Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE HALF-YEAR ENDED 1 JULY 2016

17 August 2016

(£ million unless otherwise specified)	Half-year 2016		Half-year 2015	
	Underlying[2]	Total	Underlying[2]	Total
Revenue incl. share of JVs and associates[1]	4,024	4,117	4,085	4,191
Profit/(loss) from operations (PFO)[1]	5	(23)	(120)	(140)
Pre-tax profit/(loss)[1]	7	(21)	(130)	(150)
Total profit/(loss)	14	(11)	(135)	(150)
Earnings/(loss) per share[1]	2.0p	(2.0p)	(19.4p)	(22.0p)
Dividends per share		0.9p		-

	HY 2016	FY 2015	HY 2015
Order book[1,2]	£12.4bn	£11.0bn	£11.3bn
Directors' valuation of Investments portfolio[4]	1,249	1,244	1,252
Net cash/(borrowings) – recourse	115	163	260
Net cash/(borrowings) – non-recourse	(388)	(365)	(327)

DELIVERING BUILD TO LAST BENEFITS

Financial Highlights

- Order book £12.4bn, up 7% at constant exchange rates (CER)[3] whilst maintaining disciplined bidding practices
- Underlying revenue £4,024m, down 6% at CER
- Underlying profit before tax of £7m (2015: £130m loss)
- Net cash of £115m, following continued working capital discipline
- New pension deficit payments plan agreed in principle
  - £182m to be paid over 8 years (previous agreement: £376m)
- Dividend reinstated with interim payment of 0.9p

Build to Last Highlights

- Phase One targets on track
- Increased safety observations and a reduction in Lost Time Injury Rate indicate greater staff engagement on safety
- Continued simplification of the Group
  - improved systems, processes and controls driving greater visibility and control
- Further actions to upgrade leadership
- Maintained focus on cost and cash conscious culture

Leo Quinn, Group Chief Executive, commented: “We are now starting to see tangible benefits from the transformation of Balfour Beatty.

“Eighteen months into the first phase of Build to Last we have delivered our second successive half of underlying profitability and remain on track to achieve our initial targets of £200m cash in: £100m cost out. By concentrating on our selected markets, we are growing our order book within a control environment which ensures that our business decisions lead to sustainable profit and cash growth.

“We have maintained a strong balance sheet and expect Balfour Beatty to make further solid and measurable progress. As a result we are able to reinstate the dividend as planned.

"By the end of 2016 we will have successfully completed Phase One. Over the following 24 months, I am confident we can reach industry-standard margins and then build on the foundations Build to Last has put in place to deliver a Balfour Beatty with market-leading strengths and performance over the longer term."

Notes:

[1] from continuing operations

[2] before non-underlying items (Note 7)

[3] Constant Exchange Rate (CER) is calculated as growth in local currency terms

[4] includes £73 million at HY 2016 relating to the BSF portfolio of seven schools projects, as the disposal proceeds had not been received. The cash is expected to be received in the second half.

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Analyst presentation:

A presentation to analysts and investors will be made at Numis, The London Stock Exchange Building, London EC4M 7LT at 09:00 (UK time) on 17 August 2016. There will be a live webcast of this presentation on: www.balfourbeatty.com/webcast

2016 HALF-YEAR RESULTS ANNOUNCEMENT

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GROUP CHIEF EXECUTIVE'S REVIEW

2016 is the year in which the fundamental changes made to Balfour Beatty by the Build to Last transformation programme can be seen to deliver positive results.

The business has reported an underlying profit for the second successive half and the order book is showing growth in our selected markets. We are on track to deliver our £200 million cash in and £100 million cost out targets. As a result, the dividend has been reinstated, as planned.

Looking back to the start of 2015, business performance had deteriorated as a decade of forced growth culminated in an overly complex business, poor contract discipline and unaffordable overhead costs. Whilst the sale of Parsons Brinckerhoff in late 2014 provided liquidity to the balance sheet, the cash situation for the Group remained a challenge.

To tackle the root causes of these problems and create a platform for future growth, the Build to Last programme was launched in early 2015, beginning with a 24-month 'self-help' phase. Senior leadership was systematically upgraded; immediate steps taken to strengthen governance, controls and processes; actions taken to simplify the Group; and Phase One targets of £200m cash in and £100m cost out established.

Build to Last addresses the Group's performance as it affects all stakeholders – customers and suppliers, employees and subcontractors, investors and communities – by driving measurable improvement. The steps that are being taken are often, in themselves, simple and straightforward. However taken together they are transforming Balfour Beatty against four goals: Lean, Expert, Trusted and Safe.

As a result of the actions taken, the ability to manage and control the financial performance of the Group has been greatly enhanced; new disciplines are in place, delivering essential change to the way Balfour Beatty operates; financial systems have been overhauled providing a greater level of visibility and control within the business; and by the end of 2016 the Phase One targets will have been achieved.

Markets and Outlook

Balfour Beatty is a business which operates across multiple geographies and segments (Construction Services, Support Services and Infrastructure Investments). As such it is less exposed to a downturn in a single market.

As yet there is little sign of impact on Balfour Beatty's markets from the UK's decision to exit the European Union and, given the late cycle nature of the construction industry it is too soon for clarity as to what, if any, direct impact the decision will have.

Balfour Beatty's Infrastructure 2050 paper, published in July (www.balfourbeatty.com/Infrastructure2050) sets out the long-term infrastructure requirements for the UK and how they can be met. Balfour Beatty has called on the UK Government to minimise uncertainty and recommit to major projects such as the High Speed 2 rail project, Highways England investment programme, South East airport expansion, new nuclear build and flood defences over the medium term. In doing so, it will provide the construction industry with a backdrop which will allow skilled workers and their capabilities to be retained in the industry and training for new apprenticeships and graduates to continue apace, mitigating any restrictions on labour movement which may result from leaving the European Union.

The transformation of Balfour Beatty over the last 18 months means that management has much greater visibility and control over the business than was the case prior to Build to Last. This means that the strengthened leadership team is much better positioned to adjust and respond to changes in market conditions in the UK or elsewhere.

In its initial 18 months, the Build to Last transformation programme has driven measurable improvements. By the end of 2016 Balfour Beatty will have achieved its Phase One targets and laid the foundations for future growth. Over the following 24 months, the Group expects each of its businesses to reach industry-standard level margins and thereafter deliver a Balfour Beatty with market-leading strengths and performance.

RESULTS OVERVIEW

Unless otherwise stated, all commentary in this section is on a continuing operations basis only. Non-underlying items within continuing operations continue to include the trading results of certain legacy Engineering Services (ES) contracts and Rail Germany. These ES contracts were classified as non-underlying items in 2014 as they relate to poor legacy management and in regions where ES withdrew from tendering for third-party work. Rail Germany was presented within non-underlying items as the Group remains committed to exiting all its Mainland European rail operations.

GROUP FINANCIAL SUMMARY

Underlying revenue from continuing operations, including joint ventures and associates, (underlying revenue) declined by 1% (6% at CER) in the first half to £4,024 million (2015: £4,085 million) as a result of a more disciplined and selective approach to bidding introduced in 2015. Within this, Construction Services was flat (5% decline at CER) at £3,177 million (2015: £3,177 million) as growth in the US offset an expected decline in the UK. Support Services, as expected, declined 11% in the period due to the phasing of contract and regulatory cycles.

The underlying profit from continuing operations was £5 million (2015: £120 million loss), primarily due to losses within Construction Services being substantially lower at £60 million (2015: £209 million).

The Group recognised net finance income in the first half of £2 million (2015: £10 million net cost), primarily due to a foreign exchange benefit of £12 million. Including non-underlying items, this resulted in total losses before tax, from continuing operations, of £21 million (2015: £150 million). The total loss for the first half, including discontinued operations, was £11 million (2015: £150 million).

The Group order book increased by 13% (7% at CER) to £12.4 billion from £11.0 billion at December 2015. The Construction Services order book increased by 15% (7% at CER) to £9.1 billion, driven by growth in the UK and Far East. The Support Services order book increased by 6% to £3.3 billion due to good growth in transportation whilst utilities remained stable.

Earnings per share

Underlying earnings per share from continuing operations was 2.0 pence (2015: 19.4 pence loss), which along with a non-underlying loss per share from continuing operations of 4.0 pence (2015: 2.6 pence) gave a total loss per share for continuing operations of 2.0 pence (2015: 22.0 pence). Total loss per share, including discontinued operations, was 1.6 pence (2015: 21.9 pence).

Cash flow performance

The total cash movements in the period resulted in a reduction to the Group's net cash position, as expected, to £115 million (FY 2015: £163 million), excluding non-recourse net borrowings. A continued strong performance in cash management across the Group and cash generated by the Investments business was offset by cash outflows associated with completing historical problem contracts, operating losses in the period and pension deficit payments.

Operating cash before movements in working capital and pension deficit payments was an outflow of £71 million (2015: £219 million). Including the outflow from pension deficit payments of £29 million (2015: £28 million) results in an operating cash outflow before movements in working capital of £100 million (2015: £247 million). Total cash used in operations was £99 million (2015: £36 million). In addition, tax refunds of £8 million were received (2015: £6 million).

Cash flows associated with the Investments portfolio generated a cash inflow of £37 million in the first half (2015: £48 million). This does not include £73 million to be received on completion of the sale of the Building Schools for the Future (BSF) portfolio by the Investments business, expected in the second half.

Cash flow performance	HY 2016 £m	HY 2015 £m
Operating cash flows[1]	(71)	(219)
Working capital	1	211
Infrastructure Investments:		
- Disposal proceeds	82	112
- New investments	(45)	(64)
Pension deficit payments	(29)	(28)
Effects of foreign exchange	23	7
Other	(9)	22
Cash (outflow)/inflow	(48)	41
Opening net cash[2]	163	219
Movements in the year	(48)	41
Closing net cash[2]	115	260

[1] before movements in working capital and pension deficit payments

[2] excluding infrastructure concessions (non-recourse)

Working capital

The working capital position has remained in line with December 2015 which has resulted in a negligible cash inflow of £1 million (FY 2015: £178 million). The Group remains focused on working capital management.

Movements in the Group's due from / due to construction contract customers balances, which reflect the net unbilled contract position and traded profit and loss for each individual construction contract, generated a slight working capital inflow of £22 million including provisions (FY 2015: £313 million). There are two offsetting drivers behind this reduced inflow: beneficial cash inflow relating to negative working capital positions on construction contracts, offset by cash outflows on settlement of problem contracts where the loss was recognised in prior periods.

The working capital position held as trade and other payables generated a £25 million working capital outflow (FY 2015: £236 million). The large outflow in prior year related to the quicker settlement of creditors as a result of the Build to Last transformation step change and cash outflows on historical loss-making contracts. Trade and other receivables was held broadly consistent in the first half of 2016 only creating an outflow of £10 million (FY 2015: £74 million inflow). The decrease from the full-year 2015 inflow is due to a significant focus on debtor collection in the prior year.

Including the impact of foreign exchange and disposals in the period, negative (ie favourable) working capital decreased to £879 million at 1 July 2016 (FY 2015: £890 million).

Working capital inflow/(outflow)	HY 2016 £m	HY 2015 £m	FY 2015 £m
Inventory & WIP	14	19	27
Construction contract balances[1]	22	180	313
Trade & other payables	(25)	(30)	(236)
Trade & other receivables	(10)	42	74
Working capital inflow	1	211	178

[1] including provisions

Net borrowings

The Group's net cash position at 1 July 2016, excluding non-recourse net borrowings, was £115 million (FY 2015: £163 million). The reduction from the December position reflects the operating outflows during the first half of 2016 offset by the net proceeds from investing activities. Average net borrowings in the first half were £68 million (2015: £16 million). Non-recourse net borrowings held in wholly-owned infrastructure concessions increased to £388 million (2015: £327 million). The balance sheet also includes £99 million for the liability component of the preference shares.

Pensions – triennial valuation

The triennial funding valuation of the Balfour Beatty Pension Fund (BBPF) is currently being carried out, with a valuation date of 31 March 2016. Ahead of the conclusion of the valuation and funding plan, the Company and the trustees have agreed the key commercial principles of the journey plan for the BBPF to reach self-sufficiency during 2027 (some three years earlier than previously planned).

