Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE HALF YEAR ENDED 2 JULY 2021

18 August 2021

Re-iterating 2021 outlook; interim dividend up 43% compared to 2019

- **Financial and operational performance**
  - Underlying profit from operations (PFO) at £60 million (2020: £14 million loss)
  - Strong Support Services performance also benefited from end of contract gains and exit from gas and water sector
  - Construction Services negatively impacted by private sector property projects in central London
  - Re-commenced Infrastructure Investments disposals; Directors' valuation maintained at £1.1 billion (FY 2020: £1.1 billion)
  - Continued strong cash performance with average net cash at £611 million (FY 2020: £527 million)
- **Growing infrastructure markets**
  - Group order book at £16.1 billion (FY 2020: £16.4bn); weighted to infrastructure; 80% with public sector & regulated clients
  - UK Construction order book at £6.2 billion driven by infrastructure projects; 90% with public sector & regulated clients
- **Sustainability**
  - Building on its beyond net zero carbon by 2040 ambition, Group is now a signatory to the UN Race to Zero campaign
- **Shareholder returns**
  - Purchased £99 million of £150 million 2021 share buyback programme in the first half of the year
  - Interim dividend at 3.0 pence, 43% higher than pre-pandemic level (2020: Nil; 2019: 2.1 pence)
- **Outlook**
  - Re-iterating 2021 PFO outlook for earnings-based businesses to be in line with 2019
  - Support Services margin target range raised from 3-5% to 6-8%; increased Group expectations for 2022

(£ million unless otherwise specified)	HY 2021		HY 2020	
	Underlying[2]	Total	Underlying[2]	Total
Revenue[1]	4,154	4,154	4,115	4,118
Profit / (loss) from operations	60	40	(14)	(16)
Pre-tax profit / (loss)	55	35	(24)	(26)
Profit / (loss) for the period	51	52	(18)	20
Basic earnings / (loss) per share	7.7p	7.8p	(2.5)p	3.0p
Dividends per share		3.0p		–

	HY 2021	FY 2020	HY 2020
Order book[1,2]	£16.1bn	£16.4bn	£17.5bn
Directors' valuation of Investments portfolio	£1.08bn	£1.09bn	£1.13bn
Net cash – recourse	625	581	563
Net cash – non-recourse[3]	(318)	(317)	(314)
Average net cash – recourse	611	527	507

Leo Quinn, Balfour Beatty Group Chief Executive, said: "We continue to reshape Balfour Beatty to play to its strengths. These include leading capability in markets where governments are committed to long-term infrastructure programmes. It means choosing to exclude regions and sectors which cannot provide profitable, low risk growth, in favour of those that can. Our priority is on executing our already strong order book which will drive attractive cash generation and returns.

"Today, we are substantially increasing our interim dividend on the pre-pandemic level and raising margin targets in Support Services."

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

Investor and analyst enquiries:

Angus Barry

Tel. +44 (0)7966 281635

angus.barry@balfourbeatty.com

Media enquiries:

Antonia Walton

Tel. +44 (0)203 810 2345

antonia.walton@balfourbeatty.com

Investor and analyst presentation:

A presentation will be made by live webcast on: www.balfourbeatty.com/webcast at 09:00 on Wednesday 18 August. The webcast will be recorded and subsequently available at Results, reports and presentations - Investors - Balfour Beatty plc

2021 HALF YEAR RESULTS ANNOUNCEMENT

- **GROUP CHIEF EXECUTIVE'S OVERVIEW**
- **RESULTS OVERVIEW**
- **DIVISIONAL FINANCIAL REVIEWS**
- **MEASURING OUR FINANCIAL PERFORMANCE**

GROUP CHIEF EXECUTIVE'S OVERVIEW

Shareholder returns

In March, Balfour Beatty announced a new capital allocation framework based on its confidence in achieving profitable managed growth. This provides a balanced approach between the investment needs of the business, regular dividend payments and additional returns to shareholders. At that time, the Board re-introduced the dividend at a targeted pay-out ratio of 40% of underlying profit after tax (excluding gains from investment disposals). The Board has declared a 3.0 pence interim dividend for 2021, 43% higher than the corresponding pre-pandemic dividend for 2019 (2020: Nil; 2019: 2.1 pence).

Balfour Beatty's £150 million share buyback programme for 2021 is progressing well, with around £100 million completed in the first half of the year. The Group has also recommenced asset disposals from its Infrastructure Investments portfolio, selling its stake in the BC Children's and BC Women's hospitals in June and disposing of a bundle of UK PPP assets subsequent to the period end. In total, around £70 million has been received from these disposals. Both transactions were above the Directors' valuation, demonstrating the strength of the secondary market for infrastructure assets and reinforcing the Group's confidence in its capacity to deliver attractive shareholder returns.

In 2021, PFO from the earnings-based businesses (Construction Services and Support Services) is expected to be in line with 2019. Last year, the pandemic had a material impact on Construction Services whilst Support Services was relatively unaffected. This trend has continued into 2021, with outperformance at Support Services offsetting underperformance in Construction Services. Whilst profitability at US Construction and Gammon returned to pre-pandemic 2019 levels, UK Construction was negatively impacted by a small number of private sector property projects in central London. Looking ahead, the Group is increasing its margin target range for Support Services from 3-5% to 6-8% which represents an increase to Group expectations for 2022.

Financial summary

Balfour Beatty continues to progressively recover from the pandemic, with the Group reporting a significant recovery in profitability. For the first half of the year, underlying profit from operations (PFO) was £60 million (2020: £14 million loss) broadly in line with the first half of 2019 (£63 million), underpinning the Board's confidence in its expectation that full year 2021 PFO for the earnings-based businesses will be in line with 2019 (£172 million).

Both average net cash and period end net cash increased in the half year, even after an outflow of c. £100 million used to buy back Balfour Beatty shares. Both average net cash at £611 million (FY 2020: £527 million) and half year net cash at £625 million (FY 2020: £581 million) demonstrate the strength of Balfour Beatty's focus on cash management, providing balance sheet strength to make the right decisions for the Group.

At the half year, Balfour Beatty's order book was £16.1 billion (FY 2020: £16.4 billion), broadly flat at constant exchange rates (CER). The outlook for the Group's core infrastructure markets remains strong, with Balfour Beatty well positioned to deliver its profitable managed growth strategy through selective bidding.

Operational update

Construction Services: Balfour Beatty's market-leading position in the UK infrastructure market is built on its unmatched scale and capability for delivering major projects, and increasingly this is its principal focus. During the period, over 90% of UK Construction revenue was from public sector and regulated industry clients (2020: 80%). HS2 Area North has recently agreed the Programme of Best Fit with the client and the Old Oak Common site was visited by the Secretary of State for Transport in June to signal the start of permanent works. At Hinkley Point C, the Group has cast its last nuclear grade reinforced concrete segment. Since production began in 2019, over 38,000 segments have been produced to the highest nuclear specification. The factory in Avonmouth will now be reconfigured to produce concrete segments for the HS2 Bromford tunnels. At Crossrail, Woolwich Station has been handed over and Whitechapel Station is scheduled for handover in the coming weeks, which will mark substantive completion of the Group's involvement in the capital phase of the programme.

Performance issues at a small number of private sector property projects in central London have been exacerbated by COVID-19 disruptions, leading to a lengthening of project schedules. This situation has necessitated a reassessment of those contract end forecast positions, triggering write-downs. Balfour Beatty will no longer bid for fixed price residential property projects in central London.

Profitability at US Construction in the period was materially higher than in 2020 and also above pre-pandemic levels from 2019. The current phase of the Microsoft Redmond Campus in Washington and the IH-635 highway project in Texas are examples of the underlying operations performing well in the Group's chosen growth markets. With tendering activity returning to pre-pandemic levels, the focus is on continuing to win quality work and the Group recently won another significant school project in Southern California.

At Gammon, Balfour Beatty's 50:50 joint venture with Jardine Matheson based in Hong Kong, project execution and work winning continue to be positive, following contract awards at Hong Kong Airport in prior periods. Having recently completed the M+ museum project in West Kowloon, the period end order book continued to increase with Gammon being awarded three significant contracts in the half year: an office tower on Hong Kong Island; four new residential towers in Kowloon; and three further residential towers in Tseung Kwan O New Town.

Across the Group's construction markets, there has been continued disruption to project schedules caused by longer lead times for product deliveries and price inflation where materials are in scarce supply. Whilst not immune to this, Balfour Beatty is currently mitigating these risks through contractual protection and early buyout using the Group's scale and supply chain management.

Support Services: Following the strategic repositioning of Support Services (power, road and rail maintenance), it is now characterised by profitable recurring revenues underpinned by long-term contracts. The significant outperformance in the first half of the year is a result of improved performance across the portfolio, coupled with end of contract gains and the Group's strategic exit from the gas and water sector.

The power and rail maintenance businesses continue to perform strongly and together have successfully completed testing at the Eleclink project, providing a 1,000MW electricity interconnector between France and England through the Channel Tunnel. Despite delays caused by regulatory approvals, the project recognised a significant completion bonus and represents an outstanding example of Balfour Beatty's successful delivery of complex infrastructure for its clients. Given Support Services' robust order book and positive market outlook, the Group is upgrading its margin target range from 3-5% to 6-8%.

Infrastructure Investments: At half year, the Directors' valuation of the Investments portfolio was £1.1 billion, consistent with prior periods. The Group continues to invest in attractive new opportunities, each expected to meet its investment hurdle rates. Financial close was achieved at the Vanderbilt University student accommodation project in April, and the Group is preferred bidder at the University of Massachusetts, Amherst and the Royal Holloway student accommodation project.

In June, the Group recommenced asset disposals with the sale of its stake in the BC Children's and BC Women's hospitals located in Vancouver, Canada, for £20 million. Subsequent to the half year, Balfour Beatty sold its interests in a bundle of UK PPP assets for £48 million. Both transactions were above the Directors' valuation, demonstrating the strength of the secondary market for infrastructure assets.

The investigation by the US Department of Justice (DoJ) into the handling of certain work orders by Balfour Beatty Communities at a number of US military bases remains ongoing. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ. The Group's external resolution counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

Infrastructure markets

As a key lever of economic growth, the construction and infrastructure industry is central to a sustainable recovery in the Group's core markets. New, low carbon infrastructure (HS2, wind power, energy efficient buildings, carbon capture, new nuclear, rail electrification) will play a leading role in stimulating growth. From the ten-point Green Industrial Revolution launched by the UK Prime Minister, to President Biden's proposed Clean Energy Plan, governments are investing to ensure economies come back stronger from the pandemic in a more sustainable manner.

