential election, there was a strong market outlook for construction and infrastructure. In December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill, was signed, providing guaranteed funding for a five-year period. There are further opportunities being created, for example with the number of state-backed infrastructure bonds (over US$200 billion multi-state transportation bonds, US$35 billion of education bonds in California), an increase in US public-private partnership schemes and the increase in state gasoline taxes across the US.

In Support Services, power transmission and distribution has a stable underlying market. The gas business operates in an established market as a cost plus business with a fee on recovery and an associated pain/gain mechanism. The water business is beginning to transition to the next regulatory cycle (AMP7). Transportation, which includes major road and rail maintenance contracts, is expected to remain broadly stable. Local authorities provide opportunities in highways, whilst a key contract with London Underground, to deliver essential track renewal work across the network, is due for re-tender in the second half of 2018.

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

Dividend

The Board is declaring an interim dividend of 1.6 pence per share, a 33% increase on prior period (1.2 pence per share). The Board recognises the importance of dividends to shareholders and anticipates a progressive dividend policy going forward.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

Construction Services continued to make good progress in the first six months of the year with increasing profit, in local currency, across all geographies.

Construction Services	HY 2018				HY 2017				FY 2017
	Rev[1,2]	PFO[2]	PFO[2]	Order book[1,2]	Rev[1,2]	PFO[2]	PFO[2]	Order book[1,2]	Order book[1,2]
	£m	£m	%	£bn	£m	£m	%	£bn	
US	1,577	17	1.1	5.4	1,952	17	0.9	4.7	4.3
UK	947	5	0.5	2.7	975	2	0.2	2.2	2.7
Gammon	451	10	2.2	1.4	481	5	1.0	1.2	1.3
Underlying[3]	2,975	32		9.5	3,408	24		8.1	8.3
Non-underlying	3	(10)		–	10	(4)		–	–
Total	2,978	22		9.5	3,418	20		8.1	8.3

[1] including share of joint ventures and associates

[2] from continuing operations

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

As expected following the reduction in order book during 2017, underlying revenue decreased by 13% to £2,975 million (2017: £3,408 million), a 7% decrease at CER. Revenues in the US fell by 19% (12% at CER). At Gammon revenues reduced by 6% (2% increase at CER) and in the UK they decreased by 3%. It is expected that Construction Services revenue in the second half of 2018 will be in line with the first half of 2018.

Underlying profit from operations (PFO) continued to improve under Phase Two of Build to Last as all geographies had an increase in both absolute profit, in local currency, and margin percentage.

The order book at £9.5 billion (FY 2017: £8.3 billion) increased by 14% (13% at CER) due to increases in the US (26%, 23% at CER), and at Gammon (8%, 4% at CER). The UK order book remained constant at £2.7 billion in the first six months of the year. The increases occurred whilst maintaining the Group's policy of selective bidding. The £2.5 billion (Balfour Beatty 50% joint venture) HS2 contracts won in 2017 will not be included in the order book until the conclusion of the Early Contractor Involvement (ECI) phase, now expected in mid-2019.

The Group is continuing to manage a small number of problem contracts through to completion. In most cases, the positions taken are proving adequate. A very limited number of contracts have performed below this expectation. The largest of these is the AWPR project, which has experienced schedule slippage and cost increases. In the first six months of the year, Balfour Beatty recognised an additional £23 million loss on the AWPR project. The loss incurred on Balfour Beatty's original 33% joint venture share (£15 million) is treated as part of the Group's underlying performance. The balance of this charge (£8 million) has been recognised in non-underlying items as this reflects the additional loss that the Group has incurred in fulfilling Carillion's obligations on the contract. The AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believe are highly probable to be agreed. The final financial outturn of this contract remains dependent upon the result of ongoing claims discussions. Based on completion in the autumn, the expected Balfour Beatty cash outflow on this project in 2018 is now forecast at £135 million, versus the previous range of £105 - £120 million.

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

Operational review

UK

Underlying revenue in the UK reduced by 3% to £947 million (2017: £975 million), with profit from operations showing an improvement to £5 million (2017: £2 million) with an associated PFO margin of 0.5%. It is worth noting that excluding the AWPR project, Balfour Beatty delivered a UK Construction PFO margin of 2.1%, inside the 2-3% industry standard margin target range.

The UK order book remained constant at £2.7 billion (FY 2017: £2.7 billion). The UK construction business continued to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and better contract governance.

UK Construction is continuing to manage historical problem contracts through to completion. At the start of 2015, 89 historical contracts were identified that had a material negative impact on profitability and cash. Only five contracts remain. Two of these are expected to reach practical completion in 2018.

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

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

The Major Projects business continues to pursue a number of key infrastructure opportunities across core transportation and energy markets. Over the next few years HS2, new nuclear power stations (Hinkley, Wyfla) and airport expansion (Heathrow) will all contribute to the UK Government's investment in infrastructure, which is forecast to rise from 0.8% of GDP in 2015-16 to over 1% of GDP by 2020-21. In addition, the highways market continues to provide good growth opportunities following the UK Government's proposed £35 billion funding for Highways England's first and second Roads Investment Strategies.

In April, the Major Projects business successfully completed the third and final phase of the Norwich Northern Distributor Road (NNDR), with the entire route now being operational. The scheme, which has seen delivery of 20 kilometres of dual carriageway, including the construction of 13 roundabouts and eight bridges, will alleviate congestion around the city of Norwich.

During the period, significant progress has been made on flagship projects. In February, the UK's largest current road construction project, the A14 in Cambridgeshire, successfully completed the second of 34 bridges and main structures. Connecting Brampton and Grafham, the new bridge will span 10 lanes of carriageway. Following the liquidation of Carillion plc, Balfour Beatty has assumed Carillion's share of this contract with the revised three-way joint venture working well to collaboratively deliver the project.

On HS2, ECI work is underway on the main works civils contracts, which were awarded in July 2017. Balfour Beatty VINCI won two lots around Birmingham, N1 and N2, worth about £2.5 billion. These contracts are included in awarded but not contracted (ABNC) during the ECI period. The joint venture team is currently working on the design and pricing of the two lots, with construction expected to begin in 2019.

In February, HS2 announced contractors that had been invited to tender for the two London stations – including Balfour Beatty VINCI, which is bidding for Old Oak Common station. Contracts are expected to be awarded by the end of 2018. Procurement processes are also underway on the rail systems contracts. In March, Balfour Beatty VINCI, which will work with Balfour Beatty NG Bailey as a delivery partner, submitted the pre-qualification response for the combined railway systems packages 1 (track and overhead catenary system works) and 2 (tunnel and lineside mechanical and electrical and tunnel ventilation works) worth approximately £1.9 billion. Announcement of successful pre-qualified bidders is due in the second half of 2018 with Invitation To Tenders expected in 2019 and contracts awarded in 2020.

On Crossrail, Balfour Beatty's three major projects: C510 (Liverpool Street and Whitechapel Station tunnels); C512 (Whitechapel Station); and C530 (Woolwich Station) all made progress during the period. C510 has achieved financial completion with the other two projects progressing in line with scheduled completion. In February, the first Elizabeth Line train commenced its maiden journey from Woolwich Station.

At Sellafield, good progress is being made with the nuclear decommissioning. The silo maintenance facility is undergoing its commissioning phase to allow it to decommission radioactive equipment and is due for completion later this year.

At Hinkley Point C (HPC), Balfour Beatty's expanding team continues to make positive progress on the project. As well as a growing presence at the HPC site itself, Balfour Beatty has a larger site at Avonmouth. Occupied in January 2018, it is now home to nearly 200 direct employees and sub-contractors. The project involves the construction of a pair of six-metre diameter underwater tunnels to supply the nuclear power station with cooling water and a third seven-metre diameter tunnel to discharge heated water back into the Bristol Channel. Three tunnel boring machines will use rotating cutting heads to excavate a total of 9 kilometres of tunnel – the two 3.5 kilometres intake tunnels and one 1.8 kilometre outfall tunnel.

At the Thames Tideway Tunnel project work continues on the 6 kilometre west section which runs from Acton to Wandsworth. Excavation for the main tunnelling shaft at the Carnwath Road site is well underway following the construction of the acoustic shed.

In ABNC, in addition to the HS2 civil engineering Lots 1 and 2, the highways business has been selected by Highways England to deliver a Smart Motorway package to upgrade sections of the M4 (J3 – J12).

The Regional business comprises:

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

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

Within Regional, in line with the Group's strategy, the business has simplified with an improved span of control as it operates fewer sites. The number of live projects, which was over 400 at December 2015 has subsequently fallen to around 250 at 29 June 2018. During Build to Last, there has also been a shift towards a lower risk contract portfolio, with a reduction in the number of fixed price contracts offset by an increase in target cost (negotiated tender) contracts and framework agreements. Both target cost contracts and framework agreements require early contract involvement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties.

The Group's largest framework agreement, the Scape National Civil Engineering and Infrastructure framework, has now secured over £1 billion of civil engineering and infrastructure work. Since being appointed as main contractor in 2015, the four year framework has been used for over 100 projects across the UK. All completed projects have been on time and on budget. Balfour Beatty is currently bidding to retain its position on this framework with a decision expected in the second half of 2018.

In the first half of 2018, the Regional business successfully completed the £63 million Rossall coastal defence scheme for Wyre Council in partnership with the Environment Agency. The scheme protects the town's tramway, hospital and schools whilst reducing flood risk to 7,500 nearby residential properties through two kilometres of sea defences. Other projects completed during the period included: Aberdeen South of the City school, a £47 million project delivering a 1,350 pupil academy on behalf of Hub north Scotland and Aberdeen City Council; a £37 million luxury retirement complex for Audley Villages at Redwood, Bristol; and the £20 million Radisson Red Hotel in Glasgow.

In the period, the Regional business achieved a key milestone at the University of Manchester's £287 million Manchester Engineering Campus Development (MECD) project with the first reinforced concrete core reaching full height. The core, which is one of four, will be an integral component of the seven storey 'MEC Hall' building, housing lift shafts and stairwells. Other material ongoing projects include: the £150 million Madison Tower, a 53-storey residential building in Canary Wharf, London; Forth Valley College, Scotland; the renovation and new-build scheme at No.1 Palace Street in St James', London; and train stations at Warrington West (new station) and at Dundee (full refurbishment).

The Regional business had a number of successes in 2018 to date. Notable new contract awards in the period included:

- Curzon Street: Work has begun on a new build development comprising 32 apartments, at 60 Curzon Street, London;
- New Cross: £40 million contract for the New Cross Student Development in Manchester which will feature 274 apartments;
- University of Reading: £33 million contract to deliver a new Health and Life Sciences building; and
- Dundee Sports Centre: £27 million contract to construct a new sports centre in Dundee.

Included in ABNC, at 29 June 2018 the Group has been selected as preferred bidder for: Eastwick and Sweetwater residential development project; the redevelopment of the Darwin Building at Edinburgh University; and the Caernarfon bypass.

In the Rail Construction business, underlying revenues were broadly flat in the period. The business completed the West Outer Track Infrastructure (WOTI) project as part of its continued support of the Crossrail programme and work commenced on the examination, repair specification and report into the condition and safety of the Rhondda Tunnel. During the period, the Rail Construction business won the 'Reactive Building and Civils' contract worth up to £50 million. The contract is to perform work arising around Network Rail's building infrastructure in the West Country.

US

Underlying revenue in the US fell by 19% in the period (12% at CER) to £1,577 million following the reduction to the order book during 2017. In the second half of 2018 it is expected that US revenue will be in line with the first six months of the year.

The business reported an underlying profit from operations for the period of £17 million (2017: £17 million). The underlying PFO margin at 1.1% (2017: 0.9%) is within the Group's Build to Last Phase Two target of 1%-2% for US Construction. Overall the trajectory of the US business is positive and market conditions are favourable.

The 26% (23% at CER) increase in the US order book has been achieved at a quality consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities. In June, the US$1.95 billion Los Angeles airport (LAX) Automated People Mover project reached financial completion such that the Group's share of the contract (Construction 30% Balfour Beatty) has been included in the US order book. In addition, the Group has won over $500 million of contracts for schools, primarily in California, in the first half of the year.

Balfour Beatty continues to evolve its US organisation building on the standardisation and leaning out already delivered. At the year end the decision was taken to promote two internal candidates, to lead the Buildings and Civils businesses respectively. These appointments are leveraging the Group's market positions while maintaining the Build to Last contracting disciplines.

Even before the 2016 presidential election, there was a strong market outlook for construction and infrastructure in the US. In December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill was signed, providing funding for a five-year period. This bill permits longer term project planning horizons in the public market and is leading to improved visibility for publicly funded projects that had been slow to come to market. There are further opportunities being created with the number of state backed infrastructure bonds (US$35 billion of education bonds in California, over US$200 billion of multi-state transportation bonds), and an increase in US public-private partnership schemes.