Balfour Beatty will make cash contributions totalling £182 million over the next eight years; under the previous agreement cash contributions totalled £376 million over the same period. These payments include the contributions related to the Scottish Limited Partnership (SLP) structure established in 2015. The Company will also transfer additional assets into the SLP worth up to £87 million by 2019. As part of this agreement, a new investment strategy will be established, aimed at increasing return without increasing risk. The Company has agreed to amend the existing dividend sharing mechanism such that if the dividend cover ratio falls below 3x in 2016, 2.5x in 2017 or 2x from 2018 onwards, funding to the BBPF will be accelerated.

Dividend

The Board took the decision to suspend the dividend in 2015, to ensure balance sheet strength was maintained during the initial stages of the transformation programme. The Board recognises the importance of dividends to its shareholders. Following the demonstrable progress made by the Group over the last 18 months and the expectation of further solid and measurable progress, it has decided to reinstate the dividend at an appropriate level.

The Board is therefore declaring an interim dividend of 0.9p, with a ratio of interim to final dividend to be approximately 1:2. The Board anticipates a progressive dividend policy going forward.

BUILD TO LAST

The Group launched the Build to Last transformation programme in early 2015 as a framework to drive continuous improvement for all stakeholders against four goals – Lean, Expert, Trusted and Safe – as measured by cash/EBIT, employee engagement, customer satisfaction and Zero Harm. Rapid action was taken to remove management layers and upgrade leadership and governance through a simplified Group structure. As a result Balfour Beatty is stabilising and making significant progress on its four goals:

Lean

Group net cash at 1 July 2016 was £115 million, reflecting the anticipated outflow as work is undertaken to complete the historical problem projects.

A continuing focus on cash management and ongoing improvements to the financial systems and controls will continue to drive improvements to the Group's cash management processes. During the period a new Group consolidation system has been introduced and the process to transfer data from the ERP to the finance consolidation system automated.

The weekly cash flow performance reconciliations are now generated automatically, leading to a significant improvement in the business' ability to forecast cash flow. As a result draw-down on debt facilities can be managed more effectively.

The Group remains on target to deliver the Phase One target of £100 million cost out, with annualised savings worth £88 million already delivered.

During the period IT services which had previously been delivered through a sub-optimal out-sourcing agreement were successfully brought back in-house, resulting in a more responsive and effective IT operation and annualised savings of approximately £5 million.

The business continues to improve efficiency – identifying cost-effective ways to exploit the scale of the business, improve services to customers and support front-line activities. A new Site Mobilisation Hub was piloted in the period across 30 new contract awards before being rolled out in June to all new UK contract start-ups. On average a new site is set up or closed down each day. Poor site mobilisation leads to delays in the schedule, increased costs and dissatisfied customers; as a centre of excellence the new Hub will have a material impact on project delivery by ensuring that new sites are able to function efficiently and effectively from day one.

Centralisation of UK support functions continues to drive a more effective and efficient organisation by standardising practices and increasing automation. 200 HR policies have been reduced by 75% through simplification of processes and removal of duplication. The number of payrolls operated in the UK had reduced from 32 to 13 by July 2016 with further consolidation planned. At the same time the accuracy of the process has increased from 95% (Dec 2015) to 99.2% (1 July 2016).

In the US, the construction and infrastructure businesses have been brought together under a single leader and the leadership team upgraded. Plans are now being executed to unify the back office functions (IT, legal, finance etc.) to provide high-quality, efficient support for the front-line business along a similar model to that deployed for the UK operations in 2015.

Work has continued to simplify the Group and a number of disposals have been made of non-strategic businesses:

- Balfour Beatty Infrastructure Partners, an independently managed infrastructure fund business focusing on secondary opportunities, was disposed of to Wafra Investment Advisory Group, Inc.

- Balfour Beatty Investments' sole project in Australia was sold and Balfour Beatty staff and pipeline transferred to Infrared.

- The divestment of Balfour Resource Group, a healthcare facilities planning consultancy that became part of Balfour Beatty through the Centex acquisition was also completed in August.

Expert

Balfour Beatty's breadth of expertise is a strategic strength in the markets in which it operates.

During 2015 considerable progress was made in upgrading the quality of senior management across the Group, new executive Directors took up their posts and the Board was further strengthened with the appointment of a new Chairman and new non-executive Directors.

The new UK support functions (HR, IT, finance etc.) are not just leaner and more efficient but the quality of the service and support provided to the front-line businesses has improved significantly. The new structure provides added control and attracts higher calibre individuals better able to lead teams, drive performance and monitor and embed the new processes and controls within the businesses.

Within the business units and the support functions, progress continues to be made in upgrading the layers of management below the executive committee. Regular talent reviews are carried out with high potential individuals identified and helped to develop their careers.

A similar process is now underway in the US businesses which will deliver similar benefits to those seen in the UK.

Project management excellence is at the heart of high-quality project delivery. The Project Manager competency and assessment programme, started in 2015, is being rolled out across the UK business, this will provide a central database of the competencies and skills of each individual, allowing the business to easily identify and match the Project Manager to the contract complexity and risk.   The programme is currently being piloted in the US business.

A new redeployment tool is being used in the UK construction businesses to identify appropriate opportunities for staff when their current project concludes. This aids retention of skilled individuals within the business and has reduced redundancy and recruitment costs.

A leadership group of Balfour Beatty's engineers has been created allowing sharing of best practice and a mechanism for shared problem-solving. Representatives from each part of the UK business attended a conference focused on understanding the capabilities within the business which has driven increased collaboration and better use of Balfour Beatty's capabilities ranging from design, manufacturing, site support and digital capability.

A similar focus on the commercial expertise within the business has enabled better sharing of best practice and a forum for senior commercial professionals to identify training and development opportunities. As a result Balfour Beatty has been able to hire its first apprentices into this discipline.

A leadership development programme has been launched, initially in the UK regional construction, Power & Rail businesses. The programme works with the leadership teams to actively improve and measure the culture and climate they create in their business and how they work together as a team. The objective is to increase the leadership capability and boost colleague engagement in the business.

The 'My Contribution' initiative, which engages all staff directly in Build to Last, was launched in June 2015. In its first 12 months over 5,000 ideas have been submitted, resulting in well over 800 projects being adopted and driving continuous improvement through empowerment across the Group.

Trusted

Balfour Beatty continues to win landmark contracts with the order book at £12.4 billion at 1 July 2016 and has a strong pipeline of awarded but not contracted work.

During 2015 the 8-gated lifecycle was introduced across Balfour Beatty. In 2016, the framework has been further refined with the addition of a 'make or buy' decision step being added to promote greater use of internal capabilities. Internal reviews of (the bidding) Gates 1-4 across all UK and US operating units demonstrate compliance with all new processes.

A focus on the early qualifications gates (1-2) has led to a sharp reduction in the value of work which was tendered for and lost, allowing for greater focus on work where Balfour Beatty has a higher chance of success. As a result the UK percentage win rate in the first half of 2016 is almost double that for 2015, with better managed risk profiles and margins maintained.

The rationalisation and upgrading of ERP systems and use of data analytics provides management with access to timely (monthly) financial data on ongoing projects in the UK Construction businesses, facilitating review of phased budgets, forecasts and actuals on a project by project basis. Previously such data could only be made available after several manual interventions and local data collection making it impractical for management to monitor project progress. The tool was piloted in June within the US Construction business.

Safe

Maintaining a safe environment for Balfour Beatty's workforce, clients and the wider public is crucial to the business's licence to operate and is always Balfour Beatty's number one priority.

Much of the work that Balfour Beatty engages in is inherently dangerous. As such it is vital that every member of staff is aware of and respects the risks. Each week the Executive Committee discuss any accidents or near misses that have occurred in the business and a weekly report shares safety best practice as well as reporting on significant incidents and learnings. In the event of a major incident a site, or wider, stand-down is held to alert relevant workers and subcontractors, a proper investigation is carried out, lessons shared and corrective actions taken. Balfour Beatty benchmarks performance and shares best practice within the business and with others in the construction industry; as well as learning from incidents that happen on other companies' sites.

Balfour Beatty takes a proactive approach to safety and works continually to build and improve the safety culture within the business. Continuous efforts are made to re-engineer processes to design in safety and design out health risks. The Zero Harm calendar provides a proactive programme for raising awareness on key risks as well as highlighting seasonal risks such as shorter days or the impact of cold weather on maintaining a safe environment. Safety performance is monitored with a combination of lagging indicators (such as Lost Time Injury Rates) and leading indicators (such as Observations and Executive site visits).

In line with the Build to Last principles both a country and Group-wide approach to safety was adopted. Group-wide behavioural safety best practice has been established and work is underway to rationalise the business management system to ensure that best practice statements and other tools to support safe operations are always up to date and easily identifiable.

Balfour Beatty continues to target Zero Harm; the management ethos is that all accidents are avoidable.

In May 2016, a Balfour Beatty company was sentenced in connection with its conviction and guilty plea to breaches of Section 3 of the Health & Safety at Work Act 1974 and related health & safety regulations. The HSE prosecution was in relation to a fatality on the Heysham Power Station project in Lancashire on 14 April 2010. Balfour Beatty received a fine of £2.6 million. The fine was judged on the basis of the new sentencing guidelines published by the Department of Justice and demonstrates the increasingly heavy financial consequences for failures to meet the necessary safety and environmental standards.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Underlying revenue of £3,177 million was flat (5% decline at CER) compared to the first half of the prior year (2015: £3,177 million). The revenue growth by region was largely reflective of order book changes in the prior year and foreign exchange movements, as a decline in the UK due to more selective bidding was offset by an increase in the US. Revenue in the US increased by 10% (1% at CER) in the first half due to foreign exchange; whereas revenue in the UK declined by 23% reflecting the 17% decline in the order book in the prior year, as the business became more selective in the work it bid.

Underlying loss from continuing operations was £60 million (2015: £209 million), as losses in the UK more than offset a return to profitability in the US. The losses in the UK are substantially lower than the prior year, but profitability continues to be impacted by the historical contracts which are still being traded through to completion.

The order book increased by 15% (7% at CER) in the first half driven largely by underlying growth in the UK and Far East, and an increase in the US due to foreign exchange. The UK order book increased by 11% to £2.1 billion, despite the continuing focus on selective, disciplined bidding. In the Far East, the order book increased by 33% (17% at CER) due to strong levels of order intake, whereas in the US the order book increase of 15% (2% at CER) was almost entirely driven by foreign exchange movements.

Across the construction portfolio there remain a small number of long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes could result in a materially positive or negative swing to underlying profitability and cash flow. In the UK, the majority of these contracts are within Major Projects. Outside of the UK this primarily relates to a small number of contracts in Hong Kong, which have been recorded at break-even.

Construction Services	HY 2016			HY 2015			FY 2015		
	Rev[1,2]	PFO[2]	Order book[1,2]	Rev[1,2]	PFO[2]	Order book[1,2]	Rev[1,2]	PFO[2]	Order book[1,2]
	£m	£m	£bn	£m	£m	£bn	£m	£m	£bn
US	1,632	12	4.7	1,483	(41)	3.8	3,097	(22)	4.1
UK	862	(66)	2.1	1,117	(145)	2.0	2,024	(187)	1.9
Rail	129	(3)	0.2	104	(4)	0.2	274	(5)	0.2
Overseas JVs									
- Far East	413	3	1.6	384	6	1.3	796	19	1.2
- Middle East	141	(6)	0.5	89	(25)	0.4	197	(34)	0.5
Underlying[3]	3,177	(60)	9.1	3,177	(209)	7.7	6,388	(229)	7.9

[1] including share of joint ventures and associates

[2] from continuing operations

[3] before non-underlying items (Note 7)

UK

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

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

As a result of the selective bidding in the prior year, underlying revenue fell in the first half by 23% to £862 million (2015: £1,117 million), predominantly due to a decline in the Regional construction business. The business areas that saw the greatest revenue decline in the period were those that actively reduced their order intake in 2015, in response to historical contract issues, such as London and the South.

As a result of the focus on bidding for contracts with increased bid margins and more favourable contract terms, the Regional business is now focused on fewer, larger contracts and is reducing its exposure to contracts under £5 million. This allows the business to focus on projects with better pricing and risk dynamics, but also improves the span of control as it operates fewer sites. As a result, the total number of live jobs in the Regional business has reduced from over 400 to approximately 250.

