Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE HALF YEAR ENDED 26 JUNE 2020

12 August 2020

Maintained expert capability and financial strength to drive future profitable growth

- Underlying loss from operations (PFO) at £14 million (2019: £72 million profit), principally due to impact of COVID-19
- Half year net cash at £563 million (FY 2019: £512 million); average net cash at £507 million (FY 2019: £325 million)
- In March, repaid $46 million of US private placement notes; in July, fully redeemed £112 million of preference shares
- Group order book increased over 20% to £17.5 billion (FY 2019: £14.3 billion; HY 2019: £13.2 billion)
- Directors' valuation of Investments portfolio maintained at £1.1 billion (FY 2019: £1.1 billion; HY 2019: £1.2 billion)
- Given chosen markets recover as expected, 2021 PFO outlook for earnings-based businesses broadly in line with 2019
- The Board will look to re-instate the dividend as soon as is appropriate

(£ million unless otherwise specified)	Half year 2020		Half year 2019	
	Underlying[2]	Total	Underlying[2]	Total
Revenue[1]	4,115	4,118	3,881	3,884
(Loss) / profit from operations	(14)	(16)	72	71
Pre-tax (loss) / profit	(24)	(26)	64	63
(Loss) / profit for the period	(18)	20	54	48
Basic (loss) / earnings per share	(2.5)p	3.0p	7.6p	6.7p
Dividend per share		–		2.1p

	HY 2020	FY 2019	HY 2019
Order book[1,2]	£17.5bn	£14.3bn	£13.2bn
Directors' valuation of Investments portfolio	£1.13bn	£1.07bn	£1.16bn
Net cash – recourse	563	512	425
Net cash – non-recourse[3]	(314)	(302)	(330)
Average net cash – recourse	507	325	290

Leo Quinn, Balfour Beatty Group Chief Executive, said: "Since the COVID-19 crisis broke, our mission has been to safely manage through it while protecting the Group's strengths. That meant balancing the needs of all our stakeholders. We have kept sites open wherever safe to do so, prioritised supply chain payments and supported staff. Our people's response has been outstanding, working tirelessly whatever the challenge, to enable Balfour Beatty to provide the daily infrastructure relied on by the public.

"We have preserved the disciplines, expert capability and financial strength we will need as markets move back to normal and then beyond, driven by fiscal stimulus for infrastructure. In achieving this, our systems, processes and leadership have all proved the value of our investments over the last five years.

"The financial impacts of COVID-19 are unavoidable; but they will pass. Since the start of Build to Last, our balance sheet, order book and expert capability are at record levels. We look forward with confidence to returning to profitable managed growth, and to delivering ongoing value for all our stakeholders."

Notes:

[1] Including share of joint ventures and associates

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

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

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

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Investor and analyst presentation:

The Company has put in place alternative arrangements for the half year results presentation to comply with the restrictions on public gatherings as a result of COVID-19.

Investors and analysts will not be able to attend in person but a presentation will be made by live webcast on: www.balfourbeatty.com/webcast at 09:00 on Wednesday 12 August.

2020 HALF YEAR RESULTS ANNOUNCEMENT

- **GROUP CHIEF EXECUTIVE'S OVERVIEW**
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GROUP CHIEF EXECUTIVE'S OVERVIEW

Supporting stakeholders through the crisis: maintaining strengths for the future

Since the start of the COVID-19 pandemic, Balfour Beatty's priority has been to manage the rapidly changing situation, while maintaining the strengths delivered through the Build to Last transformation programme. This has meant constantly balancing the needs of the Group's customers, suppliers and employees. Balfour Beatty has kept sites open wherever it has been possible to do so safely. Liquidity has been maintained for the Group's supply chain and extensive support has been put in place for employees, whether on-site, working remotely or furloughed.

Despite the disruption, Balfour Beatty has upheld its Build to Last disciplines and maintained capability and financial strength to emerge as a strong and resilient organisation. In achieving this, the Group's investments in upgrading systems, processes and leadership have all proved their value.

Although the Group reported a loss in the period, the cash balance and order book increased in the first half of the year. The net result is a positive outlook where Balfour Beatty will continue to benefit from a strong and diversified portfolio of businesses as trading in its chosen markets moves back to normal and beyond, driven by fiscal stimulus for infrastructure.

Notwithstanding the continuing uncertainty of COVID-19, on the assumption that Balfour Beatty's markets continue to recover as currently anticipated, the Group expects the earnings-based businesses to recover steadily through the second half of 2020 and report a more normalised operating profit in 2021, broadly in line with 2019.

The Board looks forward to the Group returning to profitable managed growth. It will look to re-instate the dividend as soon as is appropriate and will continue to review the Group's capital structure and the potential for further distributions to shareholders.

COVID-19: Maintaining expert capability for the future

Across its US, UK and Hong Kong operations, the Group reacted swiftly and decisively to COVID-19 developments with a clear strategy to:

- keep people safe;
- continue to build and maintain the infrastructure countries rely on;
- keep cash flowing through the supply chain; and
- support staff, whether on-site, working remotely or furloughed.

The key decision to minimise the impact of COVID-19 was keeping the Group's sites operational, in line with government guidance, where it was safe to do so. Most sites remained open for business as the Group continued to safely execute projects and contracts for its customers. This pandemic has tested and proven Balfour Beatty's strengths in efficient back-office systems, best-in-class technology, expert employees and supply chain partnerships.

The health, safety and wellbeing of all those who work for and with Balfour Beatty, as well as the general public has remained the Group's priority. Thereafter, the focus has been to retain the Group's capability, whilst also maintaining its strong cash position. The decisions taken at the start of the crisis, including supplementing salaries for employees placed on the UK Government's Job Retention Scheme, have ensured that the Group's expertise has remained in place.

Going forward the Group will look to harness the speed at which Balfour Beatty has adapted to new ways of working including: the adoption of Microsoft Teams within two days when the scheduled roll-out was throughout 2020; on-site electronic goods receipt notices and invoice processing to eliminate human contact; and the Construction Leadership Council's construction talent retention scheme of which Balfour Beatty was one of the first companies to adopt the scheme.

Financial summary: maintaining strong cash performance

In the first half of the year, the Group delivered the significant achievement of positive operating cash flow with the period end net cash balance at £563 million (FY 2019: £512 million; HY 2019: £425 million) and average net cash at £507 million (FY 2019: £325 million; HY 2019: £290 million). The strength of Balfour Beatty's balance sheet provides the flexibility to make the right long term decisions and the Group carried through with its plan to repay US$46 million of its US private placement notes in March 2020 and fully redeem its preference shares for £112 million on 1 July 2020. The Group now has no debt repayments until 2023.

Despite the strong cash performance, the Group recorded an underlying loss in the period. The most significant COVID-19 impact was at Construction Services with all geographies affected. In the UK, sites were closed in Scotland and London and projects have been put on hold in the aviation sector. In the US, sites were closed in Washington State while the hospitality sector has been impacted in Florida as well as civil infrastructure projects in a number of states. In Hong Kong, there were minimal site closures, but the business operated below optimum productivity in the first half of the year.

In Support Services, many of the Group's employees were designated as key workers and, while profit from operations was negatively impacted, the business has shown good resilience. At Infrastructure Investments, given the current market uncertainty, the Group did not dispose of any assets in the first half of the year which led to a reduction in profit from operations.

Order book: HS2 a transformative infrastructure scheme

The Group's order book at half year was £17.5 billion (FY 2019: £14.3 billion; HY 2019: £13.2 billion), over 20% higher than the year end position. Over the last two years Balfour Beatty's order book has grown substantially, driven by public sector infrastructure projects. It now stands at over two years of revenue which provides good medium term visibility.

The increase at half year is due to the addition of over £3 billion of contracts following HS2 Notice to Proceed being issued by the UK Government in April. Balfour Beatty, in joint venture with VINCI, will deliver the main civils works south of Birmingham and the London hub station at Old Oak Common.

In the US, Balfour Beatty was awarded c.US$450 million of additional work on two significant ongoing projects: an office campus redevelopment in Redmond, Washington; and the Broward County Convention Center extension in Fort Lauderdale, Florida. At Gammon, the Group's 50:50 joint venture based in Hong Kong, there were a number of significant wins in the first half including a HK$7.2 billion contract to deliver tunnels and associated works for an automatic people mover and baggage handling system at Hong Kong International Airport and a HK$5.7 billion Central Kowloon Route contract to deliver buildings, mechanical and electrical works for the Highways Department.

M**arkets: right place right time**

The construction sector is widely regarded by governments as an economic growth engine to create lasting infrastructure which is sustainable, digital and innovative. Importantly, infrastructure investment drives widespread benefits by creating jobs and upskilling across a number of subsectors, addressing concerns around structural unemployment issues.

The approval of HS2 provides critical visibility and impetus not only for Balfour Beatty but also the wider UK construction industry and its supply chain partners. As part of the National Infrastructure Strategy and in combination with increased funding for road and other rail programmes, it demonstrates the UK Government's commitment to stimulate economic recovery through infrastructure investment.

In the US, Presidential and Congressional elections will be held later this year, but there is broad bipartisan support for increased infrastructure spend. In Hong Kong, despite uncertainty, the market outlook for infrastructure is also considered favourable with significant upcoming opportunities including two new terminal buildings and other works associated with the third runway at the international airport; a ten-year housing target; a ten-year hospital development plan; and continued investment in transportation infrastructure.

In the UK, US and Hong Kong, COVID-19 is delaying the signing of contracts in the buildings markets. Balfour Beatty went into this pandemic with a record order book and therefore the Group will continue to bid selectively in all its chosen markets. As at June 2020, over 75% of the order book value was contracted with public or regulated bodies and the Group will continue to focus on large, government-backed infrastructure contracts. This transition is also lowering the risk profile of the order book, as evidenced by the HS2 contract awards.

Build to Last: Lean, Expert, Trusted, Safe

The Group measures its transformation against the goals of Lean, Expert, Trusted and Safe, using cash flow and profit from operations, employee engagement, customer satisfaction and Zero Harm, respectively.

Lean: The disciplines learnt during Build to Last have served the Group well in ensuring effective and efficient operations. In the second quarter of the year, management initiated a number of further actions to reduce costs and conserve cash in the business to mitigate the impact of COVID-19 including: temporary 20% salary reductions for the Board and Executive Committee; non-site senior leaders took voluntarily temporary salary reductions of between 10% and 20%, dependent on level of pay; cancelling the final dividend for 2019; and furloughing employees under the UK Government's Job Retention Scheme.

Since the start of COVID-19, the Group's procurement teams have focused on working to ensure that as far as possible materials have been available on site, significantly aided by the recent investment in new procurement systems. Material shortages were a critical issue for the industry but for Balfour Beatty there has been minimal impact in the first half. In addition, as part of its digital strategy, the Group has started to roll-out a new workforce app. This provides contactless entry to sites including time and attendance records, social distancing data to ensure employees remain safe and an enterprise agreement which will allow Balfour Beatty to provide the app to the Group's supply chain.

Expert: Customers buy Balfour Beatty's services due to the unique capabilities of the Group and its employees. Since attracting and retaining the top talent in the industry is fundamental to the Group's strategy of delivering value from its leading positions in growing infrastructure markets, COVID-19 represents a significant challenge. In the UK the assistance of the Government's Job Retention Scheme has helped maintain the Group's expert capability through the crisis.

During the COVID-19 lockdown, Balfour Beatty conducted a survey in the UK to ask what further support employees wanted. The result, from 6,000 employees, was overwhelmingly positive with the standard engagement index rising significantly to 76% (2019: UK 63%, Group 66%), 90% of employees feeling cared for and 85% well informed. Despite remote working and social distancing, 81% continued to feel a strong connection to their team. There was also a significant increase in advocacy for the business, underscoring the culture of Build to Last and the strong leadership approach during the crisis. To kick start productivity, the Group ran a targeted My Contribution 'Bouncing Back' employee engagement campaign at the end of April which generated more than 550 ideas for improvement. The voluntary attrition rate in the UK continued to fall, with the twelve-month rolling average at 9% (FY 2019: 11%; HY 2019: 11%).

Trusted: Balfour Beatty is trusted to "do what we say we will do" and is measured on this metric by customer satisfaction. In the first half, around 1,000 customer satisfaction reviews were carried out with the Group customer satisfaction score at 95% (FY 2019: 94%). The Group continues to embed a culture of active risk management by underpinning strict adherence to Build to Last disciplines with investment in IT-based processes and controls. These include the Gated Lifecycle process, the Digital Briefcase and Project on a Page. Together, these provide management with a clear, consistent line of sight on all stages of work being bid and delivered, together with key tools for managing commercial risk and project execution.

The Group has achieved important successes in playing its part in the global response to COVID-19 through the determination and dedication of its workforce. Acting as principal contractor, Balfour Beatty converted Glasgow's Scottish Events Campus (SEC) into the NHS Louisa Jordan hospital providing over 1,000 beds for patients requiring treatment for COVID-19. In Pennsylvania, the Pavilion at Penn Medicine project opened 120 patient rooms 15 months ahead of the facility's planned opening, with Balfour Beatty employees working around the clock for 17 days to deliver 122,000 square feet of space in the emergency department. In Hong Kong, Gammon helped fast-track temporary COVID-19 quarantine facilities by providing project management and mechanical, electrical and plumbing services to construct 110 units at Penny's Bay in just 64 days.

Balfour Beatty Communities has faced operational challenges at some of the military bases where it manages properties. The Group developed a comprehensive Performance Improvement Plan, which includes a variety of objectives and performance metrics, with steady progress being made against the targets set. At this time, there is no further update with regard to the Department of Justice investigation.

Safe: Construction is an inherently dangerous industry. It is therefore essential that the safety and health of everyone who comes into contact with Balfour Beatty is the top priority. During the period this assumed an even greater emphasis as Balfour Beatty developed new COVID-19 Site Operating Procedures to support safe working to government guidelines. Despite the challenges of adapting operations to maintain social distancing, Balfour Beatty has seen a positive and significant reduction in incident rates. The Group is currently capturing best practice and lessons around this improvement to understand and to maintain this positive outcome.

The Group's lost time injury rate (excluding international joint ventures) reduced to 0.12 in the first half (FY 2019: 0.14). All other lagging indicators also showed improvement and the Group continues to drive forward leading indicator activity including use of the health and safety Observation App and a new off-site Zero Harm induction programme.

However, in a tragic illustration vigilance can never be relaxed, during 2020 three individuals working across the Group's operations have lost their lives. Investigations are underway and safety leaders will make sure that any learnings are shared and implemented quickly across Balfour Beatty. In remembering those lost, the Group will continue to strive for Zero Harm making conditions as safe as possible on Balfour Beatty's sites.