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

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

In 2018, Buildings completed a number of notable projects including:

- Park District: In April, Balfour Beatty completed the Park District project, a 916,000-square-foot, mixed-used development in Dallas, Texas. The project includes a 20-storey office tower and a 34-storey residence tower;
- VY/Reston Heights: In January, the Group completed the 483,000-square-foot, mixed-use VY/Reston Heights residential development. The 385-unit residential community includes 89,000 square feet of retail and is located in Reston, Virginia.
- Icon Midtown: Balfour Beatty has completed work on the 39-storey Icon Midtown residential tower in Atlanta, Georgia. Located in Atlanta's Midtown area, the project features 390 luxury apartments with 6,500 square feet of retail space.

During the period strong progress has been made on flagship projects.

- Gables Station: The Group commenced the preconstruction phase of the 1.3-million-square-foot, mixed-use Gables Station development located in Coral Gables, Florida. Comprised of three towers, the development will feature 120,000 square feet of retail space, 500 residential units, and a 1,000-car parking garage;
- Capitol Crossing: In May, Balfour Beatty topped out the 12-storey 250 Massachusetts tower in Washington, D.C., having previously topped out the corresponding 12-storey 200 Massachusetts tower. The two towers comprising the North Block at Capitol Crossing project will ultimately total 960,000 square feet;
- 500 Folsom: The Group has successfully placed the 14th floor deck on the way to completing the remaining 29 floors by year end. The building will provide 545 residential units in the South of Market (SOMA) district of San Francisco, California; and
- The Epic: In June, Balfour Beatty topped out a 16-storey office tower located in Dallas which includes 290,000 square feet of office space.

The Buildings business had a number of new contract awards in the first six months of the year including:

- Los Angeles World Airports: In June, Balfour Beatty and its LAX Integrated Express Solutions (LINXS) joint venture team successfully reached financial close of the design-build-finance-operate-maintain (DBFOM) Automated People Mover (APM) project. Balfour Beatty is a 30% joint venture partner in the $1.95 billion construction element of the project with the work to be delivered across both the Buildings and Civils divisions;
- Microsoft Redmond Campus: The Group has been selected, in joint venture with Skanska, as a general contractor on Microsoft's head office refresh in Redmond, Washington. The project will include 18 new buildings, clustered into four distinct villages to create a unified campus;
- Stovall Street: The Group has been awarded a contract by Perseus TDC for the conversion of an office building in Alexandria, Virginia. The adaptive reuse project will transform the existing 610,000-square-foot, 13-storey office building into a 16-storey, mixed-use residential development; and
- Atelier: Balfour Beatty has been contracted to build a 41-storey, luxury residential tower located in Dallas, Texas. The project will feature 26,000 square feet of amenity space, 15,000 feet of onsite retail and a 10-storey parking garage.

Included in ABNC, the business has been made preferred bidder for: a US$605 million contract for the Broward County Convention Center Expansion and Headquarters Hotel; a US$150 million contract for an Atlanta airport hotel; a US $122 million contract for UNC Wilmington Freshman student housing under a PPP arrangement with the Infrastructure Investments business; and a US$55 million contract for the University of North Carolina-Charlotte Marriott Hotel and Conference Center.

The Civils business continues to create value, operating in the largely regulated markets of rail, water and road. In March, Civils completed the construction of Charlotte's light-rail extension (Blue Line) after four years of build. The 9.6-mile (15.45 km) Blue Line provides service to fifteen stations located within the Charlotte city limits.

Additionally during the period, progress has been made on key contracts with mobilisation at both the $625 million Southern Gateway and $1.08 billion Green Line extension projects. At Southern Gateway, an 11-mile stretch of road in Dallas, Texas, the design is in excess of 50% complete, with the widening of frontage roads and mainline barrier demolition commenced. At Green Line, a 4.7-mile commuter rail extension in Boston, Massachusetts, the design is underway with construction activities due to commence in the second half of 2018. At Caltrain, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, foundation work continues.

The Civils business had a number of successes in the first half of 2018. Notable new contract awards in the period included:

- EchoWater Project: In April, Balfour Beatty was awarded a $299 million contract by Sacramento Regional County Sanitation District to construct a new water treatment plant that will produce cleaner water for discharge to the Sacramento River, as well as for potential reuse as recycled water; and
- Los Angeles World Airports: As above, work split internally across Buildings and Civils divisions.

Gammon

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong and Singapore, the Group's share of underlying revenue decreased by 6% (2% increase at CER) to £451 million, consistent with the reduction in order book in 2017. Importantly, underlying profit from operations increased to £10 million (2017: £5 million) as two complex contracts were resolved in the prior year. In the first six months of the year, the order book increased by 8% (4% at CER) to £1.4 billion, as a result of wins in the Civils and Buildings businesses. At Gammon, the timing of orders is more variable around a small number of large contracts.

The order book is spread across a number of public and private customers. In Buildings, the focus is on productivity, efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever competitive advantage with a key area of future work likely to be from expansion of the airport in Hong Kong and other significant infrastructure programmes such as the Central Kowloon Route in Hong Kong and the Rail Circle Line in Singapore.

In the year to date, the Civils business has completed work on the West Kowloon Terminus North project for the express rail link to Shenzhen, China. During the period work has continued on major Buildings projects including: the redevelopment of Somerset House into a 48-storey office building; the construction of the Lee Garden Three Project, which will include 20 floors of office space atop a five-level retail complex; and the construction of a 71,000 square metre data centre for Global Switch in Hong Kong. Work has also continued on a number of Civils projects in Hong Kong, including the complex Tuen Mun-Chek Lap Kok (TMCLK) Viaduct project, which includes the design and construction of a dual two-lane sea viaduct.

Gammon had a number of successes in the first six months of 2018. Notable new contract awards in the period included:

- Lohas Park: HK$4 billion construction contract for a large scale residential development. The development, located at Tseung Kwan O bay in the Sai Kung District, Hong Kong, will include the construction of three 54-56 storey high residential towers on a five-level podium;
- L1: HK$1.5 billion contract for the West Kowloon Cultural District Authority (WKCDA) in Hong Kong to deliver the extended basement and infrastructure works; and
- Global Switch: SD$253m data centre contract in Singapore for Global Switch, a leading owner, operator and developer of large-scale, carrier and cloud neutral, multi-tenanted data centres.

Since the start of 2015, Balfour Beatty has exited the Middle East, Indonesia and Australia. In Canada, following the completion of the BC Children's and BC Women's hospitals in Vancouver, the Group now only holds Investments assets.

SUPPORT SERVICES

Financial review

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

Underlying Support Services revenue increased by 5% to £543 million (2017: £519 million), driven by increases in both utilities and transportation. Profit from operations and margins were stable at £17 million (2017: £16 million) and 3.1% (2017: 3.1%) respectively. The 3.1% underlying PFO margin was in the Build to Last Phase Two industry standard margin target of 3%-5%. The utilities order book was flat at £3.1 billion (FY 2017: £3.1 billion, HY 2017: £3.3 billion) as increases in rail and power transmission and distribution were offset by the expected decline in gas and water.

Support Services	HY 2018	HY 2017
Order book[1] (£bn)	3.1	3.3
Revenue[1] (£m)	543	519
Profit from operations[3] (£m)	17	16
Non-underlying items (£m)	4	–
Statutory profit from operations (£m)	21	16
Underlying PFO margin[3] (%)	3.1%	3.1%

[1] including share of joint ventures and associates

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

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

Operational review

Underlying utilities revenue increased by 3% to £308 million (2017: £299 million), driven by increases at power transmission and distribution. The utilities order book reduced to £1.2 billion (FY 2017: £1.3 billion) as an increase at power was more than offset by the expected decline in gas and water.

Despite the increased revenue and order book, the power transmission and distribution business continues to undergo restructure and cost removal. The business is eliminating low-value works and areas which do not align to its risk profile. The actions taken will ensure that the business is focused on the most profitable areas of its market.

In the period, power transmission and distribution successfully installed 140 new composite poles to connect the Dorenell Wind Farm to Blackhillock Substation. The business has continued its work on the Eleclink project, in conjunction with the Rail business, with good progress made over the last six months on the project to lay two 50-kilometre cables through the Channel Tunnel and connect them to converter stations in Northern France and Kent.

Notable new contract awards in the period included:

- Hinkley Point: Contract for National Grid plc for cabling works which will form part of the Hinkley Point C (HPC) connection scheme. The contract involves the design, supply and construction of a new 8.5km long 400kV double circuit cable route from Loxton in the Mendip Hills to a new substation at Sandford;
- Two contracts worth c.£47 million for the Fort Augustus to Fort William 132kV Transmission Reinforcement project; and
- Two contracts worth c.£43 million for the Beauly to Keith 132kV modernisation programme.

In gas and water, revenue was broadly in line with the first six months of 2017. The water business remains in the middle of the current UK water regulatory cycle (AMP6 2015 - 2020). Many water contracts are extended over multiple AMP periods and the Group has already started to engage on the AMP7 planning cycle. The gas market is in the middle of the RIIO-GD1 period, with no changes likely before early 2021.

In the period, the gas and water business successfully dealt with the 'Beast from the East' storm by tackling burst water mains throughout its areas of operation. The gas and water business expects a peak volume year in 2018, as it represents the middle of the current AMP/RIIO cycles.

Underlying transportation revenues increased by 7% to £235 million (2017: £220 million), due to an increase in rail maintenance work. The transportation order book increased 6% to £1.9 billion (FY 2017: £1.8 billion), due to a number of contract wins for Network Rail.

The rail services business won a number of maintenance contracts for Network Rail in the first six months of the year including:

- A four-year contract worth in excess of £40 million for the operation and maintenance of Network Rail's fleet of track maintenance 'Stoneblowers'; and
- A seven-year contract worth in excess of £115 million for the supply, operation and maintenance of 13 track maintenance 'Tampers'.

Balfour Beatty's Track Partnership contract with London Underground, to deliver essential track renewal work across the network, is due for re-tender in the second half of 2018.

In June, the Group launched a new Rail Innovation Centre at its Raynesway facility in Derby. The purpose built Rail Innovation Centre is a dedicated research, development and testing facility to support Balfour Beatty's contribution to the development of the digital railway for a more reliable, cost efficient and safe railway network for all users across the UK and overseas.

INFRASTRUCTURE INVESTMENTS

Financial review

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

Underlying profit from operations at £33 million (2017: £15 million) was higher than the prior year, due to an increase in profit on disposals following the third partial sell down (5%) in February of Connect Plus, the company which operates and maintains the M25 orbital motorway. Pre-disposals underlying operating profit decreased to £11 million (2017: £15 million) following the combined partial disposals (25%) of the M25 asset in 2017 and the current year. Net interest income remained broadly consistent year on year at £10 million (2017: £11 million) with underlying profit before tax at £43 million (2017: £26 million).

Infrastructure Investments	HY 2018 £m	HY 2017 £m
Pre-disposals operating profit[3]	11	15
Profit on disposals[3]	22	–
Profit from operations[3]	33	15
Net interest income from PPP concessions[+]	10	11
Profit before tax[3]	43	26
Non-underlying items	–	(3)
Statutory profit before tax	43	23

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

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

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

Operational review

In the first six months of 2018, the Infrastructure Investments business added two new projects and partially disposed of one asset.

In January 2018, the business was named preferred bidder on the Automated People Mover project at Los Angeles airport. Financial close was reached in June 2018 and Balfour Beatty owns a 27% equity stake in the project. In the private rented and regeneration sector, the North American business acquired a 7.5% stake at the Riverchase Landing multifamily housing project located in Birmingham, Alabama. Balfour Beatty Communities will perform property management services for the properties, leveraging its existing capabilities.

In February, the Group made a 5% partial sale in Connect Plus, the company which operates and maintains the M25 orbital motorway, for £42 million (profit on disposal of £22 million). The Group retains a 15% holding in the Connect Plus M25 asset. In July, Connect Plus successfully completed a refinancing.

Financial close was reached on four projects where the Group invests equity: the Automated People Mover in Los Angeles; Riverchase Landing multifamily housing; a student housing project at Purdue University in Indiana; and a major build-to-rent development, 'The Lancastrian', in the New Cross area of Manchester. At the end of June three projects had not yet reached financial close (December 2017: five projects).

The Infrastructure Investments business continues to see significant opportunities for future investment in its chosen geographic markets particularly in the US where the focus is on student accommodation, military housing and PPP opportunities. In the UK, the focus is on student accommodation and transmission opportunities.

Directors' valuation

During the first six months of the year the Directors' valuation remained broadly stable at £1,185 million (FY 2017: £1,244 million) with £108 million being realised from divestments in the period. The number of projects in the portfolio increased from 71 to 73. This reflected continued success in targeted sectors with two new projects included in the Directors' valuation for the first time.