In November 2020, the UK Government released details of its five-year plan, the National Infrastructure Strategy (NIS), to invest in digital, transport and energy to drive economic recovery, level up and meet the UK's net zero emissions target by 2050. The £640 billion of funding announced for developments in roads, railways, power networks, schools, hospitals and telecommunications represents an increase of around £100 billion compared to previously announced plans.

In the US, the proposed US$1 trillion bipartisan Infrastructure Investment and Jobs Act includes additional funding to upgrade roads, bridges, public transport and energy projects over the next five years. This represents an increase of around US$550 billion compared to previously announced plans. This investment is positive for the infrastructure sector in combination with a growing P3 market in which Balfour Beatty combines the expertise of its Construction and Investments businesses.

Gammon has an approximate 10% share of the Hong Kong market, which has historically benefited from significant public sector investment. The social and economic infrastructure outlook for Hong Kong is positive following the government's announced ambition in its February 2021 budget to increase spend materially over the medium term. Major expansions of Hong Kong Airport and the MTR subway system have commenced and are expected to continue in the coming years, whilst social infrastructure programmes to develop hospitals and housing are also well underway.

In Support Services, the markets for power, road and rail maintenance are all positive. In power, the proposed RIIO-2 spend period (2021-2026) includes £30 billion for investment in energy networks and potential for a further £10 billion on green energy projects. The highways maintenance market is forecast to see significant investment with the announcement of an additional £2.5 billion in funding, increasing local council budgets by 45% over the next five years. In addition, over £700 million of outsourced contracts are up for renewal between 2021 and 2025. The rail maintenance market also has a positive trajectory with an additional £10 billion of funding for renewals as part of Network Rail's current CP6 control period (2019-2024).

Balfour Beatty's competitive expertise to finance, develop, build and maintain infrastructure puts the Group in a strong position to capitalise on new investment opportunities; notably in US P3 projects and student accommodation. The demand for infrastructure assets from the secondary market continues to exceed supply and having re-commenced disposals Balfour Beatty will selectively sell assets to maximise value from its portfolio.

Overall, Balfour Beatty is positive on the outlook for the Group's chosen markets. The picture in the US is improving, with progress towards the bipartisan infrastructure deal; whilst in the UK, Project Speed has accelerated some road projects but is yet to fulfil its potential. The Group starts from a position of strength given its order book, so it is critical that Balfour Beatty continues to deliver on its strategy for continuous improvement in the core Build to Last values that have shaped its transformation. The Group will continue to bid where it can win work on the right terms and conditions, with appropriate margin targets and ensuring risk is adequately priced.

Build to Last

The Group's Build to Last strategy has created a self-help culture based on five core values: Lean, Expert, Trusted, Safe and Sustainable. The Group's progress is measured using cash flow and profit from operations, employee engagement, customer satisfaction, Zero Harm and CO_2 emissions, respectively.

Lean: The disciplines learnt during the Build to Last transformation have served the Group well in maintaining efficient operations during the pandemic. In the first half of the year, the business continued its drive to improve efficiency, reduce cost and upgrade the capability of performance across the organisation. Underlying net operating expenses reduced further to £105 million (2020: £117 million) – a reduction of more than 55% since the start of Build to Last (2014: £242 million, adjusted for foreign exchange movements).

The Group's successful focus on cash generation is evidenced by average net cash for the half year at £611 million (FY 2020: £527 million). As a key part of its strategy to create value by achieving market leadership, the Group has invested over £650 million since 2015 in equity assets (Infrastructure Investments), capex (IT, plant and fleet) and capability (training and development). These disciplines in cash management and cost efficiencies have been fundamental to the Group's financial transformation. Maintenance of a strong and efficient balance sheet forms part of Balfour Beatty's capital allocation framework.

Expert: Customers buy Balfour Beatty's services due to the expert capabilities of the Group and its employees. The key metric for Expert is employee engagement. No survey was held in the first half of the year, but in direct response to the Group's 2020 employee engagement survey, where the second lowest score was employees not feeling able to give back to the community or a charity, in May Balfour Beatty announced it will match employees' fundraising efforts pound for pound for its three UK corporate charity partners: Project RECCE; The Prince's Trust; and Groundwork. Balfour Beatty also reinvigorated its volunteering policy which allows two paid volunteering days each year. The benefits of this approach for Balfour Beatty include proof of added social value for its work winning teams and a direct contribution to its Sustainability Strategy's 2040 ambition to positively impact more than one million people.

In January 2021, the UK Government's Build Back Better Business Council was created. The Council, which brings together 30 business leaders from across the British economy, meets quarterly with three meetings held so far. As the key representative from the construction and infrastructure sector, Leo Quinn has engaged with others across the sector, including design partners, supply chain partners and other Tier 1 contractors in a series of focused sessions. Key themes have been distilled from these meetings, including: the need for pipeline certainty; planning system reform; action to address the skills gap; and the importance of a genuinely collaborative approach to deliver net zero.

Trusted: Balfour Beatty is trusted to "do what we say we will do" and is measured on this metric by customer satisfaction. In the half year, around 500 customer satisfaction reviews were carried out with the Group's customer satisfaction score at 96% (FY 2020: 95%). The Group continues to focus on active risk management, underpinning strict adherence to its Build to Last values with investment in IT-based processes and controls. These include the Gated Business 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, along with key tools for managing commercial risk and project execution.

During the period, Balfour Beatty has been awarded a number of material contracts across its chosen geographies including:

- Hinkley Point C offshore works: Next phase of contract relating to a pair of underwater tunnels to supply the nuclear power station with cooling water and a third tunnel to discharge heated water back into the Bristol Channel;
- Oxnard High School: Construction of a new high school campus for the Oxnard Union High School District, California; and
- Lohas Park: Contract to construct three residential towers atop a five-level podium, as well as four link bridges, at Lohas Park in Tseung Kwan O New Town, Hong Kong.

Safe: Construction is an inherently dangerous industry. It is therefore essential that the safety, health and wellbeing of everyone who comes into contact with Balfour Beatty is the top priority. However, vigilance can never be relaxed. In July a colleague working in the Group's US joint venture operations lost his life. An investigation is underway and safety leaders will make sure that all learnings are shared and implemented quickly across Balfour Beatty. In remembering those lost, the Group will continue to strive for Zero Harm across all of Balfour Beatty's operations.

The Group's lost time injury rate (excluding international joint ventures) increased to 0.12 in the half year (FY 2020: 0.10). This upturn reflects a wider industry trend believed to be related to pandemic fatigue and skills shortages. Leading indicators continue to trend positively through increased health and safety observations. The Group's safety focus remains on its four Golden Rules (Be fit for work; Always receive a briefing before starting work; Report all unsafe events and conditions; and Stop work if anything changes).

Sustainable: In December 2020, Balfour Beatty introduced Sustainable as a fifth Build to Last value and launched the Group's new Sustainability Strategy, Building New Futures. The focus has continued in 2021 with the launch of a UK addendum to the Group strategy, which supports work winning teams by demonstrating Balfour Beatty's strong ESG credentials. Since the introduction of

PPN 06/20 last year, every UK Government contract is required to have a minimum 10% weighting in social value for each procurement decision.

As part of its Sustainability Strategy, Balfour Beatty committed to formally setting a science-based target for 2030. Whilst the Group is developing its science-based target, it has signed up to the United Nations Race To Zero campaign to build momentum around the shift to a decarbonised economy ahead of COP26. This requires the Group to set a net zero target in line with a 1.5°C future to hold off some of the worst climate impacts. For Balfour Beatty, this means halving emissions by 2030 (relative to 2020) and achieving Beyond Net Zero by 2040.

Balfour Beatty is currently rated AA by MSCI and medium risk by Sustainalytics. In addition, the Group was recently included on the Financial Times listing of Europe's Climate Leaders 2021 that details corporate progress in fighting climate change and lists the 300 companies which achieved the greatest reduction in their greenhouse gas (GHG) emissions intensity between 2014 and 2019. The key metric for Sustainable is reducing CO_2 emissions, with the Group producing audited figures on an annual basis.

My Contribution is Balfour Beatty's engagement programme for employee led business improvement. The recent four week My Contribution sustainability campaign generated more than 750 ideas to support local delivery of the Group's sustainability targets and ambitions. All ideas are now being reviewed for implementation.

Board of Directors

On 13 May 2021 Charles Allen, Lord Allen of Kensington, CBE, joined the Board as a Non-Executive Director. On 20 July 2021 he was appointed as Chair of Balfour Beatty, succeeding Philip Aiken, AM. On 31 July 2021, Philip stepped down from the Board.

Lord Allen has extensive corporate experience across a range of sectors, most notably in support services and media. His previous positions include Chair of ISS AS, Executive Chair of EMI Music, Chief Executive of ITV plc, Chief Executive of Compass Group and Chief Advisor to the UK Home Office. He sits in the House of Lords and currently holds positions as Advisory Chairman, Moelis & Company and Chairman of Global Media & Entertainment.

Outlook

The need to stimulate economic recovery from the pandemic, coupled with political changes in the US and UK, have accelerated those Governments' spending programmes on infrastructure and sustainability. Today, Balfour Beatty is well positioned to capitalise on these changes to grow profitably in its chosen markets.

The Board is re-iterating its expectation that the Group's earnings-based businesses will deliver PFO for 2021 in line with 2019 and has declared an interim dividend 43% above the corresponding pre-pandemic dividend for 2019. In addition, the Group is raising its Support Services margin target range from 3-5% to 6-8% which represents an increase in Group expectations for 2022. The ongoing share buyback programme demonstrates that the Group has the capacity to deliver attractive shareholder returns through its multi-year capital allocation framework.

RESULTS OVERVIEW

Unless otherwise stated, all commentary in this section and the Divisional financial 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

The Group's results in the first half of the year show a return to profitability as it continues to recover from the pandemic. Underlying revenue was up 1% (7% at CER) at £4,154 million (2020: £4,115 million) as operations continued to normalise. Statutory revenue, which excludes joint ventures and associates, was £3,611 million (2020: £3,515 million).

Construction Services underlying revenue was down 1% (up 6% at CER) at £3,336 million (2020: £3,365 million) as higher volumes at UK Construction were offset by lower volumes at US Construction and Gammon. Support Services revenue increased by 17% to £555 million (2020: £476 million) as a result of higher volumes at power, road maintenance and rail maintenance.

Underlying profit / (loss) from operations[2]	HY 2021 £m	HY 2020 £m
UK Construction	(23)	(23)
US Construction	20	6
Gammon	9	6
Construction Services	6	(11)
Support Services	54	10
Earnings-based businesses	60	(1)
Infrastructure Investments pre-disposals operating profit	8	3
Infrastructure Investments gain on disposals	7	–
Corporate activities	(15)	(16)
Total	60	(14)

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

In the first half of the year, the Group returned to profit with strong performance at Support Services offsetting underperformance at Construction Services. At Infrastructure Investments the decision to recommence disposals from the Investments portfolio increased underlying profit. In total, after including corporate costs, Balfour Beatty reported underlying profit from operations of £60 million (2020: £14 million loss). Statutory profit from operations was £40 million (2020: £16 million loss).