Outlook: focus on productivity

The full impact of COVID-19 is yet to be determined, but the Board remains confident that Balfour Beatty will continue as a market leader and return to profitable managed growth.

The Group is committed to maintaining a strong balance sheet. In March, US$46 million of US private placement notes were repaid. In July, the preference shares were fully redeemed for £112 million and as a result the Group expects that full year 2020 average net cash will be in the range of £430 to £460 million.

Having successfully managed the Group's liquidity, the focus for leadership now turns to improving productivity. The easing of lockdown across the geographies in which Balfour Beatty operates means that around 95% of the Group's sites were open at the end of June. The challenge is now to return sites to pre COVID-19 productivity as soon as possible. This has largely been achieved at Gammon, noting that Hong Kong was impacted before other geographies and has previous experience of handling the impacts of pandemics. In the UK and the US, the Group is working with its employees, supply chain partners and customers to ensure disruption caused by COVID-19 is minimised while the evolving social distancing rules are applied.

On the assumption that the Group's chosen markets continue to recover as currently anticipated, Balfour Beatty expects the earnings-based businesses to recover steadily through the second half of 2020 and report a more normalised operating profit in 2021, broadly in line with 2019. Given the strong liquidity position of the Group, Balfour Beatty will only resume disposals of Infrastructure Investments when market conditions return to more normal levels.

The Board will look to re-instate the dividend as soon as is appropriate and will continue to review the Group's capital structure and the potential for further distributions to shareholders. By maintaining its expert capability and financial strength throughout the COVID-19 pandemic, Balfour Beatty remains well positioned to deliver profitable managed growth in both the medium and long term.

RESULTS OVERVIEW

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

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

Group financial summary

In the first six months of the year, the Group reported an underlying loss from operations of £14 million (2019: £72 million profit). COVID-19 had a material impact on the financial performance of Construction Services in the first half of 2020, particularly in the UK.

Through this period, the Group worked hard to minimise the impact on operations as the majority of Balfour Beatty's projects remained operational. In April, 78% of the Group's sites, across the UK and US were open, which increased to 83% in May. By the end of June, 95% of sites were open with the most notable exceptions being hospitality projects in Florida and aviation projects in the UK. In Hong Kong, there were minimal site closures.

Construction Services	April	May	June
UK Construction	73%	80%	96%
US Construction	89%	89%	94%
Total percentage of sites open at month end	78%	83%	95%

Site closures combined with a reduction in productivity and the cost of implementing new operating procedures led to a material reduction in margin in the first half of the year. In addition, COVID-19 has led to lengthened site programmes triggering a reassessment of the Group's contract end forecast positions which has also contributed to the decrease in margins in the half year.

In the first half of the year, the Group delivered positive operating cash flow with the period end net cash balance at £563 million (FY 2019: £512 million) and average net cash at £507 million (FY 2019: £325 million). The continued strong cash performance allowed the Group to fully redeem its preference shares on 1 July 2020 for £112 million. Balfour Beatty now has no more debt to repay until 2023.

The Group continues to have one of the strongest balance sheets in the sector with customers increasingly recognising this competitive advantage. Net assets increased to £1,611 million (FY 2019: £1,377 million), principally due to net actuarial gains on the Balfour Beatty Pension Fund (BBPF).

The Group's order book at half year was up over 20% to £17.5 billion (FY 2019: £14.3 billion). This increase is due to the addition of over £3 billion of HS2 contracts following the issue of Notice to Proceed in April.

Underlying revenue was up 6% (5% at CER) at £4,115 million (2019: £3,881 million) as a result of an increase at US Construction following strong order book growth in 2019. Statutory revenue, which excludes joint ventures and associates, was £3,515 million (2019: £3,397 million).

Construction Services underlying revenues were up 8% (6% at CER) at £3,365 million (2019: £3,121 million) as a result of higher volumes in both the US and at Gammon. Support Services revenue decreased by 5% to £476 million (2019: £503 million) following lower volumes in utilities, as contracts in the gas and water business complete.

The earnings-based businesses recorded an underlying loss from operations of £1 million (2019: £63 million profit), which contributed to the Group's underlying loss from operations of £14 million (2019: £72 million profit). Statutory loss from operations was £16 million (2019: £71 million profit).

Underlying (loss) / profit from operations[2]	HY 2020 £m	HY 2019 £m
UK Construction	(23)	17
US Construction	6	19
Gammon	6	9
Construction Services	(11)	45
Support Services	10	18
Earnings-based businesses	(1)	63
Infrastructure Investments pre-disposals operating profit	3	9
Infrastructure Investments profit on disposals	–	16
Corporate activities	(16)	(16)
Total	(14)	72

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

UK Construction recorded an underlying loss from operations of £23 million (2019: £17 million profit) as COVID-19 had a material impact on operations as: Scotland was effectively closed for the second quarter of 2020; London has seen limited productivity as employees and subcontractors have been affected by public transport availability; the South region has been impacted by the slowdown in aviation as it operates framework agreements at Heathrow and Gatwick; and lengthening site programmes triggered a reassessment of the Group's contract end forecast positions.

US Construction delivered an underlying profit from operations of £6 million (2019: £19 million). At Buildings, Washington State and Florida were the most negatively impacted by COVID-19 and at Civils contractual recoveries were re-assessed on a number of projects. Gammon, the Group's 50:50 joint venture with Jardine Matheson based in Hong Kong, also reported a decrease in underlying profit with Balfour Beatty's share at £6 million (2019: £9 million). In Support Services, underlying profit from operations has fared relatively well at £10 million (2019: £18 million) as many of the Group's employees were designated as key workers.

In Infrastructure Investments, operations in the UK continued as normal, supported by the Government advice that PFI contractors should consider themselves to be part of the public sector response to COVID-19. In the US, Balfour Beatty Communities employees have been working to social distancing rules, as agreed with the military, which restrict access to properties. This restriction, in combination with prior year disposals and legal costs associated with the military housing investigation led to a decrease in pre-disposals operating profit at £3 million (2019: £9 million). Given current market uncertainty, and the strong liquidity position of the Group, Balfour Beatty has not disposed of any material Infrastructure Investment assets in the first six months of the year (2019: £16 million profit on disposal).

Net finance costs were broadly in line at £10 million (2019: £8 million) contributing to an underlying pre-tax loss of £24 million (2019: £64 million profit). There was an underlying taxation credit in the period of £6 million (2019: £10 million charge) which was mainly due to the losses in the UK and a deferred tax benefit arising from the change in the future UK statutory tax rate, partially offset by the US tax charge.

The underlying loss after tax was £18 million (2019: £54 million profit). The underlying basic loss per share was 2.5 pence (2019: 7.6 pence earnings), which, along with a non-underlying gain per share of 5.5 pence per share (2019: 0.9 pence loss), gave a total basic earnings per share of 3.0 pence (2019: 6.7 pence). Total statutory profit after tax for the year was £20 million (2019: £48 million), as a result of the net effect of non-underlying items.

Non-underlying items

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

Non-underlying items after taxation were a net gain of £38 million for the period (2019: £6 million net charge). Items included: a £36 million tax credit for recognition of additional UK deferred tax assets resulting from pension actuarial gains; a £3 million tax credit due to remeasurement of certain UK deferred tax assets resulting from the change in the UK corporation tax rate to 19% (from 17%); and a £1 million net of tax charge relating to the amortisation of acquired intangible assets.

Cash flow performance

The total cash movement in the period resulted in a £51 million increase (2019: £88 million) in the Group's half year end net cash position to £563 million (FY 2019: £512 million) excluding non-recourse net borrowings. The strong performance was driven by positive operating cash flows and working capital, partially offset by IFRS 16 lease payments and investment in Infrastructure Investments.

Cash flow performance	HY 2020 £m	HY 2019 £m
Operating cash flows	22	94
Working capital inflow	74	11
Pension deficit payments+	(8)	(16)
Cash from operations	88	89
Lease payments (including interest paid)	(29)	(24)
Dividends from joint ventures and associates	13	30
Capital expenditure	(17)	(13)
Infrastructure Investments		
- disposal proceeds	–	26
- new investments	(21)	(11)
Other	17	(9)
Net cash movement	51	88
Opening net cash*	512	337
Closing net cash*	563	425

* Excluding infrastructure investments (non-recourse) net borrowings

+ Includes £2 million (2019: £1 million) of regular funding

In the second quarter of the year, management initiated a number of actions to reduce costs and conserve cash in the business to mitigate the impact of COVID-19 including: temporary 20% salary reductions for the Board and Executive Committee; non-site senior leaders took voluntarily temporary salary reductions of between 10% and 20%, dependent on level of pay; cancelling the final dividend for 2019; and furloughing employees under the UK Government's Job Retention Scheme.

Working capital

In the period, the Group's working capital position resulted in an inflow of £74 million (2019: £11 million). The strong performance in the period benefited from UK and US government tax deferral policies, enacted in response to the COVID-19 pandemic. In total these schemes improved working capital by around £50 million at the half year. This inflow was partially offset by an acceleration in supplier payments in the UK and US. As part of its response to COVID-19, the Group ensured liquidity to its supply chain and in the UK, this acceleration contributed to the Group's second quarter improvement in its payment performance.

The inflow in net contract assets is primarily driven by the £32 million settlement received relating to the Aberdeen Western Peripheral Route project in February 2020 and the mobilisation of several highways projects in the US. The remainder of the inflow from net contract assets is broadly offset by trade and other receivables outflows.

Working capital flows^	HY 2020 £m	HY 2019 £m
Inventories	(1)	(10)
Net contract assets	101	(36)
Trade and other payables	6	98
Trade and other receivables	(53)	(37)
Provisions	21	(4)
Working capital inflow^	74	11

^ Excluding impact of foreign exchange and disposals

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £833 million (FY 2019: £725 million).

Prompt Payment Code

Balfour Beatty was reinstated to the Prompt Payment Code (PPC) in the UK on 22 January 2020. In the first six months of 2020 the percentage of invoices paid within 60 days reduced to 89% as a result of disruption at the start to the year following an internal change to systems which will help to improve and standardise the Group's approach in the future. In the second quarter of the year the percentage of invoices paid within 60 days was over 90% as the Group benefited from prompt payment by the UK Government which in turn was directly passed on to the Group's supply chain.

	Percentage of invoices paid within 60 days	**Average days to pay invoices**
Jan – Jun 2018	77%	54
Jul – Dec 2018	82%	50
Jan – Jun 2019	86%	40
Jul – Dec 2019	90%	38
Jan – Jun 2020	89%	41

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

Net cash/borrowings

The Group's average net cash in the first half of 2020 improved substantially to £507 million (FY 2019: £325 million; HY 2019 £290 million). The Group's net cash position at 26 June 2020, excluding non-recourse net borrowings, was £563 million (FY 2019: £512 million; HY 2019: £425 million). Non-recourse net borrowings, held in infrastructure investments entities consolidated by the Group, were £314 million (FY 2019: £302 million; HY 2019: £330 million).

The balance sheet also includes £112 million (FY 2019: £110 million; HY 2019: £108 million) for the liability component of the preference shares and £119 million for lease liabilities (FY 2019: £120 million; HY 2019: £120 million). The redemption of the preference shares in July 2020 reduces cash without a corresponding reduction in the level of debt as the Group does not take preference shares into account in its measure of net cash/borrowings in line with the definition of net debt set out in the Group's borrowing facilities. Statutory net cash at 26 June 2020 was £18 million (FY 2019: £20 million net debt; HY 2019: £133 million net debt).

Banking facilities

The Group's £375 million revolving credit facility extends to October 2022. The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. The agreement includes two one-year extension options, to take final maturity to October 2024, with the agreement of the lending banks. In the first half of the year this facility remained undrawn. The Group does not undertake supply chain financing arrangements.

Going concern

In light of the COVID-19 pandemic and the impact on the Group's performance in the half year, the Directors have reconsidered the Group's medium term cash forecasts and conducted stress-test analysis on these projections in order to assess the Group's ability to continue as a going concern. Having also made appropriate enquiries, the Directors consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the half year condensed Group financial statements. Further detail is provided in Note 1.3 Going Concern.

Pensions

In January 2020, the Group concluded negotiations with the trustees of the BBPF on the formal triennial funding valuation as at 31 March 2019. Under the new agreement Balfour Beatty and the trustees have re-confirmed their commitment to a journey plan approach to managing the BBPF. Under this agreement the Group will make total cash deficit contributions of £74 million from 2020 to 2023, whereby the BBPF is aiming to reach self-sufficiency by 2027. There is an agreed mechanism for accelerating the payment of contributions set out above if the earnings cover for shareholder returns falls below 2x.

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

The Group's balance sheet includes net retirement benefit assets of £326 million (FY 2019: £133 million) as measured on an IAS 19 basis, with the surplus on the BBPF partially offset by deficits on the RPS and other schemes. The accounting for the BBPF in the first six months of 2020 has been impacted by the widening of corporate bond spreads and changes to the data source used to derive the discount rate.

Dividend

At the 2019 full year results the Board recommended a final dividend of 4.3 pence per share, giving a total recommended dividend for the year of 6.4 pence per share.

On 27 March 2020, the Group provided a trading update stating that "Whilst Balfour Beatty benefits from a strong financial position, in light of the market uncertainty arising from COVID-19, the Board will keep the appropriateness of paying the final dividend under review until the rescheduled AGM, with a final decision dependent on the prevailing circumstances at the time". On 1 June 2020, the Group provided another trading update stating that "In line with the current environment, the Board has prudently decided to cancel the final dividend for 2019".

The Board will look to re-instate the dividend as soon as is appropriate and will continue to review the Group's capital structure and the potential for further distributions to shareholders.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

COVID-19 had a material impact on the financial performance of Construction Services in the first half of 2020, particularly in the UK.

The majority of Balfour Beatty's projects remained operational throughout the period. In April, 78% of the Group's sites, across the UK and US, were open. In May, this increased to 83%, noting that 17% of open sites experienced significant disruption due to the availability of employees, subcontractors or materials. By the end of June, 95% of sites were open.

Construction Services	HY 2020			HY 2019			FY 2019
	Rev[1]	PFO	Order book[1]	Rev[1]	PFO	Order book[1]	Order book[1]
	£m	£m	£bn	£m	£m	£bn	£bn
UK	986	(23)	6.1	1,014	17	3.0	3.0
US	1,911	6	6.3	1,727	19	5.6	6.5
Gammon	468	6	2.1	380	9	1.6	1.6
Underlying[2]	3,365	(11)	14.5	3,121	45	10.2	11.1
Non-underlying	3	(1)	–	3	1	–	–
Total	3,368	(12)	14.5	3,124	46	10.2	11.1

[1] Including share of joint ventures and associates

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

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

Underlying revenue increased by 8% to £3,365 million (2019: £3,121 million), a 6% increase at CER, as a result of higher volumes at US Construction following strong order book growth in 2019.