Movement in value FY 2017 to HY 2018 £m

	FY 2017	Equity invested	Distributions received	Sales proceeds	Unwind of discount	New project wins	Gain on sales	Operational performance gains (inc. FX movements)	**HY 2018**
UK	636	27	(7)	(108)	24	–	–	(16)	**556**
North America	608	11	(32)	–	24	6	–	12	**629**
Total	1,244	38	(39)	(108)	48	6	–	(4)	**1,185**

The Group invested £38 million (2017: £24 million) in new and existing projects, predominately in the UK. Cash yield from distributions amounted to £39 million (2017: £26 million) as the portfolio continued to generate cash flow to the Group net of investment.

The business continued its strategy of maximising value through recycling equity from operationally proven projects, whilst preserving interests in strategic projects that offer opportunities to the wider Group. In February, the Group received £104 million for a 12.5% partial sale in Connect Plus the company which operates the M25 orbital motorway, consisting of 7.5% agreed in December 2017 and a further 5% agreed in February 2018.

Unwind of discount at £48 million (2017: £47 million) is a function of moving the valuation date forward with the result that future cash flows are discounted by six months less. Operational performance movements resulted in a £4 million decrease in the value of the portfolio (2017: £30 million decrease). The reduction was due to a number of changes in cash flow forecasts, discount rates and economic assumptions, partially offset by an exchange rate gain of £13 million on the North American US portfolio.

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

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

The Investments portfolio is currently split evenly across the UK and North America (UK 47%, North America 53%). Within the UK roads is still the largest sector, despite the 25% partial sale of the Connect Plus M25 asset, whilst in North America US military housing represents the majority of the portfolio. The Investments portfolio includes over £1 billion of projects that have completed the construction phase and are now operational.

Portfolio valuation June 2018

Value by sector

Sector	HY 2018	(FY 2017) No. projects	**HY 2018 £m**	FY 2017 £m
Roads	13	(13)	**210**	290
Healthcare	4	(4)	**144**	136
Student accommodation	4	(4)	**66**	64
OFTOs	3	(3)	**50**	51
Waste and biomass	4	(4)	**53**	57
Other	5	(5)	**33**	38
UK total	33	(33)	**556**	636
US military housing	21	(21)	**512**	497
Healthcare and other PPP	4	(3)	**34**	28
Student accommodation	7	(7)	**49**	49
Residential housing	8	(7)	**34**	34
North America total	40	(38)	**629**	608
Total	73	(71)	**1,185**	1,244

Value by phase

Phase	HY 2018	(FY 2017) No. projects	**HY 2018 £m**	FY 2017 £m
Operations	58	(56)	**1,018**	1,089
Construction	12	(10)	**159**	130
Preferred bidder	3	(5)	**8**	25
Total	73	(71)	**1,185**	1,244

Value by income type

Income type	HY 2018	(FY 2017) No. projects	**HY 2018 £m**	FY 2017 £m
Availability based	26	(25)	**452**	518
Demand – operationally proven (2+ years)	34	(33)	**572**	559
Demand – early stage (less than 2 years)	13	(13)	**161**	167
Total	73	(71)	**1,185**	1,244

UK portfolio

In the first six months of the year, £27 million was invested across four projects in the portfolio: Aberdeen Western Peripheral Route (AWPR); Irish Primary Care; Welland Bio Power; and the regeneration development at Eastwick and Sweetwater.

During the period, there was a partial sale of 12.5% of the Connect Plus M25 asset, comprising the completion of a 7.5% sale agreed in December 2017 and a further 5% sale agreed subsequently in February 2018, which generated proceeds of £104 million. £4 million was received following financial close at a development in the New Cross area of Manchester.

In aggregate operational performance movements resulted in a £16 million reduction in value arising from the net effect of revised cash flow forecasts for certain projects.

Discount rates applied to the UK portfolio range between 7% and 12% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.6% (FY 2017: 8.5%). A 1% change in discount rate would change the value of the UK portfolio by approximately £55 million.

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

North American portfolio

In the first six months of the year, the business won two projects: an investment in a private rental housing portfolio at Birmingham, Alabama; and a PPP project to construct and operate the Automated People Mover at Los Angeles Airport in California.

Investment of £11 million was made during the period in two existing and one new project: a PPP data centre in Canada and a student accommodation project at Purdue University; and the stake acquired in the private rental housing portfolio in Birmingham, Alabama.

Operational performance movements resulted in a £12 million increase in the value of the portfolio, consisting mainly of an increase of £13 million due to exchange rate movements, together with some revised cash flow forecasts for certain projects.

Discount rates applied to the North American portfolio range between 7.5% and 10.25%. The implied weighted average discount rate is 8.3% (FY 2017: 8.2%) and a 1% change in the discount would change the value of the North American portfolio by approximately £86 million.

Under the Tax Cuts and Jobs Act passed by the US Government in December 2017 there are provisions to restrict the tax deductibility of interest expense. The provisions are complex and their application requires clarification in a number of areas, but the initial assessment is that the restriction will not have a material effect on the Directors' valuation. The Group will monitor the application of the rules and any forthcoming guidance.

OTHER FINANCIAL ITEMS

Taxation

The Group's underlying profit before tax from continuing operations for subsidiaries of £37 million (2017: £8 million loss) resulted in an underlying tax charge of £4 million (2017: £nil million).

Goodwill

The goodwill on the Group's balance sheet at 29 June 2018 increased to £885 million (FY 2017: £874 million) as a result of foreign exchange movements. A full detailed impairment review will be conducted at 31 December 2018.

Factoring

Whilst the Group makes available to its supply chain a factoring scheme, it is not actively promoted and at 29 June 2018 the total drawn on the scheme was less than £10,000.

Banking facilities

The Group's core committed revolving credit facility totals £400 million. The facility was last refinanced in December 2015 with the £400 million facility extending through to 2018. In November 2017 £375 million of the facility was extended until December 2020. In March 2018, the Group entered into a further £25 million committed revolving bilateral credit facility that also matures in December 2020. Accordingly the Group now has £400 million of committed facilities that extend to December 2020. The purpose of the facilities is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. At 29 June 2018, all facilities were undrawn.

Financial risk factors and going concern

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

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 29 June 2018, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

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

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

- the Group has a strong order book;
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates;
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had net cash balances of £366 million at 29 June 2018;
- the Group's portfolio of Infrastructure Investments comprises reasonably realisable securities which can be sold to meet funding requirements as necessary; and
- the Group has access to committed credit facilities totalling £400 million through to December 2020. At 29 June 2018, this facility was wholly undrawn.

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

Responsibility statement

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 29 June 2018 and their impact on the condensed Group financial statements;
- a description of the principal risks and uncertainties for the second half of the year; and
- related parties' transactions and changes therein.

On behalf of the Board

Leo Quinn	Phil Harrison
Group Chief Executive	Chief Financial Officer
14 August 2018	

Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this announcement and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature, these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, and failure in Balfour Beatty's health, safety or environmental policies.

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

MEASURING OUR PERFORMANCE

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

Readers are encouraged to review this announcement in its entirety.

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Measuring the Group’s performance

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

Statutory measures

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

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 102 to 109 of the Annual Report and Accounts 2017.

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

Performance measures

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

a) Order book

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

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

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

b) Underlying performance

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

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions;
- costs of major restructuring and reorganisation of existing businesses;
- acquisition and similar costs related to business combinations such as transaction costs; and
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets). These are non-underlying costs as they do not relate to the underlying performance of the Group.

From time to time, it may be appropriate to disclose further items as non-underlying items in order to reflect the underlying performance of the Group.

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

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

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

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

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

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

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

Reconciliation of the half-year ended 30 June 2017 statutory results to performance measures

	2017 first half unaudited statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Results of Rail Germany £m	Other £m	2017 first half unaudited performance measures £m
Continuing operations						
Revenue including share of joint ventures and associates (performance)	**4,201**	–	–	(10)	–	**4,191**
Share of revenue of joint ventures and associates	**(657)**	–	–	2	–	**(655)**
Group revenue (statutory)	**3,544**	–	–	(8)	–	**3,536**
Cost of sales	**(3,376)**	–	–	8	–	**(3,368)**
Gross profit	**168**	–	–	–	–	**168**
Amortisation of acquired intangible assets	**(5)**	–	5	–	–	–
Other net operating expenses	**(164)**	5	–	–	–	**(159)**
Group operating (loss)/profit	**(1)**	5	5	–	–	**9**
Share of results of joint ventures and associates	**30**	–	–	–	–	**30**
Profit from operations	**29**	5	5	–	–	**39**
Investment income	**20**	–	–	–	–	**20**
Finance costs	**(37)**	–	–	–	–	**(37)**
Profit before taxation	**12**	5	5	–	–	**22**
Taxation	**2**	–	(2)	–	–	–
Profit for the period from continuing operations	**14**	5	3	–	–	**22**
Profit for the period from discontinued operations	**6**	–	–	–	(5)	**1**
Profit for the period	**20**	5	3	–	(5)	**23**

Reconciliation of the half-year ended 30 June 2017 statutory results to performance measures by segment

Profit/(loss) from operations	2017 first half statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Results of Rail Germany £m	Other £m	2017 first half performance measures £m
Segment						
Construction Services	**20**	2	2	–	–	**24**
Support Services	**16**	–	–	–	–	**16**
Infrastructure Investments	**12**	–	3	–	–	**15**
Corporate activities	**(19)**	3	–	–	–	**(16)**
Total	**29**	5	5	–	–	**39**

Reconciliation of the year ended 31 December 2017 statutory results to performance measures

	2017 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Gains on disposals £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	US Federal tax rate change £m	UK deferred tax asset £m	2017 performance measures £m
Continuing operations									
Revenue including share of joint ventures and associates (performance)	**8,264**	–	–	–	(30)	–	–	–	**8,234**
Share of revenue of joint ventures and associates	**(1,348)**	–	–	–	8	–	–	–	**(1,340)**
Group revenue (statutory)	**6,916**	–	–	–	(22)	–	–	–	**6,894**
Cost of sales	**(6,605)**	–	–	–	20	44	–	–	**(6,541)**
Gross profit	**311**	–	–	–	(2)	44	–	–	**353**
Gain on disposals of interests in investments	**86**	–	–	–	–	–	–	–	**86**
Amortisation of acquired intangible assets	**(9)**	–	9	–	–	–	–	–	**–**
Other net operating expenses	**(299)**	12	–	(17)	2	–	–	–	**(302)**
Group operating profit	**89**	12	9	(17)	–	44	–	–	**137**
Share of results of joint ventures and associates	**59**	–	–	–	–	–	–	–	**59**
Profit from operations	**148**	12	9	(17)	–	44	–	–	**196**
Investment income	**42**	–	–	–	–	–	–	–	**42**
Finance costs	**(73)**	–	–	–	–	–	–	–	**(73)**
Profit before taxation	**117**	12	9	(17)	–	44	–	–	**165**
Taxation	**45**	–	(3)	1	–	–	(32)	(34)	**(23)**
Profit for the year from continuing operations	**162**	12	6	(16)	–	44	(32)	(34)	**142**
Profit for the year from discontinued operations	**6**	–	–	(5)	–	–	–	–	**1**
Profit for the year	**168**	12	6	(21)	–	44	(32)	(34)	**143**

Reconciliation of the year ended 31 December 2017 statutory results to performance measures by segment

Profit/(loss) from operations	2017 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Gains on disposals £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	US Federal tax rate change £m	UK deferred tax asset £m	2017 performance measures £m
Segment									
Construction Services	**36**	6	4	(18)	–	44	–	–	**72**
Support Services	**39**	2	–	–	–	–	–	–	**41**
Infrastructure Investments	**110**	–	5	1	–	–	–	–	**116**
Corporate activities	**(37)**	4	–	–	–	–	–	–	**(33)**
Total	**148**	12	9	(17)	–	44	–	–	**196**

c) Underlying profit before tax

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

		2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Underlying profit from operations (section (b) and Note 3)		**33**	15	116
Add:	Subordinated debt interest receivable^	**13**	12	26
	Interest receivable on PPP financial assets^	**4**	5	11
Less:	Non-recourse borrowings finance cost^	**(7)**	(6)	(13)
Underlying profit before tax (Performance)		**43**	26	140
Non-underlying items (section (b) and Note 8)		**–**	(3)	(6)
Statutory profit before tax		**43**	23	134

^ Refer to Note 6 and Note 7.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Statutory earnings per ordinary share	**10.1**	2.9	24.7
Less: earnings from discontinued operations	**–**	(0.9)	(1.0)
Statutory earnings per ordinary share from continuing operations	**10.1**	2.0	23.7
Amortisation of acquired intangible assets	**0.6**	0.4	0.8
Other non-underlying items	**(3.2)**	0.8	(3.6)
Underlying earnings per ordinary share from continuing operations (performance)	**7.5**	3.2	20.9

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

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

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

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

f) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the period end. This is analysed using only elements that are recourse to the Group and excludes the liability component of the Company's preference shares, which is debt in nature according to statutory measures, as this is excluded from the definition of net debt in the covenants set out in the Group's facilities.

Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies.

Net cash/borrowings reconciliation

	2018 first half unaudited statutory £m	**Adjustment £m**	**2018 first half unaudited performance £m**	2017 first half unaudited statutory £m	Adjustment £m	2017 first half unaudited performance £m	2017 year audited statutory £m	Adjustment £m	2017 year audited performance £m
Total cash within the Group	**926**	(104)	**822**	843	(154)	689	968	(135)	833
Cash and cash equivalents									
– infrastructure concessions	**104**	(104)	**–**	154	(154)	–	135	(135)	–
– other	**822**	–	**822**	689	–	689	833	–	833
Total debt within the Group	**(993)**	537	**(456)**	(1,075)	547	(528)	(1,041)	543	(498)
Borrowings – non-recourse loans	**(433)**	433	**–**	(446)	446	–	(440)	440	–
– other	**(456)**	–	**(456)**	(528)	–	(528)	(498)	–	(498)
Liability component of preference shares	**(104)**	104	**–**	(101)	101	–	(103)	103	–
Net (borrowings)/cash	**(67)**	433	**366**	(232)	393	161	(73)	408	335

g) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and the liability component of the Company's preference shares, and this performance measure shows average net cash of £161m (2017: first half average net cash of £45m; full-year average net cash of £42m).

Using a statutory measure (inclusive of non-recourse elements and the liability component of the Company's preference shares) gives average net borrowings of £70m (2017: first half average net borrowings of £196m; full-year average net borrowings of £117m).

h) Directors' valuation of the Investments portfolio

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

The Directors have valued the Investments portfolio at £1.2bn at the half-year (2017: first half £1.2bn; full-year £1.2bn). The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

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

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Net assets of the Infrastructure Investments segment (refer to Note 3.2)	**565**	639	629
Less: Recourse loans presented within Corporate activities relating to Infrastructure Investments projects	**(14)**	(14)	(13)
Less: Net assets not included within the Directors' valuation			
– Housing division	**(24)**	(17)	(24)
– Infrastructure asset*	**–**	(5)	–
Comparable statutory measure of the Investments portfolio under IFRS	**527**	603	592

* Infrastructure asset represents the Group's carrying value of Blackpool Airport. Blackpool Airport was not included in the Directors' valuation and has been disposed in the second-half of 2017.

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

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Statutory measure of the Investments portfolio (as above)	**527**	603	592
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: ▪ historical cost; ▪ amortised cost; and ▪ fair value	**658**	632	652
Directors' valuation (performance measure)+	**1,185**	1,235	1,244

+ FY 2017 valuation includes £62 million relating to the 7.5% second partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. The proceeds were subsequently received on 23 February 2018.

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

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

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

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

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

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

i) Constant exchange rates (CER)

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

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

2018 statutory growth compared to performance growth

	Construction Services						
Continuing operations	**UK**	**US**	**Gammon**	**Total**	**Support Services**	**Infrastructure Investments**	**Total**
Revenue (£m)							
2018 first half statutory	949	1,571	–	2,520	529	171	3,220
2017 first half statutory	980	1,924	–	2,904	504	136	3,544
Statutory growth (%)	**(3)%**	**(18)%**	**–**	**(13)%**	**5%**	**26%**	**(9)%**
2018 first half performance^	947	1,577	451	2,975	543	318	3,836
2017 first half performance retranslated^	975	1,801	440	3,216	520	256	3,992
Performance CER growth (%)	**(3)%**	**(12)%**	**2%**	**(7)%**	**4%**	**24%**	**(4)%**
Order book (£bn)							
2018 first-half	2.7	5.4	1.4	9.5	3.1	–	12.6
2017 year	2.7	4.3	1.3	8.3	3.1	–	11.4
Growth (%)	**–%**	**26%**	**6%**	**15%**	**–%**	**–**	**11%**
2018 first-half	2.7	5.4	1.4	9.5	3.1	–	12.6
2017 year retranslated	2.7	4.4	1.3	8.4	3.1	–	11.5
CER growth (%)	**–%**	**23%**	**4%**	**13%**	**–%**	**–**	**10%**

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

INDEPENDENT REVIEW REPORT TO BALFOUR BEATTY PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 29 June 2018 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 the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 29 June 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

As disclosed in note 1.1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

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

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

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

Paul Sawdon
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square,
London E14 5GL
14 August 2018

Condensed Group Income Statement

For the half-year ended 29 June 2018

	Notes	2018 first half unaudited Underlying items[1] £m	2018 first half unaudited Non-underlying items (Note 8) £m	2018 first half unaudited Total £m	2017 first half unaudited Underlying items[1] £m	2017 first half unaudited Non-underlying items (Note 8) £m	2017 first half unaudited Total £m	2017 year audited Underlying items[1] £m	2017 year audited Non-underlying items (Note 8) £m	2017 year audited Total £m
Continuing operations										
Revenue including share of joint ventures and associates		**3,836**	**3**	**3,839**	4,191	10	4,201	8,234	30	8,264
Share of revenue of joint ventures and associates	5.1	**(618)**	**(1)**	**(619)**	(655)	(2)	(657)	(1,340)	(8)	(1,348)
Group revenue		**3,218**	**2**	**3,220**	3,536	8	3,544	6,894	22	6,916
Cost of sales		**(3,048)**	**(9)**	**(3,057)**	(3,368)	(8)	(3,376)	(6,541)	(64)	(6,605)
Gross profit/(loss)		**170**	**(7)**	**163**	168	–	168	353	(42)	311
Gain on disposals of interests in investments		**22**	**–**	**22**	–	–	–	86	–	86
Amortisation of acquired intangible assets		**–**	**(4)**	**(4)**	–	(5)	(5)	–	(9)	(9)
Other net operating (expenses)/income		**(145)**	**5**	**(140)**	(159)	(5)	(164)	(302)	3	(299)
Group operating profit/(loss)		**47**	**(6)**	**41**	9	(10)	(1)	137	(48)	89
Share of results of joint ventures and associates	5.1	**19**	**–**	**19**	30	–	30	59	–	59
Profit/(loss) from operations		**66**	**(6)**	**60**	39	(10)	29	196	(48)	148
Investment income	6	**20**	**–**	**20**	20	–	20	42	–	42
Finance costs	7	**(30)**	**–**	**(30)**	(37)	–	(37)	(73)	–	(73)
Profit/(loss) before taxation		**56**	**(6)**	**50**	22	(10)	12	165	(48)	117
Taxation	9	**(4)**	**23**	**19**	–	2	2	(23)	68	45
Profit/(loss) for the period from continuing operations		**52**	**17**	**69**	22	(8)	14	142	20	162
Profit for the period from discontinued operations		**–**	**–**	**–**	1	5	6	1	5	6
Profit/(loss) for the period		**52**	**17**	**69**	23	(3)	20	143	25	168
Attributable to										
Equity holders		**52**	**17**	**69**	23	(3)	20	143	25	168
Non-controlling interests		**–**	**–**	**–**	–	–	–	–	–	–
Profit/(loss) for the period		**52**	**17**	**69**	23	(3)	20	143	25	168

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

	Notes	**2018 first half unaudited pence**	2017 first half unaudited pence	2017 year audited pence
Basic earnings per ordinary share				
- continuing operations	10	**10.1**	2.0	23.7
- discontinued operations	10	**–**	0.9	1.0
	10	**10.1**	2.9	24.7
Diluted earnings per ordinary share				
- continuing operations	10	**10.0**	2.0	23.4
- discontinued operations	10	**–**	0.9	1.0
	10	**10.0**	2.9	24.4
Dividends per ordinary share proposed for the period	11	**1.6**	1.2	3.6

Condensed Group Statement of Comprehensive Income

For the half-year ended 29 June 2018

	2018 first half unaudited			2017 first half unaudited			2017 year audited		
	Group £m	**Share of joint ventures and associates £m**	**Total £m**	Group £m	Share of joint ventures and associates £m	Total £m	Group £m	Share of joint ventures and associates £m	Total £m
Profit/(loss) for the period	**50**	**19**	**69**	(11)	31	20	108	60	168
Other comprehensive income/(loss) for the period									
Items which will not subsequently be reclassified to the income statement									
Actuarial gains on retirement benefit net assets/liabilities	**138**	**–**	**138**	14	–	14	242	4	246
Tax on above	**(20)**	**–**	**(20)**	4	–	4	(37)	–	(37)
	118	**–**	**118**	18	–	18	205	4	209
Items which will subsequently be reclassified to the income statement									
Currency translation differences	**15**	**(3)**	**12**	(9)	(10)	(19)	(30)	(18)	(48)
Fair value revaluations – PPP financial assets	**(2)**	**(12)**	**(14)**	(2)	(20)	(22)	3	60	63
– cash flow hedges	**3**	**20**	**23**	5	8	13	4	11	15
– Available-for-sale investments in mutual funds	**1**	**–**	**1**	2	–	2	3	–	3
Recycling of revaluation reserves to the income statement on disposal^	**–**	**(21)**	**(21)**	–	–	–	–	(85)	(85)
Tax on above	**–**	**(1)**	**(1)**	(1)	2	1	–	(13)	(13)
	17	**(17)**	**–**	(5)	(20)	(25)	(20)	(45)	(65)
Total other comprehensive income/(loss) for the period	**135**	**(17)**	**118**	13	(20)	(7)	185	(41)	144
Total comprehensive income for the period	**185**	**2**	**187**	2	11	13	293	19	312
Attributable to									
Equity holders			**187**			13			312
Non-controlling interests			**–**			–			–
Total comprehensive income for the period			**187**			13			312

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

Condensed Group Statement of Changes in Equity

For the half-year ended 29 June 2018

	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves: Equity component of preference shares and convertible bonds £m	Other reserves: Hedging reserves £m	Other reserves: PPP financial assets £m	Other reserves: Currency translation reserve £m	Other reserves: Other £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2017 audited	345	65	22	184	44	(30)	25	135	17	(50)	5	762
Total comprehensive income/(loss) for the period	–	–	–	11	–	3	(2)	(9)	1	9	–	13
Joint ventures' and associates' dividends	–	–	–	(27)	–	–	–	–	–	27	–	–
Ordinary dividends	–	–	–	–	–	–	–	–	–	(12)	–	(12)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	2	–	2
Reserve transfers relating to disposals	–	–	–	13	–	–	–	–	–	(13)	–	–
At 30 June 2017	345	65	22	181	44	(27)	23	126	18	(37)	5	765
Total comprehensive income/(loss) for the period	–	–	–	8	–	–	4	(21)	4	304	–	299
Joint ventures' and associates' dividends	–	–	–	(42)	–	–	–	–	–	42	–	–
Ordinary dividends	–	–	–	–	–	–	–	–	–	(8)	–	(8)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	6	(1)	–	5
Reserve transfers relating to disposals	–	–	–	(34)	–	–	–	–	–	34	–	–
Minority interests	–	–	–	–	–	–	–	–	–	–	5	5
Convertible bond repurchase	–	–	–	–	(2)	–	–	–	–	2	–	–
At 31 December 2017	345	65	22	113	42	(27)	27	105	28	336	10	1,066
Adjustment as a result of transitioning to IFRS 15 on 1 January 2018[2]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
Adjusted equity at 1 January 2018	**345**	**65**	**22**	**113**	**42**	**(27)**	**27**	**105**	**28**	**339**	**10**	**1,069**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**2**	**–**	**3**	**(2)**	**15**	**1**	**168**	**–**	**187**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(38)**	**–**	**–**	**–**	**–**	**–**	**38**	**–**	**–**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(16)**	**–**	**(16)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**(1)**	**–**	**–**
Reserve transfers relating to disposals	**–**	**–**	**–**	**(9)**	**–**	**–**	**–**	**–**	**–**	**9**	**–**	**–**
Convertible bond repurchase	**–**	**–**	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**	**2**	**–**	**–**
At 29 June 2018	**345**	**65**	**22**	**68**	**40**	**(24)**	**25**	**120**	**30**	**539**	**10**	**1,240**

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 25).