Net finance costs decreased to £5 million (2020: £10 million) as a result of lower interest costs following Balfour Beatty's full redemption of its preference shares for £112 million in July 2020. Underlying pre-tax profit was £55 million (2020: £24 million loss). The taxation charge on underlying profits at £4 million (2020: £6 million credit), led to an underlying profit after tax of £51 million (2020: £18 million loss). Total statutory profit after tax for the period was £52 million (2020: £20 million), as a result of the net effect of non-underlying items.

The underlying basic earnings per share was 7.7 pence (2020: 2.5 pence loss), which, along with a non-underlying gain per share of 0.1 pence per share (2020: 5.5 pence gain), gave a total basic earnings per share of 7.8 pence (2020: 3.0 pence).

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 credit of £1 million for the half year (2020: £38 million net credit). This includes a £19 million charge for amounts received under the UK Job Retention Scheme in 2020, which were repaid in the half year following the Board's decision to refund the full amount in 2021. In addition, there is a £15 million credit to revalue previous deferred tax assets recognised through non-underlying items due to a tax rate change enacted in the UK during 2021.

Cash flow performance

The total cash movement in the half year resulted in a £44 million increase (2020: £51 million) in the Group's period end net cash position to £625 million (FY 2020: £581 million), excluding non-recourse net borrowings. The strong performance was driven by operating cash flows in line with underlying profit from operations and significant working capital inflows, partially offset by the share buybacks and lease payments.

Cash flow performance	HY 2021 £m	HY 2020 £m
Operating cash flows	64	22
Working capital inflow	123	74
Pension deficit payments+	(29)	(8)
Cash from operations	158	88
Lease payments (including interest paid)	(32)	(29)
Dividends from joint ventures and associates	12	13
Capital expenditure	(16)	(17)
Share buybacks	(97)	–
Infrastructure Investments		
- disposal proceeds	20	–
- new investments	(8)	(21)
Other	7	17
Net cash movement	44	51
Opening net cash*	581	512
Closing net cash*	625	563

* Excluding infrastructure investments (non-recourse) net borrowings

+ Including £1 million (2020: £2 million) of regular funding

Working capital

In the period, the Group's working capital position resulted in an inflow of £123 million (2020: £74 million).

Working capital flows^	HY 2021 £m	HY 2020 £m
Inventories	11	(1)
Net contract assets	113	101
Trade and other receivables	6	(53)
Trade and other payables	(5)	6
Provisions	(2)	21
Working capital inflow^	123	74

^ Excluding impact of foreign exchange and disposals

The strong performance was underpinned by movements in net contract assets where mobilisation and milestone payments from highways projects in US Construction plus collections from the gas and water business following exit from this sector led to inflows. Within Trade and other payables, a circa £60 million benefit to the Group following the introduction of the UK VAT domestic reverse charge for the construction sector, which largely outflowed in July, was offset by a reduction in trade creditors.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £1,023 million (FY 2020: £887 million). Taking into account the impact of the UK domestic reverse charge, the Group expects negative working capital as a percentage of revenue to be between 11-13% in the medium term (HY 2021: 14.2%) with the range dependent on contract mix and the timing of project starts and completions.

Prompt Payment Code

In the first six months of 2021 the percentage of invoices paid within 60 days and the average time to pay invoices continued to improve.

	Percentage of invoices paid within 60 days	Average days to pay invoices
Jan – Jun 2020	89%	41
Jul – Dec 2020	91%	40
Jan – Jun 2021	92%	38

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 2021 improved substantially to £611 million (FY 2020: £527 million). The Group's net cash position at the half year, excluding non-recourse net borrowings, was £625 million (FY 2020: £581 million; HY 2020 £563 million).

Balfour Beatty commenced a share buyback programme on 5 January 2021. On 10 March 2021, it increased the initial share buyback programme to £150 million for 2021. In the half year, the Company purchased 33 million shares for a total consideration of £99 million. These shares are currently held in treasury with no voting rights.

Non-recourse net borrowings, held in Infrastructure Investments entities consolidated by the Group, were £318 million (FY 2020: £317 million; HY 2020: £314 million). The balance sheet also included £126 million for lease liabilities (FY 2020: £125 million; HY 2020: £119 million). Statutory net cash at half year was £181 million (FY 2020: £139 million; HY 2020: £18 million).

Banking facilities

The Group's £375 million committed bank facility extends to October 2023. 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 a further one-year extension option, 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

The Directors have considered 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.

Contingent liabilities

In 2013, the Group entered into a contract to construct a high-rise development in London which completed in early 2016. In June 2021, an initial structural expert assessment was received which indicated that the stone panels affixed to the façades will need to be modified, reinforced or replaced to meet performance requirements. The expert's assessment of the rectification methodology, which will determine the cost of the Group's obligation, is ongoing together with the Group's evaluation of any losses that could be incurred and any potential recovery options from third parties. At this stage, the Group is not able to estimate with sufficient reliability the cost of its obligation as any estimate is subject to a number of unknown factors including what the proposed rectification solution is, any associated planning consents, sequencing, timeline and the consequential disruption to the development. As such there is a wide range of potential outcomes in this specific case. Based on current information, the range of the contingent liability is uncertain and extremely wide but could be as much as £50 million. The Group will be pursuing all potential recoveries from third parties.

Pensions

In January 2020, the Group concluded negotiations with the trustees of the Balfour Beatty Pension Fund (BBPF) on the formal triennial funding valuation as at 31 March 2019. Under this agreement Balfour Beatty and the trustees re-confirmed their commitment to a journey plan approach to managing the BBPF with the Group agreeing to make total cash deficit contributions of £64 million from 2021 to 2023, whereby the BBPF is aiming to reach self-sufficiency by 2027. There is an agreed mechanism for accelerating the payment of these contributions if the earnings cover for shareholder returns (both dividends and other capital returns) falls below 2x. As a result of Balfour Beatty's share buyback programme and following discussions between the Group and the trustees, Balfour Beatty agreed to accelerate the above deficit contributions and also make additional deficit contributions of £2 million per month from July 2022 until the next triennial funding valuation at 31 March 2022 is completed or September 2023 at the latest. The Group will now make deficit contributions to the BBPF of £37 million in 2021 and £39 million in 2022 and is expected to make a deficit contribution of £18 million in 2023.

Following the formal triennial funding valuation of the Railways Pension Scheme (RPS) as at 31 December 2019, the Group agreed to continue to make deficit contributions of £6 million per annum which should reduce the funding deficit to zero by 2025.

The Group's balance sheet includes net retirement benefit assets of £166 million (FY 2020: £89 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 increase in the period is primarily due to changes in discount rate assumptions.

Dividend

The Board is committed to a sustainable ordinary dividend which is expected to grow over time. Following uncertainty caused by the pandemic, the dividend was re-introduced in March 2021 at a targeted pay-out ratio of 40% of underlying profit after tax excluding gain on disposal of Infrastructure Investments assets.

The Board has announced an interim dividend of 3.0 pence for 2021, 43% higher than the corresponding pre-pandemic dividend for 2019 (2020: Nil; 2019: 2.1 pence).

DIVISIONAL FINANCIAL REVIEWS

CONSTRUCTION SERVICES

Whilst underlying revenue at £3,336 million was down 1% (2020: £3,365 million), with higher volumes in UK Construction being offset by lower volumes at US Construction and Gammon, it represents a 6% increase at CER as operations continued to normalise post-pandemic. Underlying profit from operations increased to £6 million (2020: £11 million loss) as both US Construction and Gammon recorded PFO at pre-pandemic levels (HY 2019). The order book decreased by 1% in the half year to £13.5 billion (FY 2020: £13.7 billion), a 1% decrease at CER.

	HY 2021			HY 2020			FY 2020
Construction Services	Revenue[1]	PFO	Order book[1]	Revenue[1]	PFO	Order book[1]	Order book[1]
	£m	£m	£bn	£m	£m	£bn	£bn
UK	1,262	(23)	6.2	986	(23)	6.1	6.4
US	1,697	20	5.0	1,911	6	6.3	5.2
Gammon	377	9	2.3	468	6	2.1	2.1
Underlying[2]	3,336	6	13.5	3,365	(11)	14.5	13.7
Non-underlying	–	(14)	–	3	(1)	–	–
Total	3,336	(8)	13.5	3,368	(12)	14.5	13.7

[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

UK Construction: Revenue in the UK increased by 28% to £1,262 million (2020: £986 million) as a result of the growth in the order book in 2020 with higher volumes at HS2 and Hinkley Point C. During the period, over 90% of UK Construction revenue was from public sector and regulated industry clients (2020: 80%).

However, UK Construction recorded a £23 million underlying loss from operations in the half year (2020: £23 million loss). Issues at private sector property projects in central London have been exacerbated by COVID-19 disruptions, leading to a lengthening of project schedules. This situation has necessitated a reassessment of those contract end forecast positions, triggering write-downs on a small number of contracts. Balfour Beatty will no longer bid for fixed price residential property projects in central London.

The UK Construction order book, having more than doubled in 2020 from £3.0 billion at December 2019 to £6.4 billion at December 2020 following Notice to Proceed on HS2, was relatively flat in the first half of the year at £6.2 billion. At half year, 90% of the UK Construction order book was from public sector and regulated industry clients.

US Construction: Although revenue in the US decreased by 11% to £1,697 million (2020: £1,911 million), the reduction was only 3% at CER. US Construction recorded a £20 million underlying profit from operations in the period (2020: £6 million), above the pre-pandemic level (2019: £19 million).

The US Construction order book decreased 4% (2% at CER) to £5.0 billion (FY 2020: £5.2 billion) as a result of the slowdown in work winning during the pandemic. Tendering activity is now returning to pre-pandemic levels and, although nationwide forecasts show a relatively flat overall construction market, Balfour Beatty is positioned in regions that are expected to out-perform the national forecast as demographic trends continue to favour the Group's chosen states in the medium term. In addition, the bipartisan infrastructure deal is positive given that the proposed legislation includes additional funding for infrastructure.

Gammon: The Group's share of revenue decreased by 19% (12% at CER) to £377 million (2020: £468 million). At Gammon, the timing of projects is more variable around a small number of large contracts. Underlying profit increased to £9 million (2020: £6 million), directly in line with pre-pandemic levels (2019: £9 million). The impact of the pandemic in Hong Kong has been lower than in the other geographies in which the Group operates.