UK Construction recorded an underlying loss from operations of £23 million (2019: £17 million profit) as COVID-19 had a material impact on operations as: Scotland was effectively closed for the second quarter of 2020; London has seen limited productivity due to public transport availability; the South region has been affected by the slowdown in aviation; and lengthening site programmes triggered a reassessment of the Group's contract end forecast positions.

US Construction was also negatively impacted by COVID-19. At Buildings, Washington State and Florida were the most affected and at Civils contractual recoveries were re-assessed on a number of projects. In Hong Kong, there were minimal site closures, but the business operated below optimum productivity in the first half of the year.

The order book at £14.5 billion (FY 2019: £11.1 billion) increased by 31% (24% at CER) since the end of 2019 due to the addition of over £3 billion of HS2 contracts following Notice to Proceed in April. Balfour Beatty, in joint venture with VINCI, will deliver Lots N1 and N2 south of Birmingham – comprising extensive earthworks, ground engineering, viaducts and tunnels along a 90-kilometre stretch – and the London hub station at Old Oak Common. The increase occurred whilst maintaining the Group's policy of selective bidding.

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

Operational review

UK Construction

Underlying revenue in the UK decreased by 3% to £986 million (2019: £1,014 million). The business unit has been materially impacted by COVID-19 and in the period, UK Construction recorded an underlying loss from operations of £23 million (2019: £17 million profit).

Looking ahead, the order book has more than doubled since the start of the year to £6.1 billion (FY 2019: £3.0 billion, HY 2019: £3.0 billion) following Notice to Proceed at HS2 which provides much needed certainty for the entire industry and its associated supply chain. In addition, during Build to Last, there has been a shift towards a lower risk contract portfolio in UK Construction, with a reduction in the number of fixed price contracts offset by an increase in target cost (negotiated tender) contracts and framework agreements. Both target cost contracts and framework agreements require early contract involvement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties. As at June 2020, the UK order book was over 75% target cost and cost reimbursable compared to 50% at June 2018.

In March, the UK Government announced its five-year infrastructure plan, which will provide £640 billion of funding for developments in roads, railways, power networks, schools, hospitals and telecommunications. The National Infrastructure and Construction Procurement Pipeline, published in June, laid out how up to £37 billion would be brought to market over the next year. The remaining details are due to be released this Autumn as part of the National Infrastructure Strategy. In the interim, the UK Government has continued to reaffirm its New Deal plan, putting jobs and infrastructure at the heart of its economic growth strategy, by accelerating spending on £5 billion of infrastructure projects.

The Group made use of the UK Government's Job Retention Scheme during the period, with most affected employees now returned to work. For the period, Balfour Beatty has claimed £15 million. The scheme has worked effectively allowing Balfour Beatty to retain employees where sites have been closed and bring them back as sites have re-opened.

Although the UK has now ceased to be a member of the EU and is in a transition period, the nature of its future trading relationship with the EU remains uncertain. Balfour Beatty continues to monitor developments in this area and potential risks arising to the Group's businesses. Specific risks and mitigations are controlled by individual strategic business units and at a project level. In addition, they are kept under review by the Executive Committee.

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

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

At Major Projects, the A14, Britain's largest road project, opened to drivers in May, eight months early. The Balfour Beatty joint venture upgraded the 21-mile stretch between Cambridge and Huntingdon from two to three lanes in each direction and built a new 12-mile bypass south of Huntingdon. To open the scheme early, the integrated delivery team focused on innovative and sustainable construction methods with the use of digital asset management and in-field visualisation software.

At the M4 Smart Motorway contract, a Balfour Beatty VINCI joint venture is converting the hard shoulder into an additional lane for traffic and introducing electronically policed variable speed restrictions between junction 3 of the M4, just inside the M25 near Heathrow Airport, and junction 12 at Theale, west of Reading. The team recently completed the widening of the Thames Bray bridge, by building the extended bridge elements on an adjacent site and moving them into their final position over the River Thames in a single weekend with appropriate social distancing pre-visualised with graphic simulation. The scheme has reached its halfway milestone and remains on track for completion in 2022.

On HS2, Notice to Proceed was issued in April and the project moved from the early contractor involvement (ECI) stage into the main civils works. Balfour Beatty, in joint venture with VINCI, will deliver the c. £5 billion Area North section south of Birmingham. Balfour Beatty's in-depth expertise in delivering critical major infrastructure across the UK will combine and complement VINCI's global capability in high speed rail. HS2 also awarded a Balfour Beatty/VINCI/SYSTRA joint venture a c. £1 billion construction management contract for the Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in that joint venture, with SYSTRA having the remaining 16.5%. Procurement processes are back underway on the rail systems contracts. In July 2020, a Balfour Beatty/VINCI/TSO joint venture submitted prequalification documents for track systems packages covering the full scope of works for Phase 1 and Phase 2a. In the second half of 2020, the same joint venture is intending to submit an expression of interest for the route-wide overhead catenary system and a separate Balfour Beatty/NG Bailey joint venture is intending to submit a prequalification response for the mechanical and electrical systems.

At Hinkley Point C, Balfour Beatty achieved an important milestone, completing the first kilometre of tunnelling for Intake Tunnel 1. The project, to construct a pair of six-metre diameter underwater tunnels to supply the nuclear power station with cooling water and a third seven-metre diameter tunnel to discharge heated water back into the Bristol Channel, will use three tunnel boring machines to excavate around 9 kilometres of tunnel – the two 3.5-kilometre intake tunnels and one 1.8-kilometre outfall tunnel.

In addition to adding HS2 to the order book in the first half of the year, Balfour Beatty also secured a place on Highways England's Smart Motorway Alliance (SMA). The Group were named as one of three contractor delivery partners in the SMA that will deliver the future smart motorway programme worth up to £4.5 billion over 10 years. Of the three delivery partners, Balfour Beatty will be predominantly responsible for Southern England where the Group will manage and deliver construction activity and associated engineering works, including the conversion of existing motorway infrastructure, reconstruction of bridges and installation of roadside technology, to improve the safety and capacity of the strategic road network.

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

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

The Regional business is increasingly underpinned by the Scape National Civil Engineering and Infrastructure frameworks. In October 2018, it was announced that Balfour Beatty had been appointed as the sole contractor to Scape's second-generation civil engineering frameworks, valued at a combined total of up to £2.1 billion over four years (2019-2022). The frameworks allow local authorities, local enterprise partnerships and other public sector bodies to commission works through a procurement process that provides the fastest route to market. As part of the UK Government's New Deal plan these frameworks will become increasingly important to help kick start the UK economy.

In the period, the Regional business successfully completed the new temporary NHS Louisa Jordan hospital, at Glasgow's Scottish Events Campus (SEC), on behalf of the Scottish Government. Acting as principal contractor, Balfour Beatty, along with its local supply chain and partner contractors, completed the works in just 20 days.

Despite the impact of COVID-19, which led to delays on projects in the Regional business, good progress continues to be made on many of its contracts with a major milestone recently reached following completion of Eastern Gateway Phase 1. Eastern Gateway, which was separated into two phases, is part of the Wokingham Major Highways programme which comprises 10 road projects that are being delivered under the Scape framework for Wokingham Borough Council. Other material ongoing projects include: the seven-storey 'MEC Hall' building at the £287 million Manchester Engineering Campus Development (MECD) project; the £267 million contract to complete the Midland Met Hospital in Birmingham; and phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park.

The Regional business had a number of new contract awards in the period including a £23 million flood defence scheme in Rhyl for the Welsh Government which will protect 1,650 properties and a £9 million project to redevelop Motherwell Station for ScotRail.

COVID-19 has delayed the contract signing of some large projects in the Regional pipeline. It is expected that many of these will be signed in the second half of 2020. Included in ABNC at 26 June 2020, the Group has been selected as preferred bidder for the following significant projects: the redevelopment of the Darwin Building at the University of Edinburgh; Mayfield Riverside retirement home; Bishop's Stortford secondary school; and the next phase of the Lewisham Gateway scheme (which was signed in July 2020).

US Construction

Underlying revenue in the US increased by 11% (9% at CER) to £1,911 million (2019: £1,727 million) following the increase in the order book during 2019. The business reported an underlying profit from operations for the period of £6 million (2019: £19 million) despite the impact of COVID-19 which affected operations in Washington State, Florida and a number of civil infrastructure projects where contractual recoveries were re-assessed. Following a 25% rise in the full year 2019, the order book decreased 3% to £6.3 billion (10% at CER) from the year end (FY 2019: £6.5 billion, HY 2019: £5.6 billion).

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

The US Buildings business operates in specifically chosen growth regions. As the population further migrates south and west, it continues to drive urbanisation and demand for buildings and social infrastructure. The construction management business is focused on specific geographies, known internally as 'The Southern Smile'. This starts in the Pacific Northwest, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington D.C. The core markets remain as commercial offices, education, hospitality, residential and healthcare. With blue-chip repeat customers and significant state-backed education bonds, including US$35 billion in California alone, the Group's opportunities in Buildings are robust.

In the period, Buildings completed several notable projects including:

- Capitol Crossing: located in Washington D.C., a 2.2 million square foot multi-phase development including two LEED Platinum certified 12-storey office buildings and a 700,000 square foot parking garage; and
- River Landing: located in Miami, Florida, Balfour Beatty delivered 360,000 square feet of commercial space, 118,000 square feet of office space, 528 apartments, more than 2,000 parking spaces and a landscaped riverwalk.

During the period, progress has been made on significant projects including:

- Pavilion at Penn: in response to COVID-19, the Pavilion at Penn Medicine project in Pennsylvania fast-tracked 120 patient rooms 15 months ahead of the facility's planned opening, with Balfour Beatty employees working around the clock for 17 days to deliver 122,000 square feet of space in the emergency department. In addition to the fast-tracked emergency room, which is part of the project to deliver a 1.5 million square foot hospital with 47 operating rooms, Balfour Beatty dismantled the largest electric tower crane in eastern North America. It took crews working 24 hours a day for 11 days to dismantle the crane entirely; and
- The University of North Carolina at Wilmington (UNCW): Balfour Beatty completed the first phase of the project with over 1,000 beds now available for freshman students from August. The second phase of the project, providing a further 776 beds, will be delivered in August 2021.

In the period, the Buildings business booked material new phases of existing contracts and standalone new contract awards as follows:

- Microsoft Redmond Campus: in 2018, the Group was selected, in joint venture with Skanska, as general contractor on Microsoft's head office refresh in Redmond, Washington. The next phase of the project which in total will deliver 18 new buildings, clustered into four distinct villages to create a unified campus, was signed in the first half of the year;

- Broward County Convention Center: in 2019, Balfour Beatty signed a construction agreement for the expansion of the Broward County Convention Center and new construction of an 800-room hotel. In the first half of the year, the second phase (of five) of the US$780 million project in Fort Lauderdale, Florida, was signed;
- Epic Phase II: having successfully completed Epic Phase I last year, Balfour Beatty has now been selected to construct the next phase of the project in downtown Dallas, Texas which will include the largest Uber office outside of San Francisco; and
- Walter Tower: Balfour Beatty has been contracted to construct the US$100 million Walter Tower, a premier luxury residential tower which will be one of the tallest residential buildings in Raleigh, North Carolina.

Included in ABNC at 26 June 2020, US Buildings has been made preferred bidder for: a US$110 million luxury apartment development featuring two 24-storey towers in West Palm Beach, Florida; a c. US$80 million Verizon Site project for an 18-storey residential tower in Arlington, Virginia; and a project to renovate and expand the Randall School in Washington, DC.

In Civils, the Group is focused on the following opportunities: firstly, road projects in Texas and North Carolina; secondly, mass transit rail projects in major cities across the US, including the electrification of existing lines; and finally, water treatment and purification projects. These large and growing markets are supported by the c. US$77 billion 2020 Unified Transportation Program (UTP) from the Texas Department of Transportation (TxDOT) and a number of state-backed infrastructure bonds (over US$200 billion of multi-state transportation bonds). In the US, Presidential and Congressional elections will be held later this year and there is broad bipartisan support for increased infrastructure spending.

Despite the impact of COVID-19, progress has been made on key projects with the following all now mid-way through construction: the US$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor Corporation) project; the US$1.08 billion Green Line extension (25% Balfour Beatty) project; and the Caltrain project, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose. At LAX, following the joint venture (Balfour Beatty 30%) breaking ground on the Los Angeles International Airport's (LAX) Automated People Mover project last year, construction is now in full scale production mode. At IH-635 (45% Balfour Beatty, 55% Fluor Corporation) in Texas, the design is near complete and construction activities have commenced.

Although there were no new awards for the Civils business in the period, included within ABNC, Balfour Beatty has been conditionally selected, in joint venture with Fluor Corporation, to deliver the Oak Hill Parkway infrastructure project to reconstruct and widen approximately seven miles of interstate highway, for TxDOT.

Gammon

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of underlying revenue increased by 23% (20% at CER) to £468 million (2019: £380 million). At Gammon, the timing of projects is more variable around a small number of large contracts.

Underlying profit decreased to £6 million (2019: £9 million) as the business was impacted by COVID-19, noting that the impact in Hong Kong has been lower than in the other geographies in which the Group operates. This is partly due to Hong Kong's experiences from other viruses such as SARS which has meant that wearing face masks in public is part of the culture. Given the timing of the spread of COVID-19, the Group has been able to take learnings from Gammon, such as working safely and efficiently in enclosed spaces whilst maintaining social distancing, and apply them across the rest of the Group.

The order book increased to £2.1 billion (FY 2019: £1.6 billion; HY 2019: £1.6 billion) following the awards of a HK$7.2 billion contract to deliver tunnels and associated works for an automatic people mover and baggage handling system at Hong Kong International Airport and a HK$5.7 billion Central Kowloon Route contract to deliver buildings, mechanical and electrical works for the Highways Department.

Gammon has a material share of the Hong Kong market. Both the Buildings and Civils markets are favourable with significant upcoming opportunities including: two new terminal buildings and other works associated with the third runway at the international airport; a ten-year housing target; a ten-year hospital development plan; and continued investment in transportation infrastructure. The order book is spread across a number of public and private customers.