Condensed Group Balance Sheet

At 29 June 2018

	Notes	**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
Non-current assets				
Intangible assets – goodwill	12	**885**	911	874
– other		**306**	267	281
Property, plant and equipment		**156**	173	157
Investment properties		**40**	47	46
Investments in joint ventures and associates	5.2	**522**	630	531
Investments		**34**	43	39
PPP financial assets	15	**159**	159	163
Trade and other receivables	13	**241**	217	216
Retirement benefit assets	16	**283**	–	156
Deferred tax assets		**54**	68	52
Derivative financial instruments	21	**–**	2	1
		2,680	2,517	2,516
Current assets				
Inventories[2]		**52**	95	107
Contract assets[2]		**409**	–	–
Due from construction contract customers[2]		**–**	384	377
Trade and other receivables[2]	13	**940**	1,043	899
Cash and cash equivalents – infrastructure concessions	18.2	**104**	154	135
– other	18.2	**822**	689	833
Current tax assets		**8**	–	8
Derivative financial instruments	21	**1**	3	2
		2,336	2,368	2,361
Total assets		**5,016**	4,885	4,877
Current liabilities				
Due to construction contract customers[2]		**–**	(531)	(535)
Contract liabilities[2]		**(464)**	–	–
Trade and other payables[2]	14	**(1,590)**	(1,746)	(1,542)
Provisions[2]		**(224)**	(169)	(194)
Borrowings – non-recourse loans	18.3	**(43)**	(45)	(8)
– other	18.3	**(215)**	(40)	(268)
Current tax liabilities		**(14)**	(9)	(15)
Derivative financial instruments	21	**(4)**	(4)	(5)
		(2,554)	(2,544)	(2,567)
Non-current liabilities				
Contract liabilities[2]		**(3)**	–	–
Trade and other payables[2]	14	**(163)**	(166)	(157)
Provisions[2]		**(122)**	(96)	(98)
Borrowings – non-recourse loans	18.3	**(390)**	(401)	(432)
– other	18.3	**(241)**	(488)	(230)
Liability component of preference shares		**(104)**	(101)	(103)
Retirement benefit liabilities	16	**(99)**	(208)	(124)
Deferred tax liabilities		**(74)**	(85)	(70)
Derivative financial instruments	21	**(26)**	(31)	(30)
		(1,222)	(1,576)	(1,244)
Total liabilities		**(3,776)**	(4,120)	(3,811)
Net assets		**1,240**	765	1,066
Equity				
Called-up share capital		**345**	345	345
Share premium account		**65**	65	65
Special reserve		**22**	22	22
Share of joint ventures' and associates' reserves		**68**	181	113
Other reserves		**191**	184	175
Retained profits[2]		**539**	(37)	336
Equity attributable to equity holders of the parent		**1,230**	760	1,056
Non-controlling interests		**10**	5	10
Total equity		**1,240**	765	1,066

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 25).

Condensed Group Statement of Cash Flows

For the half-year ended 29 June 2018

	Notes	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Cash flows (used in)/generated from operating activities				
Cash (used in)/generated from:				
- continuing operations – underlying[1]	18.1	**7**	21	62
– non-underlying	18.1	**(43)**	(14)	(21)
Income taxes paid		**(2)**	(1)	(3)
Net cash (used in)/generated from operating activities		**(38)**	6	38
Cash flows generated from/(used in) investing activities				
Dividends from: - joint ventures and associates – infrastructure concessions		**17**	8	16
- joint ventures and associates – other		**21**	19	53
Interest received – infrastructure concessions		**3**	2	9
Interest received – other		**2**	4	12
Acquisition of businesses, net of cash and cash equivalents acquired		**(3)**	–	(3)
Purchases of: - intangible assets – infrastructure concessions		**(30)**	(56)	(76)
- intangible assets – other		**(1)**	(3)	(5)
- property, plant and equipment – other		**(11)**	(13)	(20)
- investment properties		**–**	(6)	(3)
- other investments		**–**	(3)	(1)
Investments in and long-term loans to joint ventures and associates		**(38)**	(21)	(30)
PPP financial assets cash expenditure[+]	15	**(1)**	–	(1)
PPP financial assets cash receipts[+]	15	**7**	7	15
Disposals of: - investments in joint ventures – infrastructure concessions	19.2	**104**	–	103
- investments in joint ventures – other		**4**	4	3
- subsidiaries net of cash disposed, separation and transaction costs		**–**	–	40
- property, plant and equipment		**3**	3	11
- investment property		**4**	–	–
- other investments		**6**	3	8
Net cash generated from/(used in) investing activities		**87**	(52)	131
Cash flows (used in)/generated from financing activities				
Purchase of ordinary shares	17	**(2)**	(1)	(2)
Proceeds from other new loans relating to infrastructure concessions assets	18.4	**–**	210	212
Repayments of: - loans – infrastructure concessions	18.4	**(8)**	(2)	(4)
- loans – other	18.4	**(32)**	(50)	(52)
Repurchase of convertible bonds	18.4	**(17)**	–	(21)
Ordinary dividends paid		**(16)**	–	(20)
Interest paid – infrastructure concessions		**(7)**	(7)	(16)
Interest paid – other		**(7)**	(15)	(24)
Preference dividends paid		**(6)**	(6)	(12)
Net cash (used in)/generated from financing activities		**(95)**	129	61
Net (decrease)/increase in cash and cash equivalents		**(46)**	83	230
Effects of exchange rate changes		**4**	(10)	(30)
Cash and cash equivalents at beginning of period		**968**	768	768
Cash and cash equivalents at end of period	18.2	**926**	841	968

[1] Before non-underlying items (Note 8).
[+] Cash expenditure and cash receipts have been re-presented for assets within the social infrastructure category for the first-half of 2017.

Notes to the financial statements

1.1 Basis of accounting

The condensed Group financial statements for the half-year ended 29 June 2018 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 2017, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The condensed Group financial statements, which are not audited have been reviewed and were approved for issue by the Board on 14 August 2018. The financial information included in this report does not constitute statutory accounts for the purposes of Section 434 of the Companies Act 2006. A copy of the Group's audited statutory accounts for the year ended 31 December 2017 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 2017 except as described in Note 1.4 below.

1.2 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty remain unchanged since the year-end and are set out in Note 2.27 on pages 108 and 109 of the Annual Report and Accounts 2017.

1.3 Going concern

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

1.4 Adoption of new and revised standards

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to the following standards:
    - IAS 40 Transfers of Investment Property
    - IFRS 2 Classification and Measurement of Share-based Payment Transactions
    - IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
    - Clarifications to IFRS 15 Revenue from Contracts with Customers
    - Improvements to IFRSs (2014 – 2016)

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

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 retrospectively from 1 January 2018. There was no material impact on adoption of this new standard. As disclosed in the Group's Annual Report and Accounts 2017, under the new standard the Group will be able to continue to record movements in its PPP financial assets through Other Comprehensive Income (OCI) using the fair value through OCI category. This is because these financial assets are held within a business model whose objective at Group level is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset meet the "solely payments of principal and interest on the principal outstanding" criterion.

1.4 Adoption of new and revised standards continued

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018. The Group has adopted IFRS 15 retrospectively and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2018 by a credit of £3m to reflect the impact of transitioning to IFRS 15. This adjustment primarily reflects the impact of unbundling a handful of contracts according to what the Group has assessed to be the performance obligations to be delivered to the customer.

In line with the requirements of the standard with regards to the transition option adopted, the Group has not restated its comparative information which continues to be reported under previous revenue standards, IAS 11 and IAS 18. To aide comparability, the Group has also presented its half-year 2018 results under IAS 11 and IAS 18 which can be found in Note 25.

As a result of this new standard, the Group has also revised its accounting policies around revenue recognition (where applicable). This can be found in Notes 2.1, 2.4 and 2.5 on pages 103 to 105 of the Annual Report and Accounts 2017.

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 29 June 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  - IAS 19 Plan Amendment, Curtailment or Settlement
  - IAS 28 Long-term Interests in Associates and Joint Ventures
  - IFRS 9 Prepayment Features with Negative Compensation
  - Improvements to IFRSs (2015 – 2017)
  - References to the Conceptual Framework

The Directors continue to assess the impact of IFRS 16 but do not expect the other standards above to have a material quantitative effect. The Group is currently in the data collection phase of its IFRS 16 project and a review of its leases will be conducted in conjunction with its budgetary cycle in the fourth quarter of the year.

The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

2 Exchange rates

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

Average rates

£1 buys	**2018 first half unaudited**	2017 first half unaudited	2017 year audited	30 June 2017 – 29 June 2018 % change	31 Dec 2017 - 29 June 2018 % change
US$	**1.37**	1.27	1.29	7.9%	6.2%
HK$	**10.75**	9.84	10.07	9.2%	6.8%
Euro	**1.14**	1.17	1.14	(2.6)%	–

Closing rates

£1 buys	**2018 first half unaudited**	2017 first half unaudited	2017 year audited	30 June 2017 - 29 June 2018 % change	31 Dec 2017 - 29 June 2018 % change
US$	**1.32**	1.30	1.35	1.5%	(2.2)%
HK$	**10.36**	10.12	10.56	2.4%	(1.9)%
Euro	**1.13**	1.14	1.13	(0.9)%	–

3 Segment analysis

Reportable segments of the Group:

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

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

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

3.1 Income statement – performance by activity from continuing operations

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

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

For the half-year ended 30 June 2017 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	3,408	519	264	–	4,191
Share of revenue of joint ventures and associates[1]	(512)	(15)	(128)	–	(655)
Group revenue[1]	2,896	504	136	–	3,536
Group operating profit/(loss)[1]	9	16	–	(16)	9
Share of results of joint ventures and associates[1]	15	–	15	–	30
Profit/(loss) from operations[1]	24	16	15	(16)	39
Non-underlying items					
- amortisation of acquired intangible assets	(2)	–	(3)	–	(5)
- other non-underlying items	(2)	–	–	(3)	(5)
	(4)	–	(3)	(3)	(10)
Profit/(loss) from operations	20	16	12	(19)	29
Investment income					20
Finance costs					(37)
Profit before taxation					12

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

3 Segment analysis continued

3.1 Income statement – performance by activity from continuing operations

For the year ended 31 December 2017 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	6,649	1,061	524	–	8,234
Share of revenue of joint ventures and associates[1]	(1,074)	(30)	(236)	–	(1,340)
Group revenue[1]	5,575	1,031	288	–	6,894
Group operating profit/(loss)[1]	42	41	87	(33)	137
Share of results of joint ventures and associates[1]	30	–	29	–	59
Profit/(loss) from operations[1]	72	41	116	(33)	196
Non-underlying items:					
- additional loss on the AWPR contract as a result of Carillion's liquidation	(44)	–	–	–	(44)
- amortisation of acquired intangible assets	(4)	–	(5)	–	(9)
- other non-underlying items	12	(2)	(1)	(4)	5
	(36)	(2)	(6)	(4)	(48)
Profit/(loss) from operations	36	39	110	(37)	148
Investment income					42
Finance costs					(73)
Profit before taxation					117

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

3.2 Assets and liabilities by activity

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

* Includes non-operating items and current working capital.

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

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 25).

3 Segment analysis continued

3.2 Assets and liabilities by activity continued

As at half-year ended 30 June 2017 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Due from construction contract customers	256	128	–	–	384
Due to construction contract customers	(463)	(68)	–	–	(531)
Inventories and non-construction work in progress	22	52	21	–	95
Trade and other receivables – current	882	99	37	25	1,043
Trade and other payables – current	(1,383)	(251)	(52)	(60)	(1,746)
Provisions – current	(138)	(13)	(3)	(15)	(169)
Working capital*	(824)	(53)	3	(50)	(924)

* Includes non-operating items and current working capital.

Total assets	2,297	485	1,283	820	4,885
Total liabilities	(2,429)	(365)	(644)	(682)	(4,120)
Net (liabilities)/assets	(132)	120	639	138	765

As at year ended 31 December 2017 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Due from construction contract customers	254	123	–	–	377
Due to construction contract customers	(440)	(95)	–	–	(535)
Inventories and non-construction work in progress	29	51	27	–	107
Trade and other receivables – current	688	96	101	14	899
Trade and other payables – current	(1,205)	(242)	(53)	(42)	(1,542)
Provisions – current	(150)	(18)	(6)	(20)	(194)
Working capital*	(824)	(85)	69	(48)	(888)

* Includes non-operating items and current working capital.