The Gammon order book increased by 10% (10% at CER) to £2.3 billion (FY 2020: £2.1 billion) following the award of three significant construction contracts in the period: an office tower on Hong Kong Island, four new residential towers in Kowloon and three further residential towers in Tseung Kwan O New Town. The social and economic infrastructure outlook for the geography is positive.

SUPPORT SERVICES

Following the strategic repositioning of Support Services (power, road and rail maintenance), it is now characterised by profitable recurring revenues underpinned by long-term contracts. The significant outperformance in the first half of the year is a result of improved performance across the portfolio, coupled with end of contract gains and the exit from the gas and water sector.

Support Services revenue increased by 17% to £555 million (2020: £476 million) as a result of higher volumes at power, road maintenance and rail maintenance, which more than offset the reduction in gas and water.

Underlying profit from operations increased materially to £54 million (2020: £10 million). In addition to the increased volume, PFO in the period benefited from the recognition of a significant completion bonus at the Eleclink project. After delays caused by regulatory approvals, the power and rail maintenance businesses have just completed testing at the project, providing a 1,000MW electricity interconnector from France and England through the Channel Tunnel. The Group's decision to withdraw from the gas and water sector, which had a negative impact on the prior year PFO, has also contributed to the increase in profit. In total, the one-off benefit during the half year is approximately £20 million. Support Services continues to deliver for its clients and has a robust order book and a positive market outlook. Therefore, the Group is upgrading its margin target range from 3-5% to 6-8%.

Support Services	HY 2021	HY 2020
Order book[1] (£bn)	2.6	3.0
Revenue[1] (£m)	555	476
Profit from operations[2] (£m)	54	10
Non-underlying items (£m)	(5)	–
Statutory profit from operations (£m)	49	10

[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

INFRASTRUCTURE INVESTMENTS

Underlying pre-disposals operating profit in the period increased to £8 million (2020: £3 million), broadly consistent with pre-pandemic profitability (2019: £9 million).

As a result of the market uncertainty generated by the pandemic, and the strong liquidity position of the Group, Balfour Beatty did not dispose of any Investments assets in 2020. In June, the Group recommenced asset disposals with the sale of its stake in the BC Children's and BC Women's hospitals in Vancouver, Canada, for £20 million, realising a gain on disposal of £7 million (2020: £nil). Underlying profit from operations was £15 million (2020: £3 million).

Subsequent to the half year, Balfour Beatty sold a bundle of UK assets for £48 million. The demand for infrastructure assets from the secondary market continues to exceed supply and Balfour Beatty will maximise shareholder value through selective disposal of assets from its portfolio.

Net interest income reduced to £nil million (2020: £7 million), primarily as a result of impairment of loans to joint ventures and associates, contributing to an underlying profit before tax of £15 million (2020: £10 million).

In June 2019, allegations about the handling of certain work orders were publicised about a number of military bases managed by Balfour Beatty Communities (BBC). Subsequently, the US Department of Justice (DoJ) commenced an investigation into the allegations of false claims. Balfour Beatty instructed BBC's outside counsel to conduct its own investigation, and BBC proactively contacted the DoJ to notify them of the review. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ.

The Group's external resolution counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

Infrastructure Investments	HY 2021 £m	HY 2020 £m
Pre-disposals operating profit[2]	8	3
Gain on disposals[2]	7	–
Profit from operations[2]	15	3
Net investment income[~]	–	7
Profit before tax[2]	15	10
Non-underlying items	(1)	(1)
Statutory profit before tax	14	9

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

[~] Subordinated debt interest receivable, net interest receivable on PPP financial assets and non-recourse borrowings, and impairment to subordinated debt receivable

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

Directors' valuation

The Directors' valuation was broadly in line at £1,079 million (FY 2020: £1,086 million) in the first half of the year with no significant change to the number of projects in the portfolio.

Movement in value: December 2020 to June 2021

£m	FY 2020	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Other	**HY 2021**
UK	514	1	(10)	–	18	(7)	**516**
North America	572	7	(22)	(20)	23	3	**563**
Total	1,086	8	(32)	(20)	41	(4)	**1,079**

The Group invested £8 million (2020: £21 million) in new and existing projects. Two new projects were added: a multifamily housing project in Houston, Texas and a student accommodation project at Vanderbilt University in Nashville, Tennessee. Balfour Beatty was also appointed preferred bidder at the University of Massachusetts, Amherst and the Royal Holloway student accommodation project in the UK. Balfour Beatty's competitive expertise to finance, develop, build and maintain infrastructure, puts the Group in a strong position to capitalise on new investment opportunities; notably in student accommodation and US P3 projects.

Cash yield from distributions amounted to £32 million (2020: £39 million). The continuing yield during the pandemic demonstrates the essential nature of the Infrastructure Investments portfolio. Unwind of discount at £41 million (2020: £41 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. Other, including operational performance and foreign exchange movements, was a £4 million decrease (2020: £34 million increase) as cash flows from UK projects were updated for higher corporation tax rate assumptions following the 2021 UK budget.

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 also 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. A full reconciliation is provided in section i) of the Measuring Our Financial Performance section.

Portfolio valuation June 2021

Value by sector

Sector	**HY 2021**	FY 2020	**HY 2021**	FY 2020
	No. projects	No. projects	**£m**	£m
Roads	**13**	13	**187**	188
Healthcare	**3**	3	**114**	114
Student accommodation	**4**	4	**92**	88
OFTOs	**3**	3	**41**	44
Waste and biomass	**2**	2	**48**	51
Other	**4**	4	**34**	29
UK total	**29**	29	**516**	514
US military housing	**21**	21	**445**	446
Healthcare and other PPP	**1**	2	**4**	21
Student accommodation	**4**	3	**55**	52
Residential housing	**13**	12	**59**	53
North America total	**39**	38	**563**	572
Total	**68**	67	**1,079**	1,086

Value by phase

Phase	**HY 2021**	FY 2020	**HY 2021**	FY 2020
	No. projects	No. projects	**£m**	£m
Operations	**65**	65	**1,026**	1,037
Construction	**3**	2	**53**	49
Total	**68**	67	**1,079**	1,086

Value by income type

Income type	**HY 2021**	FY 2020	**HY 2021**	FY 2020
	No. projects	No. projects	**£m**	£m
Availability based	**21**	22	**356**	371
Demand – operationally proven (2+ years)	**40**	39	**522**	519
Demand – early stage (less than 2 years)	**7**	6	**201**	196
Total	**68**	67	**1,079**	1,086

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 8.0% (FY 2020 8.0%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.3% (FY 2020: 8.4%). 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 £47 million. A 1% change in the discount rate would change the value of the North American portfolio by approximately £72 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 for use in the UK;
- 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	Philip Harrison
Group Chief Executive	Chief Financial Officer
17 August 2021	

Forward-looking statements

This report 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 report 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 94 to 101 of the Annual Report and Accounts 2020.

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 report 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 report. No statement in this report 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 report with the aim of providing transparency and clarity on the measures adopted internally to assess performance.

Throughout this report, 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 report in its entirety.

Performance measures used to assess the Group's operations

Underlying profit from operations (PFO)

Underlying PFO is presented before non-underlying items, finance costs and investment 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 and any impairment of subordinated debt receivables, which are included in the Group's income statement in finance costs.

Operating cash flow (OCF)

The Group uses an internally defined measure of OCF to measure the performance of its earnings-based businesses and subsequently to determine the amount of incentive awarded to employees in these businesses under the Group's Annual Incentive Plan (AIP). This measure also aligns to one of the vesting conditions attributable to the Group's PSP awards.

Measuring the Group's performance

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

Statutory measures

Statutory measures are derived from the Group's condensed financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 171 to 176 of the Annual Report and Accounts 2020.

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 2020. 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

		2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Order book (performance measure)		**16,095**	17,544	16,392
Less:	Share of orders included within the Group's joint ventures and associates	**(2,636)**	(2,529)	(2,443)
Less:	Estimated orders under framework agreements included in the order book disclosure	**(130)**	(149)	(367)
Add:	Transaction price allocated to remaining performance obligations in Infrastructure Investments	**1,681**	1,912	1,656
Transaction price allocated to remaining performance obligations for the Group (statutory measure)		**15,010**	16,778	15,238

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 2 July 2021 statutory results to performance measures

	2021 first half unaudited statutory results £m	Non-underlying items: Repayment of grant income in relation to UK Job Retention Scheme £m	Intangible amortisation £m	Release of PB accrual £m	UK deferred tax asset £m	2021 first half unaudited performance measures £m
Revenue including share of joint ventures and associates (performance)	**4,154**	–	–	–	–	**4,154**
Share of revenue of joint ventures and associates	**(543)**	–	–	–	–	**(543)**
Group revenue (statutory)	**3,611**	–	–	–	–	**3,611**
Cost of sales	**(3,471)**	–	–	–	–	**(3,471)**
Gross profit	**140**	–	–	–	–	**140**
Gain on disposals of interests in investments	**7**	–	–	–	–	**7**
Amortisation of acquired intangible assets	**(2)**	–	2	–	–	–
Other net operating expenses	**(123)**	19	–	(1)	–	**(105)**
Group operating profit	**22**	19	2	(1)	–	**42**
Share of results of joint ventures and associates	**18**	–	–	–	–	**18**
Profit from operations	**40**	19	2	(1)	–	**60**
Investment income	**22**	–	–	–	–	**22**
Finance costs	**(27)**	–	–	–	–	**(27)**
Profit before taxation	**35**	19	2	(1)	–	**55**
Taxation	**17**	(4)	–	–	(17)	**(4)**
Profit for the period	**52**	15	2	(1)	(17)	**51**

Reconciliation of the half-year ended 2 July 2021 statutory results to performance measures by segment

Profit/(loss) from operations	2021 first half unaudited statutory results £m	Non-underlying items: Repayment of grant income in relation to UK Job Retention Scheme £m	Intangible amortisation £m	Release of PB accrual £m	UK deferred tax asset £m	2021 first half unaudited performance measures £m
Segment						
Construction Services	**(8)**	13	1	–	–	**6**
Support Services	**49**	5	–	–	–	**54**
Infrastructure Investments	**14**	–	1	–	–	**15**
Corporate activities	**(15)**	1	–	(1)	–	**(15)**
Total	**40**	19	2	(1)	–	**60**

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**
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 year ended 31 December 2020 statutory results to performance measures