The underlying loss from the UK construction business was £66 million (2015: £145 million), representing an improvement, half on half, from the prior year. The loss in the period was caused by three main factors: additional losses incurred on historical contracts; lower overhead absorption due to the lower revenue base; and gross margin not being recognised on newer projects in the period, as the business is being more conservative and robust in not recognising margin until sufficiently through the life of the project. Stripping out the impact of the additional losses on historical projects, the business would have been close to break-even.

The business continued to make good progress on closing out the 89 problem contracts identified in 2015 with 81% of these projects at practical or financial completion as at June 2016, up from 60% at December 2015. The number of these projects at practical or financial completion is still expected to be greater than 90% by the end of 2016.

The order book in the UK grew to £2.1 billion from £1.9 billion at the year end – the first growth in the UK order book since 2013. The growth is reflective of the conversion of the strong awarded but not contracted pipeline in the first half. There have been a number of notable contract awards in the period including: a £170 million contract to upgrade baggage screening and handling systems for Heathrow Airport; a contract for Highways England for the construction of a proposed lorry area near the M20, worth up to £130 million; and an £82 million contract to build engineering and training facilities at RAF Marham in Norfolk, in readiness for the arrival of the UK's first F-35 Lightning II aircraft in 2018.

US

Underlying revenue in the US grew by 10% in the first half to £1,632 million (1% at CER) whilst the order book increased in the first half by 15% (2% at CER) to £4.7 billion. Approximately 85% of revenues are generated from the general building market, with the infrastructure market accounting for the remaining 15%; both businesses were stable in the first half.

The US business continued to drive operational focus and business simplification. Both the general building business and the infrastructure business have now been united under a single leadership, which further develops and complements the move to a leaner organisational structure that was started in 2015.

As a result of the actions taken, profit from operations improved to £12 million (2015: £41 million loss). The first half margin of 0.74% was a good performance as profitability recovered from the loss generated in the first half of 2015, and is more reflective of the first half margin achieved in previous years. The business continued to benefit from a focus on overhead reduction but this was offset by write-downs relating to historical issues, particularly in the multi-family housing unit projects.

The order book in the US was relatively stable in the first half at £4.7 billion, as the business focused on winning contracts on improved terms rather than volume growth. Within this, the general building business order book grew, whilst the infrastructure business order book declined as it executed on large, long-term major infrastructure projects. Notable awards in the general building business included a US$276 million contract for a 42-storey mixed-use residential project in downtown San Francisco; a US$199 million contract for a mixed-used development in Dallas, comprising a 20-storey office tower and a second 34-storey tower with 253 residential units; a US$196 million contract in Washington for the construction of two 12-storey office towers to be built on top of an existing platform; and a US$126 million contract for The Ohlone College, in California, for the development of three new multi-storey academic core buildings that will house classrooms, laboratories, offices, conference rooms and a library. In August 2016, the infrastructure business was awarded a US$697 million contract for the electrification of the 52-mile Caltrain rail corridor between San Francisco and San Jose, laying the foundations for the operation of high-speed trains from 2020: this was not included in the order book at the half-year.

International joint ventures

Underlying revenue in the Group’s Hong Kong and Singapore joint venture, Gammon, was broadly flat on the prior year (1% decline at CER). After including the impact of exchange rates, revenue increased by 8% to £413 million. Within this, revenue from civils projects continued to reduce, following the completion of major projects in 2015, such as the Midfield Concourse at Hong Kong airport, and as others approach completion. This was offset by an increase in revenue from general building, following the mobilisation of a number of major building projects in 2015 and early 2016.

Profits were slightly lower than the prior year at £3 million (2015: £6 million), due to a more conservative approach to recognising profit at the early stages of large projects. Two significant projects are recorded at break-even, where a range of potential outcomes could result in a materially positive or negative swing to underlying profitability. The order book grew by 33% (17% at CER) in the first half, following the award of a number of notable major building projects: a HK$4 billion contract for the redevelopment of Somerset House, in Taikoo Place, into a 48-storey office building; a HK$2.6 billion contract for a residential development project for 12 residential towers and five four-storey houses, which together will provide 857 new homes; and a HK$1.6 billion contract for the construction of the Lee Garden Three Project, which will include 20 floors of office space.

In the Middle East, the order book was stable at £0.5 billion, though excluding the benefit of foreign exchange the order book declined slightly as the business executed on long-term contracts. Losses from operations reduced in the region to £6 million (2015: £25 million). This reflects the continued challenging nature of the region, as had been expected.

Rail

Revenue in the rail business grew by £25 million to £129 million (2015: £104 million) as the business experienced an increase in volumes on a number of large contracts, particularly in relation to Crossrail. Underlying losses in the period were £3 million (2015:

£4 million) as the business continued to be impacted by poor contract performance on a small number of historical rail projects. The order book was stable at £0.2 billion.

SUPPORT SERVICES

Support Services performed well, with profitability rebounding to more normalised levels compared to the prior year. Underlying revenue in the period declined, as expected, to £548 million (2015: £615 million), due to the phasing of contract and regulatory cycles. Revenue in the utilities business reduced by 3% to £291 million, whilst the transportation business declined by 18% to £257 million. Underlying profit from operations increased to £11 million (2015: £4 million). The order book increased by 6% in the first half to £3.3 billion (FY 2015: £3.1 billion), due to good growth in transportation whilst utilities was flat.

Support Services	HY 2016	HY 2015	FY 2015
Order book[1] (£bn)	3.3	3.6	3.1
Revenue[1] (£m)	548	615	1,259
Profit from operations[2] (£m)	11	4	24
Margin[1,2] (%)	2.0%	0.7%	1.9%

[1] including share of joint ventures and associates

[2] before non-underlying items (Note 7)

The Support Services segment comprises transportation and utilities 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 profit from operations increased to £11 million (2015: £4 million). The margin improved to 2.0%, from 0.7% in the first half of 2015 compared to a 1.9% margin for the whole of 2015. Profitability benefited from an improved performance in Transportation and from the Group's focus on taking overhead cost out.

Utilities revenue reduced by 3% to £291 million, as an expected reduction in Power was only partially offset by growth in Gas and Water. Volumes in Power were lower due to the completion of a number of projects in 2015, particularly in overhead lines, and as several long-term contracts approach completion, such as the Electricity Alliance East for National Grid. Gas and Water revenues increased slightly as new contracts under the AMP 6 regulatory cycle were mobilised, with further volume increases expected in the second half. The order book remained stable in the first half, following an extension to the gas transmission and distribution contract for Bord Gais, in Ireland, through to 2020.

Transportation revenues reduced by 18% to £257 million, due to expected volume declines from rail and highways. Rail revenues were lower following the completion of a rail grinding contract in the prior year. Highways revenues declined due to lower capital spend on a number of contracts for Highways England and completion of the contract for Area 4 during the period. The order book grew by 13%, due to strong order intake in rail and from local authorities. The Rail business was awarded a £170 million two-year extension to its Track Partnership contract with London Underground, to deliver essential track renewal work across the London Underground network. In February 2016, Balfour Beatty was awarded a £245 million seven-year highways maintenance contract for Coventry City Council, Solihull Metropolitan Borough Council and Warwickshire County Council. This unique collaborative arrangement will deliver better value for money, improved service resilience and flexibility in services.

INFRASTRUCTURE INVESTMENTS

The Investments business delivered another strong performance. It significant progress in simplifying its operations by exiting Balfour Beatty Infrastructure Partners (BBIP), an infrastructure fund run at arm's length and focused on secondary opportunities, and exiting from the Australian market. The business also continued its strategy of optimising value through the sale of mature projects, whilst also continuing to invest in new opportunities and expanding the breadth of assets.

Underlying profit from operations was £70 million (2015: £98 million) due to the reduction in disposal gains as a different mix of assets was disposed. The pre-disposals operating profit increased by £4 million to £18 million (2015: £14 million). A strong underlying operational performance, in particular in North America, as well as lower bidding and overhead costs more than offset lower UK income due to the impact of disposals. Gains on disposal were £52 million (2015: £84 million) from four transactions, including the Building Schools for the Future (BSF) portfolio which comprised seven separate projects. Total cash disposal proceeds were £82 million, with a further £73 million to be received on completion of the sale of the BSF portfolio, expected in the second half. Net interest income was broadly flat at £15 million as income from new projects offset the impact of disposals. Pre-tax result reduced to £85 million (2015: £114 million) as a result of decreased disposal gains.

The Directors' valuation of the Investments portfolio, including the BSF portfolio, was stable at £1,249 million as at 1 July 2016 (FY 2015: £1,244 million), after realising £82 million of cash disposal proceeds and £43 million of distributions, which were partially offset by £45 million of new investments. The number of investments included within the portfolio increased to 75 (FY 2015: 73) as the business continued to invest in new opportunities, but will reduce to 68 on completion of the sale of the BSF portfolio.

Infrastructure Investments	HY 2016 £m	HY 2015 £m
Pre-disposals operating profit[1]	18	14
Gain on disposals[1]	52	84
Profit from operations[1]	70	98
Net interest income from PPP concessions[2]	15	16
Pre-tax result[1]	85	114
Directors' valuation of PPP concessions [3]	1,249	1,252

[1] before non-underlying items (Note 7)

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

[3] includes £73 million at HY 2016 relating to the BSF portfolio of seven schools projects, as the disposal proceeds had not been received. The cash is expected to be received in the second half.

New contract wins and financial closes

The Investments business continued to grow with new wins on three new projects where equity will be invested, comprising: two private rental housing projects and one data centre project. Six projects currently remain at preferred bidder, with investment already made into one of these projects, located in London, to begin developing the project to financial close.

The Investments business was also appointed as third-party manager on one fee-based project in the residential sector located in Pennsylvania, as well as being appointed preferred bidder on two fee-based student accommodation projects. In these fee-based projects no equity will be invested.

UK

The business continues to develop into new sectors and in January 2016 a site was purchased at Manchester New Cross to provide a number of units to the private rented housing sector. Construction is expected to begin following financial close in the second half of 2016.

Financial close was reached on two projects; a hospital project in Ireland and a student accommodation project in Glasgow, Scotland. An additional three projects remain at preferred bidder which are expected to close in the second half of 2016 or early 2017.

North America

In North America, the business continues to expand in the private rental housing market and successfully acquired a stake in one private rental housing portfolio in Mobile, Alabama. The portfolio consists of three properties totalling 320 units. Balfour Beatty Communities will perform property management services for the portfolio leveraging its existing capabilities.

The Investments business was also named preferred bidder and reached financial close on a data centre project in Borden, Canada. The C$155 million project is located on the Canadian Forces Base in Borden, Ontario and covers the design/construction, financing and maintenance for a new 10,000m^2 data centre.

Two student accommodation projects remain at preferred bidder.

In addition, the Investments business was appointed as third-party manager on one fee-based project located in Pennsylvania and preferred bidder on two fee-based student accommodation projects located in Oklahoma and Texas. Balfour Beatty Communities will also perform property management services for one of the fee-based student accommodation projects.

Asset sales

The business continued its stated strategy of selling assets at the optimum time to maximise value for the Group. Interests in ten assets were sold in the period, one of which was a partial sale, generating total book gains on disposal of £52 million (2015: £84 million from two assets). The business sold its entire 50% interest in the Wollongong project in Australia, a 30% interest in the M1/A1 project (where the Group retains a 20% interest), its interests in Balfour Beatty Infrastructure Partners and the infrastructure fund, and its interest in the BSF portfolio comprised of seven schools projects. The sale of the BSF portfolio is expected to formally complete in the second half of 2016 following conclusion of the pre-emption process. The profit associated with the BSF disposal was recognised in the first half of 2016 following contract signature.

New investment

The Investments business continued to make substantial equity investments in the portfolio, with £45 million invested in the period (2015: £64 million), including £8 million into the infrastructure fund before its sale. The bulk of the remaining investment was in seven projects: Kennedy Street student accommodation in Glasgow, Woodland View hospital, New Cross Manchester, Cambridgeshire Street Lighting, Birmingham Bio Power, Welland Waste Wood biomass and Mobile, Alabama.