In Buildings, the focus is on the use of Design for Manufacture and Assembly (DfMA) and modular construction to improve productivity and efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever engineering excellence, with a key area of future work likely to be from significant infrastructure programmes in Hong Kong and in Singapore.

During the period, the Buildings business helped fast-track temporary COVID-19 quarantine facilities by providing project management and mechanical, electrical and plumbing services to construct 110 units at Penny's Bay in just 64 days. The business also designed and installed the heaviest DfMA thermal tanks in Hong Kong at the Global Switch Data Centre (Phase 2) project in Tseung Kwan O.

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

Gammon had a number of notable new contract awards in the period including:

- Hong Kong Airport: a HK$7.2 billion contract for Airport Authority Hong Kong to construct tunnels and related works for an automatic people mover (APM) and baggage handling system (BHS) at Hong Kong International Airport. The scope of work includes combined 1.8 kilometre-long eight-cell tunnel structures for the APM and BHS systems, 19 ancillary buildings, as well as building services and airport systems; and
- Central Kowloon Route M&E: a HK$5.7 billion contract by the Highways Department of the Government of the Hong Kong Special Administrative Region to construct buildings, mechanical and electrical (M&E) works for the Central Kowloon Route (CKR). Gammon is also constructing the Kai Tak West Section of the CKR which includes underwater and cut-and-cover tunnels, as well as roads.

SUPPORT SERVICES

Financial review

In Support Services, many of the Group’s employees were designated as key workers and as such the business has shown good resilience despite profit from operations being negatively affected by COVID-19. The Group was able to accelerate road and rail maintenance programmes for some customers due to lower volumes of traffic in the period, but this was more than offset by general disruption on projects and other customers reducing maintenance expenditure given the economic uncertainty.

The Support Services segment comprises utilities and transportation businesses. Utilities operates across power transmission and distribution and the gas and water sectors. Transportation operates across rail, highways and managed road schemes for local authorities. The overall market is mixed with areas of growth in power, road and rail offset by areas of decline in gas and water where Balfour Beatty is withdrawing from the market as future opportunities do not meet the Group’s selective bidding criteria.

Support Services revenue decreased by 5% to £476 million (2019: £503 million). Underlying profit from operations for the period decreased to £10 million (2019: £18 million). The order book decreased by 6% to £3.0 billion (FY 2019: £3.2 billion) following the Group’s decision to withdraw from the UK gas and water sectors.

Support Services	HY 2020	HY 2019
Order book[1] (£bn)	3.0	3.0
Revenue[1] (£m)	476	503
Profit from operations[2] (£m)	10	18
Non-underlying items (£m)	–	–
Statutory profit from operations (£m)	10	18

[1] Including share of joint ventures and associates

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

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

Operational review

Underlying utilities revenue decreased by 7% to £258 million (2019: £276 million) and the order book decreased to £0.8 billion (FY 2019: £1.0 billion), as the current regulatory cycles in gas and water approach the end of their periods in 2021 and 2020 respectively.

In the period, power transmission and distribution activity was disrupted in Scotland but the business managed to commence construction at Viking Link, a £90 million contract to deliver the onshore civil works for the Viking Link interconnector project with National Grid Ventures. As part of the four-year contract Balfour Beatty will be responsible for the civil engineering and installation of 68 kilometres of high voltage cabling across Lincolnshire. This will form part of the 760-kilometre Viking Link interconnector that will link Bicker Fen in Lincolnshire and Revsing in Denmark.

In gas, Balfour Beatty delivers network maintenance and asset enhancements for the largest gas distribution companies in the UK and Ireland. The Group expands and renews underground mains, often in busy and high-impact residential and commercial areas. Working on long term contracts, the business manages and delivers essential work, minimising the impact on local communities. The Group continues to manage two long term gas contracts in the RIIO-GD1 period (until early 2021) which have historically underperformed and have also been negatively impacted by COVID-19. The gas market is no longer considered viable to the Group because of the unfavourable working capital and onerous terms and conditions.

The water business is now at the end of the current UK water regulatory cycle (AMP6 2015-2020). Balfour Beatty has historical contracts with Thames Water, Anglian Water and United Utilities. Under the new AMP7 regulatory period (2020-2025) contracts are generally being awarded on terms that are not acceptable to Balfour Beatty and therefore the Group is only expected to retain the Anglian Water contract.

Underlying transportation revenues decreased by 4% to £218 million (2019: £227 million) and the order book was in line with the prior year end at £2.2 billion (FY 2019: £2.2 billion).

Balfour Beatty continues to maintain, manage and operate major highway and road networks across the UK. The largest contract, for M25 Connect Plus, will continue for another 20 years. In the first half of the year, the M25 Connect Plus team was awarded The Chartered Institution of Highways and Transportation (CIHT) UK Climate Change award 2020 for its innovative surfacing trial using 50% reclaimed asphalt.

The largest contract in rail services is for Network Rail under a £1.5 billion Central Track Alliance contract. Balfour Beatty has an 80% share in the ten-year alliance which is responsible for the development, design and delivery of track renewals and crossings, as well as associated infrastructure works across the London North West, London North East and East Midland routes. Performance has been good since contract inception in 2019, including during the COVID-19 lockdown period, with safe delivery of the work ensuring that vital national rail infrastructure remains operational. Work has been accelerated where revised schedules allow renewal of the network that would be difficult to access under normal working conditions, such as the rapid mobilisation and execution of the Kilsby Tunnel project on the West Coast Main Line.

INFRASTRUCTURE INVESTMENTS

Financial review

In Infrastructure Investments, operations in the UK continued as normal, supported by the Government advice that private finance initiative (PFI) contractors should consider themselves to be part of the public sector response to COVID-19. In the US, Balfour Beatty Communities continues to work with its partners to support military families. Employees are working to social distancing rules, as agreed with the US military, which restrict access to properties and thus maintenance activity.

Pre-disposals underlying operating profit in the period decreased to £3 million (2019: £9 million) as a result of prior year disposals and higher legal costs at military housing. Underlying profit from operations at £3 million (2019: £25 million) was lower as there were no Infrastructure Investment disposals in the period.

As a result of the market uncertainty generated by COVID-19, and the strong liquidity position of the Group, Balfour Beatty has not disposed of any material Infrastructure Investment assets in the first half of the year. In the medium term, demand for high quality infrastructure assets in the secondary market is expected to exceed supply and the Group will continue to sell investment assets timed to maximise value to shareholders.

Net interest income reduced to £7 million (2019: £10 million) as a result of prior year disposals, contributing to an underlying profit before tax of £10 million (2019: £35 million).

Infrastructure Investments	HY 2020 £m	HY 2019 £m
Pre-disposals operating profit[2]	3	9
Profit on disposals[2]	–	16
Profit from operations[2]	3	25
Net interest income from PPP concessions[+]	7	10
Profit before tax[2]	10	35
Non-underlying items	(1)	(2)
Statutory profit before tax	9	33

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

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

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

Operational review

The Infrastructure Investments business strategy is to optimise value through the disposal of operational assets, whilst also continuing to invest in new opportunities. The Group achieves enhanced returns when Infrastructure Investments, Construction Services and Support Services deliver as one. There is an inherent advantage in bidding for projects when the Infrastructure Investments business utilises the expertise of Construction Services and Support Services. Additionally, the negative working capital generated in the Construction Services business provides opportunity for Infrastructure Investments. The business continues to see significant opportunities for future investment in its chosen geographic markets, particularly in the US where the focus is on student accommodation, multifamily housing and public-private partnership (PPP) opportunities.

As a result of the market uncertainty generated by COVID-19, the first half of 2020 was relatively quiet for the Infrastructure Investments business with no new projects and no disposals.

Under the Military Housing Privatization Initiative (MHPI) established in the US in 1996, Balfour Beatty Communities (BBC) manages more than 43,000 family housing properties across 55 Army, Navy and Air Force bases under long term concessions. This spans financing the project development, designing and constructing new houses and community amenities, renovating older legacy properties inherited from the military so that they meet modern requirements, and managing day to day property leasing and maintenance services, within the project's budget that is approved by the government.

BBC has faced operational challenges at some of the military bases where it manages properties. In June 2019, allegations about the handling of certain work orders were publicised about bases managed by BBC. Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct an investigation into the allegations, and BBC proactively contacted the Department of Justice (DoJ) to notify them of the review. The DoJ subsequently announced an investigation and BBC is cooperating fully. At this stage, the investigation is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum. BBC has also undertaken an extensive internal review of its work order processes and other procedures. Based on this internal review, BBC has implemented a number of changes to the way in which work orders are handled.

Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required BBC to develop a comprehensive Performance Improvement Plan (PIP). The plan, which includes a variety of objectives and performance metrics, was submitted in December 2019 and agreed with the Air Force in February 2020. A number of the initiatives set out in the plan have already been completed, including implementing a significant management restructuring to better align technical support and resident services and appointing a Transformation Director. The impact of COVID-19 is being managed in collaboration with the Air Force as BBC continues to ensure that all PIP objectives are met.

Directors' valuation

The Directors' valuation increased by 5% to £1,125 million (FY 2019: £1,068 million), primarily as a result of foreign exchange rate movements in the period. The number of projects in the portfolio remained unchanged at 69 (FY 2019: 69).

Movement in value FY 2019 to HY 2020

£m	FY 2019	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Operational performance gains (inc. FX movements)	**HY 2020**
UK	514	13	(18)	–	19	(11)	**517**
North America	554	8	(21)	–	22	45	**608**
Total	1,068	21	(39)	–	41	34	**1,125**

The Group invested £21 million (2019: £11 million) in new and existing projects. Cash yield from distributions amounted to £39 million (2019: £32 million) as the portfolio continued to generate cash flow to the Group net of investment. The continuing yield during COVID-19 demonstrates the essential nature of the Infrastructure Investments portfolio. Unwind of discount at £41 million (2019: £45 million) is a function of moving the valuation date forward by six months with the result that future cash flows are discounted by six months less. Operational performance movements resulted in an £34 million increase (2019: £14 million), primarily as a result of foreign exchange movements.

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

Portfolio valuation June 2020

Value by sector

Sector	**HY 2020**	FY 2019	**HY 2020**	FY 2019
	No. projects	No. projects	**£m**	£m
Roads	**13**	13	**195**	206
Healthcare	**3**	3	**115**	112
Student accommodation	**4**	4	**72**	59
OFTOs	**3**	3	**52**	53
Waste and biomass	**4**	4	**56**	60
Other	**4**	4	**27**	24
UK total	**31**	31	**517**	514
US military housing	**21**	21	**486**	453
Healthcare and other PPP	**2**	2	**21**	17
Student accommodation	**5**	5	**54**	40
Residential housing	**10**	10	**47**	44
North America total	**38**	38	**608**	554
Total	**69**	69	**1,125**	1,068

Value by phase

Phase	**HY 2020**	FY 2019	**HY 2020**	FY 2019
	No. projects	No. projects	**£m**	£m
Operations	**63**	62	**1,027**	954
Construction	**4**	5	**98**	114
Preferred bidder	**2**	2	**–**	–
Total	**69**	69	**1,125**	1,068

Value by income type

Income type	**HY 2020**	FY 2019	**HY 2020**	FY 2019
	No. projects	No. projects	**£m**	£m
Availability based	**22**	22	**387**	389
Demand – operationally proven (2+ years)	**38**	38	**551**	517
Demand – early stage (less than 2 years)	**9**	9	**187**	162
Total	**69**	69	**1,125**	1,068

Discount rates applied to the UK portfolio range between 7% and 10.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.2% (FY 2019: 8.3%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.4% (FY 2019: 8.3%). Consistent with other infrastructure funds, Balfour Beatty's experience is that there is limited correlation between the discount rates used to value PPP, and similar infrastructure investments, and long term interest rates. In the event that interest rates increase in response to rising inflation, the impact of any increase in discount rates would be mitigated by the positive correlation between the value of the UK portfolio and changes in inflation. A 1% change in the discount rate would change the value of the UK portfolio by approximately £52 million. A 1% change in the discount rate would change the value of the North American portfolio by approximately £78 million.

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

We confirm that to the best of our knowledge:

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

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

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

Leo Quinn	Phil Harrison
Group Chief Executive	Chief Financial Officer
11 August 2020	

Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty's business, financial condition and results of operations.

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

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 77 to 84 of the Annual Report and Accounts 2019.

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

MEASURING OUR FINANCIAL PERFORMANCE

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

Readers are encouraged to review this announcement in its entirety.

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Measuring the Group's performance

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

Statutory measures

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

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 157 to 163 of the Annual Report and Accounts 2019.