	2020 statutory results £m	Non-underlying items: Intangible amortisation £m	Grant income in relation to UK Job Retention Scheme £m	Provision release on blacklisting provisions £m	Loss on GMP equalisation £m	Results of Rail Germany £m	UK deferred tax asset £m	2020 performance measures £m
Revenue including share of joint ventures and associates (performance)	**8,593**	–	–	–	–	(6)	–	**8,587**
Share of revenue of joint ventures and associates	**(1,273)**	–	–	–	–	4	–	**(1,269)**
Group revenue (statutory)	**7,320**	–	–	–	–	(2)	–	**7,318**
Cost of sales	**(7,081)**	–	–	–	–	2	–	**(7,079)**
Gross profit	**239**	–	–	–	–	–	–	**239**
Amortisation of acquired intangible assets	**(6)**	6	–	–	–	–	–	**–**
Other net operating expenses	**(208)**	–	(19)	(2)	3	–	–	**(226)**
Group operating profit	**25**	6	(19)	(2)	3	–	–	**13**
Share of results of joint ventures and associates	**38**	–	–	–	–	–	–	**38**
Profit from operations	**63**	6	(19)	(2)	3	–	–	**51**
Investment income	**38**	–	–	–	–	–	–	**38**
Finance costs	**(53)**	–	–	–	–	–	–	**(53)**
Profit before taxation	**48**	6	(19)	(2)	3	–	–	**36**
Taxation	**(18)**	(2)	4	–	(1)	–	6	**(11)**
Profit for the year	**30**	4	(15)	(2)	2	–	6	**25**

Reconciliation of the year ended 31 December 2020 statutory results to performance measures by segment

Profit/(loss) from operations	2020 statutory results £m	Non-underlying items: Intangible amortisation £m	Grant income in relation to UK Job Retention Scheme £m	Provision release on blacklisting provisions £m	Loss on GMP equalisation £m	Results of Rail Germany £m	UK deferred tax asset £m	2020 performance measures £m
Segment								
Construction Services	**41**	1	(13)	(2)	2	–	–	**29**
Support Services	**50**	–	(5)	–	1	–	–	**46**
Infrastructure Investments	**3**	5	–	–	–	–	–	**8**
Corporate activities	**(31)**	–	(1)	–	–	–	–	**(32)**
Total	**63**	6	(19)	(2)	3	–	–	**51**

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:

		2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Underlying profit from operations (section (b) and Note 3)		**15**	3	8
Add:	Subordinated debt interest receivable^	**12**	9	25
Add:	Interest receivable on PPP financial assets^	**4**	4	8
Less:	Non-recourse borrowings finance cost^	**(7)**	(6)	(11)
Less:	Impairment of subordinated debt receivable^	**(9)**	–	(10)
Underlying profit before tax (performance)		**15**	10	20
Non-underlying items (section (b) and Note 3)		**(1)**	(1)	(5)
Statutory profit before tax		**14**	9	15

^ 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.

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Statutory basic earnings per ordinary share	**7.8**	3.0	4.4
Amortisation of acquired intangible assets net of tax	**0.3**	0.2	0.5
Other non-underlying items net of tax	**(0.4)**	(5.7)	(1.2)
Underlying basic earnings/(loss) per ordinary share (performance)	**7.7**	(2.5)	3.7

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, 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 (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

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Cash generated from operating activities (statutory)	**157**	87	274
Add back: Pension payments including deficit funding (Note 18)	**29**	8	18
Less: Repayment of lease liabilities (including lease interest payments)	**(32)**	(29)	(64)
Add: Operational dividends received from joint ventures and associates	**12**	13	50
Add back: Cash flow movements relating to non-operating items	**12**	3	5
Less: Operating cash flows relating to non-recourse activities	**(1)**	(1)	(3)
Operating cash flow (OCF) (performance)	**177**	81	280

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 (£29 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) (£32 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 (£12 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 (£12 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. These shares were redeemed in July 2020. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, lease liabilities recognised on the Group's balance sheet are deemed to be debt in nature under statutory measures.

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

Net cash/borrowings reconciliation

	2021 first half unaudited statutory £m	**Adjustment £m**	**2021 first half unaudited performance £m**	2020 first half unaudited statutory £m	Adjustment £m	2020 first half unaudited performance £m	2020 year audited statutory £m	Adjustment £m	2020 year audited performance £m
Total cash within the Group	**833**	**(21)**	**812**	797	(24)	773	792	(22)	770
Cash and cash equivalents									
– infrastructure concessions	**21**	**(21)**	**–**	24	(24)	–	22	(22)	–
– other	**812**	**–**	**812**	773	–	773	770	–	770
Total debt within the Group	**(652)**	**465**	**(187)**	(779)	569	(210)	(653)	464	(189)
Borrowings – non-recourse loans	**(339)**	**339**	**–**	(338)	338	–	(339)	339	–
– other	**(187)**	**–**	**(187)**	(210)	–	(210)	(189)	–	(189)
Liability component of preference shares	**–**	**–**	**–**	(112)	112	–	–	–	–
Lease liabilities	**(126)**	**126**	**–**	(119)	119	–	(125)	125	–
Net cash	**181**	**444**	**625**	18	545	563	139	442	581

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 £611m (2020: first half £507m; full-year £527m).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and lease liabilities) gives average net cash of £160m (2020: first half £1m net borrowings; full-year net £71m cash).

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 £1.08bn at the half-year (2020: first half £1.13bn; full-year £1.09bn). 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

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Net assets of the Infrastructure Investments segment (refer to Note 3.2)	**686**	737	706
Less: Net assets not included within the Directors' valuation – Housing division	**(26)**	(30)	(27)
Comparable statutory measure of the Investments portfolio under IFRS	**660**	707	679

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

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Statutory measure of the Investments portfolio (as above)	**660**	707	679
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	**419**	418	407
Directors' valuation (performance measure)	**1,079**	1,125	1,086

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:

2021 statutory growth compared to performance growth

	Construction Services						
	UK	**US**	**Gammon**	**Total**	**Support Services**	**Infrastructure Investments**	**Total**
Revenue (£m)							
2021 first half statutory	1,262	1,688	–	2,950	538	123	3,611
2020 first half statutory	986	1,905	–	2,891	465	158	3,514
Statutory growth (%)	28%	(11)%	–	2%	16%	(22)%	3%
2021 first half performance^	1,262	1,697	377	3,336	555	263	4,154
2020 first half performance retranslated^	986	1,747	428	3,161	476	260	3,897
Performance CER growth (%)	28%	(3)%	(12)%	6%	17%	1%	7%
Order book (£bn)							
2021 first half	6.2	5.0	2.3	13.5	2.6	–	16.1
2020 year	6.4	5.2	2.1	13.7	2.7	–	16.4
Growth (%)	(3)%	(4)%	10%	(1)%	(4)%	–	(2)%
2021 first half	6.2	5.0	2.3	13.5	2.6	–	16.1
2020 year retranslated	6.4	5.1	2.1	13.6	2.7	–	16.3
CER growth (%)	(3)%	(2)%	10%	(1)%	(4)%	–	(1)%

^ 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 2 July 2021 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 2 July 2021 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK 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 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards.. 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 for use in the UK.

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
17 August 2021

Condensed Group Income Statement

For the half-year ended 2 July 2021

	Notes	**2021 first half unaudited** Underlying items[1] £m	**2021 first half unaudited** Non-underlying items (Note 8) £m	**2021 first half unaudited** Total £m	2020 first half unaudited Underlying items[1] £m	2020 first half unaudited Non-underlying items (Note 8) £m	2020 first half unaudited Total £m	2020 year audited Underlying items[1] £m	2020 year audited Non-underlying items (Note 8) £m	2020 year audited Total £m
Revenue including share of joint ventures and associates		**4,154**	**–**	**4,154**	4,115	3	4,118	8,587	6	8,593
Share of revenue of joint ventures and associates	5.1	**(543)**	**–**	**(543)**	(601)	(2)	(603)	(1,269)	(4)	(1,273)
Group revenue		**3,611**	**–**	**3,611**	3,514	1	3,515	7,318	2	7,320
Cost of sales		**(3,471)**	**–**	**(3,471)**	(3,425)	(1)	(3,426)	(7,079)	(2)	(7,081)
Gross profit		**140**	**–**	**140**	89	–	89	239	–	239
Gain on disposals of interests in investments		**7**	**–**	**7**	–	–	–	–	–	–
Amortisation of acquired intangible assets		**–**	**(2)**	**(2)**	–	(2)	(2)	–	(6)	(6)
Other net operating (expenses)/income		**(105)**	**(18)**	**(123)**	(117)	–	(117)	(226)	18	(208)
Group operating profit/(loss)		**42**	**(20)**	**22**	(28)	(2)	(30)	13	12	25
Share of results of joint ventures and associates	5.1	**18**	**–**	**18**	14	–	14	38	–	38
Profit/(loss) from operations		**60**	**(20)**	**40**	(14)	(2)	(16)	51	12	63
Investment income	6	**22**	**–**	**22**	16	–	16	38	–	38
Finance costs	7	**(27)**	**–**	**(27)**	(26)	–	(26)	(53)	–	(53)
Profit/(loss) before taxation		**55**	**(20)**	**35**	(24)	(2)	(26)	36	12	48
Taxation	9	**(4)**	**21**	**17**	6	40	46	(11)	(7)	(18)
Profit/(loss) for the period		**51**	**1**	**52**	(18)	38	20	25	5	30
Attributable to										
Equity holders		**52**	**1**	**53**	(18)	38	20	25	5	30
Non-controlling interests		**(1)**	**–**	**(1)**	–	–	–	–	–	–
Profit/(loss) for the period		**51**	**1**	**52**	(18)	38	20	25	5	30

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

	Notes	**2021 first half unaudited pence**	2020 first half unaudited pence	2020 year audited pence
Earnings per ordinary share				
- basic	10	**7.8**	3.0	4.4
- diluted	10	**7.7**	3.0	4.4
Dividends per ordinary share proposed for the period	11	**3.0**	–	1.5

Condensed Group Statement of Comprehensive Income

For the half-year ended 2 July 2021

	2021 first half unaudited			2020 first half unaudited			2020 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	**34**	**18**	**52**	6	14	20	(8)	38	30
Other comprehensive income/(loss) for the period									
Items which will not subsequently be reclassified to the income statement									
Actuarial gains/(losses) on retirement benefit net assets	**46**	**–**	**46**	186	–	186	(62)	–	(62)
Tax on above	**(12)**	**–**	**(12)**	(41)	–	(41)	5	–	5
	34	**–**	**34**	145	–	145	(57)	–	(57)
Items which will subsequently be reclassified to the income statement									
Currency translation differences	**(3)**	**(4)**	**(7)**	23	13	36	(11)	(4)	(15)
Fair value revaluations – PPP financial assets	**(3)**	**(1)**	**(4)**	7	42	49	5	8	13
– cash flow hedges	**8**	**7**	**15**	(6)	(6)	(12)	(4)	1	(3)
– investments in mutual funds measured at fair value through OCI	**3**	**–**	**3**	–	–	–	2	–	2
Recycling of revaluation reserves to the income statement on disposal^	**–**	**(4)**	**(4)**	–	–	–	–	–	–
Tax on above	**(1)**	**(6)**	**(7)**	–	(8)	(8)	–	(2)	(2)
	4	**(8)**	**(4)**	24	41	65	(8)	3	(5)
Total other comprehensive income/(loss) for the period	**38**	**(8)**	**30**	169	41	210	(65)	3	(62)
Total comprehensive income/(loss) for the period	**72**	**10**	**82**	175	55	230	(73)	41	(32)
Attributable to									
Equity holders			**83**			230			(32)
Non-controlling interests			**(1)**			–			–
Total comprehensive income/(loss) for the period			**82**			230			(32)

^ Recycling of revaluation reserves to the income statement on disposal has an associated deferred tax credit of £1m.