The Investments business continues to see significant opportunities for future investment in its core geographic markets in the UK and North America, across both its existing market sectors and as it continues to grow into new adjacent sectors.

DIRECTORS' VALUATION OF THE INVESTMENTS PORTFOLIO

In overall terms, the Directors' valuation rose slightly to £1,249 million at the half year, with the number of projects in the portfolio increasing from 73 to 75. This includes £73 million relating to the BSF portfolio of seven schools projects, as the disposal proceeds had not been received as at 1 July 2016.

The portfolio yielded £43 million from distributions during the period with the sale of investments realising £82 million, including £48 million for the sale of the Group's investment in the infrastructure fund, with a further £73 million to be received on completion of the BSF sale. The Wollongong sale realised a gain of £2 million relative to the Directors' valuation with all other sales being at values consistent with the Directors' valuation. Total investment during the period amounted to £45 million. Projects included in the Directors' valuation for the first time increased the value by £2 million. The unwinding of the discount increased the portfolio value by £47 million.

Operational performance movements resulted in a £20 million reduction in value with the most significant components being lower inflation (in the year, as well as forecast), lower forecast deposit interest rates, lower forecast lifecycle costs and an increase in the assumed tax burden for potential purchasers. In line with Government announcements the UK corporation tax rate has been reduced to 17% from April 2020. Foreign exchange movements increased the value of the portfolio by £54 million, with the majority arising as a result of the fall in the value of sterling against the US dollar following the EU referendum.

Following on from the OECD BEPS project's recommendations in relation to the tax deductibility of interest expense in 2015, HM Treasury and HM Revenue and Customs issued their consultation on detailed policy design and implementation in May 2016. These proposals preserve the concept of the public benefit exemption put forward by the OECD and also include other helpful measures to protect public infrastructure projects such as PPPs. The proposals and their application are however complex and still under development. Further clarity will be needed before the impact on the Directors' valuation can be fully evaluated. Balfour Beatty is actively engaged in the consultation process and will remain so in the run up to new legislation.

Directors' valuation of PPP concessions[1]	£m
1 January 2016	1,244
Equity invested	45
Distributions received	(43)
Disposal proceeds	(82)
Gain/loss on disposals	2
New project wins	2
Unwind of discount	47
Operational performance movements	(20)
Foreign exchange movements	54
1 July 2016	1,249

[1] includes £73 million relating to the BSF portfolio of seven schools projects, as the disposal proceeds had not been received. The cash is expected to be received in the second half.

OTHER FINANCIAL ITEMS

Non-underlying items

Pre-tax losses from non-underlying items for continuing operations were £28 million (2015: £20 million). This included a £25 million charge relating to revised legal guidelines and settlements. This largely relates to a reassessment of potential liabilities on historical health and safety breaches following new sentencing guidelines introduced earlier this year. There were also £9 million of provisions released in respect of Trans4m Ltd and £9 million of costs incurred relating to the Group's Build to Last transformation programme (2015: £12 million).

Significant other non-underlying items included: amortisation of acquired intangible assets of £4 million (2015: £5 million), £4 million (2015: £1 million) trading losses on certain legacy ES contracts, a gain of £3 million on the disposal of Balfour Beatty Infrastructure Partners, an additional £3 million gain (2015: £15 million) on the disposal of Signalling Solutions Ltd, and an impairment charge of £2 million on land held at Blackpool Airport.

Taxation

The Group's underlying loss before tax from continuing operations for subsidiaries of £13 million (2015: £138 million) resulted in an underlying tax credit of £7 million (2015: £4 million charge). The tax credit principally arises due to re-recognition of UK deferred tax assets in the year.

Discontinued operations

During the first half, further additional cash consideration relating to historical tax matters was received for the sale of Parsons Brinckerhoff amounting to £2 million.

Goodwill and intangible asset

The goodwill on the Group's balance sheet at 1 July 2016 increased to £896 million (FY 2015: £844 million). The increase of £52 million relates to movements in foreign exchange rates.

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 2015 and therefore no impairment charges were recorded in the first half of 2016.

The stabilisation and recovery of Construction Services UK to more normal levels of performance remains a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill at the previous financial year end.

A full detailed impairment review will be conducted at 31 December 2016.

Pensions

Net retirement benefit liabilities reduced to £96 million (FY 2015: £146 million), with the Group's principal pension scheme moving into a surplus position of £27 million. The Group recorded net actuarial gains on those schemes of £22 million (FY 2015: £86 million net losses), primarily driven by a strong performance from return-seeking assets and the interest rate hedging strategy, more than offsetting an increase in liabilities due to falling long-term interest rates in the period.

ENDS

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 1 July 2016 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
16 August 2016	

Forward-looking statements

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

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

INDEPENDENT REVIEW REPORT TO BALFOUR BEATTY PLC

Introduction

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 1 July 2016 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. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (the DTR) of the UK's Financial Conduct Authority (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.

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 IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting 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.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 1 July 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Stephen Wardell
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square,
London E14 5GL
16 August 2016

Condensed Group Income Statement

For the half-year ended 1 July 2016

	Notes	2016 first half unaudited Underlying items[1] £m	2016 first half unaudited Non-underlying items (Note 7) £m	2016 first half unaudited Total £m	2015 first half unaudited Underlying items[1] £m	2015 first half unaudited Non-underlying items (Note 7) £m	2015 first half unaudited Total £m	2015 year audited Underlying items[1] £m	2015 year audited Non-underlying items (Note 7) £m	2015 year audited Total £m
Continuing operations										
Revenue including share of joint ventures and associates		**4,024**	**93**	**4,117**	4,085	106	4,191	8,235	209	8,444
Share of revenue of joint ventures and associates	4.1	**(790)**	**(4)**	**(794)**	(714)	(11)	(725)	(1,471)	(18)	(1,489)
Group revenue		**3,234**	**89**	**3,323**	3,371	95	3,466	6,764	191	6,955
Cost of sales		**(3,139)**	**(86)**	**(3,225)**	(3,381)	(94)	(3,475)	(6,609)	(189)	(6,798)
Gross profit/(loss)		**95**	**3**	**98**	(10)	1	(9)	155	2	157
Gain on disposals of interests in investments	19.2	**52**	**–**	**52**	84	–	84	95	–	95
Amortisation of acquired intangible assets		**–**	**(4)**	**(4)**	–	(5)	(5)	–	(10)	(10)
Other net operating expenses		**(162)**	**(27)**	**(189)**	(202)	(16)	(218)	(403)	(65)	(468)
Group operating loss		**(15)**	**(28)**	**(43)**	(128)	(20)	(148)	(153)	(73)	(226)
Share of results of joint ventures and associates	4.1	**20**	**–**	**20**	8	–	8	47	(3)	44
Profit/(loss) from operations		**5**	**(28)**	**(23)**	(120)	(20)	(140)	(106)	(76)	(182)
Investment income	5	**40**	**–**	**40**	26	–	26	52	–	52
Finance costs	6	**(38)**	**–**	**(38)**	(36)	–	(36)	(69)	–	(69)
Profit/(loss) before taxation		**7**	**(28)**	**(21)**	(130)	(20)	(150)	(123)	(76)	(199)
Taxation	8	**7**	**1**	**8**	(4)	3	(1)	(11)	4	(7)
Profit/(loss) for the period from continuing operations		**14**	**(27)**	**(13)**	(134)	(17)	(151)	(134)	(72)	(206)
Profit/(loss) for the period from discontinued operations		**–**	**2**	**2**	(1)	2	1	(1)	1	–
Profit/(loss) for the period		**14**	**(25)**	**(11)**	(135)	(15)	(150)	(135)	(71)	(206)
Attributable to										
Equity holders		**14**	**(25)**	**(11)**	(135)	(15)	(150)	(135)	(71)	(206)
Non-controlling interests		**–**	**–**	**–**	–	–	–	–	–	–
Profit/(loss) for the period		**14**	**(25)**	**(11)**	(135)	(15)	(150)	(135)	(71)	(206)

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

	Notes	**2016 first half unaudited pence**	2015 first half unaudited pence	2015 year audited pence
Basic (loss)/earnings per ordinary share				
- continuing operations	9	**(2.0)**	(22.0)	(30.2)
- discontinued operations	9	**0.4**	0.1	0.1
	9	**(1.6)**	(21.9)	(30.1)
Diluted (loss)/earnings per ordinary share				
- continuing operations	9	**(2.0)**	(22.0)	(30.2)
- discontinued operations	9	**0.4**	0.1	0.1
	9	**(1.6)**	(21.9)	(30.1)
Dividends per ordinary share proposed for the period	10	**0.9**	–	–

Condensed Group Statement of Comprehensive Income

For the half-year ended 1 July 2016

	2016 first half unaudited			2015 first half unaudited+			2015 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
(Loss)/profit for the period	**(31)**	**20**	**(11)**	(158)	8	(150)	(250)	44	(206)
Other comprehensive income/(loss) for the period									
Items which will not subsequently be reclassified to the income statement									
Actuarial gains/(losses) on retirement benefit net liabilities	**22**	**–**	**22**	(133)	–	(133)	(86)	(4)	(90)
Tax on above	**(4)**	**–**	**(4)**	26	–	26	15	–	15
	18	**–**	**18**	(107)	–	(107)	(71)	(4)	(75)
Items which will subsequently be reclassified to the income statement									
Currency translation differences	**42**	**11**	**53**	–	–	–	29	3	32
Fair value revaluations – PPP financial assets	**22**	**20**	**42**	(16)	(159)	(175)	(13)	(170)	(183)
– cash flow hedges	**(36)**	**(86)**	**(122)**	15	37	52	8	21	29
Recycling of revaluation reserves to the income statement on disposal^	**–**	**9**	**9**	(15)	1	(14)	(15)	(5)	(20)
Tax on above	**4**	**11**	**15**	–	24	24	1	33	34
	32	**(35)**	**(3)**	(16)	(97)	(113)	10	(118)	(108)
Total other comprehensive income/(loss) for the period	**50**	**(35)**	**15**	(123)	(97)	(220)	(61)	(122)	(183)
Total comprehensive income/(loss) for the period	**19**	**(15)**	**4**	(281)	(89)	(370)	(311)	(78)	(389)
Attributable to									
Equity holders			**4**			(370)			(389)
Non-controlling interests			**–**			–			–
Total comprehensive income/(loss) for the period			**4**			(370)			(389)

+ Re-presented to show the share of comprehensive income/(loss) relating to the Group's joint ventures and associates separately from the rest of the Group.
^ 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 1 July 2016

					Other reserves							
	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Equity component of preference shares and convertible bonds £m	Hedging reserves £m	PPP financial assets £m	Currency translation reserve £m	Other £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2015 audited	345	64	23	340	44	(74)	101	55	14	315	3	1,230
Total comprehensive (expense)/income for the period	–	–	–	(89)	–	15	(34)	–	–	(262)	–	(370)
Joint ventures' and associates' dividends	–	–	–	(23)	–	–	–	–	–	23	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	(3)	(3)	–	(6)
Reserve transfers relating to disposals	–	–	–	(6)	–	1	(6)	–	–	11	–	–
At 26 June 2015	345	64	23	222	44	(58)	61	55	11	84	3	854
Total comprehensive income/(expense) for the period	–	–	–	11	–	1	(9)	32	–	(54)	–	(19)
Joint ventures' and associates' dividends	–	–	–	(46)	–	–	–	–	–	46	–	–
Issue of ordinary shares	–	1	–	–	–	–	–	–	–	–	–	1
Movements relating to share-based payments	–	–	–	–	–	–	–	–	2	(9)	–	(7)
Minority interest	–	–	–	–	–	–	–	–	–	–	1	1
Reserve transfers relating to disposals	–	–	–	(7)	–	(1)	6	–	–	2	–	–
Other transfers	–	–	(1)	16	–	–	–	–	–	(15)	–	–
At 31 December 2015	345	65	22	196	44	(58)	58	87	13	54	4	830
Total comprehensive (expense)/income for the period	**–**	**–**	**–**	**(15)**	**–**	**(30)**	**19**	**42**	**–**	**(12)**	**–**	**4**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(21)**	**–**	**–**	**–**	**–**	**–**	**21**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**(1)**	**–**	**–**
Reserve transfers relating to disposals	**–**	**–**	**–**	**(10)**	**–**	**–**	**–**	**–**	**–**	**10**	**–**	**–**
At 1 July 2016	**345**	**65**	**22**	**150**	**44**	**(88)**	**77**	**129**	**14**	**72**	**4**	**834**