Total assets	2,119	539	1,264	955	4,877
Total liabilities	(2,030)	(270)	(635)	(876)	(3,811)
Net assets	89	269	629	79	1,066

3 Segment analysis continued

3.3 Other information

	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
For the half-year ended 29 June 2018 unaudited					
Capital expenditure on property, plant and equipment	**6**	**2**	**–**	**3**	**11**
Capital expenditure on intangible assets	**1**	**–**	**30**	**–**	**31**
Depreciation	**5**	**7**	**3**	**2**	**17**
Gain on disposals of interests in investments	**–**	**–**	**22**	**–**	**22**
For the half-year ended 30 June 2017 unaudited					
Capital expenditure on property, plant and equipment	3	8	–	2	13
Capital expenditure on intangible assets	3	–	56	–	59
Depreciation	7	5	1	2	15
For the year ended 31 December 2017 audited					
Capital expenditure on property, plant and equipment	5	9	–	6	20
Capital expenditure on investment properties	–	–	3	–	3
Capital expenditure on intangible assets	–	–	82	5	87
Depreciation	13	8	3	5	29
Gain on disposals of interests in investments	–	–	86	–	86

3.4 Infrastructure Investments

Underlying profit from operations[1]	**Group 2018 first half unaudited £m**	**Share of joint ventures and associates 2018 first half unaudited**[+] **£m**	**Total 2018 first half unaudited £m**	Group 2017 first half unaudited £m	Share of joint ventures and associates 2017 first half unaudited[+] £m	Total 2017 first half unaudited £m	Group 2017 year audited £m	Share of joint ventures and associates 2017 year audited[+] £m	Total 2017 year audited £m
UK[^]	**3**	**(2)**	**1**	5	6	11	9	15	24
North America	**11**	**10**	**21**	13	9	22	30	14	44
Gain on disposals of interests in investments	**22**	**–**	**22**	–	–	–	86	–	86
	36	**8**	**44**	18	15	33	125	29	154
Bidding costs and overheads	**(11)**	**–**	**(11)**	(18)	–	(18)	(38)	–	(38)
	25	**8**	**33**	–	15	15	87	29	116

[+] The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
[^] Including Singapore and Ireland.
[1] Before non-underlying items (Note 8).

4 Revenue

4.1 Nature and services of goods

4.1.1 Construction services

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

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction service, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price in the UK or cost-plus contracts in the US. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However for certain types of contracts, services relating to fit out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small scale infrastructure works 24 to 60 months for large scale complex construction	Within Infrastructure the Group provides construction services to three main types of assets: Highways, Railways and other large scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK and the US. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway services primarily in the UK and US include design and managing the construction of railway systems delivering major multi-disciplinary projects, track work, electrification and power supply. The Group serves both public and private railways including high-speed passenger railways, freight and mixed traffic routes, dense commuter networks, metros and light rail. Other infrastructure assets include construction, design and build services on large scale complex assets predominantly servicing the waste, water and energy sectors. Contracts entered into relating to these infrastructure assets can take the form of fixed price or target-cost contracts with shared pain/gain mechanisms. Contract lengths vary according to the size and complexity of the asset build and can range from a few months for small scale infrastructure works to 4-5 years for large scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses this as a separate PO and revenue from this PO is recognised in the Services segment. Refer to Note 4.1.2.

4 Revenue continued

4.1 Nature and services of goods continued

4.1.2 Support services

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

Types of assets	Nature, timing of satisfaction of performance obligations and significant payment terms
Utilities	Within the Group's services contracts, the Group provides support services to various types of utility assets. For contracts servicing gas and water assets, the Group provides services such as renewal, upgrade and expansion of underground main pipelines for assets within the gas network. Within the water network, services include clean and waste water mains renewal and repair, metering and treatment facilities. Contracts are typically delivered through framework agreements which are normally granted on a regulatory cycle period of 5 years for water contracts and 8 years for gas contracts. Individual instructions delivered under the framework agreements can vary in size and duration but usually last between 1 to 6 weeks for smaller projects or up to 1 to 2 years for major projects. Each instruction is accounted for as a separate PO. Consideration is normally set according to a schedule of rates and may include a pain/gain element. For contracts servicing power transmission and distribution assets, the Group constructs and maintains electricity networks, including replacement or new build of overhead lines, underground cabling, cable tunnels and offshore windfarm maintenance. Contracts entered into are normally fixed-price and contract lengths can vary from 12 to 36 months, and up to 20 years for offshore windfarm maintenance contracts. Each contract is normally assessed to contain one PO. However, where a contract contains both a construction phase and a maintenance phase, these are assessed to contain two separate POs.
Infrastructure	The Group provides maintenance, asset and network management and design services in respect of highways, railways and other publically available assets. The customer in this area of the Group is mainly government bodies. Type of contracts include a fixed schedule of rates, target cost arrangements and cost-plus. Contract terms range from 1 to 25 years. Where contracts include lifecycle elements, this is accounted for as a separate PO and recognised when the work is delivered.

4 Revenue continued

4.1 Nature and services of goods continued

4.1.3 Infrastructure Investments

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

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

4 Revenue continued

4.2 Disaggregation of revenue

Following the implementation of IFRS 15 on 1 January 2018, the Group presents a disaggregation of its revenue according to the primary geographical markets in which the Group operates as well as the types of assets serviced by the Group. The nature of the various services provided by the Group is explained in Note 4.1. This disaggregation of revenue is also presented according to the Group's reportable segments as described in Note 3.

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

For the half-year ended 29 June 2018 unaudited

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

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

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

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

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

5.1 Income Statement

Continuing operations	**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
Underlying revenue[1]	**618**	655	1,340
Underlying profit from operations[1]	**17**	25	52
Investment income	**55**	69	139
Finance costs	**(50)**	(62)	(126)
Profit before taxation[1]	**22**	32	65
Taxation	**(3)**	(2)	(6)
Profit after taxation	**19**	30	59

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

5.2 Balance Sheet

		2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Intangible assets	– goodwill	**33**	33	32
	– Infrastructure Investments intangible	**28**	22	23
	– other	**14**	15	15
Property, plant and equipment		**73**	63	66
Investment properties		**121**	59	72
Investments in joint ventures and associates		**3**	7	7
PPP financial assets		**1,788**	2,158	1,843
Military housing projects		**108**	118	112
Net borrowings		**(1,387)**	(1,191)	(1,122)
Other net liabilities		**(259)**	(654)	(517)
Share of net assets of joint ventures and associates		**522**	630	531

6 Investment income

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Subordinated debt interest receivable	**13**	12	26
Interest receivable on PPP financial assets	**4**	5	11
Other interest receivable and similar income	**2**	3	5
Net finance income on pension scheme assets and liabilities (Note 16)	**1**	–	–
	20	20	42

7 Finance costs

		2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Non-recourse borrowings	– bank loans and overdrafts	**7**	6	13
Preference shares	– finance cost	**6**	6	12
	– accretion	**1**	1	3
Convertible bonds	– finance cost	**2**	2	5
	– accretion	**2**	3	7
US private placement	– finance cost	**6**	7	13
Other interest payable	– committed facilities	**1**	1	1
	– letter of credit fees	**1**	2	4
Other finance cost		**4**	6	9
Net finance cost on pension scheme assets and liabilities (Note 16)		**–**	3	6
		30	37	73

8 Non-underlying items

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Items credited to/(charged against) profit			
8.1 Continuing operations			
8.1.1 Trading results from Rail Germany (including £nil (2017: first half £nil, full-year £2m) of other net operating expenses)	**1**	–	–
8.1.2 Amortisation of acquired intangible assets	**(4)**	(5)	(9)
8.1.3 Other non-underlying items:			
– Build to Last transformation costs	**(5)**	(5)	(12)
– additional loss on the AWPR contract as a result of Carillion's liquidation	**(8)**	–	(44)
– provision release relating to settlements of health and safety claims	**7**	–	–
– additional gain on disposal of Balfour Beatty Infrastructure Partners	**3**	–	–
– loss on disposal of Blackpool Airport	**–**	–	(1)
– gain on disposal of Heery International inc	**–**	–	18
Total other non-underlying items from continuing operations	**(3)**	(5)	(39)
Charged against profit before taxation from continuing operations	**(6)**	(10)	(48)
8.1.4 Tax credits:			
– non-underlying recognition of deferred tax assets in the UK	**20**	–	34
– tax effect as a result of the reduction in US Federal corporate income tax rate	**–**	–	32
– tax on other items above	**3**	2	2
Total tax credit on continuing operations	**23**	2	68
Non-underlying items credited to/(charged against) profit for the period from continuing operations	**17**	(8)	20
8.2 Discontinued operations			
8.2.1 Gain on disposal of Dutco Balfour Beatty LLC & BK Gulf LLC	**–**	5	5
Credited to profit from discontinued operations	**–**	5	5
8.2.2 Tax on items above	**–**	–	–
Non-underlying items credited to profit for the period from discontinued operations	**–**	5	5
Credited to/(charged against) profit for the period	**17**	(3)	25

Continuing operations

8.1.1 Rail Germany's results continue to be presented as part of the Group's non-underlying items within continuing operations as the Group remains committed to exiting its Mainland European rail businesses and does not consider its operations part of the Group's underlying activity. In the first half of 2018, Rail Germany generated a trading profit before tax excluding share of joint ventures and associates of £1m (2017: first half £nil; full-year £nil).

8.1.2 The amortisation of acquired intangible comprises: customer contracts £3m (2017: first half £3m; full-year £6m); and customer relationships £1m (2017: first half £2m; full-year £3m). The charge was recognised in the following segments: Construction Services £1m (2017: first half £2m; full-year £4) and Infrastructure Investments £3m (2017: first half £3m; £5m).

8.1.3.1 In the first half of 2018, the Group incurred restructuring costs relating to its Build to Last transformation programme of £5m (2017: first half £5m, full year £12m). The costs incurred primarily relate to the Group's continuing efforts to rationalise its UK and US property portfolio in 2018.

These restructuring costs relate to the following segments: Construction Services £2m (2017: first half £2m; full-year £6m), Support Services £3m (2017: first half £nil; full-year £2m) and Corporate £nil (2017: first half £3m, full-year £4m). Historically, the Group's restructuring costs comprise: redundancy costs 2017: first half £2m; full-year £8m, external advisers 2017: first half £nil; full-year £2m, property-related costs 2017: first half £3m; full-year £3m and other restructuring costs 2017 first half £nil; full-year £1m.

8.1.3.2 As a result of Carillion's liquidation on 15 January 2018, the Group and its remaining joint operations partner on the AWPR project, Galliford Try plc, became jointly liable to deliver Carillion's remaining obligations on the contract in addition to each partner's existing 33% share. This has resulted in the Group now having a 50% interest in the AWPR contract.

In the first half of 2018, the Group recognised an additional £23m loss on this project. A third of this charge (£8m) has been recognised in non-underlying as this reflects the additional loss that the Group has suffered in fulfilling Carillion's obligations on the contract. The loss incurred on the Group's original 33% JV share (£15m) is treated as part of the Group's underlying performance. The AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believe are highly probable to be agreed.

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

8.1.3.4 In the first half of 2018, the Group received further consideration of £3m relating to its previously disposed interest in Balfour Beatty Infrastructure Partners in 2016. The additional consideration relates to the earn-out agreement that was entered into with the buyer as part of the disposal. At the time of disposal, the Group did not include an estimate of the potential earn-out within its assessment of the gain on disposal as there was significant uncertainty as to whether the earn-out hurdles would be met. This additional gain has been recognised within non-underlying consistent with the Group's treatment of the gain on disposal previously recognised in 2016.

8.1.4.1 In the first half of 2018, significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of a deferred tax liability. Refer to Note 16. This in turn led to the recognition of additional UK deferred tax assets of £20m (2017: full-year £34m). Given the size and nature of the credit resulting from the increase to actuarial gains in the BBPF, the tax credit was included as a non-underlying item.

8.1.4.3 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £3m comprising: £1m tax credit on amortisation of acquired intangible assets (2017: first half £2m; full-year £3m); and £2m tax credit on other non-underlying items (2017: first half £nil; full-year £1m charge).

9 Taxation

	Underlying items 2018 first half unaudited[1] £m	Non-underlying items (Note 8) 2018 first half unaudited £m	Total 2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Total UK tax	**–**	**(22)**	**(22)**	(11)	(30)
Total non-UK tax	**4**	**(1)**	**3**	9	(15)
Total tax charge/(credit)[x]	**4**	**(23)**	**(19)**	(2)	(45)
UK current tax	**2**	**(2)**	**–**	–	3
Non-UK current tax	**1**	**–**	**1**	–	(3)
Total current tax	**3**	**(2)**	**1**	–	–
UK deferred tax	**(2)**	**(20)**	**(22)**	(11)	(33)
Non-UK deferred tax	**3**	**(1)**	**2**	9	(12)
Total deferred tax	**1**	**(21)**	**(20)**	(2)	(45)
Total tax charge/(credit)[x]	**4**	**(23)**	**(19)**	(2)	(45)

[x] Excluding joint ventures and associates.

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

In addition to the Group tax credit above, tax of £21m is charged (2017: first half £5m credited; full-year £50m charged) directly to other comprehensive income, comprising: a deferred tax charge of £20m for subsidiaries (2017: first half £3m credit; full-year £37m charge) and a deferred tax charge in respect of joint ventures and associates of £1m (2017: first half £2m credit; full-year £13m charge).