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

Performance measures

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

a) Order book

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

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

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

In accordance with IFRS 15 Revenue from Contracts with Customers*,* the Group is required to disclose the remaining transaction price allocated to performance obligations not yet delivered. This can be found in Note 4.3 in the Annual Report and Accounts 2019. This is similar to the Group's order book disclosure, however it differs for the following reasons:

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

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

		2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Order book (performance measure)		**17,544**	13,227	14,339
Less:	Share of orders included within the Group's joint ventures and associates	**(2,529)**	(1,983)	(1,987)
Less:	Estimated orders under framework agreements included in the order book disclosure	**(149)**	(332)	(114)
Add:	Transaction price allocated to remaining performance obligations in Infrastructure Investments	**1,912**	2,597	1,866
Transaction price allocated to remaining performance obligations for the Group (statutory measure)		**16,778**	13,509	14,104

b) Underlying performance

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

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

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

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

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

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

Reconciliation of the half-year ended 26 June 2020 statutory results to performance measures

	2020 first half unaudited statutory results £m	Non-underlying items: Intangible amortisation £m	Non-underlying items: Results of Rail Germany £m	Non-underlying items: UK deferred tax asset £m	2020 first half unaudited performance measures £m
Revenue including share of joint ventures and associates (performance)	**4,118**	–	(3)	–	**4,115**
Share of revenue of joint ventures and associates	**(603)**	–	2	–	**(601)**
Group revenue (statutory)	**3,515**	–	(1)	–	**3,514**
Cost of sales	**(3,426)**	–	1	–	**(3,425)**
Gross profit	**89**	–	–	–	**89**
Gain on disposals of interests in investments	**–**	–	–	–	**–**
Amortisation of acquired intangible assets	**(2)**	2	–	–	**–**
Other net operating expenses	**(117)**	–	–	–	**(117)**
Group operating loss	**(30)**	2	–	–	**(28)**
Share of results of joint ventures and associates	**14**	–	–	–	**14**
Loss from operations	**(16)**	2	–	–	**(14)**
Investment income	**16**	–	–	–	**16**
Finance costs	**(26)**	–	–	–	**(26)**
Loss before taxation	**(26)**	2	–	–	**(24)**
Taxation	**46**	(1)	–	(39)	**6**
Profit/(loss) for the period	**20**	1	–	(39)	**(18)**

Reconciliation of the half-year ended 26 June 2020 statutory results to performance measures by segment

Profit/(loss) from operations	2020 first half unaudited statutory results £m	Non-underlying items: Intangible amortisation £m	Non-underlying items: Results of Rail Germany £m	Non-underlying items: UK deferred tax asset £m	2020 first half unaudited performance measures £m
Segment					
Construction Services	**(12)**	1	–	–	**(11)**
Support Services	**10**	–	–	–	**10**
Infrastructure Investments	**2**	1	–	–	**3**
Corporate activities	**(16)**	–	–	–	**(16)**
Total	**(16)**	2	–	–	**(14)**

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

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

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

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

Reconciliation of the year ended 31 December 2019 statutory results to performance measures

	2019 statutory results £m	Non-underlying items: Impairment of goodwill £m	Intangible amortisation £m	Provision release on health & safety claims £m	Results of Rail Germany £m	UK deferred tax asset £m	2019 performance measures £m
Revenue including share of joint ventures and associates (performance)	8,411	–	–	–	(6)	–	8,405
Share of revenue of joint ventures and associates	(1,098)	–	–	–	5	–	(1,093)
Group revenue (statutory)	7,313	–	–	–	(1)	–	7,312
Cost of sales	(6,931)	–	–	–	1	–	(6,930)
Gross profit	382	–	–	–	–	–	382
Gain on disposals of interests in investments	40	–	–	–	–	–	40
Amortisation of acquired intangible assets	(6)	–	6	–	–	–	–
Other net operating expenses	(323)	58	–	(2)	–	–	(267)
Group operating profit	93	58	6	(2)	–	–	155
Share of results of joint ventures and associates	66	–	–	–	–	–	66
Profit from operations	159	58	6	(2)	–	–	221
Investment income	34	–	–	–	–	–	34
Finance costs	(55)	–	–	–	–	–	(55)
Profit before taxation	138	58	6	(2)	–	–	200
Taxation	(5)	–	–	–	–	(9)	(14)
Profit for the year	133	58	6	(2)	–	(9)	186

Reconciliation of the year ended 31 December 2019 statutory results to performance measures by segment

Profit/(loss) from operations	2019 statutory results £m	Non-underlying items: Impairment of goodwill £m	Intangible amortisation £m	Provision release on health & safety claims £m	Results of Rail Germany £m	UK deferred tax asset £m	2019 performance measures £m
Segment							
Construction Services	126	–	1	(2)	–	–	125
Support Services	(11)	58	–	–	–	–	47
Infrastructure Investments	77	–	5	–	–	–	82
Corporate activities	(33)	–	–	–	–	–	(33)
Total	159	58	6	(2)	–	–	221

c) Underlying profit before tax

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

		2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Underlying profit from operations (section (b) and Note 3)		**3**	25	82
Add:	Subordinated debt interest receivable^	**9**	13	20
Add:	Interest receivable on PPP financial assets^	**4**	4	9
Less:	Non-recourse borrowings finance cost^	**(6)**	(7)	(13)
Underlying profit before tax (performance)		**10**	35	98
Non-underlying items (section (b) and Note 3)		**(1)**	(2)	(5)
Statutory profit before tax		**9**	33	93

^ Refer to Note 6 and Note 7.

d) Underlying earnings per share

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

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Statutory basic earnings per ordinary share	**3.0**	6.7	19.0
Amortisation of acquired intangible assets net of tax	**0.2**	0.4	0.9
Other non-underlying items net of tax	**(5.7)**	0.5	6.8
Underlying basic (loss)/earnings per ordinary share (performance)	**(2.5)**	7.6	26.7

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

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

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

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

f) Operating cash flow from operations (OCF)

The table below reconciles the Group's internal performance measure of OCF to the statutory measure of cash generated from operating activities as reported in the Group's Statement of Cash Flows.

Reconciliation from statutory cash generated from operations to OCF

	2020 first half unaudited statutory £m	2019 year audited statutory £m
Cash generated from operating activities (statutory)	**87**	211
Add back: Pension payments including deficit funding (Note 18)	**8**	33
Less: Repayment of lease liabilities (including lease interest payments)	**(29)**	(51)
Add: Operational dividends received from joint ventures and associates	**13**	54
Add back: Cash flow movements relating to non-operating items	**3**	3
Less: Operating cash flows relating to non-recourse activities	**(1)**	(7)
Operating cash flow from operations (OCF) (performance)	**81**	243

The Group includes/excludes these items to reflect the true cash flows generated from or used in the Group's operating activities:

Pension payments including deficit funding (£8 million): the Group has excluded pension payments which are included in the Group's statutory measure of cash flows from operating activities from its internal OCF measure as these primarily relate to deficit funding of the Group's main pension fund, Balfour Beatty Pension Fund (BBPF). The payments made for the deficit funding are in accordance with an agreed journey plan with the trustees of the BBPF and are not directly linked to the operational performance of the Group.

Repayment of lease liabilities (including lease interest payments) (£29 million outflow): the payments made for the Group's leasing arrangements are included in the Group's OCF measure as these payments are made to third-party suppliers for the lease of assets that are used to deliver services to the Group's customers, and hence to generate revenue. Under IFRS, these payments are excluded from the Group's statutory measure of cash flows from operating activities as these are considered debt in nature under accounting standards.

Operational dividends received from joint ventures and associates (£13 million inflow): dividends received from joint ventures and associates which are generated from non-disposal activities are included in the Group's OCF measure as these cash returns to the Group from cash flows generated from operating activities within joint ventures and associates. Under IFRS, these returns are classified as investing activities.

Cash flow movements relating to non-operating items (£3 million): the Group's OCF measure excludes certain working capital movements that are not directly attributable to the Group's operating activities.

Operating cash flows relating to non-recourse activities (£1 million): the Group's OCF measure is specifically targeted to drive performance improvement in the Group's earnings-based businesses and therefore any operating cash flows relating to non-recourse activities are removed from this measure. Under IFRS, there is no distinction between recourse and non-recourse cash flows.

g) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the period end. This is analysed using only elements that are recourse to the Group and excludes the liability component of the Company's preference shares, which is debt in nature according to statutory measures. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, the Group has recognised lease liabilities on its balance sheet, which are also deemed to be debt in nature under statutory measures.

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

Net cash/borrowings reconciliation

	2020 first half unaudited statutory £m	**Adjustment £m**	**2020 first half unaudited performance £m**	2019 first half unaudited statutory £m	Adjustment £m	2019 first half unaudited performance £m	2019 year audited statutory £m	Adjustment £m	2019 year audited performance £m
Total cash within the Group	**797**	**(24)**	**773**	730	(50)	680	778	(35)	743
Cash and cash equivalents									
– infrastructure concessions	**24**	**(24)**	**–**	50	(50)	–	35	(35)	–
– other	**773**	**–**	**773**	680	–	680	743	–	743
Total debt within the Group	**(779)**	**569**	**(210)**	(863)	608	(255)	(798)	567	(231)
Borrowings – non-recourse loans	**(338)**	**338**	**–**	(380)	380	–	(337)	337	–
– other	**(210)**	**–**	**(210)**	(255)	–	(255)	(231)	–	(231)
Liability component of preference shares	**(112)**	**112**	**–**	(108)	108	–	(110)	110	–
Lease liabilities	**(119)**	**119**	**–**	(120)	120	–	(120)	120	–
Net cash/(borrowings)	**18**	**545**	**563**	(133)	558	425	(20)	532	512

h) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt, the liability component of the Company's preference shares and lease liabilities, and this performance measure shows average net cash of £507m (2019: first half £290m; full-year £325m).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and lease liabilities) gives average net borrowings of £1m (2019: first half £106m; full-year £49m).

i) Directors' valuation of the Investments portfolio

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

i) Directors' valuation of the Investments portfolio continued

The Directors have valued the Investments portfolio at £1.13bn at the half-year (2019: first half £1.16bn; full-year £1.07bn). The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

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

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Net assets of the Infrastructure Investments segment (refer to Note 3.2)	**737**	646	676
Less: Recourse loans presented within Corporate activities relating to Infrastructure Investments projects	**–**	(16)	–
Less: Net assets not included within the Directors' valuation – Housing division	**(30)**	(29)	(30)
Comparable statutory measure of the Investments portfolio under IFRS	**707**	601	646

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

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Statutory measure of the Investments portfolio (as above)	**707**	601	646
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: ▪ historical cost; ▪ amortised cost; and ▪ fair value	**418**	563	422
Directors' valuation (performance measure)	**1,125**	1,164	1,068

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

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

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

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

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

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

j) Constant exchange rates (CER)

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

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

2020 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2020 first half statutory	986	1,905	–	2,891	465	158	3,514
2019 first half statutory	1,014	1,721	–	2,735	489	173	3,397
Statutory growth (%)	(3)%	11%	–	6%	(5)%	(9)%	3%
2020 first half performance^	986	1,911	468	3,365	476	274	4,115
2019 first half performance retranslated^	1,014	1,760	391	3,165	503	260	3,928
Performance CER growth (%)	(3)%	9%	20%	6%	(5)%	5%	5%
Order book (£bn)							
2020 first half	6.1	6.3	2.1	14.5	3.0	–	17.5
2019 year	3.0	6.5	1.6	11.1	3.2	–	14.3
Growth (%)	103%	(3)%	31%	31%	(6)%	–	22%
2020 first half	6.1	6.3	2.1	14.5	3.0	–	17.5
2019 year retranslated	3.0	7.0	1.7	11.7	3.2	–	14.9
CER growth (%)	103%	(10)%	24%	24%	(6)%	–	17%

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

INDEPENDENT REVIEW REPORT TO BALFOUR BEATTY PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the period ended 26 June 2020 which comprises the Condensed Group Income Statement, Condensed Group Statement of Comprehensive Income, Condensed Group Statement of Changes in Equity, Condensed Group Balance Sheet, Condensed Group Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the period ended 26 June 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

Paul Sawdon
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL
11 August 2020

Condensed Group Income Statement

For the half-year ended 26 June 2020

	Notes	2020 first half unaudited Underlying items[1] £m	2020 first half unaudited Non-underlying items (Note 8) £m	2020 first half unaudited Total £m	2019 first half unaudited Underlying items[1] £m	2019 first half unaudited Non-underlying items (Note 8) £m	2019 first half unaudited Total £m	2019 year audited Underlying items[1] £m	2019 year audited Non-underlying items (Note 8) £m	2019 year audited Total £m
Revenue including share of joint ventures and associates		**4,115**	**3**	**4,118**	3,881	3	3,884	8,405	6	8,411
Share of revenue of joint ventures and associates	5.1	**(601)**	**(2)**	**(603)**	(484)	(3)	(487)	(1,093)	(5)	(1,098)
Group revenue		**3,514**	**1**	**3,515**	3,397	–	3,397	7,312	1	7,313
Cost of sales		**(3,425)**	**(1)**	**(3,426)**	(3,221)	–	(3,221)	(6,930)	(1)	(6,931)
Gross profit		**89**	**–**	**89**	176	–	176	382	–	382
Gain on disposals of interests in investments		**–**	**–**	**–**	3	–	3	40	–	40
Amortisation of acquired intangible assets		**–**	**(2)**	**(2)**	–	(3)	(3)	–	(6)	(6)
Other net operating (expenses)/income		**(117)**	**–**	**(117)**	(137)	2	(135)	(267)	(56)	(323)
Group operating (loss)/profit		**(28)**	**(2)**	**(30)**	42	(1)	41	155	(62)	93
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**14**	**–**	**14**	17	–	17	37	–	37
Gain on disposals of interests in investments		**–**	**–**	**–**	13	–	13	29	–	29
Share of results of joint ventures and associates	5.1	**14**	**–**	**14**	30	–	30	66	–	66
(Loss)/profit from operations		**(14)**	**(2)**	**(16)**	72	(1)	71	221	(62)	159
Investment income	6	**16**	**–**	**16**	19	–	19	34	–	34
Finance costs	7	**(26)**	**–**	**(26)**	(27)	–	(27)	(55)	–	(55)
(Loss)/profit before taxation		**(24)**	**(2)**	**(26)**	64	(1)	63	200	(62)	138
Taxation	9	**6**	**40**	**46**	(10)	(5)	(15)	(14)	9	(5)
(Loss)/profit for the period		**(18)**	**38**	**20**	54	(6)	48	186	(53)	133
Attributable to										
Equity holders		**(18)**	**38**	**20**	52	(6)	46	183	(53)	130
Non-controlling interests		**–**	**–**	**–**	2	–	2	3	–	3
(Loss)/profit for the period		**(18)**	**38**	**20**	54	(6)	48	186	(53)	133

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

	Notes	**2020 first half unaudited pence**	2019 first half unaudited pence	2019 year audited pence
Earnings per ordinary share				
- basic	10	**3.0**	6.7	19.0
- diluted	10	**3.0**	6.6	18.8
Dividends per ordinary share proposed for the period	11	**–**	2.1	2.1

Condensed Group Statement of Comprehensive Income

For the half-year ended 26 June 2020

	2020 first half unaudited			2019 first half unaudited			2019 year audited		
	Group £m	**Share of joint ventures and associates £m**	**Total £m**	Group £m	Share of joint ventures and associates £m	Total £m	Group £m	Share of joint ventures and associates £m	Total £m
Profit for the period	**6**	**14**	**20**	18	30	48	67	66	133
Other comprehensive income/(loss) for the period									
Items which will not subsequently be reclassified to the income statement									
Actuarial gains/(losses) on retirement benefit assets/liabilities	**186**	**–**	**186**	(49)	–	(49)	43	2	45
Tax on above	**(41)**	**–**	**(41)**	6	–	6	(8)	(1)	(9)
	145	**–**	**145**	(43)	–	(43)	35	1	36
Items which will subsequently be reclassified to the income statement									
Currency translation differences	**23**	**13**	**36**	1	2	3	(12)	(7)	(19)
Fair value revaluations – PPP financial assets	**7**	**42**	**49**	3	12	15	3	24	27
– cash flow hedges	**(6)**	**(6)**	**(12)**	(4)	(7)	(11)	(4)	2	(2)
– investments in mutual funds measured at fair value through OCI	**–**	**–**	**–**	1	–	1	2	–	2
Recycling of revaluation reserves to the income statement on disposal^	**–**	**–**	**–**	–	–	–	(2)	(2)	(4)
Tax on above	**–**	**(8)**	**(8)**	–	(1)	(1)	–	(5)	(5)
	24	**41**	**65**	1	6	7	(13)	12	(1)
Total other comprehensive income/(loss) for the period	**169**	**41**	**210**	(42)	6	(36)	22	13	35
Total comprehensive income/(loss) for the period	**175**	**55**	**230**	(24)	36	12	89	79	168
Attributable to									
Equity holders			**230**			10			165
Non-controlling interests			**–**			2			3
Total comprehensive income for the period			**230**			12			168