Condensed Group Balance Sheet

At 1 July 2016

	Notes	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Non-current assets				
Intangible assets – goodwill	11	**896**	824	844
– other		**226**	235	222
Property, plant and equipment		**197**	162	167
Investments in joint ventures and associates	4.2	**583**	699	671
Investments		**45**	47	44
PPP financial assets	15	**432**	365	402
Trade and other receivables	13	**146**	108	114
Retirement benefit assets	16	**27**	–	–
Deferred tax assets		**70**	73	58
Derivative financial instruments		**3**	–	–
		2,625	2,513	2,522
Current assets				
Inventories and non-construction work in progress		**127**	151	144
Due from construction contract customers		**382**	449	379
Trade and other receivables	13	**994**	941	885
Cash and cash equivalents – infrastructure concessions	18.2	**25**	16	20
– other	18.2	**703**	724	646
Current tax assets		**–**	2	4
Derivative financial instruments		**1**	1	1
		2,232	2,284	2,079
Assets held for sale	12	**56**	–	–
		2,288	2,284	2,079
Total assets		**4,913**	4,797	4,601
Current liabilities				
Due to construction contract customers		**(476)**	(385)	(472)
Trade and other payables	14	**(1,741)**	(1,969)	(1,700)
Provisions		**(165)**	(152)	(126)
Borrowings – non-recourse loans	18.3	**(15)**	(14)	(22)
– other	18.3	**(77)**	–	(13)
Current tax liabilities		**(26)**	(5)	(20)
Derivative financial instruments		**(14)**	(13)	(11)
		(2,514)	(2,538)	(2,364)
Liabilities held for sale	12	**(40)**	–	–
		(2,554)	(2,538)	(2,364)
Non-current liabilities				
Trade and other payables	14	**(132)**	(109)	(130)
Provisions		**(98)**	(78)	(80)
Borrowings – non-recourse loans	18.3	**(398)**	(329)	(363)
– other	18.3	**(511)**	(464)	(470)
Liability component of preference shares		**(99)**	(97)	(98)
Retirement benefit liabilities	16	**(123)**	(231)	(146)
Deferred tax liabilities		**(63)**	(38)	(53)
Derivative financial instruments		**(101)**	(59)	(67)
		(1,525)	(1,405)	(1,407)
Total liabilities		**(4,079)**	(3,943)	(3,771)
Net assets		**834**	854	830
Equity				
Called-up share capital		**345**	345	345
Share premium account		**65**	64	65
Special reserve		**22**	23	22
Share of joint ventures' and associates' reserves		**150**	222	196
Other reserves		**176**	113	144
Retained profits		**72**	84	54
Equity attributable to equity holders of the parent		**830**	851	826
Non-controlling interests		**4**	3	4
Total equity		**834**	854	830

Condensed Group Statement of Cash Flows

For the half-year ended 1 July 2016

		Notes	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Cash flows used in operating activities					
Cash used in:					
- continuing operations	– underlying[1]	18.1	**(93)**	2	(84)
	– non-underlying	18.1	**(6)**	(37)	(54)
- discontinued operations		18.1	**–**	(1)	3
Income taxes received			**8**	6	6
Net cash used in operating activities			**(91)**	(30)	(129)
Cash flows from investing activities					
Dividends from:	- joint ventures and associates – infrastructure concessions		**13**	15	45
	- joint ventures and associates – other		**8**	8	24
Interest received – infrastructure concessions			**15**	10	16
Interest received – other			**5**	5	5
Acquisition of businesses, net of cash and cash equivalents acquired		19.1	**(3)**	(3)	(3)
Purchases of:	- intangible assets – infrastructure concessions		**(5)**	(15)	(23)
	- intangible assets – other		**–**	(16)	(20)
	- property, plant and equipment – infrastructure concessions		**(29)**	(2)	(13)
	- property, plant and equipment – other		**(15)**	(10)	(27)
	- other investments		**(1)**	(3)	(2)
Investments in and long-term loans to joint ventures and associates			**(24)**	(61)	(79)
Capital repayment from infrastructure concession joint venture			**–**	–	7
Short-term loans to joint ventures and associates			**–**	(3)	(11)
Loans repaid from joint ventures and associates			**4**	1	2
PPP financial assets cash expenditure		15	**(14)**	(38)	(75)
PPP financial assets cash receipts		15	**18**	15	30
Disposals of:	- investments in joint ventures – infrastructure concessions	19.2	**33**	71	104
	- investments in joint ventures – other	19.2	**49**	20	21
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions		**–**	23	23
	- subsidiaries net of cash disposed, separation and transaction costs – other		**2**	3	16
	- property, plant and equipment		**5**	2	7
	- other investments		**6**	8	10
Net cash from investing activities			**67**	30	57
Cash flows from/(used in) financing activities					
Purchase of ordinary shares		17	**(4)**	(7)	(17)
Proceeds from:	- issue of ordinary shares		**–**	–	1
	- other new loans – infrastructure concessions	18.4	**36**	33	79
	- other new loans – other	18.4	**75**	–	–
Repayments of:	- loans – infrastructure concessions	18.4	**(12)**	(4)	(11)
	- loans – other	18.4	**–**	–	(1)
Interest paid – infrastructure concessions			**(12)**	(9)	(19)
Interest paid – other			**(22)**	(19)	(32)
Preference dividends paid			**(11)**	(5)	(11)
Net cash from/(used in) financing activities			**50**	(11)	(11)
Net increase/(decrease) in cash and cash equivalents			**26**	(11)	(83)
Effects of exchange rate changes			**50**	6	1
Cash and cash equivalents at beginning of period			**663**	727	727
Net (increase)/decrease in cash within assets held for sale			**(14)**	18	18
Cash and cash equivalents at end of period		18.2	**725**	740	663

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

Notes to the financial statements

1.1 Basis of accounting

The condensed Group financial statements for the half-year ended 1 July 2016 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 2015, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The condensed Group financial statements have been reviewed, not audited, and were approved for issue by the Board on 16 August 2016. 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 2015 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 2015 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 2.26 on pages 105 and 106 of the Annual Report and Accounts 2015.

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

- Amendments to the following standards:
    - IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
    - IAS 1 Disclosure Initiative
    - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
    - IAS 16 and IAS 41: Agricultural: Bearer Plants
    - IAS 27 Equity Method in Separate Financial Statements
    - Improvements to IFRSs (2012 – 2014).

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 1 July 2016:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendments to the following standards:
  - o IAS 7 Disclosure Initiative
  - o IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
  - o IFRS 2 Classification and Measurement of Share-based Payment Transactions
  - o IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  - o IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption.

The Directors continue to assess the impact of IFRS 9, IFRS 15 and IFRS 16 but do not expect the other standards above to have a material quantitative effect.

2 Exchange rates

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

Average rates

£1 buys	**2016 first half unaudited**	2015 first half unaudited	2015 year audited	26 June 2015 - 1 July 2016 % change	31 Dec 2015 - 1 July 2016 % change
US$	**1.41**	1.53	1.53	(7.8)%	(7.8)%
HK$	**10.98**	11.87	11.84	(7.5)%	(7.3)%
Euro	**1.27**	1.36	1.37	(6.6)%	(7.3)%

Closing rates

£1 buys	**2016 first half unaudited**	2015 first half unaudited	2015 year audited	26 June 2015 - 1 July 2016 % change	31 Dec 2015 - 1 July 2016 % change
US$	**1.33**	1.57	1.48	(15.3)%	(10.1)%
HK$	**10.30**	12.20	11.43	(15.6)%	(9.9)%
Euro	**1.19**	1.41	1.36	(15.6)%	(12.5)%

3 Segment analysis

Reportable segments of the Group:

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

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

Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, schools, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment also includes the Group's housing development division which moved from Construction Services from the second-half of 2015.

3.1 Income statement – performance by activity from continuing operations

For the half-year ended 1 July 2016 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m	Rail Germany £m	Certain legacy ES contracts £m	Total £m
Revenue including share of joint ventures and associates	3,177	548	299	–	4,024	88	5	4,117
Share of revenue of joint ventures and associates	(608)	(13)	(169)	–	(790)	(4)	–	(794)
Group revenue	2,569	535	130	–	3,234	84	5	3,323
Group operating (loss)/profit^	(66)	11	56	(16)	(15)	1	(4)	
Share of results of joint ventures and associates	6	–	14	–	20	–	–	
(Loss)/profit from operations^	(60)	11	70	(16)	5	1	(4)	
Non-underlying items								
- include results from certain legacy Engineering Services (ES) contracts within Construction Services	(4)	–	–	–	(4)			
- include results from Rail Germany within Construction Services	1	–	–	–	1			
- amortisation of acquired intangible assets	(1)	–	(3)	–	(4)			
- other non-underlying items	(7)	(12)	1	(3)	(21)			
	(11)	(12)	(2)	(3)	(28)			
(Loss)/profit from operations	(71)	(1)	68	(19)	(23)			
Investment income					40			
Finance costs					(38)			
Loss before taxation					(21)			

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

3 Segment analysis continued

3.1 Income statement – performance by activity from continuing operations

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

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

For the year ended 31 December 2015 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m	Rail Germany £m	Certain legacy ES contracts £m	Total £m
Revenue including share of joint ventures and associates	6,388	1,259	588	–	8,235	179	30	8,444
Share of revenue of joint ventures and associates	(1,168)	(25)	(278)	–	(1,471)	(18)	–	(1,489)
Group revenue	5,220	1,234	310	–	6,764	161	30	6,955
Group operating (loss)/profit^	(234)	23	91	(33)	(153)	(3)	(8)	
Share of results of joint ventures and associates	5	1	41	–	47	1	–	
(Loss)/profit from operations^	(229)	24	132	(33)	(106)	(2)	(8)	
Non-underlying items								
- include results from certain legacy ES contracts within Construction Services	(8)	–	–	–	(8)			
- include results from Rail Germany within Construction Services	(2)	–	–	–	(2)			
- amortisation of acquired intangible assets	(4)	–	(6)	–	(10)			
- other non-underlying items	(37)	(13)	(4)	(2)	(56)			
	(51)	(13)	(10)	(2)	(76)			
(Loss)/profit from operations	(280)	11	122	(35)	(182)			
Investment income					52			
Finance costs					(69)			
Loss before taxation					(199)			

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

3 Segment analysis continued

3.2 Assets and liabilities by activity

As at half-year ended 1 July 2016 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Due from construction contract customers	**246**	**136**	**–**	**–**	**382**
Due to construction contract customers	**(436)**	**(40)**	**–**	**–**	**(476)**
Inventories and non-construction work in progress	**44**	**61**	**22**	**–**	**127**
Trade and other receivables – current	**702**	**108**	**132+**	**52**	**994**
Trade and other payables – current	**(1,366)**	**(254)**	**(49)**	**(72)**	**(1,741)**
Provisions – current	**(129)**	**(6)**	**(5)**	**(25)**	**(165)**
Working capital excluding net assets held for sale*	**(939)**	**5**	**100**	**(45)**	**(879)**
Net assets classified as held for sale (Note 12)	**6**	**–**	**–**	**–**	**6**
Adjusted working capital*	**(933)**	**5**	**100**	**(45)**	**(873)**

* Includes non-operating items and current working capital.
+ Includes £73m of amounts due on disposal relating to the disposal of the BSF projects (refer to Note 13 and Note 19.2.3)

Total assets	**2,154**	**519**	**1,359**	**881**	**4,913**
Total liabilities	**(2,260)**	**(327)**	**(628)**	**(864)**	**(4,079)**
Net (liabilities)/assets	**(106)**	**192**	**731**	**17**	**834**

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

* Includes non-operating items and current working capital.

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

As at year ended 31 December 2015 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Due from construction contract customers	234	145	–	–	379
Due to construction contract customers	(426)	(46)	–	–	(472)
Inventories and non-construction work in progress	51	67	26	–	144
Trade and other receivables – current	687	104	59	35	885
Trade and other payables – current	(1,343)	(240)	(59)	(58)	(1,700)
Provisions – current	(92)	(7)	(7)	(20)	(126)
Working capital*	(889)	23	19	(43)	(890)

* Includes non-operating items and current working capital.