Condensed Group Statement of Changes in Equity

For the half-year ended 2 July 2021

					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 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 ventures and associates	–	–	–	15	–	–	–	–	–	(15)	–	–
At 26 June 2020 unaudited	345	65	22	103	18	(33)	32	132	14	904	9	1,611
Total comprehensive (loss)/income for the period	–	–	–	(14)	–	1	(2)	(34)	2	(215)	–	(262)
Joint ventures' and associates' dividends	–	–	–	(37)	–	–	–	–	–	37	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	3	(7)	–	(4)
Reserve transfers relating to joint ventures and associates	–	–	–	13	–	–	–	–	–	(13)	–	–
Redemption of preference shares	–	111	–	–	(18)	–	–	–	1	(94)	–	–
At 31 December 2020 audited	345	176	22	65	–	(32)	30	98	20	612	9	1,345
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**10**	**–**	**8**	**(4)**	**(3)**	**3**	**69**	**(1)**	**82**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**–**	**(10)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(13)**	**–**	**–**	**–**	**–**	**–**	**13**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**5**	**–**	**3**
Reserve transfers relating to joint ventures and associates	**–**	**–**	**–**	**33**	**–**	**–**	**–**	**–**	**–**	**(33)**	**–**	**–**
Purchase of treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(100)**	**–**	**(100)**
At 2 July 2021 unaudited	**345**	**176**	**22**	**95**	**–**	**(24)**	**26**	**95**	**21**	**556**	**8**	**1,320**

Condensed Group Balance Sheet

At 2 July 2021

		Notes	**2021 first half unaudited £m**	2020 first half unaudited £m	2020 year audited £m
Non-current assets					
Intangible assets	– goodwill	12	**806**	863	811
	– other		**303**	321	312
Property, plant and equipment			**92**	91	93
Right-of-use assets			**121**	112	121
Investment properties			**30**	31	30
Investments in joint ventures and associates		5.2	**541**	605	554
Investments			**30**	27	26
PPP financial assets		15	**149**	159	155
Trade and other receivables		13	**256**	240	250
Retirement benefit assets		16	**263**	454	215
Deferred tax assets			**90**	102	80
			2,681	3,005	2,647
Current assets					
Inventories			**102**	105	114
Contract assets		21.1	**264**	287	288
Trade and other receivables		13	**814**	1,009	838
Cash and cash equivalents	– infrastructure investments	18.2	**21**	24	22
	– other	18.2	**812**	773	770
Current tax receivable			**7**	2	6
			2,020	2,200	2,038
Total assets			**4,701**	5,205	4,685
Current liabilities					
Contract liabilities		21.2	**(611)**	(487)	(524)
Trade and other payables		14	**(1,403)**	(1,578)	(1,403)
Provisions		20	**(189)**	(169)	(200)
Borrowings	– non-recourse loans	18.3	**(8)**	(5)	(6)
Liability component of preference shares			**–**	(112)	–
Lease liabilities			**(45)**	(45)	(47)
Current tax payable			**(16)**	(18)	(14)
Derivative financial instruments		23	**(4)**	(4)	(4)
			(2,276)	(2,418)	(2,198)
Non-current liabilities					
Contract liabilities		21.2	**(2)**	(2)	(2)
Trade and other payables		14	**(122)**	(122)	(128)
Provisions		20	**(153)**	(156)	(150)
Borrowings	– non-recourse loans	18.3	**(331)**	(333)	(333)
	– other	18.3	**(187)**	(210)	(189)
Lease liabilities			**(81)**	(74)	(78)
Retirement benefit liabilities		16	**(97)**	(128)	(126)
Deferred tax liabilities			**(108)**	(117)	(104)
Derivative financial instruments		23	**(24)**	(34)	(32)
			(1,105)	(1,176)	(1,142)
Total liabilities			**(3,381)**	(3,594)	(3,340)
Net assets			**1,320**	1,611	1,345
Equity					
Called-up share capital			**345**	345	345
Share premium account			**176**	65	176
Special reserve			**22**	22	22
Share of joint ventures' and associates' reserves			**95**	103	65
Other reserves			**118**	163	116
Retained profits			**556**	904	612
Equity attributable to equity holders of the parent			**1,312**	1,602	1,336
Non-controlling interests			**8**	9	9
Total equity			**1,320**	1,611	1,345

Condensed Group Statement of Cash Flows

For the half-year ended 2 July 2021

		Notes	**2021 first half unaudited £m**	2020 first half unaudited £m	2020 year audited £m
Cash flows from operating activities					
Cash from operations		18.1	**158**	88	276
Income taxes paid			**(1)**	(1)	(2)
Net cash from operating activities			**157**	87	274
Cash flows from/(used in) investing activities					
Dividends received from:	- joint ventures and associates – infrastructure investments		**11**	12	20
	- joint ventures and associates – other		**1**	1	30
Interest received – infrastructure investments – joint ventures			**4**	10	15
Interest received – infrastructure investments – subsidiaries			**6**	2	3
Acquisition of businesses, net of cash and cash equivalents acquired		19.1	**(3)**	–	(3)
Purchases of:	- intangible assets – infrastructure investments		**–**	(24)	(32)
	- intangible assets – other		**–**	(1)	(1)
	- property, plant and equipment		**(16)**	(16)	(33)
Investments in and long-term loans to joint ventures and associates			**(7)**	(6)	(25)
PPP financial assets cash expenditure		15	**–**	(1)	(2)
PPP financial assets cash receipts		15	**7**	8	15
Disposals of:	- investments in joint ventures – infrastructure investments	19.2	**21**	–	1
	- investments in joint ventures – other	19.2	**1**	1	1
	- property, plant and equipment – other		**8**	5	12
	- investment property		**–**	–	3
	- other investments		**4**	2	3
Net cash from/(used in) investing activities			**37**	(7)	7
Cash flows used in financing activities					
Purchase of ordinary shares		17	**(97)**	–	(8)
Proceeds from new loans relating to infrastructure investments assets		18.4	**3**	3	6
Repayments of:	- loans – infrastructure investments	18.4	**(3)**	(2)	(4)
	- loans – other	18.4	**–**	(36)	(36)
Redemption of preference shares			**–**	–	(112)
Repayment of lease liabilities			**(29)**	(26)	(58)
Interest paid – infrastructure investments			**(7)**	(5)	(12)
Interest paid – other			**(10)**	(12)	(23)
Preference dividends paid			**–**	(6)	(6)
Net cash used in financing activities			**(143)**	(84)	(253)
Net increase/(decrease) in cash and cash equivalents			**51**	(4)	28
Effects of exchange rate changes			**(10)**	23	(14)
Cash and cash equivalents at beginning of period			**792**	778	778
Cash and cash equivalents at end of period		18.2	**833**	797	792

Notes to the financial statements

1.1 Basis of accounting

The condensed Group financial statements for the half-year ended 2 July 2021 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 for use in the UK. The condensed Group financial statements should be read in conjunction with the financial statements for the year ended 31 December 2020, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The condensed Group financial statements, which are not audited, have been reviewed and were approved for issue by the Board on 17 August 2021. 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 2020 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 2020 except as described in Note 1.4 below.

1.2 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty remain unchanged since the year-end and are set out in Note 2.27 on pages 175 to 176 of the Annual Report and Accounts 2020.

1.3 Going concern

The Directors have acknowledged the guidance Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 published by the Financial Reporting Council in October 2009 and 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 Group financial statements.

The key financial risk factors for the Group remain largely unchanged. The Group's principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 94 to 101 in the Annual Report and Accounts 2020.

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 2 July 2021, 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 of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts based on the Group's Three Year Plan which reflects 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 £16.1bn at 2 July 2021 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.

The Group does not have any debt repayment obligations in the going concern assessment period. US$259m of its US private placement notes 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.

1.3 Going concern continued

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 committed bank facility, which was undrawn throughout the period ended 2 July 2021, remains fully available to the Group until October 2023, with a one-year extension option 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 adverse changes in the economic environment including COVID-19 and lagging effects following the UK's exit from the European Union leading to a deterioration in commercial or operational conditions. The Group has sensitised its projections against severe but plausible downside scenarios which include:

- Elimination of a portion of unsecured work assumed within the Group's base case projections and a delay of three months for any awarded but not yet contracted work;
- A deterioration of contract judgements and restriction of a portion of the Group's margins;
- Delay in payments received from a portion of non-government customers;
- Delay in the disposal of Investments assets by 12 months.

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 Group 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:
  - IFRS 4 Insurance Contracts – Deferral of IFRS 9
  - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- 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 UK or were not yet effective in the UK at 2 July 2021:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
  - IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
  - IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
  - IAS 16 Property, Plant and Equipment
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
  - IFRS 3 Business Combinations
  - 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.

2 Exchange rates

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

Average rates

£1 buys	**2021 first half unaudited**	2020 first half unaudited	2020 year audited	26 June 2020 – 2 July 2021 % change	31 Dec 2020 - 2 July 2021 % change
US$	**1.38**	1.27	1.29	8.7%	7.0%
HK$	**10.75**	9.84	10.02	9.2%	7.3%
Euro	**1.15**	1.14	1.13	0.9%	1.8%

Closing rates

£1 buys	**2021 first half unaudited**	2020 first half unaudited	2020 year audited	26 June 2020 – 2 July 2021 % change	31 Dec 2020 - 2 July 2021 % change
US$	**1.38**	1.23	1.37	12.2%	0.7%
HK$	**10.73**	9.56	10.58	12.2%	1.4%
Euro	**1.17**	1.10	1.11	6.4%	5.4%

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 2 July 2021 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	**3,336**	**555**	**263**	**–**	**4,154**
Share of revenue of joint ventures and associates[1]	**(386)**	**(17)**	**(140)**	**–**	**(543)**
Group revenue[1]	**2,950**	**538**	**123**	**–**	**3,611**
Group operating (loss)/profit[1]	**(4)**	**54**	**7**	**(15)**	**42**
Share of results of joint ventures and associates[1]	**10**	**–**	**8**	**–**	**18**
Profit/(loss) from operations[1]	**6**	**54**	**15**	**(15)**	**60**
Non-underlying items:					
- amortisation of acquired intangible assets	**(1)**	**–**	**(1)**	**–**	**(2)**
- other non-underlying items	**(13)**	**(5)**	**–**	**–**	**(18)**
	(14)	**(5)**	**(1)**	**–**	**(20)**
(Loss)/profit from operations	**(8)**	**49**	**14**	**(15)**	**40**
Investment income					**22**
Finance costs					**(27)**
Profit before taxation					**35**

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

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).