10 Earnings per ordinary share

Earnings	2018 first half unaudited Basic £m	2018 first half unaudited Diluted £m	2017 first half unaudited Basic £m	2017 first half unaudited Diluted £m	2017 year audited Basic £m	2017 year audited Diluted £m
Continuing operations						
Earnings	**69**	**69**	14	14	162	162
Amortisation of acquired intangible assets net of tax	**4**	**4**	3	3	6	6
Other non-underlying items net of tax	**(21)**	**(21)**	5	5	(26)	(26)
Underlying earnings	**52**	**52**	22	22	142	142
Discontinued operations						
Earnings	**–**	**–**	6	6	6	6
Other non-underlying items net of tax	**–**	**–**	(5)	(5)	(5)	(5)
Underlying earnings	**–**	**–**	1	1	1	1
Total operations						
Earnings	**69**	**69**	20	20	168	168
Amortisation of acquired intangible assets net of tax	**4**	**4**	3	3	6	6
Other non-underlying items net of tax	**(21)**	**(21)**	–	–	(31)	(31)
Underlying earnings	**52**	**52**	23	23	143	143

	Basic m	Diluted m	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**680**	**688**	680	684	680	688

Earnings per share	Basic pence	Diluted pence	Basic pence	Diluted pence	Basic pence	Diluted pence
Continuing operations						
Earnings per ordinary share	**10.1**	**10.0**	2.0	2.0	23.7	23.4
Amortisation of acquired intangible assets net of tax	**0.6**	**0.6**	0.4	0.4	0.8	0.8
Other non-underlying items net of tax	**(3.2)**	**(3.2)**	0.8	0.8	(3.6)	(3.5)
Underlying earnings per ordinary share	**7.5**	**7.4**	3.2	3.2	20.9	20.7
Discontinued operations						
Earnings per ordinary share	**–**	**–**	0.9	0.9	1.0	1.0
Other non-underlying items net of tax	**–**	**–**	(0.8)	(0.8)	(0.9)	(0.9)
Underlying earnings per ordinary share	**–**	**–**	0.1	0.1	0.1	0.1
Total operations						
Earnings per ordinary share	**10.1**	**10.0**	2.9	2.9	24.7	24.4
Amortisation of acquired intangible assets net of tax	**0.6**	**0.6**	0.4	0.4	0.8	0.8
Other non-underlying items net of tax	**(3.2)**	**(3.2)**	–	–	(4.5)	(4.4)
Underlying earnings per ordinary share	**7.5**	**7.4**	3.3	3.3	21.0	20.8

11 Dividends on ordinary shares

	2018 first half unaudited		2017 first half unaudited		2017 year audited	
	Per share pence	Amount £m	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period						
Interim 2017	**–**	**–**	1.2	8	1.2	8
Final 2017	**–**	**–**	–	–	2.4	16
Interim 2018	**1.6**	**11**	–	–	–	–
	1.6	**11**	1.2	8	3.6	24
Recognised dividends for the period						
Interim 2017		**–**		–		8
Final 2017		**16**		–		–
		16		–		8

The interim 2017 dividend was paid on 1 December 2017. The final 2017 dividend was paid on 6 July 2018 to holders on the register on 20 April 2018 by direct credit or, where no mandate has been given, by cheque posted on 6 July 2018 payable on 5 July 2018. The ordinary shares were quoted ex-dividend on 19 April 2018.

The Board is declaring an interim dividend of 1.6 pence per share, a 33% increase on prior year (1.2 pence per share). The Board anticipates a progressive dividend policy going forward.

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2017 audited	1,110	(173)	937
Currency translation differences	(26)	–	(26)
At 1 July 2017 unaudited	1,084	(173)	911
Currency translation differences	(22)	2	(20)
Disposals	(25)	8	(17)
At 31 December 2017 audited	1,037	(163)	874
Currency translation differences	**12**	**(1)**	**11**
At 29 June 2018 unaudited	**1,049**	**(164)**	**885**

As at 29 June 2018, the Group performed an assessment to identify indicators of impairment relating to goodwill allocated to cash-generating units (CGUs). This included a review of internal and external indicators of impairment and consideration of the year-to-date performance of the relevant CGUs and any changes in key assumptions. The result of this assessment did not identify any indicators of impairment which could reasonably be expected to eliminate the headroom computed at 31 December 2017 and therefore no impairment charges were recorded in the first half of 2018 (2017: first half £nil; full-year £nil).

A full detailed impairment review will be conducted at 31 December 2018.

13 Trade and other receivables

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Current			
Trade receivables	**665**	719	536
Less: provision for impairment of trade receivables	**(6)**	(6)	(7)
	659	713	529
Due from joint ventures and associates	**19**	36	23
Due from joint operation partners	**22**	6	25
Contract retentions receivable+	**180**	207	185
Accrued income[2]	**4**	16	18
Prepayments	**40**	39	35
Due on disposals	**1**	1	63
Other receivables	**15**	25	21
	940	1,043	899
Non-current			
Due from joint ventures and associates	**51**	37	38
Contract retentions receivable+	**183**	172	173
Due on disposals	**5**	4	4
Other receivables	**2**	4	1
	241	217	216
Total trade and other receivables	**1,181**	1,260	1,115

+ Including £360m (2017: first half £378m; full-year £352m) construction contract retentions receivable.

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 25).

14 Trade and other payables

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Current			
Trade and other payables+	**913**	976	833
Accruals	**576**	651	604
Deferred income[2]	**–**	21	1
Advance payments on contracts[2]	**–**	1	16
VAT, payroll taxes and social security	**65**	65	68
Due to joint ventures and associates	**11**	10	11
Dividends on preference shares	**6**	6	6
Dividends on ordinary shares	**16**	12	–
Due on acquisitions	**3**	3	3
Due on disposals	**–**	1	–
	1,590	1,746	1,542
Non-current			
Trade and other payables	**128**	129	120
Accruals	**20**	19	19
Due to joint ventures and associates	**7**	7	7
Due on acquisitions	**8**	11	11
	163	166	157
Total trade and other payables	**1,753**	1,912	1,699

+ Included within the Group's trade and other payables balance is seven thousand pounds only (2017: full-year £0.2m) relating to payments due to UK suppliers who are on bank-supported supply chain finance arrangements. The Group settles these amounts in accordance with the relevant supplier's standard payment terms, normally 30 days. In the first half of 2018, these arrangements were made available to 19 suppliers (2017: full-year 19). These arrangements are not being extended to any other suppliers.

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 25).

15 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
At 31 December 2016 audited	31	132	163
Income recognised in the income statement			
– interest income (Note 6)	1	4	5
Gains recognised in the statement of comprehensive income			
– fair value movements	–	(2)	(2)
Other movements			
– cash expenditure+	–	–	–
– cash received+	(2)	(5)	(7)
At 30 June 2017 unaudited	30	129	159
Income recognised in the income statement			
– interest income (Note 6)	2	4	6
Gains/(losses) recognised in the statement of comprehensive income			
– fair value movements	(1)	6	5
Other movements			
– cash expenditure	1	–	1
– cash received	(2)	(6)	(8)
At 31 December 2017 audited	30	133	163
Income recognised in the income statement			
– interest income (Note 6)	**–**	**4**	**4**
Gains recognised in the statement of comprehensive income			
– fair value movements	**–**	**(2)**	**(2)**
Other movements			
– cash expenditure	**–**	**1**	**1**
– cash received	**(2)**	**(5)**	**(7)**
At 29 June 2018 unaudited	**28**	**131**	**159**

+ Cash expenditure and cash receipts have been re-allocated for assets within the social infrastructure category for the first-half of 2017.

16 Retirement benefit assets and liabilities

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes		**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
Discount rate on obligations		**2.80**	2.45	2.55
Inflation rate	– RPI	**3.05**	3.20	3.15
	– CPI	**1.95**	2.00	2.05
Future increases in pensionable salary		**1.95**	2.00	2.05
Rate of increases in pension payments (or such other rate as is guaranteed)		**2.85**	2.95	2.95

Analysis of net assets/(liabilities) in the Balance Sheet	**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
Balfour Beatty Pension Fund	**283**	(50)	156
Railways Pension Scheme	**(46)**	(102)	(71)
Other schemes*	**(53)**	(56)	(53)
	184	(208)	32

* Other schemes include the Group's deferred compensation obligations for which available-for-sale investments in mutual funds of £22m (2017: first half £23m, full-year £22m) are held by the Group to satisfy these obligations.

Amounts recognised in the Balance Sheet	**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
Present value of obligations	**(3,689)**	(4,096)	(3,956)
Fair value of plan assets	**3,873**	3,888	3,988
Net assets/(liabilities) in the Balance Sheet	**184+**	(208)	32+

+ This amount represents the aggregate of the retirement benefit assets of £283m (2017: full-year £156m) and the retirement benefit liabilities of £99m at 29 June 2018 (2017: full-year £124m). These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position.

Movements in the retirement benefit net assets/(liabilities) for the period		**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
At beginning of period		**32**	(231)	(231)
Currency translation differences		**–**	2	2
Current service cost		**(2)**	(3)	(6)
Interest cost		**(49)**	(51)	(102)
Interest income		**50**	48	96
Actuarial movements	– on obligations from changes in discount rate methodology	**–**	–	123
	– on obligations from reassessing the difference between RPI and CPI	**–**	–	(25)
	– on obligations from changes to other financial assumptions	**178**	(34)	(69)
	– on obligations from changes in demographic assumptions	**26**	44	44
	– on obligations from experience gains	**5**	–	21
	– on assets	**(71)**	4	148
Contributions from employer	– regular funding	**1**	1	2
	– ongoing deficit funding	**13**	10	25
Other		**1**	2	4
At end of period		**184+**	(208)	32+

+ This amount represents the aggregate of the retirement benefit assets of £283m (2017: full-year £156m) and the retirement benefit liabilities of £99m at 29 June 2018 (2017: full-year £124m). These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position.

In the first half of 2018, the Group recorded net actuarial gains on its retirement benefit schemes of £138 million (2017: first half £14m net gains; full-year £242m net gains) primarily driven by a small reduction in life expectancy based on the latest mortality studies and an increase in the net discount rate used to measure liabilities.

16 Retirement benefit assets and liabilities continued

The investment strategy of the Balfour Beatty Pension Fund (BBPF) and the sensitivity analysis of the Group's retirement benefit obligations and assets to different actuarial assumptions are set out in Note 28 on pages 138 to 144 of the Annual Report and Accounts 2017.

17 Share capital

During the half-year ended 29 June 2018 0.7m (2017: first half 0.5m; full-year 0.6m) ordinary shares were purchased for £1.9m (2017: first half £1m; full-year £1.7m) by the Group's employee discretionary trust to satisfy awards under the Performance Share Plan, the Deferred Bonus Plan and the Restricted Share Plan.

18 Notes to the statement of cash flows

18.1 Cash generated from/(used in) operations	**Underlying items 2018[1] £m**	**Non-underlying items 2018 £m**	**Total 2018 £m**	Total 2017 first half unaudited £m	Total 2017 year audited £m
Profit/(loss) from operations	**66**	**(6)**	**60**	35	154
Share of results of joint ventures and associates	**(19)**	**–**	**(19)**	(31)	(60)
Depreciation of property, plant and equipment	**16**	**–**	**16**	15	28
Depreciation of investment properties	**1**	**–**	**1**	–	1
Amortisation of other intangible assets	**7**	**4**	**11**	11	22
Pension deficit payments	**(14)**	**–**	**(14)**	(10)	(25)
Movements relating to share-based payments	**3**	**–**	**3**	3	9
Profit on disposal of investments in infrastructure concessions	**(22)**	**–**	**(22)**	–	(86)
Profit on disposal of property, plant and equipment	**(2)**	**–**	**(2)**	(2)	(6)
Profit on disposal of investment property	**(1)**	**–**	**(1)**	–	–
Net gain on disposal of other businesses	**–**	**(3)**	**(3)**	(5)	(22)
Other non-cash items	**–**	**–**	**–**	–	(1)
Operating cash flows before movements in working capital	**35**	**(5)**	**30**	16	14
(Increase)/decrease in operating working capital	**(28)**	**(38)**	**(66)**	(9)	27
Inventories[2+]	**–**	**–**	**–**	(1)	(12)
Contract assets[2+]	**15**	**–**	**15**	–	–
Trade and other receivables[2+]	**(67)**	**4**	**(63)**	(55)	95
Contract liabilities[2+]	**(14)**	**(1)**	**(15)**	–	–
Trade and other payables[2+]	**61**	**(9)**	**52**	49	(92)
Provisions[2+]	**(23)**	**(32)**	**(55)**	7	29
Due from construction contract customers[2+]	**–**	**–**	**–**	(9)	(14)
Due to construction contract customers[2+]	**–**	**–**	**–**	–	21
Cash generated from/(used in) operations	**7**	**(43)**	**(36)**	7	41

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

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 25).