Total assets	1,983	524	1,339	755	4,601
Total liabilities	(2,141)	(326)	(586)	(718)	(3,771)
Net (liabilities)/assets	(158)	198	753	37	830

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 1 July 2016 unaudited					
Capital expenditure on property, plant and equipment	**6**	**1**	**29**	**8**	**44**
Depreciation	**7**	**5**	**1**	**4**	**17**
Gain on disposals of interests in investments	**–**	**–**	**52**	**–**	**52**
For the half-year ended 26 June 2015 unaudited					
Capital expenditure on property, plant and equipment	7	3	2	–	12
Depreciation	9	6	1	1	17
Gain on disposals of interests in investments	–	–	84	–	84
For the year ended 31 December 2015 audited					
Capital expenditure on property, plant and equipment	14	12	14	–	40
Depreciation	16	16	2	1	35
Gain on disposals of interests in investments	–	–	95	–	95

3.4 Revenue by geographic destination

	United Kingdom £m	United States £m	Rest of World £m	Total £m
For the half-year ended 1 July 2016 unaudited				
Revenue including share of joint ventures and associates	**1,663**	**1,686**	**768**	**4,117**
Share of revenue of joint ventures and associates	**(100)**	**(56)**	**(638)**	**(794)**
Group revenue	**1,563**	**1,630**	**130**	**3,323**
For the half-year ended 26 June 2015 unaudited				
Revenue including share of joint ventures and associates	1,982	1,560	649	4,191
Share of revenue of joint ventures and associates	(99)	(81)	(545)	(725)
Group revenue	1,883	1,479	104	3,466
For the year ended 31 December 2015 audited				
Revenue including share of joint ventures and associates	3,843	3,238	1,363	8,444
Share of revenue of joint ventures and associates	(185)	(170)	(1,134)	(1,489)
Group revenue	3,658	3,068	229	6,955

3.5 Infrastructure Investments

Underlying profit from operations[1]	**Group 2016 first half unaudited £m**	**Share of joint ventures and associates 2016 first half unaudited[+] £m**	**Total 2016 first half unaudited £m**	Group 2015 first half unaudited £m	Share of joint ventures and associates 2015 first half unaudited[+] £m	Total 2015 first half unaudited £m	Group 2015 year audited £m	Share of joint ventures and associates 2015 year audited[+] £m	Total 2015 year audited £m
UK[^]	**2**	**7**	**9**	1	14	15	3	30	33
North America	**7**	**7**	**14**	8	4	12	17	8	25
Infrastructure Fund	**–**	**–**	**–**	–	1	1	–	3	3
Gain on disposals of interests in investments	**52**	**–**	**52**	84	–	84	95	–	95
	61	**14**	**75**	93	19	112	115	41	156
Bidding costs and overheads	**(5)**	**–**	**(5)**	(14)	–	(14)	(24)	–	(24)
	56	**14**	**70**	79	19	98	91	41	132

[+] The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
[^] Including Singapore and Australia.
[1] Before non-underlying items (Note 7).

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

4.1 Income Statement

Continuing operations	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Underlying revenue[1]	**790**	714	1,471
Underlying profit from operations[1]	**4**	1	31
Investment income	**84**	80	166
Finance costs	**(64)**	(68)	(138)
Profit before taxation[1]	**24**	13	59
Taxation	**(4)**	(5)	(12)
Profit after taxation before non-underlying items	**20**	8	47
Share of results within non-underlying items	**–**	–	(3)
Profit after taxation	**20**	8	44

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

4.2 Balance Sheet

		2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Intangible assets	– goodwill	**34**	29	30
	– Infrastructure Investments intangible	**16**	27	25
	– other	**11**	11	11
Property, plant and equipment		**122**	82	103
Investments in joint ventures and associates		**6**	5	5
PPP financial assets		**1,942**	2,351	2,236
Military housing projects^		**104**	93	94
Other assets recorded under the hypothetical liquidation book value method (HLBV)^		**7**	–	7
Infrastructure Fund investment		**–**	33	38
Net (borrowings)/cash	– non-recourse	**(1,372)**	(1,695)	(1,649)
	– other	**283**	255	276
Other net liabilities		**(585)**	(492)	(514)
Share of net assets of joint ventures and associates		**568**	699	662
Reclassify net liabilities relating to Dutco+ to provisions		**15**	–	9
Adjusted share of net assets of joint ventures and associates		**583**	699	671

+ Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.

^ Re-presented to show other assets recorded under the HLBV method separately from the Group's military housing projects.

4.3 Infrastructure Fund investment

	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
At beginning of period	**38**	20	20
Capital calls	**8**	12	15
Distributions received	**(3)**	–	(2)
Gain on fair value movements	**–**	2	3
Currency translation differences	**5**	(1)	2
Disposal (Note 19.2.4)	**(48)**	–	–
At end of period	**–**	33	38

5 Investment income

	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Subordinated debt interest receivable	**15**	13	24
Interest receivable on PPP financial assets	**12**	12	24
Gain on foreign currency deposits	**12**	–	–
Other interest receivable and similar income	**1**	1	4
	40	26	52

6 Finance costs

		2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Non-recourse borrowings	– bank loans and overdrafts	**12**	9	19
Preference shares	– finance cost	**6**	5	11
	– accretion	**1**	1	2
Convertible bonds	– finance cost	**3**	3	5
	– accretion	**3**	3	6
US private placement	– finance cost	**6**	6	11
Other interest payable	– other bank loans and overdrafts	**1**	–	1
	– commitment fees	**2**	3	6
	– other finance charges	**2**	4	5
Net finance cost on pension scheme assets and liabilities		**2**	2	3
		38	36	69

7 Non-underlying items

	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Items credited to/(charged against) profit			
7.1 Continuing operations			
7.1.1 Trading results from Rail Germany (including £6m (2015: first half £4m, full-year £13m) of other net operating expenses)	**1**	(2)	(3)
7.1.2 Results of certain legacy ES contracts	**(4)**	(1)	(8)
7.1.3 Amortisation of acquired intangible assets	**(4)**	(5)	(10)
7.1.4 Other non-underlying items:			
– Build to Last transformation costs	**(9)**	(12)	(23)
– provision increases resulting from revised legal guidelines and settlements	**(25)**	–	–
– release of Trans4m provisions on liquidation	**9**	–	–
– gain on sale of Balfour Beatty Infrastructure Partners	**3**	–	–
– impairment of land/goodwill relating to Blackpool Airport	**(2)**	–	(4)
– gain on disposal of Signalling Solutions Ltd	**3**	15	16
– restructuring costs relating to Heery and Rail Germany	**–**	(8)	(9)
– cost of implementing the shared service centre in the UK	**–**	(5)	(8)
– impairment of assets within Rail Germany	**–**	–	(7)
– impairment of IT intangible asset	**–**	–	(17)
– other	**–**	(2)	–
Total other non-underlying items from continuing operations	**(21)**	(12)	(52)
	(28)	(20)	(73)
7.1.5 Share of results of joint ventures and associates in respect of Rail Germany	**–**	–	(3)
Charged against profit/(loss) before taxation from continuing operations	**(28)**	(20)	(76)
7.1.6 Tax on items above	**1**	3	4
Non-underlying items charged against profit/(loss) for the period from continuing operations	**(27)**	(17)	(72)
7.2 Discontinued operations			
7.2.1 Other non-underlying items:			
– gain on disposal of Parsons Brinckerhoff	**2**	4	5
– loss on disposal of other businesses	**–**	(2)	(4)
Total other non-underlying items from discontinued operations	**2**	2	1
Credited to profit/(loss) before taxation from discontinued operations	**2**	2	1
7.2.2 Tax on items above	**–**	–	–
Non-underlying items credited to profit/(loss) for the period from discontinued operations	**2**	2	1
Charged against profit/(loss) for the period	**(25)**	(15)	(71)

7 Non-underlying items continued

Continuing operations

7.1.1 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 2016, Rail Germany generated a profit before tax excluding share of joint ventures and associates of £1m (2015: first half £2m loss; full-year £3m loss).

7.1.2 The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts in non-underlying items. These contracts were classified as non-underlying items in 2014 as the performance of these contracts was linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work. These contracts resulted in a loss before tax for the Group of £4m in the first-half of 2016 (2015: first half £1m; full-year £8m). A tax credit of £1m (2015: first half £nil; full-year £nil) has been recognised on this loss.

7.1.3 The amortisation of acquired intangible comprises: customer contracts £3m (2015: first half £3m; full-year £6m); customer relationships £1m (2015: first half £1m; full-year £3m); and brand names £nil (2015: first half £1m; full-year £1m).

7.1.4.1 The Group launched its Build to Last transformation programme in February 2015. The transformation programme is aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies. As a result of this programme, restructuring costs of £9m were incurred in the first-half of 2016 relating to: Construction Services UK £1m; Support Services UK £1m; other UK entities £3m; and non-UK entities £4m. These restructuring costs comprise: redundancy costs £5m; external advisers £2m; property-related costs £1m; and other restructuring costs £1m.

In the first-half of 2015, the Group incurred restructuring costs of £12m relating to: Construction Services UK £7m; Support Services UK £2m; and other UK entities £3m. These restructuring costs comprise: redundancy costs £6m; external advisers £1m; and property-related costs £5m.

In the full-year 2015, the Group incurred restructuring costs of £23m relating to: Construction Services UK £11m; Support Services UK £6m; other UK entities £3m and non-UK entities £3m. These restructuring costs comprise: redundancy costs £12m; external advisers £4m; property-related costs £5m and other restructuring costs £2m.

7.1.4.2 In the first-half of 2016, following a reassessment of potential liabilities on historical health and safety breaches following new sentencing guidelines introduced earlier this year and the settlement of other historical claims previously treated as non-underlying items, the Group has revised its legal provisioning levels relating to these items resulting in a £25m expense in the period. This has been presented as non-underlying because its size would otherwise distort the underlying financial performance achieved by the Group and the events giving rise to these expenses do not relate to the current financial period.

7.1.4.3 In the first-half of 2016, the Group has released all remaining provisions relating to Trans4m Ltd (Trans4m) amounting to £9m. Trans4m was an equal joint operation between Balfour Beatty and three other partner shareholders and was contracted to Metronet as part of the London Underground PPP. The provisions were originally recorded in non-underlying items in 2007. Trans4m went into creditors' voluntary liquidation on 27 June 2016.

7.1.4.4 In the first-half of 2016, the Group disposed of its interest in Balfour Beatty Infrastructure Partners, which consists of its 17.8% interest in the Infrastructure Fund and 100% interest in the fund's advisor. Initial consideration of £48m was received, resulting in a gain of £3m to the Group. Refer to Notes 19.2.4 and 19.2.5.

7 Non-underlying items continued

Continuing operations

7.1.4.5 In the first-half of 2016, an impairment of £2m was recognised on land held at Blackpool Airport. The land was originally held in connection with the Group's former operation of the airport. In the second-half of 2015, goodwill amounting to £4m in relation to Blackpool Airport was fully written down.

7.1.4.6 On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Ltd (SSL) for a cash consideration of £18m, resulting in a £16m gain in 2015. In the first-half of 2016, additional consideration received resulted in a further gain of £2m being reported. In addition to this, a £1m pension settlement gain arose as a result of transferring pension liabilities relating to the employees of SSL to the new employer.

7.1.6 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £1m comprising: £2m charge on the results of Rail Germany and £1m credit on certain legacy Engineering Services contracts; £1m credit on amortisation of acquired intangible assets; and £1m credit on other non-underlying items (2015: first half £3m credit comprising: £2m credit on amortisation of acquired intangible assets and £1m credit on other non-underlying items, full-year tax credit of £4m comprising: £2m charge on the results of Rail Germany; £4m credit on amortisation of acquired intangible assets; and £2m credit on other non-underlying items).

Discontinued operations

7.2.1.1 During the first-half of 2016, further additional cash consideration relating to historical tax matters was received for the sale of Parsons Brinckerhoff amounting to £2m.