3 Segment analysis continued

3.1 Income statement – performance by activity

For the year ended 31 December 2020 audited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Revenue including share of joint ventures and associates[1]	6,964	1,067	556	–	8,587
Share of revenue of joint ventures and associates[1]	(998)	(30)	(241)	–	(1,269)
Group revenue[1]	5,966	1,037	315	–	7,318
Group operating profit/(loss)[1]	–	45	–	(32)	13
Share of results of joint ventures and associates[1]	29	1	8	–	38
Profit/(loss) from operations[1]	29	46	8	(32)	51
Non-underlying items:					
- amortisation of acquired intangible assets	(1)	–	(5)	–	(6)
- other non-underlying items	13	4	–	1	18
	12	4	(5)	1	12
Profit/(loss) from operations	41	50	3	(31)	63
Investment income					38
Finance costs					(53)
Profit before taxation					48

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

3.2 Assets and liabilities by activity

As at 2 July 2021 unaudited	Construction Services £m	Support Services £m	Infrastructure Investments £m	Corporate activities £m	Total £m
Contract assets – current	**150**	**90**	**24**	**–**	**264**
Contract liabilities – current	**(506)**	**(104)**	**(1)**	**–**	**(611)**
Inventories	**51**	**25**	**26**	**–**	**102**
Trade and other receivables – current	**683**	**82**	**31**	**18**	**814**
Trade and other payables – current	**(1,129)**	**(188)**	**(35)**	**(51)**	**(1,403)**
Provisions – current	**(159)**	**(3)**	**(17)**	**(10)**	**(189)**
Working capital*	**(910)**	**(98)**	**28**	**(43)**	**(1,023)**

* Includes non-operating items and current working capital.

Total assets	**2,110**	**482**	**1,141**	**968**	**4,701**
Total liabilities	**(2,091)**	**(385)**	**(455)**	**(450)**	**(3,381)**
Net assets	**19**	**97**	**686**	**518**	**1,320**

3 Segment analysis continued

3.2 Assets and liabilities by activity continued

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

As at 31 December 2020 audited	**Construction Services £m**	**Support Services £m**	**Infrastructure Investments £m**	**Corporate activities £m**	**Total £m**
Contract assets – current	172	91	25	–	288
Contract liabilities – current	(418)	(105)	(1)	–	(524)
Inventories	51	34	29	–	114
Trade and other receivables – current	683	114	35	6	838
Trade and other payables – current	(1,120)	(216)	(38)	(29)	(1,403)
Provisions – current	(165)	(7)	(15)	(13)	(200)
Working capital*	(797)	(89)	35	(36)	(887)

* Includes non-operating items and current working capital.

Total assets	2,107	493	1,169	916	4,685
Total liabilities	(2,035)	(405)	(463)	(437)	(3,340)
Net assets	72	88	706	479	1,345

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 2 July 2021 unaudited					
Capital expenditure on property, plant and equipment	**11**	**4**	**–**	**1**	**16**
Depreciation	**16**	**18**	**–**	**6**	**40**
Gain on disposals of interests in investments	**–**	**–**	**7**	**–**	**7**
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 year ended 31 December 2020 audited					
Capital expenditure on property, plant and equipment	15	12	–	6	33
Capital expenditure on intangible assets	–	–	33	–	33
Depreciation	36	33	1	12	82

3.4 Infrastructure Investments

Underlying profit from operations[1]	**Group 2021 first half unaudited £m**	**Share of joint ventures and associates 2021 first half unaudited**[+] **£m**	**Total 2021 first half unaudited £m**	Group 2020 first half unaudited £m	Share of joint ventures and associates 2020 first half unaudited[+] £m	Total 2020 first half unaudited £m	Group 2020 year audited £m	Share of joint ventures and associates 2020 year audited[+] £m	Total 2020 year audited £m
UK[^]	**4**	**–**	**4**	1	(1)	–	2	(6)	(4)
North America	**5**	**8**	**13**	2	9	11	12	14	26
Gain on disposals of interests in investments	**7**	**–**	**7**	–	–	–	–	–	–
	16	**8**	**24**	3	8	11	14	8	22
Bidding costs and overheads	**(9)**	**–**	**(9)**	(8)	–	(8)	(14)	–	(14)
	7	**8**	**15**	(5)	8	3	–	8	8

[+] The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
[^] Including 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 the point in time 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 2 July 2021 unaudited

Segment	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	1,257	1,695	384	3,336
	Group revenue	1,257	1,686	7	2,950
Support Services	Revenue including share of joint ventures and associates	535	–	20	555
	Group revenue	535	–	3	538
Infrastructure Investments	Revenue including share of joint ventures and associates	98	160	5	263
	Group revenue	31	92	–	123
Total revenue	**Revenue including share of joint ventures and associates**	**1,890**	**1,855**	**409**	**4,154**
	Group revenue	**1,823**	**1,778**	**10**	**3,611**

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	1,868	1,124	338	6	3,336
	Group revenue	1,705	911	328	6	2,950
Support Services	Revenue including share of joint ventures and associates	–	285	258	12	555
	Group revenue	–	285	241	12	538
Infrastructure Investments	Revenue including share of joint ventures and associates	170+	83	8	2	263
	Group revenue	121+	–	–	2	123
Total revenue	**Revenue including share of joint ventures and associates**	**2,038**	**1,492**	**604**	**20**	**4,154**
	Group revenue	**1,826**	**1,196**	**569**	**20**	**3,611**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	3,335	554	244	4,133
At a point in time	1	1	19	21
Revenue including share of joint venture and associates	**3,336**	**555**	**263**	**4,154**
Over time	2,949	537	104	3,590
At a point in time	1	1	19	21
Group revenue	**2,950**	**538**	**123**	**3,611**

+ Includes rental income of £21m including share of joint ventures and associates or £10m excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the half-year ended 26 June 2020 unaudited

Segment	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	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 year ended 31 December 2020 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	2,165	3,789	1,010	6,964
	Group revenue	2,165	3,776	25	5,966
Support Services	Revenue including share of joint ventures and associates	1,034	–	33	1,067
	Group revenue	1,034	–	3	1,037
Infrastructure Investments	Revenue including share of joint ventures and associates	178	366	12	556
	Group revenue	76	236	3	315
Total revenue	**Revenue including share of joint ventures and associates**	**3,377**	**4,155**	**1,055**	**8,587**
	Group revenue	**3,275**	**4,012**	**31**	**7,318**

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	4,138	2,190	613	23	6,964
	Group revenue	3,603	1,733	607	23	5,966
Support Services	Revenue including share of joint ventures and associates	–	492	565	10	1,067
	Group revenue	–	492	535	10	1,037
Infrastructure Investments	Revenue including share of joint ventures and associates	367+	172	14	3	556
	Group revenue	311+	2	–	2	315
Total revenue	**Revenue including share of joint ventures and associates**	**4,505**	**2,854**	**1,192**	**36**	**8,587**
	Group revenue	**3,914**	**2,227**	**1,142**	**35**	**7,318**

Timing of revenue recognition	**Construction Services £m**	**Support Services £m**	**Infrastructure Investments £m**	**Total £m**
Over time	6,958	1,065	535	8,558
At a point in time	6	2	21	29
Revenue including share of joint ventures and associates	**6,964**	**1,067**	**556**	**8,587**
Over time	5,960	1,035	294	7,289
At a point in time	6	2	21	29
Group revenue	**5,966**	**1,037**	**315**	**7,318**

+ Includes rental income of £28m including share of joint ventures and associates or £9m excluding share of joint ventures and associates.

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

5.1 Income statement

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Revenue[1]	**543**	601	1,269
Operating profit[1]	**22**	16	42
Investment income	**46**	51	98
Finance costs	**(48)**	(51)	(100)
Profit before taxation[1]	**20**	16	40
Taxation	**(2)**	(2)	(2)
Profit after taxation	**18**	14	38

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

5.2 Balance sheet

		2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Intangible assets	– goodwill	**29**	32	29
	– Infrastructure Investments intangible	**41**	46	42
	– other	**14**	14	14
Property, plant and equipment		**46**	44	47
Investment properties		**235**	196	210
Investments in joint ventures and associates		**3**	2	2
Money market funds		**84**	157	94
PPP financial assets		**1,479**	1,629	1,563
Military housing projects		**103**	115	104
Net borrowings		**(1,100)**	(1,224)	(1,171)
Other net liabilities		**(520)**	(605)	(538)
Share of net assets of joint ventures and associates		**414**	406	396
Reclassify net liabilities to provisions		**–**	2	–
Reclassify net liabilities to trade and other receivables		**–**	11	–
Adjusted net assets		**414**	419	396
Loans to joint ventures and associates		**127**	186	158
Total investment in joint ventures and associates		**541**	605	554

6 Investment income

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Subordinated debt interest receivable	**12**	9	25
Interest receivable on PPP financial assets (Note 15)	**4**	4	8
Other interest receivable and similar income	**5**	2	2
Net finance income on pension scheme assets and obligations (Note 16)	**1**	1	3
	22	16	38

7 Finance costs

		2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Non-recourse borrowings	– bank loans and overdrafts	**7**	6	11
Preference shares	– finance cost	**–**	6	6
	– accretion	**–**	2	2
US private placement	– finance cost	**5**	6	10
Interest on lease liabilities		**3**	3	6
Other interest payable	– committed facilities	**1**	1	2
	– letter of credit fees	**1**	1	2
	– other finance charges	**1**	1	3
Impairment of loans to joint ventures and associates		**9**	–	11
		27	26	53

8 Non-underlying items

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Items (charged against)/credited to profit			
8.1 Amortisation of acquired intangible assets	**(2)**	(2)	(6)
8.2 Other non-underlying items:			
– grant income (repaid)/received in relation to UK Job Retention Scheme	**(19)**	–	19
– release of accrual relating to sale of Parsons Brinckerhoff	**1**	–	–
– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	–	(3)
– release of provision held for blacklisting claims	**–**	–	2
Total other non-underlying items	**(18)**	–	18
(Charged against)/credited to profit before taxation	**(20)**	(2)	12
8.3 Tax credits/(charges):			
– non-underlying recognition/(derecognition) of deferred tax assets in the UK	**2**	36	(10)
– tax on grant income in relation to UK Job Retention Scheme	**4**	–	(4)
– impact of tax rate change on deferred tax assets previously recognised through non-underlying	**15**	3	4
– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	–	1
– tax on other items above	**–**	1	2
Total tax credit/(charge)	**21**	40	(7)
Non-underlying items credited to profit for the period	**1**	38	5

8.1 The amortisation of acquired intangible assets comprises: customer contracts £1m (2020: first half £1m; full-year £5m); and customer relationships £1m (2020: first half £1m; full-year £1m).