^ 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 26 June 2020

					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 £m	Hedging reserves £m	PPP financial assets £m	Currency translation reserve £m	Other £m	Retained profits £m	Non-controlling interests £m	Total £m
At 31 December 2018 audited	345	65	22	63	18	(25)	24	123	22	574	10	1,241
Adjustment as a result of transitioning to IFRIC 23 on 1 January 2019	–	–	–	–	–	–	–	–	–	1	–	1
Adjusted equity at 1 January 2019	345	65	22	63	18	(25)	24	123	22	575	10	1,242
Total comprehensive income/(loss) for the period	–	–	–	36	–	(4)	3	1	1	(27)	2	12
Joint ventures' and associates' dividends	–	–	–	(40)	–	–	–	–	–	40	–	–
Ordinary dividends	–	–	–	–	–	–	–	–	–	(22)	–	(22)
Non-controlling interest's dividends	–	–	–	–	–	–	–	–	–	–	(4)	(4)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	(3)	8	–	5
At 28 June 2019 unaudited	345	65	22	59	18	(29)	27	124	20	574	8	1,233
Total comprehensive income/(loss) for the period	–	–	–	43	–	–	–	(15)	1	126	1	156
Joint ventures' and associates' dividends	–	–	–	(55)	–	–	–	–	–	55	–	–
Ordinary dividends	–	–	–	–	–	–	–	–	–	(14)	–	(14)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	(4)	6	–	2
Reserve transfers relating to joint venture and associate disposals	–	–	–	(1)	–	–	–	–	–	1	–	–
At 31 December 2019 audited	345	65	22	46	18	(29)	27	109	17	748	9	1,377
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**55**	**–**	**(4)**	**5**	**23**	**–**	**151**	**–**	**230**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(13)**	**–**	**–**	**–**	**–**	**–**	**13**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**7**	**–**	**4**
Reserve transfers relating to joint venture and associates	**–**	**–**	**–**	**15**	**–**	**–**	**–**	**–**	**–**	**(15)**	**–**	**–**
At 26 June 2020 unaudited	**345**	**65**	**22**	**103**	**18**	**(33)**	**32**	**132**	**14**	**904**	**9**	**1,611**

Condensed Group Balance Sheet

At 26 June 2020

		Notes	**2020 first half unaudited £m**	2019 first half unaudited £m	2019 year audited £m
Non-current assets					
Intangible assets	– goodwill	12	**863**	904	828
	– other		**321**	274	300
Property, plant and equipment			**91**	156	91
Right-of-use assets			**112**	113	113
Investment properties			**31**	32	32
Investments in joint ventures and associates		5.2	**605**	519	550
Investments			**27**	29	27
PPP financial assets		15	**159**	156	155
Trade and other receivables		13	**240**	263	207
Retirement benefit assets		16	**454**	153	249
Deferred tax assets			**102**	81	92
			3,005	2,680	2,644
Current assets					
Inventories			**105**	94	101
Contract assets			**287**	413	377
Trade and other receivables		13	**1,009**	900	939
Cash and cash equivalents	– infrastructure investments	18.2	**24**	50	35
	– other	18.2	**773**	680	743
Current tax receivable			**2**	2	2
Derivative financial instruments		21	**–**	1	–
			2,200	2,140	2,197
Total assets			**5,205**	4,820	4,841
Current liabilities					
Contract liabilities			**(487)**	(504)	(469)
Trade and other payables		14	**(1,578)**	(1,465)	(1,520)
Provisions			**(169)**	(166)	(153)
Borrowings	– non-recourse loans	18.3	**(5)**	(48)	(4)
	– other	18.3	**–**	(51)	(35)
Liability component of preference shares			**(112)**	–	(110)
Lease liabilities			**(45)**	(38)	(42)
Current tax payable			**(18)**	(12)	(16)
Derivative financial instruments		21	**(4)**	(4)	(4)
			(2,418)	(2,288)	(2,353)
Non-current liabilities					
Contract liabilities			**(2)**	(2)	(2)
Trade and other payables		14	**(122)**	(165)	(108)
Provisions			**(156)**	(146)	(142)
Borrowings	– non-recourse loans	18.3	**(333)**	(332)	(333)
	– other	18.3	**(210)**	(204)	(196)
Lease liabilities			**(74)**	(82)	(78)
Liability component of preference shares			**–**	(108)	–
Retirement benefit liabilities		16	**(128)**	(131)	(116)
Deferred tax liabilities			**(117)**	(100)	(108)
Derivative financial instruments		21	**(34)**	(29)	(28)
			(1,176)	(1,299)	(1,111)
Total liabilities			**(3,594)**	(3,587)	(3,464)
Net assets			**1,611**	1,233	1,377
Equity					
Called-up share capital			**345**	345	345
Share premium account			**65**	65	65
Special reserve			**22**	22	22
Share of joint ventures' and associates' reserves			**103**	59	46
Other reserves			**163**	160	142
Retained profits			**904**	574	748
Equity attributable to equity holders of the parent			**1,602**	1,225	1,368
Non-controlling interests			**9**	8	9
Total equity			**1,611**	1,233	1,377

Condensed Group Statement of Cash Flows

For the half-year ended 26 June 2020

		Notes	**2020 first half unaudited £m**	2019 first half unaudited £m	2019 year audited £m
Cash flows from/(used in) operating activities					
Cash from operations		18.1	**88**	89	212
Income taxes paid			**(1)**	(1)	(1)
Net cash from operating activities			**87**	88	211
Cash flows (used in)/from investing activities					
Dividends received from:	- joint ventures and associates – infrastructure investments		**12**	25	59
	- joint ventures and associates – other		**1**	15	36
Interest received – infrastructure investments – joint ventures			**10**	3	5
Interest received – infrastructure investments – subsidiaries			**2**	–	3
Acquisition of businesses, net of cash and cash equivalents acquired			**–**	–	(3)
Purchases of:	- intangible assets – infrastructure investments		**(24)**	(23)	(58)
	- intangible assets – other		**(1)**	(2)	(4)
	- property, plant and equipment		**(16)**	(11)	(20)
Investments in and long-term loans to joint ventures and associates			**(6)**	(11)	(58)
Return of equity from joint ventures and associates			**–**	12	14
PPP financial assets cash expenditure		15	**(1)**	(1)	(3)
PPP financial assets cash receipts		15	**8**	8	16
Disposals of:	- investments in joint ventures – infrastructure investments		**–**	–	24
	- investments in joint ventures – other		**1**	–	1
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments		**–**	–	59
	- property, plant and equipment – infrastructure investments		**–**	–	22
	- property, plant and equipment – other		**5**	2	7
	- net assets held for sale – infrastructure investments		**–**	8	8
	- other investments		**2**	3	5
Net cash (used in)/from investing activities			**(7)**	28	113
Cash flows (used in)/from financing activities					
Purchase of ordinary shares		17	**–**	–	(2)
Proceeds from new loans relating to infrastructure investments assets		18.4	**3**	3	6
Repayments of:	- loans – infrastructure investments	18.4	**(2)**	(2)	(48)
	- loans – other	18.4	**(36)**	–	(15)
Repayment of lease liabilities			**(26)**	(21)	(45)
Ordinary dividends paid			**–**	–	(36)
Other dividends paid – non-controlling interest			**–**	(4)	(4)
Interest paid – infrastructure investments			**(5)**	(7)	(13)
Interest paid – other			**(12)**	(11)	(23)
Preference dividends paid			**(6)**	(6)	(12)
Net cash used in financing activities			**(84)**	(48)	(192)
Net (decrease)/increase in cash and cash equivalents			**(4)**	68	132
Effects of exchange rate changes			**23**	1	(15)
Cash and cash equivalents at beginning of period			**778**	661	661
Cash and cash equivalents at end of period		18.2	**797**	730	778

Notes to the financial statements

1.1 Basis of accounting

The condensed Group financial statements for the half-year ended 26 June 2020 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 2019, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The condensed Group financial statements, which are not audited, have been reviewed and were approved for issue by the Board on 11 August 2020. 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 2019 has been delivered to the Registrar of Companies. The independent auditor's report on those accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The condensed Group financial statements have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts 2019 except as described in Note 1.4 below.

1.2 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty remain unchanged since the year-end and are set out in Note 2.27 on page 163 of the Annual Report and Accounts 2019.

Revenue and margin recognition remain a key source of estimation uncertainty during the period, especially given the significant uncertainty around future productivity and contractual entitlements as a result of COVID-19 which impact the related cost forecasts and income assumptions.

In light of the market volatility as a result of COVID-19, there is also a heightened estimation uncertainty around the valuation of property pension assets within the Balfour Beatty Pension Fund.

1.3 Going concern

Other than the uncertainty of the ongoing effects of the COVID-19 outbreak on the Group's financial performance and cash flows, the key financial risk factors for the Group remain largely unchanged.

The Group's US private placement and committed bank facility contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 26 June 2020, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

The Directors have carried out an assessment on the Group's ability to continue as a going concern for the period to 31 December 2021. This assessment has involved the review of medium-term cash forecasts based on the Group's Three Year Plan which has been revised to reflect the estimated impact of COVID-19 on each of the Group's operations. The Directors have also considered the strength of the Group's order book which amounted to £17.5bn at 26 June 2020 and will provide a pipeline of secured work over the going concern assessment period. These base case projections indicate that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the going concern assessment period.

1.3 Going concern continued

Having repaid US$46m of its US private placement notes on maturity in March 2020 and redeemed its preference shares for £112m in July 2020, the Group does not have any debt repayment obligations in the going concern assessment period. US$259m of its US private placement notes remains outstanding, with the next tranche of US$209m being due in March 2023 and the final tranche of US$50m being due in March 2025. The Group does not have any other debt apart from these US private placement notes and non-recourse borrowings ringfenced within certain infrastructure investment companies. The Group's £375m revolving credit facility, which was undrawn throughout the half year period to 26 June 2020, remains fully available to the Group until October 2022, with two one-year extension options through to October 2024 available to the Group subject to lenders' consent.

The Directors have stress-tested the Group's base case projections of both cash and profit against key sensitivities which could materialise as a result of COVID-19. The Group has sensitised its projections against severe but plausible downside scenarios which include:

- Further restrictions for three months on a portion of the Group's activities in the UK and the US, mandated either by federal or local government authorities or by the Group's customers;
- Elimination of unsecured work assumed within the Group's base case projections;
- Delay in payments received from a portion of non-government customers;
- Delay by 12 months in the disposal of Investments assets; and
- Removal of dividends from Gammon.

In assessing the impact of these sensitivities, the Group has not assumed any potential assistance from the UK Government such as the Job Retention Scheme and deferred tax payments.

In the severe but plausible downside scenarios modelled by the Directors, the Group continues to retain sufficient headroom on liquidity. Through these downside scenarios, the Group is still expected to be in a net cash position and to remain within its banking covenants through the going concern assessment period.

Based on the above and having made appropriate enquiries, the Directors consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the condensed consolidated financial statements.

1.4 Adoption of new and revised standards

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

- Amendments to the following standards:
  - IAS 1 and IAS 8 Definition of Material
  - IFRS 3 Business Combinations
  - IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
- Amendments to References to the Conceptual Framework in IFRS Standards.

The above new and amended standards do not have a material effect on the Group.

1.5 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 26 June 2020:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
  - IAS 16 Property, Plant and Equipment
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
  - IFRS 3 Business Combinations
  - IFRS 4 Insurance Contracts – deferral of IFRS 9
  - IFRS 16 Leases Covid-19-Related Rent Concessions
  - Annual improvements 2018 – 2020.

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

1.6 Accounting policy on government grants

Government grants are recognised when there is a reasonable assurance that the Group will be able to comply with the conditions attached to the grant and that the grant will be received. In the first half of the year, the Group received assistance from the UK Government in the form of the Job Retention Scheme. Grants under this scheme have been recognised in the income statement on a systematic basis as a deduction from the related category of cost in the periods in which the expenses are recognised.

2 Exchange rates

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

Average rates

£1 buys	**2020 first half unaudited**	2019 first half unaudited	2019 year audited	28 June 2019 – 26 June 2020 % change	31 Dec 2019 - 26 June 2020 % change
US$	**1.27**	1.29	1.28	(1.6)%	(0.8)%
HK$	**9.84**	10.12	10.03	(2.8)%	(1.9)%
Euro	**1.14**	1.14	1.14	0.0%	0.0%

Closing rates

£1 buys	**2020 first half unaudited**	2019 first half unaudited	2019 year audited	28 June 2019 - 26 June 2020 % change	31 Dec 2019 - 26 June 2020 % change
US$	**1.23**	1.27	1.32	(3.1)%	(6.8)%
HK$	**9.56**	9.92	10.28	(3.6)%	(7.0)%
Euro	**1.10**	1.12	1.17	(1.8)%	(6.0)%

3 Segment analysis

Reportable segments of the Group:

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

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

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

3.1 Income statement – performance by activity

For the half-year ended 26 June 2020 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	3,365	476	274	–	4,115
Share of revenue of joint ventures and associates[1]	(474)	(11)	(116)	–	(601)
Group revenue[1]	2,891	465	158	–	3,514
Group operating (loss)/profit[1]	(18)	11	(5)	(16)	(28)
Share of results of joint ventures and associates[1]	7	(1)	8	–	14
(Loss)/profit from operations[1]	(11)	10	3	(16)	(14)
Non-underlying items:					
- amortisation of acquired intangible assets	(1)	–	(1)	–	(2)
(Loss)/profit from operations	(12)	10	2	(16)	(16)
Investment income					16
Finance costs					(26)
Loss before taxation					(26)

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

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

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

3 Segment analysis continued

3.1 Income statement – performance by activity

For the year ended 31 December 2019 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	6,858	1,023	524	–	8,405
Share of revenue of joint ventures and associates[1]	(908)	(32)	(153)	–	(1,093)
Group revenue[1]	5,950	991	371	–	7,312
Group operating profit/(loss)[1]	96	48	44	(33)	155
Share of results of joint ventures and associates[1]	29	(1)	38	–	66
Profit/(loss) from operations[1]	125	47	82	(33)	221
Non-underlying items:					
- amortisation of acquired intangible assets	(1)	–	(5)	–	(6)
- other non-underlying items	2	(58)	–	–	(56)
	1	(58)	(5)	–	(62)
Profit/(loss) from operations	126	(11)	77	(33)	159
Investment income					34
Finance costs					(55)
Profit before taxation					138

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

3.2 Assets and liabilities by activity

As at 26 June 2020 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Contract assets – current	**190**	**78**	**19**	**–**	**287**
Contract liabilities – current	**(400)**	**(86)**	**(1)**	**–**	**(487)**
Inventories	**61**	**10**	**34**	**–**	**105**
Trade and other receivables – current	**856**	**98**	**37**	**18**	**1,009**
Trade and other payables – current	**(1,264)**	**(195)**	**(47)**	**(72)**	**(1,578)**
Provisions – current	**(129)**	**(4)**	**(12)**	**(24)**	**(169)**
Working capital*	**(686)**	**(99)**	**30**	**(78)**	**(833)**

* Includes non-operating items and current working capital.