7.2.2 The non-underlying items charged against profit from discontinued operations gave rise to a tax credit of £nil.

8 Taxation

	Underlying items 2016 first half unaudited[1] £m	**Non-underlying items (Note 7) 2016 first half unaudited £m**	**Total 2016 first half unaudited £m**	2015 first half unaudited £m	2015 year audited £m
Total UK tax	**12**	**–**	**12**	(10)	(15)
Total non-UK tax	**(5)**	**1**	**(4)**	9	8
Total tax credit/(charge)[x]	**7**	**1**	**8**	(1)	(7)
UK current tax	**–**	**–**	**–**	–	2
Non-UK current tax	**–**	**(1)**	**(1)**	(1)	1
Total current tax	**–**	**(1)**	**(1)**	(1)	3
UK deferred tax	**12**	**–**	**12**	(10)	(17)
Non-UK deferred tax	**(5)**	**2**	**(3)**	10	7
Total deferred tax	**7**	**2**	**9**	–	(10)
Total tax credit/(charge)[x]	**7**	**1**	**8**	(1)	(7)

[x] Excluding joint ventures and associates.
[1] Before non-underlying items (Note 7).

In addition to the Group tax charge above, tax of £11m is credited (2015: first half £50m credit, full-year £49m credit) directly to other comprehensive income, comprising: a deferred tax charge of £nil (2015: first half £26m credit, full-year £16m credit) and a deferred tax credit in respect of joint ventures and associates of £11m (2015: first half £24m credit, full-year £33m credit).

9 Earnings per ordinary share

Earnings	2016 first half unaudited Basic £m	2016 first half unaudited Diluted £m	2015 first half unaudited Basic £m	2015 first half unaudited Diluted £m	2015 year audited Basic £m	2015 year audited Diluted £m
Continuing operations						
Loss	**(13)**	**(13)**	(151)	(151)	(206)	(206)
Amortisation of acquired intangible assets net of tax	**3**	**3**	3	3	6	6
Other non-underlying items net of tax	**24**	**24**	14	14	66	66
Underlying earnings/(loss)	**14**	**14**	(134)	(134)	(134)	(134)
Discontinued operations						
Profit	**2**	**2**	1	1	–	–
Other non-underlying items net of tax	**(2)**	**(2)**	(2)	(2)	(1)	(1)
Underlying loss	**–**	**–**	(1)	(1)	(1)	(1)
Total operations						
Loss	**(11)**	**(11)**	(150)	(150)	(206)	(206)
Amortisation of acquired intangible assets net of tax	**3**	**3**	3	3	6	6
Other non-underlying items net of tax	**22**	**22**	12	12	65	65
Underlying earnings/(loss)	**14**	**14**	(135)	(135)	(135)	(135)

	Basic m	Diluted m	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**680**	**680**	684	684	682	682

Earnings per share	Basic pence	Diluted pence	Basic pence	Diluted pence	Basic pence	Diluted pence
Continuing operations						
Loss per ordinary share	**(2.0)**	**(2.0)**	(22.0)	(22.0)	(30.2)	(30.2)
Amortisation of acquired intangible assets net of tax	**0.5**	**0.5**	0.5	0.5	0.8	0.8
Other non-underlying items net of tax	**3.5**	**3.5**	2.1	2.1	9.7	9.7
Underlying earnings/(loss) per ordinary share	**2.0**	**2.0**	(19.4)	(19.4)	(19.7)	(19.7)
Discontinued operations						
Earnings per ordinary share	**0.4**	**0.4**	0.1	0.1	0.1	0.1
Other non-underlying items net of tax	**(0.4)**	**(0.4)**	(0.2)	(0.2)	(0.2)	(0.2)
Underlying loss per ordinary share	**–**	**–**	(0.1)	(0.1)	(0.1)	(0.1)
Total operations						
Loss per ordinary share	**(1.6)**	**(1.6)**	(21.9)	(21.9)	(30.1)	(30.1)
Amortisation of acquired intangible assets net of tax	**0.5**	**0.5**	0.5	0.5	0.8	0.8
Other non-underlying items net of tax	**3.1**	**3.1**	1.9	1.9	9.5	9.5
Underlying earnings/(loss) per ordinary share	**2.0**	**2.0**	(19.5)	(19.5)	(19.8)	(19.8)

10 Dividends on ordinary shares

	2016 first half unaudited	
	Per share pence	Amount £m
Proposed dividends for the period		
Interim 2016	**0.9**	**6**
	0.9	**6**

There were no proposed or recognised dividends for 2015. The Board took the decision to suspend the dividend in 2015, to ensure balance sheet strength was maintained during the initial stages of the transformation programme. The Board recognises the importance of dividends to its shareholders. Following the demonstrable progress made by the Group over the last 18 months and the expectation of further solid and measurable progress, it has decided to reinstate the dividend at an appropriate level.

The Board is therefore declaring an interim dividend of 0.9p, with a ratio of interim to final dividend to be approximately 1:2. The Board anticipates a progressive dividend policy going forward.

The interim 2016 dividend will be paid on 5 December 2016 to holders on the register on 7 October 2016 by direct credit or, where no mandate has been given, by cheque posted on 1 December 2016 payable on 2 December 2016. The ordinary shares will be quoted ex-dividend on 6 October 2016.

11 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2015 audited	977	(151)	826
Currency translation differences	(13)	11	(2)
At 26 June 2015 unaudited	964	(140)	824
Currency translation differences	33	(9)	24
Impairment charges in respect of Blackpool Airport	–	(4)	(4)
At 31 December 2015 audited	997	(153)	844
Currency translation differences	**72**	**(20)**	**52**
At 1 July 2016 unaudited	**1,069**	**(173)**	**896**

As at 1 July 2016, 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 2015 and therefore no impairment charges were recorded in the first-half of 2016 (2015: first half £nil; full-year £4m).

The stabilisation and recovery of Construction Services UK to more normal levels of performance remains a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill at the previous financial year end.

A full detailed impairment review will be conducted at 31 December 2016.

12 Assets and liabilities held for sale

Following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd in December 2015 and the satisfaction of various approvals in the first-half of 2016, the completion of this sale is now deemed to be highly probable. Accordingly, assets and liabilities of the parts which are subject to sale have been classified as held for sale at 1 July 2016.

	Parts of Rail Germany 2016 first half unaudited £m
Non-current assets	
Intangible assets – other	1
Property, plant and equipment	1
	2
Current assets	
Inventories and non-construction work in progress	6
Due from construction contract customers	25
Trade and other receivables	9
Cash	14
	54
Total assets classified as held for sale	56
Current liabilities	
Due to construction contract customers	(8)
Trade and other payables	(26)
	(34)
Non-current liabilities	
Retirement benefit liabilities	(6)
	(6)
Total liabilities classified as held for sale	(40)
Net assets of disposal group	16

13 Trade and other receivables

	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Current			
Trade receivables	**545**	540	506
Less: provision for impairment of trade receivables	**(7)**	(21)	(11)
	538	519	495
Other receivables	**41**	43	45
Due from joint ventures and associates	**62**	36	55
Due from joint operation partners	**12**	19	10
Contract retentions receivable+	**205**	217	202
Accrued income	**21**	47	24
Prepayments	**42**	60	54
Due on disposals (Refer to Note 19.2.3)	**73**	–	–
	994	941	885
Non-current			
Trade receivables	**–**	2	–
Other receivables	**3**	2	2
Due from joint ventures and associates	**6**	17	12
Due from joint operation partners	**–**	3	–
Contract retentions receivable+	**137**	78	100
Prepayments	**–**	6	–
	146	108	114
Total trade and other receivables	**1,140**	1,049	999

+ Including £339m (2015: first half £292m; full-year £298m) construction contract retentions receivable.

14 Trade and other payables

	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Current			
Trade and other payables	**916**	1,005	838
Accruals	**750**	836	755
Deferred income	**6**	12	7
Advance payments on contracts	**–**	5	–
VAT, payroll taxes and social security	**64**	85	67
Due to joint ventures and associates	**2**	18	25
Dividends on preference shares	**–**	5	5
Due on acquisitions	**3**	3	3
	1,741	1,969	1,700
Non-current			
Trade and other payables	**104**	66	86
Accruals	**8**	17	18
Deferred income	**–**	2	1
Due to joint ventures and associates	**7**	11	11
Due on acquisitions	**13**	13	14
	132	109	130
Total trade and other payables	**1,873**	2,078	1,830

15 PPP financial assets

	Roads £m	Other £m	Total £m
At 1 January 2015 audited	260	299	559
Income recognised in the income statement			
– construction contract margin	1	–	1
– interest income (Note 5)	8	4	12
Losses recognised in the statement of comprehensive income			
– fair value movements	(14)	(2)	(16)
Other movements			
– cash expenditure	21	17	38
– cash received	(12)	(3)	(15)
– disposal of interest in Thanet	–	(214)	(214)
At 26 June 2015 unaudited	264	101	365
Income recognised in the income statement			
– interest income (Note 5)	9	3	12
Gains/(losses) recognised in the statement of comprehensive income			
– fair value movements	6	(3)	3
Other movements			
– cash expenditure	16	21	37
– cash received	(12)	(3)	(15)
At 31 December 2015 audited	283	119	402
Income recognised in the income statement			
– interest income (Note 5)	**8**	**4**	**12**
Gains recognised in the statement of comprehensive income			
– fair value movements	**17**	**5**	**22**
Other movements			
– cash expenditure	**11**	**3**	**14**
– cash received	**(15)**	**(3)**	**(18)**
At 1 July 2016 unaudited	**304**	**128**	**432**

16 Retirement benefit assets and liabilities

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes		2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Discount rate on obligations		**2.70**	3.65	3.70
Inflation rate	– RPI	**2.75**	3.15	3.00
	– CPI	**1.35**	1.75	1.60
Future increases in pensionable salary		**1.35**	1.75	1.60

Analysis of net liabilities in the Balance Sheet	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Balfour Beatty Pension Fund	**27**	(114)	(43)
Railways Pension Scheme^	**(71)**	(62)	(51)
Other schemes*	**(52)**	(55)	(52)
	(96)	(231)	(146)

* Other schemes include the Group's deferred compensation obligations for which available-for-sale investments in mutual funds of £21m (2015: first half £20m, full-year £20m) are held by the Group to satisfy these obligations.

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

Amounts recognised in the Balance Sheet	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Present value of obligations	**(3,904)**	(3,550)	(3,397)
Fair value of plan assets	**3,808**	3,319	3,251
Net liabilities in the Balance Sheet	**(96)**+	(231)	(146)

+ This amount represents the aggregate of the retirement benefit assets of £27m and the retirement benefit liabilities of £123m at 1 July 2016. These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position of £27m.

Movements in the retirement benefit net liabilities for the period		2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
At beginning of period		(146)	(128)	(128)
Currency translation differences		**(6)**	3	(1)
Current service cost		**(3)**	(4)	(7)
Finance cost		**(61)**	(62)	(123)
Interest income		**59**	60	120
Actuarial movements	– on obligations from changes to financial assumptions	**(538)**	(51)	51
	– on obligations from changes in demographic assumptions	**–**	–	16
	– on obligations from experience (losses)/gains	**–**	(2)	1
	– on assets	**560**	(80)	(154)
Contributions from employer	– regular funding	**1**	2	4
	– ongoing deficit funding	**29**	28	66
Benefits paid		**2**	2	6
Settlements		**1**	1	3
Reclassified to assets held for sale (Note 12)		**6**	–	–
At end of period		**(96)**+	(231)	(146)

+ This amount represents the aggregate of the retirement benefit assets of £27m and the retirement benefit liabilities of £123m at 1 July 2016. These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position of £27m.

In the first-half of 2016, the Group recorded net actuarial gains on its retirement benefit schemes of £22 million (2015: first half £133m net losses; full-year £86m net losses) primarily driven by a strong performance from return-seeking assets and the interest rate hedging strategy, more than offsetting an increase in liabilities due to falling long-term interest rates in the period.

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 139 and 144 of the Annual Report and Accounts 2015.

The formal triennial funding valuation of the BBPF is currently being carried out, with a valuation date of 31 March 2016. Ahead of the conclusion of the formal valuation and funding plan, the Company and the trustee have agreed the key commercial principles which will underpin these. These will involve the creation of a new journey plan which aims for the BBPF to reach self-sufficiency during 2027. The Company will make cash contributions totalling £182m over the next eight years (including the contributions related to the Scottish Limited Partnership (SLP) structure established in 2015); cash contributions under the previous agreement totalled £376 million over the same period. The Company will also transfer additional assets into the SLP worth up to £87m by 2019. The Company has agreed that if the dividend cover ratio falls below 3x in 2016, 2.5x in 2017 or 2x from 2018 onwards, funding to the BBPF will be accelerated.