[+] The movement in operating working capital has been presented to exclude movements arising from IFRS 15 reclassifications adjustments. Refer to Note 25 for a re-presentation of the Group's balance sheet at 1 January 2018 under IFRS 15.

18 Notes to the statement of cash flows continued

18.2 Cash and cash equivalents	**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
Cash and deposits	**546**	459	717
Term deposits	**276**	230	116
Bank overdrafts	**–**	(2)	–
Cash and cash equivalents, excluding cash balances within infrastructure concessions	**822**	687	833
Cash balances within infrastructure concessions	**104**	154	135
	926	841	968

18.3 Analysis of net cash/(borrowings)	**2018 first half unaudited £m**	2017 first half unaudited £m	2017 year audited £m
Cash and cash equivalents, excluding overdrafts and cash balances within infrastructure concessions	**822**	689	833
Bank overdrafts	**–**	(2)	–
US private placement	**(231)**	(270)	(259)
Liability component of convertible bonds	**(211)**	(243)	(226)
Other loans	**(14)**	(13)	(13)
Net cash excluding infrastructure concessions	**366**	161	335
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2062	**(433)**	(446)	(440)
Infrastructure concessions cash and cash equivalents	**104**	154	135
	(329)	(292)	(305)
Net cash/(borrowings)	**37**	(131)	30

18.4 Analysis of movement in borrowings	Infrastructure concessions non-recourse project finance £m	US private placement £m	Convertible bonds £m	Loans under committed facilities £m	Other £m	Total £m
At 1 January 2017	(240)	(285)	(240)	(50)	(14)	(829)
Currency translation differences	2	15	–	–	–	17
Accretion on convertible bonds	–	–	(3)	–	–	(3)
Proceeds from new loans	(210)	–	–	–	–	(210)
Repayments of loans	2	–	–	50	–	52
Amortisation of arrangement fees	–	–	–	–	(1)	(1)
At 30 June 2017	(446)	(270)	(243)	–	(15)	(974)
Currency translation differences	2	11	–	–	–	13
Accretion on convertible bonds	–	–	(4)	–	–	(4)
Proceeds from new loans	(2)	–	–	–		(2)
Repayments of loans	2	–	21	–	2	25
Fair value adjustment on loan attributable to minority interest	4	–	–	–	–	4
At 31 December 2017	(440)	(259)	(226)	–	(13)	(938)
Currency translation differences	**(1)**	**(4)**	**–**	**–**	**–**	**(5)**
Accretion on convertible bonds	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Repayments of loans	**8**	**32**	**17**	**–**	**–**	**57**
Amortisation of arrangement fees	**–**	**–**	**–**	**–**	**(1)**	**(1)**
At 29 June 2018	**(433)**	**(231)**	**(211)**	**–**	**(14)**	**(889)**

The Group has committed facilities of £400m which expire in December 2020. These facilities were undrawn at 29 June 2018.

18 Notes to the statement of cash flows continued

18.5 Borrowings

During the first half of 2018, the main movement in borrowings is due to the Group's repayment of the first tranche of its US Private Placement notes amounting to £32m (US$45m) on 7 March 2018. US$305m remain outstanding, with the next tranche of US$46m being due in March 2020 and the remaining loan notes falling due in March 2023 and March 2025.

On 14 February 2018, the Group repurchased a further £17m of its convertible bonds which resulted in a loss on settlement of £0.3m. This settlement also triggered a further £2m of reserves relating to the equity component of the repurchased bonds being transferred from other reserves into retained earnings. Following this settlement, the Group's outstanding liability component of the bonds on maturity in December 2018 amounts to £214m.

19 Acquisitions and disposals

19.1 Acquisitions

There were no acquisitions made in the first half of 2018.

19.2 Disposals

Notes	Disposal date	Entity/business		Percentage disposed %	Cash Consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred £m	Underlying gain £m	Non-underlying gain/(loss) £m
19.2.1	19 February 2018	Connect Plus (M25)	^	5%	42	(41)	21	–	22	–
					42	**(41)**	**21**	**–**	**22**	**–**

^ Joint venture.

19.2.1 On 19 February 2018, the Group agreed to dispose of a further 5% interest in Connect Plus (M25) Holdings Ltd to Equitix for a cash consideration of £42m, resulting in a gain on disposal of £22m in the first half of 2018.

In addition to the consideration for this disposal, the Group also received £62m on 23 February 2018 from the disposal of its 7.5% interest in December 2017, which was structured as an unconditional right to sell the stake to Dalmore for an identical price if Equitix failed to exercise its right to acquire this interest. The Group assessed that a loss of control was triggered as a result of this agreement and therefore the gain on disposal for this tranche was recognised in 2017 and £62m of consideration held as amounts due in disposal. Equitix subsequently exercised its right to acquire in 2018 and together with its acquisition of the further 5% stake of M25 in 2018, paid a consideration to the Group of £104m.

20 Related party transactions

The Group has contracted with, provided services to, and received management fees from certain joint ventures and associates amounting to £121m (2017: first half £143m, full-year £279m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 13 and 14 respectively.

During the half-year ended 29 June 2018, the Group also entered into the following transactions with related parties which are not members of the Group. The following companies are related parties to the Group as they are controlled or jointly controlled by a non-executive director of Balfour Beatty plc.

20 Related party transactions continued

	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Anglian Water Group Ltd			
Sale of goods & services	**17**	8	18
Amounts owed by related parties	**4**	–	3
Urenco Ltd			
Sale of goods & services	**14**	45	72
Amounts owed by related parties	**3**	3	–

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

21 Financial instruments

Fair value estimation

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

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

The Group holds available-for-sale investments in mutual funds which are traded in active markets and valued at the closing market price at the reporting date.

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

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

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

21 Financial instruments continued

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

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

Financial instruments at fair value	2018 first half unaudited £m	2017 first half unaudited £m	2017 year audited £m
Financial assets			
Level 1			
Available-for-sale mutual fund financial assets	**22**	23	22
Level 2			
Financial assets – foreign currency contracts	**1**	5	3
Level 3			
Available-for-sale PPP financial assets (Note 15)	**159**	159	163
Total assets measured at fair value	**182**	187	188
Financial liabilities			
Level 2			
Financial liabilities – foreign currency contracts	**(1)**	(2)	(1)
Financial liabilities – infrastructure concessions interest rate swaps	**(29)**	(33)	(34)
Total liabilities measured at fair value	**(30)**	(35)	(35)

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

Level 3 financial assets - PPP financial assets

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

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 £7m decrease (2017: first half £7m; full-year £7m) / £7m increase (2017: first half £7m; full-year £7m) in the fair value of the assets taken through equity. Refer to Note 15 for a reconciliation of the movement from the opening balance to the closing balance.

22 Principal risks and uncertainties

The nature of the principal risks and uncertainties which could adversely impact the Group's profitability and ability to achieve its strategic objectives include: external risks arising from the effects of national or market trends and political change and the complex and evolving legal and regulatory environments in which the Group operates; organisation and management risks including business conduct and people related risks; financial risks arising from failure to forecast material exposures and manage financial resources; 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 2017.

23 Contingent liabilities

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

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

24 Events after the reporting date

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

25 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers

25.1 Impact areas

Except for the adoption of IFRS 15, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed in note 2.1 which can be found on page 103 on the Group's Annual Report and Accounts 2017.

The Group has applied IFRS 15 using the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. The details of the significant changes and the quantitative impact of the changes are set out below:

Adjustment 1: Relates to the recognition of the impact on transition to IFRS 15 at 1 January 2018 of a £3m credit to equity. The adjustment relates to the unbundling of certain contracts according to the Group's assessment of each contract's performance obligation to be delivered to its customers.

Adjustment 2: In addition to the impact on equity following transition to IFRS 15 at 1 January 2018, the Group's consolidated balance sheet is also impacted as a result of moving away from IAS 11 balance sheet captions to those prescribed by IFRS 15. The main reclassification adjustment is in relation to reclassifying amounts Due to/from Construction Contract Customers to Contract Assets or Contract Liabilities. In addition to this, provision balances which were previously presented within amounts Due to/from Construction Contract Customers for contracts that were ongoing at that time in line with the requirements of IAS 11 have now been presented within Provisions as appropriate.

25 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers continued

25.2 Impact on the financial statements on transition at 1 January 2018

The cumulative effect of the changes made to the Group's consolidated balance sheet at 1 January 2018 for the adoption of IFRS 15 is as follows:

	31 December 2017 £m	Adjustment (1) £m	Adjustment (2) £m	1 January 2018 £m
Non-current assets				
Investments in joint ventures and associates	531	–	–	531
PPP financial assets	163	–	–	163
Trade and other receivables	216	–	–	216
Deferred tax assets	52	–	–	52
Other non-current assets	1,554	–	–	1,554
	2,516	–	–	2,516
Current assets				
Inventories and non-construction work in progress	107	–	(53)	54
Contract assets[2]	–	2	412	414
Due from construction contract customers	377	–	(377)	–
Trade and other receivables	899	–	31	930
Other current assets	978	–	–	978
	2,361	2	13	2,376
Total assets	4,877	2	13	4,892
Current liabilities				
Due to construction contract customers	(535)	–	535	–
Contract liabilities[2]	–	5	(481)	(476)
Trade and other payables	(1,542)	(4)	30	(1,516)
Provisions	(194)	–	(90)	(284)
Current tax payable	(15)	–	–	(15)
Other current liabilities	(281)	–	–	(281)
	(2,567)	1	(6)	(2,572)
Non-current liabilities				
Trade and other payables	(157)	–	1	(156)
Provisions	(98)	–	(8)	(106)
Deferred tax liabilities	(70)	–	–	(70)
Other non-current liabilities	(919)	–	–	(919)
	(1,244)	–	(7)	(1,251)
Total liabilities	(3,811)	1	(13)	(3,823)
Net assets	1,066	3	–	1,069
Equity				
Retained profits	336	3	–	339
Other reserves not affected by IFRS 15	720	–	–	720
Equity attributable to equity holders of the parent	1,056	3	–	1,059
Non-controlling interests	10	–	–	10
Total equity	1,066	3	–	1,069

25 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers continued

25.3 Impact of adopting IFRS 15 on the Group's 2018 first-half results

Impact on the Group's consolidated income statement at 29 June 2018

The Group's consolidated income statement for the first-half of 2018 is impacted by Adjustment (1). At 29 June 2018, the Group would have recognised an additional profit of £1m if it were to continue to apply IAS 11 and IAS 18 in 2018. There is no other impact on the Group's consolidated income statement for the first-half of the year as a result of applying previous revenue accounting standards.

Impact on the Group's consolidated balance sheet at 29 June 2018

In addition to the impact arising from Adjustment 1, the Group's consolidated balance sheet is also impacted by balance sheet reclassifications as a result of adopting balance sheet captions prescribed by IFRS 15. The reclassification adjustments to convert the Group's balance sheet back to what it would have been if the Group continued to apply previous revenue accounting standards is set out below.

Consolidated balance sheet	2018 first-half unaudited As reported £m	Adjustment (1) £m	Adjustment (2) £m	2018 first-half unaudited Reported under IAS 11/ IAS18 £m
Non-current assets				
Investments in joint ventures and associates	522	–	–	522
PPP financial assets	159	–	–	159
Trade and other receivables	241	–	–	241
Deferred tax assets	54	–	–	54
Other non-current assets	1,704	–	–	1,704
	2,680	–	–	2,680
Current assets				
Inventories and non-construction work in progress	52	–	20	72
Contract assets	409	–	(409)	–
Due from construction contract customers	–	–	360	360
Trade and other receivables	940	–	18	958
Other current assets	935	–	–	935
	2,336	–	(11)	2,325
Total assets	5,016	–	(11)	5,005
Current liabilities				
Due to construction contract customers	–	–	(486)	(486)
Contract liabilities	(464)	(3)	467	–
Trade and other payables	(1,590)	–	(1)	(1,591)
Provisions	(224)	–	28	(196)
Current tax payable	(14)	–	–	(14)
Other current liabilities	(262)	–	–	(262)
	(2,554)	(3)	8	(2,549)
Non-current liabilities				
Contract liabilities	(3)	–	3	–
Trade and other payables	(163)	–	(3)	(166)
Provisions	(122)	–	3	(119)
Deferred tax liabilities	(74)	–	–	(74)
Other non-current liabilities	(860)	–	–	(860)
	(1,222)	–	3	(1,219)
Total liabilities	(3,776)	(3)	11	(3,768)
Net assets	1,240	(3)	–	1,237
Equity				
Retained profits	539	(3)	–	536
Other reserves not affected by IFRS 15	691	–	–	691
Equity attributable to equity holders of the parent	1,230	(3)	–	1,227
Non-controlling interests	10	–	–	10
Total equity	1,240	(3)	–	1,237