Total assets	**2,556**	**486**	**1,214**	**949**	**5,205**
Total liabilities	**(2,137)**	**(354)**	**(477)**	**(626)**	**(3,594)**
Net assets	**419**	**132**	**737**	**323**	**1,611**

3 Segment analysis continued

3.2 Assets and liabilities by activity continued

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

* Includes non-operating items and current working capital.

Total assets	2,311	517	1,163	829	4,820
Total liabilities	(2,090)	(349)	(517)	(631)	(3,587)
Net assets	221	168	646	198	1,233

As at 31 December 2019 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Contract assets – current	264	90	23	–	377
Contract liabilities – current	(392)	(74)	(3)	–	(469)
Inventories	60	8	33	–	101
Trade and other receivables – current	800	88	43	8	939
Trade and other payables – current	(1,249)	(190)	(47)	(34)	(1,520)
Provisions – current	(111)	(5)	(13)	(24)	(153)
Working capital*	(628)	(83)	36	(50)	(725)

* Includes non-operating items and current working capital.

Total assets	2,341	501	1,149	850	4,841
Total liabilities	(2,059)	(335)	(473)	(597)	(3,464)
Net assets	282	166	676	253	1,377

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 26 June 2020 unaudited					
Capital expenditure on property, plant and equipment	**9**	**7**	**–**	**–**	**16**
Capital expenditure on intangible assets	**–**	**1**	**24**	**–**	**25**
Depreciation	**17**	**18**	**1**	**6**	**42**
For the half-year ended 28 June 2019 unaudited					
Capital expenditure on property, plant and equipment	5	6	–	–	11
Capital expenditure on intangible assets	–	1	24	–	25
Depreciation	12	26	2	5	45
Gain on disposals of interests in investments	–	–	3	–	3
Gains on disposals of interests in investments within joint ventures and associates	–	–	13	–	13
For the year ended 31 December 2019 audited					
Capital expenditure on property, plant and equipment	11	8	–	1	20
Capital expenditure on intangible assets	–	4	58	–	62
Depreciation	25	35	4	10	74
Gain on disposals of interests in investments	–	–	40	–	40
Gain on disposals of interests in investments within joint ventures and associates	–	–	29	–	29

3.4 Infrastructure Investments

Underlying profit from operations[1]	**Group 2020 first half unaudited £m**	**Share of joint ventures and associates 2020 first half unaudited**[+] **£m**	**Total 2020 first half unaudited £m**	Group 2019 first half unaudited £m	Share of joint ventures and associates 2019 first half unaudited[+] £m	Total 2019 first half unaudited £m	Group 2019 year audited £m	Share of joint ventures and associates 2019 year audited[+] £m	Total 2019 year audited £m
UK[^]	**1**	**(1)**	**–**	3	1	4	4	(4)	–
North America	**2**	**9**	**11**	9	8	17	18	13	31
Gain on disposals of interests in investments	**–**	**–**	**–**	3	13	16	40	29	69
	3	**8**	**11**	15	22	37	62	38	100
Bidding costs and overheads	**(8)**	**–**	**(8)**	(12)	–	(12)	(18)	–	(18)
	(5)	**8**	**3**	3	22	25	44	38	82

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

[^] Including Ireland. 2019 results include Singapore and Ireland.

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

4 Revenue

4.1 Nature of services provided

4.1.1 Construction Services

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

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

4 Revenue continued

4.1 Nature of services provided continued

4.1.2 Support Services

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

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

4 Revenue continued

4.1 Nature of services provided continued

4.1.3 Infrastructure Investments

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

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

4 Revenue continued

4.2 Disaggregation of revenue

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

For the half-year ended 26 June 2020 unaudited

Segment	Primary geographical markets	United Kingdom £m	United States £m	Rest of the World £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	975	1,911	479	3,365
	Group revenue	975	1,904	12	2,891
Support Services	Revenue including share of joint ventures and associates	464	–	12	476
	Group revenue	464	–	1	465
Infrastructure Investments	Revenue including share of joint ventures and associates	95	173	6	274
	Group revenue	42	114	2	158
Total revenue	**Revenue including share of joint ventures and associates**	**1,534**	**2,084**	**497**	**4,115**
	Group revenue	**1,481**	**2,018**	**15**	**3,514**

Segment	Revenue by types of assets serviced	Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	2,061	1,032	264	8	3,365
	Group revenue	1,820	799	264	8	2,891
Support Services	Revenue including share of joint ventures and associates	–	215	258	3	476
	Group revenue	–	215	247	3	465
Infrastructure Investments	Revenue including share of joint ventures and associates	176+	90	7	1	274
	Group revenue	156+	1	–	1	158
Total revenue	**Revenue including share of joint ventures and associates**	**2,237**	**1,337**	**529**	**12**	**4,115**
	Group revenue	**1,976**	**1,015**	**511**	**12**	**3,514**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	3,362	475	269	4,106
At a point in time	3	1	5	9
Revenue including share of joint venture and associates	**3,365**	**476**	**274**	**4,115**
Over time	2,888	464	153	3,505
At a point in time	3	1	5	9
Group revenue	**2,891**	**465**	**158**	**3,514**

+ Includes rental income of £14m including share of joint ventures and associates or £5m excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the half-year ended 28 June 2019 unaudited

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

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

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

+ Includes rental income of £14m including share of joint ventures and associates or £8m excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the year ended 31 December 2019 audited

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	2,189	3,753	916	6,858
	Group revenue	2,189	3,738	23	5,950
Support Services	Revenue including share of joint ventures and associates	971	–	52	1,023
	Group revenue	971	–	20	991
Infrastructure Investments	Revenue including share of joint ventures and associates	193	314	17	524
	Group revenue	116	252	3	371
Total revenue	**Revenue including share of joint ventures and associates**	**3,353**	**4,067**	**985**	**8,405**
	Group revenue	**3,276**	**3,990**	**46**	**7,312**

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	4,427	1,886	541	4	6,858
	Group revenue	3,781	1,626	539	4	5,950
Support Services	Revenue including share of joint ventures and associates	–	463	551	9	1,023
	Group revenue	–	463	519	9	991
Infrastructure Investments	Revenue including share of joint ventures and associates	409+	89	23	3	524
	Group revenue	368+	2	–	1	371
Total revenue	**Revenue including share of joint ventures and associates**	**4,836**	**2,438**	**1,115**	**16**	**8,405**
	Group revenue	**4,149**	**2,091**	**1,058**	**14**	**7,312**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	6,848	1,020	503	8,371
At a point in time	10	3	21	34
Revenue including share of joint ventures and associates	**6,858**	**1,023**	**524**	**8,405**
Over time	5,940	988	350	7,278
At a point in time	10	3	21	34
Group revenue	**5,950**	**991**	**371**	**7,312**

+ Includes rental income of £27m including share of joint ventures and associates or £13m excluding share of joint ventures and associates.

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

5.1 Income statement

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Revenue[1]	**601**	484	1,093
Operating profit excluding gain on disposals of interests in investments[1]	**16**	16	45
Gain on disposals of interests in investments[1]	**–**	13	29
Operating profit[1]	**16**	29	74
Investment income	**51**	56	111
Finance costs	**(51)**	(53)	(112)
Profit before taxation[1]	**16**	32	73
Taxation	**(2)**	(2)	(7)
Profit after taxation	**14**	30	66

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

5.2 Balance sheet

		2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Intangible assets	– goodwill	**32**	31	30
	– Infrastructure Investments intangible	**46**	47	49
	– other	**14**	15	15
Property, plant and equipment		**44**	60	60
Investment properties		**196**	131	167
Investments in joint ventures and associates		**2**	2	1
Money market funds		**157**	193	166
PPP financial assets		**1,629**	1,732	1,586
Military housing projects		**115**	111	107
Net borrowings		**(1,224)**	(1,353)	(1,266)
Other net liabilities		**(605)**	(624)	(577)
Share of net assets of joint ventures and associates		**406**	345	338
Reclassify net liabilities to provisions		**2**	–	2
Reclassify net liabilities to trade and other receivables		**11**	–	11
Adjusted net assets		**419**	345	351
Loans to joint ventures and associates		**186**	174	199
Total investment in joint ventures and associates		**605**	519	550

6 Investment income

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Subordinated debt interest receivable	**9**	13	20
Interest receivable on PPP financial assets (Note 15)	**4**	4	9
Other interest receivable and similar income	**2**	1	3
Net finance income on pension scheme assets and obligations (Note 16)	**1**	1	2
	16	19	34

7 Finance costs

		2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Non-recourse borrowings	– bank loans and overdrafts	**6**	7	13
Preference shares	– finance cost	**6**	6	12
	– accretion	**2**	2	4
US private placement	– finance cost	**6**	6	12
Interest on lease liabilities		**3**	3	6
Other interest payable	– committed facilities	**1**	1	2
	– letter of credit fees	**1**	1	3
	– other finance charges	**1**	1	3
		26	27	55

8 Non-underlying items

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Items (charged against)/credited to profit			
8.1 Amortisation of acquired intangible assets	**(2)**	(3)	(6)
Other non-underlying items:			
– impairment of goodwill relating to Gas & Water	**–**	–	(58)
– provision release relating to settlements of health and safety claims	**–**	2	2
Total other non-underlying items	**–**	2	(56)
Charged against profit before taxation	**(2)**	(1)	(62)
8.2 Tax credits/(charges):			
– non-underlying recognition/(derecognition) of deferred tax assets in the UK	**36**	(6)	9
– impact of tax rate change on deferred tax assets previously recognised through non-underlying	**3**	–	–
– tax on other items above	**1**	1	–
Total tax credit/(charge)	**40**	(5)	9
Non-underlying items credited to/(charged against) profit for the period	**38**	(6)	(53)

8.1 The amortisation of acquired intangible assets comprises: customer contracts £1m (2019: first half £2m; full-year £5m); and customer relationships £1m (2019: first half £1m; full-year £1m).

The charge was recognised in the following segments: Construction Services £1m (2019: first half £1m; full-year £1m) and Infrastructure Investments £1m (2019: first half £2m; full-year £5m).

8.2.1 In previous periods, significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of deferred tax liabilities. This in turn led to the recognition of additional UK deferred tax assets which the Group recognised as non-underlying due to the size and nature of the credit. In first half 2020, further actuarial gains in the BBPF resulted in the recognition of UK deferred tax assets of £36m. Applying the same methodology used in previous periods, the Group recognised this credit as a non-underlying item.

8.2.2 Deferred tax assets and liabilities were previously measured at the future expected tax rate of 17% but this rate reduction has now been cancelled. Due to the re-measurement of the deferred tax items at 19%, an additional tax credit of £3m is recognised as non-underlying to reflect the impact of adopting the new tax rate on the Group's deferred tax assets which were previously recognised within non-underlying items.

8.2.3 The non-underlying items charged against Group operating profit gave rise to a tax credit of £1m (2019: first half £1m; full-year £nil after prior year adjustments) comprising £1m tax credit on amortisation of acquired intangible assets (2019: first half: £1m; full-year £nil).

9 Taxation

	Underlying items 2020 first half unaudited[1] £m	Non-underlying items (Note 8) 2020 first half unaudited £m	Total 2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Total UK tax	**(8)**	**(39)**	**(47)**	5	(20)
Total non-UK tax	**2**	**(1)**	**1**	10	25
Total tax (credit)/charge[x]	**(6)**	**(40)**	**(46)**	15	5
UK current tax	**4**	**–**	**4**	–	–
Non-UK current tax	**1**	**–**	**1**	–	3
Total current tax	**5**	**–**	**5**	–	3
UK deferred tax	**(12)**	**(39)**	**(51)**	5	(20)
Non-UK deferred tax	**1**	**(1)**	**–**	10	22
Total deferred tax	**(11)**	**(40)**	**(51)**	15	2
Total tax (credit)/charge[x]	**(6)**	**(40)**	**(46)**	15	5

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

[x] Excluding joint ventures and associates.

In addition to the Group tax charge above, tax of £49m is charged (2019: first half £5m credited; full-year £14m charged) directly to other comprehensive income, comprising: a deferred tax charge of £41m for subsidiaries (2019: first half £6m credit; full-year £8m charge) and a deferred tax charge in respect of joint ventures and associates of £8m (2019: first half £1m; full-year £6m).

10 Earnings per ordinary share

	2020 first half unaudited		2019 first half unaudited		2019 year audited	
Earnings	**Basic £m**	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings	**20**	**20**	46	46	130	130
Amortisation of acquired intangible assets net of tax	**1**	**1**	2	2	6	6
Other non-underlying items net of tax	**(39)**	**(39)**	4	4	47	47
Underlying (loss)/earnings	**(18)**	**(18)**	52	52	183	183
	Basic m	**Diluted m**	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**687**	**688**	685	688	685	689
Earnings per share	**Basic pence**	**Diluted Pence**	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings per ordinary share	**3.0**	**3.0**	6.7	6.6	19.0	18.8
Amortisation of acquired intangible assets net of tax	**0.2**	**0.2**	0.4	0.4	0.9	0.9
Other non-underlying items net of tax	**(5.7)**	**(5.7)**	0.5	0.5	6.8	6.8
Underlying (loss)/earnings per ordinary share	**(2.5)**	**(2.5)**	7.6	7.5	26.7	26.5

11 Dividends on ordinary shares

	2020 first half unaudited		2019 first half unaudited		2019 year audited	
	Per share pence	**Amount £m**	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period						
Interim 2019	**–**	**–**	2.1	14	2.1	14
Final 2019	**–**	**–**	–	–	–	–
Interim 2020	**–**	**–**	–	–	–	–
	–	**–**	2.1	14	2.1	14
Recognised dividends for the period						
Final 2018		**–**		22		22
Interim 2019		**–**		–		14
Final 2019		**–**		–		–
		–		22		36

The interim 2019 dividend was paid on 6 December 2019. As announced on 1 June 2020, the final 2019 dividend was cancelled by the Board due to the COVID-19 environment. The Board will look to re-instate the dividend as soon as is appropriate.