17 Share capital

During the half-year ended 1 July 2016, 1,565,128 (2015: first half 3,340,737; full-year 7,292,588) ordinary shares were purchased for £4m (2015: first half £7m; full-year £17m) 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 (used in)/generated from operations	Continuing operations: Underlying items 2016 first half unaudited[1] £m	Continuing operations: Non-underlying items 2016 first half unaudited £m	Discontinued operations 2016 first half unaudited £m	Total 2016 first half unaudited £m	Total 2015 first half unaudited £m	Total 2015 year audited £m
Profit/(loss) from operations	**5**	**(28)**	**–**	**(23)**	(140)	(182)
Profit from discontinued operations	**–**	**–**	**2**	**2**	1	–
Share of results of joint ventures and associates	**(20)**	**–**	**–**	**(20)**	(8)	(44)
Depreciation of property, plant and equipment	**17**	**–**	**–**	**17**	17	35
Amortisation of other intangible assets	**3**	**4**	**–**	**7**	13	25
Impairment of IT intangible assets	**–**	**–**	**–**	**–**	–	17
Pension deficit payments	**(29)**	**–**	**–**	**(29)**	(28)	(66)
Movements relating to share-based payments	**3**	**–**	**–**	**3**	1	5
Profit on disposal of investments in infrastructure concessions	**(52)**	**–**	**–**	**(52)**	(84)	(95)
Profit on disposal of property, plant and equipment	**(1)**	**–**	**–**	**(1)**	(1)	(1)
Net gain on disposal of other businesses	**–**	**(6)**	**(2)**	**(8)**	(17)	(14)
Impairment of land/goodwill relating to Blackpool Airport	**–**	**2**	**–**	**2**	–	4
Impairment of assets within Rail Germany	**–**	**–**	**–**	**–**	–	7
Other non-cash items	**2**	**–**	**–**	**2**	(1)	(4)
Operating cash flows before movements in working capital	**(72)**	**(28)**	**–**	**(100)**	(247)	(313)
(Increase)/decrease in operating working capital	**(21)**	**22**	**–**	**1**	211	178
Inventories and non-construction work in progress	**14**	**–**	**–**	**14**	19	27
Due from construction contract customers	**(3)**	**(12)**	**–**	**(15)**	118	182
Trade and other receivables	**(4)**	**(6)**	**–**	**(10)**	42	74
Due to construction contract customers	**(17)**	**9**	**–**	**(8)**	31	126
Trade and other payables	**(32)**	**7**	**–**	**(25)**	(30)	(236)
Provisions	**21**	**24**	**–**	**45**	31	5
Cash used in operations	**(93)**	**(6)**	**–**	**(99)**	(36)	(135)

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

18 Notes to the statement of cash flows continued

18.2 Cash and cash equivalents

	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Cash and deposits	**541**	680	562
Term deposits	**162**	44	84
Bank overdrafts	**(3)**	–	(3)
Cash and cash equivalents, excluding cash balances within infrastructure concessions	**700**	724	643
Cash balances within infrastructure concessions	**25**	16	20
	725	740	663

18.3 Analysis of net borrowings

	2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Cash and cash equivalents, excluding overdrafts and cash balances within infrastructure concessions	**703**	724	646
Bank overdrafts	**(3)**	–	(3)
US private placement	**(263)**	(223)	(236)
Liability component of convertible bonds	**(236)**	(230)	(233)
Loans under committed facilities	**(75)**	–	–
Other loans	**(10)**	(10)	(10)
Finance leases	**(1)**	(1)	(1)
Net cash excluding infrastructure concessions	**115**+	260	163
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2048	**(413)**	(343)	(385)
Infrastructure concessions cash and cash equivalents	**25**	16	20
	(388)	(327)	(365)
Net borrowings	**(273)**	(67)	(202)

+ Net cash for the Group excluding infrastructure concessions and including £14m of cash reported within assets held for sale amounts to £129m at 1 July 2016. Refer to Note 12.

18.4 Analysis of movement in net (borrowings)/cash

	Infrastructure concessions non-recourse project finance 2016 first half unaudited £m	Other 2016 first half unaudited £m	Total 2016 first half unaudited £m	2015 first half unaudited £m	2015 year audited £m
Opening net (borrowings)/cash	**(365)**	**163**	**(202)**	(226)	(226)
Currency translation differences	**(4)**	**23**	**19**	7	(15)
Net increase/(decrease) in cash and cash equivalents	**5**	**21**	**26**	(11)	(83)
Accretion on convertible bonds	**–**	**(3)**	**(3)**	(3)	(6)
Proceeds from new loans	**(36)**	**(75)**	**(111)**	(33)	(79)
Repayments of loans	**12**	**–**	**12**	4	12
Disposal of non-recourse borrowings	**–**	**–**	**–**	177	177
Net (increase)/decrease in cash within assets held for sale	**–**	**(14)**	**(14)**	18	18
Closing net (borrowings)/cash	**(388)**	**115**	**(273)**	(67)	(202)

18.5 Borrowings

During the first-half of 2016, the significant movements in net borrowings within the infrastructure concessions non-recourse project finance were: a net increase in cash and cash equivalents of £5m (2015: first half decrease £24m, full-year decrease £20m), an increase of £36m (2015: first half £33m, full-year £79m) in non-recourse loans funding the development of financial assets in infrastructure concession subsidiaries; and repayment of loans of £12m (2015: first half £4m, full-year £11m).

18 Notes to the statement of cash flows continued

18.5 Borrowings

During the first-half of 2016, the significant movements in net cash within the Group's other financing arrangements were: an increase in cash and cash equivalents of £21m (2015: first half increase £13m, full-year decrease £63m), a draw-down of £75m (2015: first half £nil, full-year £nil) on the Group's revolving credit facility and a transfer of cash of £14m to assets held for sale (2015: £18m decrease).

19 Acquisitions and disposals

19.1 Acquisitions

There were no material acquisitions made in the first-half of 2016.

Deferred consideration paid during the first-half of 2016 in respect of acquisitions completed in earlier years was £3m. This related to the Group's acquisition of Centex Construction in 2007.

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	15 April 2016	Connect M1-A1 Holdings Ltd	^	30%	15	(10)	–	–	5	–
19.2.2	5 May 2016	Living & Learning Unit Trust	^	50%	19	(1)	(8)	(1)	9	–
19.2.3	1 July 2016	BSF Schools: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing, Derby City	^	80/90%	73#	(27)	(8)	–	38	–
19.2.4	1 July 2016	BBIP Infrastructure Fund	+	17.8%	48	(48)	7	(1)	–	6
19.2.5	1 July 2016	BBIP Advisor	*	100%	–	(3)	–	–	–	(3)
					155x	**(89)**	**(9)**	**(2)**	**52**	**3**

* Subsidiary.
^ Joint venture.
+ Associate.
# This sale was achieved by virtue of a put/call structure with a preferred bidder. Completion of this sale is ongoing and therefore the consideration is included in amounts due on disposals. Refer to Note 13.
x Total cash consideration received by the Group of £84m presented in the cash flow statement also includes £2m cash received in respect of Parsons Brinckerhoff (Note 7.2.1.1) and £2m of deferred cash consideration received in respect of SSL (Note 7.1.4.6).

19.2.1 On 15 April 2016, the Group disposed of a 30% interest in Connect M1-A1 Holdings Ltd for a cash consideration of £15m. The infrastructure concession disposal resulted in a net gain of £5m being recognised within underlying operating profit. The Group retains a 20% interest in Connect M1-A1 Holdings Ltd.

19.2.2 On 5 May 2016, the Group disposed of its 50% interest in Living & Learning Holdings Custodians Pty Ltd (Living & Learning Unit Trust) for a cash consideration of £19m. The infrastructure concession disposal resulted in a net gain of £9m being recognised within underlying operating profit, comprising: a gain of £18m in respect of the investment in the joint venture, an £8m loss in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

19.2.3 On 1 July 2016, the Group disposed of its entire interest in seven BSF (Building Schools for the Future) projects: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing and Derby City for a cash consideration of £73m. On this date, the Group ceased to jointly control these BSF projects by virtue of a put/call structure with a preferred bidder. The completion of the disposal is currently ongoing and therefore the consideration is included in trade and other receivables as amounts due on disposals at the half-year. Refer to Note 13. The infrastructure concession disposal resulted in a net gain of £38m being recognised within underlying operating profit for the half-year ended 1 July 2016, comprising: a gain of £46m in respect of the investments in the joint ventures and an £8m loss in respect of revaluation reserves recycled to the income statement.

19 Acquisitions and disposals continued

19.2 Disposals continued

19.2.4 On 1 July 2016, the Group disposed of its 17.8% interest in the BBIP Infrastructure Fund for an initial cash consideration of £48m. The disposal resulted in a net gain of £6m being recognised within non-underlying operating profit, comprising: a gain of £nil in respect of the investment in the associated undertaking, a £7m gain in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

19.2.5 On 1 July 2016, the Group disposed of its 100% interest in the BBIP Advisor for a cash consideration of £nil. The disposal resulted in a net loss of £3m being recognised within non-underlying operating profit, comprising a loss of £3m in respect of the investment in the subsidiary.

20 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £184m (2015: first half £235m, full-year £414m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 13 and 14 respectively.

During the half-year ended 1 July 2016, the Group also entered into the following transactions with related parties which are not members of the Group. The following companies were related parties in the first-half of 2016 as they are controlled or jointly controlled by a non-executive director of Balfour Beatty plc.

	Sale of goods & services 2016 first half unaudited £m	Purchase of goods 2016 first half unaudited £m	Amounts owed by related parties 2016 first half unaudited £m	Amounts owed to related parties 2016 first half unaudited £m
Urenco Ltd	**25**	**–**	**1**	**–**
Anglian Water Group Ltd	**5**	**4**	**–**	**2**
	30	**4**	**1**	**2**

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

21 Financial instruments

Fair value estimation

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

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

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

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

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

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

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

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

Financial instruments at fair value	**2016 first half unaudited £m**	2015 first half unaudited £m	2015 year audited £m
Financial assets			
Level 1			
Available-for-sale mutual fund financial assets	**21**	20	20
Level 2			
Financial assets – foreign currency contracts	**4**	1	1
Level 3			
Available-for-sale PPP financial assets (Note 15)	**432**	365	402
Investment in the Infrastructure Fund (Note 4.3)	**–**	33	38
Total assets measured at fair value	**457**	419	461
Financial liabilities			
Level 2			
Financial liabilities – foreign currency contracts	**(3)**	(4)	–
Financial liabilities – infrastructure concessions interest rate swaps	**(112)**	(68)	(78)
Total liabilities measured at fair value	**(115)**	(72)	(78)

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.

21 Financial instruments continued

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 £20m decrease (2015: first half £15m; full-year £14m) / £18m increase (2015: first half £15m; full-year £15m) 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; strategic risks which may arise as the Group moves into new territories and expands through acquisitions; organisation and management risks including business conduct and people related risks; and operational risks arising from bidding, project execution, supply chain and health, safety and sustainability matters.

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Annual Report and Accounts 2015. However, the Directors continue to evaluate the impact on the Group of the UK's decision to exit the European Union. At this stage there is little sign of impact on Balfour Beatty's markets as a result of this. However, given the late cycle nature of the construction industry it is too soon for clarity as to what, if any, direct impact the decision will have.

Balfour Beatty has called on the UK Government to minimise uncertainty and recommit to major projects such as the High Speed 2 rail project to provide the construction industry with a backdrop which will allow skilled workers and their capabilities to be retained in the industry and training for new apprenticeships and graduates to continue apace, mitigating any restrictions on labour movement which may result from leaving the European Union.

The transformation of Balfour Beatty over the last 18 months means that management has much greater visibility and control over the business than was the case prior to Build to Last. This means that the strengthened leadership team is much better positioned to adjust and respond to changes in market conditions in the UK or elsewhere.

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.