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2019 audited	1,071	(168)	903
Currency translation differences	1	–	1
At 28 June 2019 unaudited	1,072	(168)	904
Currency translation differences	(24)	6	(18)
Impairment	–	(58)	(58)
At 31 December 2019 audited	1,048	(220)	828
Currency translation differences	**46**	**(11)**	**35**
At 26 June 2020 unaudited	**1,094**	**(231)**	**863**

As at 26 June 2020, 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 Group assessed that the effects of COVID-19 was an indicator of impairment and a full detailed impairment review of its goodwill balance was conducted. As part of this assessment, the Group included sensitivities which factored in further adverse implications that could arise from COVID-19. No impairment was triggered as a result of this event.

There was no impairment recorded in the first half of 2019. The Group impaired the goodwill on its Gas & Water CGU in full in the second half of 2019 amounting to £58m.

A full detailed impairment review will also be conducted at 31 December 2020.

13 Trade and other receivables

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Current			
Trade receivables	**653**	631	575
Less: provision for impairment of trade receivables	**(3)**	(5)	(5)
	650	626	570
Due from joint ventures and associates	**15**	21	25
Due from joint operation partners	**9**	10	22
Contract retentions receivable	**235**	155	221
Contract fulfilment assets	**12**	24	12
Accrued income	**10**	5	13
Prepayments	**42**	29	37
Due on disposals	**5**	1	5
Other receivables	**31**	29	34
	1,009	900	939
Non-current			
Due from joint ventures and associates	**57**	60	52
Contract retentions receivable	**168**	194	140
Contract fulfilment assets	**11**	3	10
Due on disposals	**1**	4	2
Other receivables	**3**	2	3
	240	263	207
Total trade and other receivables	**1,249**	1,163	1,146

14 Trade and other payables

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Current			
Trade and other payables[∞]	**668**	726	625
Accruals	**578**	527	629
Contract retentions payable[∞]	**235**	142	212
VAT, payroll taxes and social security	**88**	39	45
Dividends on preference shares	**6**	6	6
Dividends on ordinary shares	**–**	22	–
Due on acquisitions	**3**	3	3
	1,578	1,465	1,520
Non-current			
Contract retentions payable[∞]	**94**	137	78
Accruals	**11**	9	10
Due to joint ventures and associates	**10**	9	10
Trade and other payables[∞]	**4**	4	4
Due on acquisitions	**3**	6	6
	122	165	108
Total trade and other payables	**1,700**	1,630	1,628

[∞] Re-presented to show Contract retentions payable separately from Trade and other payables.

15 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
At 1 January 2019 audited	28	128	156
Income recognised in the income statement			
– interest income (Note 6)	1	3	4
Gains recognised in the statement of comprehensive income			
– fair value movements	–	3	3
Other movements			
– cash expenditure	1	–	1
– cash received	(2)	(6)	(8)
At 28 June 2019 unaudited	28	128	156
Income recognised in the income statement			
– interest income (Note 6)	1	4	5
Other movements			
– cash expenditure	1	1	2
– cash received	(3)	(5)	(8)
At 31 December 2019 audited	27	128	155
Income recognised in the income statement			
– interest income (Note 6)	**–**	**4**	**4**
Gains recognised in the statement of comprehensive income			
– fair value movements	**–**	**7**	**7**
Other movements			
– cash expenditure	**1**	**–**	**1**
– cash received	**(2)**	**(6)**	**(8)**
At 26 June 2020 unaudited	**26**	**133**	**159**

16 Retirement benefit assets and liabilities

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes		**2020 first half unaudited %**	2019 first half unaudited %	2019 year audited %
Discount rate on obligations		**1.65**	2.20	1.95
Inflation rate	– RPI	**2.85**	3.20	2.95
	– CPI*	**2.00**	2.20	2.10
Future increases in pensionable salary		**2.00**	2.20	2.10
Rate of increases in pensions in payment (or such other rate as is guaranteed)^		**2.75**	2.95	2.80

* Actuarial assumption applied to the Railways Pension Scheme was 2.10% (2019: first half 2.20%; full-year 2.20%).

^ Actuarial assumption applied to the Railways Pension Scheme was 2.25% (2019: first half 2.30%; full-year 2.30%).

During the period, following independent advice from its actuaries, the Group made some technical changes to its sourcing of data from which to set the discount rate. In particular, as a result of changes in bond classification system at Bloomberg (the source for data on the bond universes), the Group has amended its approach to establishing the corporate bond universe underlying the corporate bond yield curve. This change has resulted in an increase to the discount rate of 0.2% which led to an actuarial gain of £125m being recognised within the Statement of Comprehensive Income.

Analysis of net assets in the Balance Sheet	**2020 first half unaudited £m**	2019 first half unaudited £m	2019 year audited £m
Balfour Beatty Pension Fund	**454**	153	249
Railways Pension Scheme	**(75)**	(83)	(66)
Other schemes*	**(53)**	(48)	(50)
	326	22	133

* Other schemes include the Group's deferred compensation obligations for which investments in mutual funds of £22m (2019: first half £22m, full-year £22m) are held by the Group to satisfy these obligations.

Amounts recognised in the Balance Sheet	**2020 first half unaudited £m**	2019 first half unaudited £m	2019 year audited £m
Present value of obligations	**(4,070)**	(4,074)	(3,959)
Fair value of plan assets	**4,396**	4,096	4,092
Net assets in the Balance Sheet+	**326**	22	133

+ This amount represents the aggregate of the retirement benefit assets of £454m (2019: first half £153m; full-year £249m) and the retirement benefit liabilities of £128m at 26 June 2020 (2019: first half £131m; full-year £116m). These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position.

16 Retirement benefit assets and liabilities continued

Movements in the retirement benefit net assets for the period		2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
At beginning of period		**133**	54	54
Currency translation differences		**(3)**	–	2
Current service cost		**(2)**	(2)	(4)
Interest cost		**(38)**	(51)	(102)
Interest income		**39**	52	104
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**–**	–	(35)
	– on obligations from changes to other financial assumptions	**(279)**	(371)	(413)
	– on obligations from changes in demographic assumptions	**(7)**	–	215
	– on obligations from changes in discount rate data source	**125**	–	–
	– on obligations from experience gains/(losses)	**1**	2	(53)
	– on assets	**346**	320	329
Contributions from employer	– regular funding	**2**	1	3
	– ongoing deficit funding	**6**	15	30
Administrative expenses		**–**	–	(1)
Benefits paid		**3**	2	4
At end of period+		**326**	22	133

+ This amount represents the aggregate of the retirement benefit assets of £454m (2019: first half £153m; full-year £249m) and the retirement benefit liabilities of £128m at 26 June 2020 (2019: first half £131m; full-year £116m). These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position.

In the first half of 2020, the Group recorded net actuarial gains on its retirement benefit schemes of £186m (2019: first half £49m net losses; full-year £43m net gains) primarily driven by higher than expected returns on assets, offset partly by a decrease in the discount rate.

The investment strategy of the Balfour Beatty Pension Fund and the sensitivity of the Group's retirement benefit obligations and assets to different actuarial assumptions are set out in Note 30 on pages 194 and 199, respectively, of the Annual Report and Accounts 2019.

17 Share capital

During the half-year ended 26 June 2020 nil (2019: first half nil; full-year 0.9m) ordinary shares were purchased for £nil (2019: first half £nil; full-year £2.0m) by the Group's employee discretionary trust to satisfy awards under the Performance Share Plan, the Deferred Bonus Plan and the Restricted Share Plan.

18 Notes to the statement of cash flows

18.1 Cash from operations

	Underlying items 2020 first half unaudited[1] £m	Non-underlying items 2020 first half unaudited £m	Total 2020 first half unaudited £m	Total 2019 first half unaudited £m	Total 2019 year audited £m
(Loss)/profit from operations	**(14)**	**(2)**	**(16)**	71	159
Share of results of joint ventures and associates	**(14)**	**–**	**(14)**	(30)	(66)
Depreciation of property, plant and equipment	**15**	**–**	**15**	23	28
Depreciation of right-of-use assets	**26**	**–**	**26**	21	45
Depreciation of investment properties	**1**	**–**	**1**	1	1
Amortisation of other intangible assets	**7**	**2**	**9**	8	17
Impairment of goodwill	**–**	**–**	**–**	–	58
Impairment of property, plant & equipment	**–**	**–**	**–**	–	8
Pension payments including deficit funding	**(8)**	**–**	**(8)**	(16)	(33)
Movements relating to equity-settled share-based payments	**4**	**–**	**4**	4	10
Gain on disposal of infrastructure investments	**–**	**–**	**–**	(3)	(40)
Profit on disposal of property, plant and equipment	**(3)**	**–**	**(3)**	(1)	(6)
Other non-cash items	**–**	**–**	**–**	–	(1)
Operating cash flows before movements in working capital	**14**	**–**	**14**	78	180
Decrease in operating working capital			**74**	11	32
Inventories			**(1)**	(10)	(18)
Contract assets			**100**	(50)	(19)
Trade and other receivables			**(53)**	(37)	(56)
Contract liabilities			**1**	14	(11)
Trade and other payables			**6**	98	157
Provisions			**21**	(4)	(21)
Cash from operations			**88**	89	212

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

18.2 Cash and cash equivalents

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Cash and deposits	**520**	546	589
Term deposits	**253**	134	154
Cash balances within infrastructure investments	**24**	50	35
	797	730	778

18.3 Analysis of net cash/(borrowings)

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Cash and cash equivalents (excluding infrastructure investments)	**773**	680	743
US private placement	**(210)**	(239)	(231)
Other loans	**–**	(16)	–
Net cash excluding infrastructure investments	**563**	425	512
Non-recourse infrastructure investments project finance loans at amortised cost with final maturity between 2020 and 2072	**(338)**	(380)	(337)
Infrastructure investments cash and cash equivalents	**24**	50	35
	(314)	(330)	(302)
Net cash	**249**	95	210

18 Notes to the statement of cash flows continued

18.4 Analysis of movements in borrowings	Infrastructure investments non-recourse project finance £m	US private placement £m	Other £m	Total £m
At 1 January 2019 audited	(379)	(239)	(15)	(633)
Currency translation differences	–	8	–	8
Proceeds from new loans	(6)	–	–	(6)
Repayments of loans	48	–	15	63
At 31 December 2019 audited	(337)	(231)	–	(568)
Currency translation differences	**–**	**(15)**	**–**	**(15)**
Proceeds from new loans	**(3)**	**–**	**–**	**(3)**
Repayments of loans	**2**	**36**	**–**	**38**
At 26 June 2020 unaudited	**(338)**	**(210)**	**–**	**(548)**

On 5 March 2020, the Group repaid the second tranche of its US private placement notes amounting to US$46m (£36m). US$259m remain outstanding, with the next tranche of US$209m being due in March 2023 and the final tranche of US$50m being due in March 2025.

The Group has a £375m committed revolving credit facility which expires in October 2022. Two one-year extension options through to October 2024 are available to the Group, subject to lenders' approval. This facility was undrawn at 26 June 2020.

19 Acquisitions and disposals

There were no acquisitions or disposals made in the first half of 2020.

20 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £168m (2019: first half £153m, full-year £334m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 13 and 14 respectively.

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

	2020 first half unaudited £m	2019 first half unaudited £m	2019 year audited £m
Anglian Water Group Ltd+			
Sale of goods and services	**5**	9	19
Amounts owed by related parties	**–**	–	–
URENCO Ltd			
Sale of goods and services	**–**	2	2
Amounts owed by related parties	**–**	–	–

+ Anglian Water Group Ltd ceased to be a related party of the Group on 31 March 2020 following the retirement of Stephen Billingham as Chairman from the Board of Anglian Water. The sales of goods and services to Anglian Water Group Ltd represents the sales carried out in the half-year up until his retirement.

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

21 Financial instruments

Fair value estimation

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

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

Financial instruments at fair value	**2020 first half unaudited £m**	2019 first half unaudited £m	2019 year audited £m
Financial assets			
Level 1			
Investments in mutual fund financial assets	**22**	22	22
Level 2			
Financial assets – foreign currency contracts	**–**	1	–
Level 3			
PPP financial assets (Note 15)	**159**	156	155
Total assets measured at fair value	**181**	179	177
Financial liabilities			
Level 2			
Financial liabilities – infrastructure investments interest rate swaps	**(38)**	(33)	(32)
Total liabilities measured at fair value	**(38)**	(33)	(32)

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

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

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

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

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

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

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

21 Financial instruments continued

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis points increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £6m decrease (2019: first half £6m; full-year £6m) / £7m increase (2019: first half £7m; full-year £7m) in the fair value of the assets taken through equity. Refer to Note 15 for a reconciliation of the movement from the opening balance to the closing balance.

22 Principal risks and uncertainties

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

Apart from the ongoing risk of COVID-19 which was reported as an emerging risk in the Group's Annual Report and Accounts 2019, the Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of that report.

The full impact of COVID-19 is yet to be determined but the Board remains confident Balfour Beatty will continue as a market leader and return to profitable managed growth. Having successfully managed the Group's liquidity, the focus for leadership now turns to improving productivity. The easing of lockdown across the geographies in which Balfour Beatty operates means that around 95% of the Group's sites were open at the end of June. The challenge is now to return sites to pre COVID-19 productivity as soon as possible. This has largely been achieved at Gammon, noting that Hong Kong was impacted before other geographies and has previous experience of handling the impacts of pandemics. In the UK and the US, the Group is working with its employees, supply chain partners and customers to ensure disruption caused by COVID-19 is minimised while the evolving social distancing rules are applied.

23 Contingent liabilities

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

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

In June 2019, allegations about the handling of certain work orders were publicised on bases managed by the Group's subsidiary, Balfour Beatty Communities (BBC) in North America. The Group instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct an investigation into the allegations, and BBC proactively contacted the Department of Justice (DoJ) to notify them of the review. The DoJ subsequently commenced an investigation and BBC is co-operating fully. At this stage, the investigation is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum. Depending on the outcome of the investigation, this may result in possible fines and/or repayment of a portion of historical incentive fees.

24 Events after the reporting date

On 1 July 2020, the Group redeemed its preference shares in full for £112m.

There were no other material post balance sheet events between the balance sheet date and 11 August 2020, the date of this report.