The charge was recognised in the following segments: Construction Services £1m (2020: first half £1m; full-year £1m) and Infrastructure Investments £1m (2020: first half £1m; full-year £5m).

8.2.1 In 2020, the Group recognised grant income of £19m in respect of the UK Government's Job Retention Scheme (JRS). This was a one-off temporary scheme which the Group decided to voluntarily refund after the balance sheet date. This income was presented within non-underlying items to avoid distorting the underlying performance of the Group. The Group subsequently repaid this income in the first half of 2021 and, in line with the treatment adopted at 31 December 2020, the Group has presented its voluntary refund of the grant income within non-underlying items.

The amounts were recognised in the following segments: Construction Services £13m; Support Services £5m and Corporate £1m**.**

8.2.2 The Group established an accrual in relation to separation costs incurred as part of the Group's sale of Parsons Brinckerhoff in October 2014. In the first half of 2021, the Group released £1m of this accrual following completion of works relating to this sale.

8.3.1 In previous periods, significant actuarial gains in the Group's main pension scheme, 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 in respect of tax losses which the Group recognised as non-underlying due to the size and nature of the credit. In the first half of 2021, further actuarial gains in the BBPF resulted in the recognition of additional UK deferred tax assets in respect of tax losses. The Group recognised the associated £4m tax credit (2020: first half £37m credit; full-year £9m charge) as a non-underlying item along with a £2m tax charge (2020: first half £1m charge; full-year £1m charge) arising from certain of the actuarial losses in the Railways Pension Scheme.

8 Non-underlying items continued

8.3.2 As explained in Note 8.2.1, a non-underlying expense of £19m was recognised on the voluntary refund of the grant received under the UK Government's JRS. This expense gave rise to a tax credit of £4m (2020: first half £nil; full-year £4m charge).

8.3.3 There is an additional deferred tax credit of £15m to revalue previous deferred tax assets recognised through non-underlying items due to a tax rate change enacted in the UK during 2021 (2020: first half £3m; full-year £4m).

9 Taxation

	Underlying items 2021 first half unaudited[1] £m	**Non-underlying items (Note 8) 2021 first half unaudited £m**	**Total 2021 first half unaudited £m**	2020 first half unaudited £m	2020 year audited £m
Total UK tax	**(5)**	**(21)**	**(26)**	(47)	18
Total non-UK tax	**9**	**–**	**9**	1	–
Total tax charge/(credit) [x]	**4**	**(21)**	**(17)**	(46)	18
UK current tax	**1**	**(4)**	**(3)**	4	(1)
Non-UK current tax	**4**	**–**	**4**	1	1
Total current tax	**5**	**(4)**	**1**	5	–
UK deferred tax	**(6)**	**(17)**	**(23)**	(51)	19
Non-UK deferred tax	**5**	**–**	**5**	–	(1)
Total deferred tax	**(1)**	**(17)**	**(18)**	(51)	18
Total tax charge/(credit)[x]	**4**	**(21)**	**(17)**	(46)	18

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

[x] Excluding joint ventures and associates.

In addition to the Group tax charge above, tax of £19m is charged (2020: first half £49m charge; full-year £3m credit) directly to other comprehensive income, comprising: a deferred tax charge of £13m for subsidiaries (2020: first half £41m charge; full-year £5m credit) and a deferred tax charge in respect of joint ventures and associates of £6m (2020: first half £8m charge; full-year £2m charge).

10 Earnings per ordinary share

	2021 first half unaudited		2020 first half unaudited		2020 year audited	
Earnings	**Basic £m**	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings	**53**	**53**	20	20	30	30
Amortisation of acquired intangible assets net of tax	**2**	**2**	1	1	4	4
Other non-underlying items net of tax	**(3)**	**(3)**	(39)	(39)	(9)	(9)
Underlying earnings/(loss)	**52**	**52**	(18)	(18)	25	25
	Basic m	**Diluted m**	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**672**	**676**	687	688	687	690
Earnings per share	**Basic pence**	**Diluted pence**	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings per ordinary share	**7.8**	**7.7**	3.0	3.0	4.4	4.4
Amortisation of acquired intangible assets net of tax	**0.3**	**0.3**	0.2	0.2	0.5	0.5
Other non-underlying items net of tax	**(0.4)**	**(0.4)**	(5.7)	(5.7)	(1.2)	(1.2)
Underlying earnings/(loss) per ordinary share	**7.7**	**7.6**	(2.5)	(2.5)	3.7	3.7

11 Dividends on ordinary shares

	2021 first half unaudited		2020 first half unaudited		2020 year audited	
	Per share pence	**Amount £m**	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the period						
Interim 2020	**–**	**–**	–	–	–	–
Final 2020	**–**	**–**	–	–	1.5	10
Interim 2021	**3.0**	**19**	–	–	–	–
	3.0	**19**	–	–	1.5	10
Recognised dividends for the period						
Final 2019		**–**		–		–
Interim 2020		**–**		–		–
Final 2020		**10**		–		–
		10		–		–

The final 2020 dividend of 1.5 pence per share was paid on 7 July 2021 to holders on the register on 4 June 2021. The ordinary shares were quoted ex-dividend on 3 June 2021.

The Board is declaring an interim dividend of 3.0 pence per share, which will be payable on 6 December 2021 to holders on the register on 5 November 2021. The last date for DRIP (Dividend Reinvestment Plan) elections is 15 November 2021.

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 31 December 2019 audited	1,048	(220)	828
Currency translation differences	46	(11)	35
At 26 June 2020 unaudited	1,094	(231)	863
Currency translation differences	(58)	6	(52)
At 31 December 2020 audited	1,036	(225)	811
Currency translation differences	**(11)**	**6**	**(5)**
At 2 July 2021 unaudited	**1,025**	**(219)**	**806**

As at 2 July 2021, 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 including the impact of COVID-19 and consideration of the year-to-date performance of the relevant CGUs and any changes in key assumptions. The outcome of this assessment was that there were no indications of impairment which could reasonably be expected to eliminate the headroom computed at 31 December 2020. As a result of this assessment no impairment charges were recorded in the first half of 2021 (2020: first half £nil; full-year £nil).

A full detailed impairment review will be conducted on all CGUs at 31 December 2021.

13 Trade and other receivables

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Current			
Trade receivables	**522**	653	526
Less: provision for impairment of trade receivables	**(12)**	(3)	(12)
	510	650	514
Due from joint ventures and associates	**12**	15	16
Due from joint operation partners	**11**	9	17
Contract fulfilment assets	**14**	12	15
Contract retentions receivable	**185**	235	202
Accrued income	**15**	10	9
Prepayments	**49**	42	41
Due on disposals	**1**	5	2
Other receivables	**17**	31	22
	814	1,009	838
Non-current			
Due from joint ventures and associates	**69**	57	67
Contract fulfilment assets	**24**	11	13
Contract retentions receivable	**161**	168	165
Due on disposals	**–**	1	1
Other receivables	**2**	3	4
	256	240	250
Total trade and other receivables	**1,070**	1,249	1,088

14 Trade and other payables

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Current			
Trade and other payables[∞]	**479**	668	553
Accruals	**590**	578	576
Contract retentions payable[∞]	**196**	235	210
VAT, payroll taxes and social security	**125**	88	61
Dividends on preference shares	**–**	6	–
Dividends on ordinary shares	**10**	–	–
Due on acquisitions	**3**	3	3
	1,403	1,578	1,403
Non-current			
Contract retentions payable[∞]	**98**	94	100
Accruals	**10**	11	11
Due to joint ventures and associates	**10**	10	10
Trade and other payables[∞]	**4**	4	4
Due on acquisitions	**–**	3	3
	122	122	128
Total trade and other payables	**1,525**	1,700	1,531

[∞] Represented to show Contract retentions payable separately from Trade and other payables

15 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
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
Income recognised in the income statement			
– interest income (Note 6)	2	2	4
Gains recognised in the statement of comprehensive income			
– fair value movements	–	(2)	(2)
Other movements			
– cash expenditure	1	–	1
– cash received	(3)	(4)	(7)
At 31 December 2020 audited	26	129	155
Income recognised in the income statement			
– interest income (Note 6)	**–**	**4**	**4**
Gains recognised in the statement of comprehensive income			
– fair value movements	**(1)**	**(2)**	**(3)**
Other movements			
– cash expenditure	**–**	**–**	**–**
– cash received	**(2)**	**(5)**	**(7)**
At 2 July 2021 unaudited	**23**	**126**	**149**

16 Retirement benefit assets and liabilities

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes		2021 first half unaudited %	2020 first half unaudited %	2020 year audited %
Discount rate on obligations		**1.90**	1.65	1.45
Inflation rate	– RPI	**3.20**	2.85	2.90
	– CPI*	**2.55**	2.00	2.25
Future increases in pensionable salary*		**2.55**	2.00	2.25
Rate of increases in pensions in payment (or such other rate as is guaranteed)^		**2.95**	2.75	2.75

* Actuarial assumption applied to the Railways Pension Scheme was 2.75% (2020: first half 2.10%; full-year 2.45%).
^ Actuarial assumption applied to the Railways Pension Scheme was 2.95% (2020: first half 2.25%; full-year 2.55%).

Amounts recognised in the Balance Sheet	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Present value of obligations	**(4,097)**	(4,070)	(4,317)
Fair value of plan assets	**4,263**	4,396	4,406
Net assets in the Balance Sheet+	**166**	326	89

+ This amount represents the aggregate of the retirement benefit assets of £263m (2020: first half £454m; full-year £215m) and the retirement benefit liabilities of £97m at 2 July 2021 (2020: first half £128m; full-year £126m). These amounts are shown separately on the balance sheet as the Balfour Beatty Pension Fund is in a net surplus position.

Analysis of net assets in the Balance Sheet	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Balfour Beatty Pension Fund	**263**	454	215
Railways Pension Scheme	**(52)**	(75)	(80)
Other schemes*	**(45)**	(53)	(46)
	166	326	89

* Other schemes include the Group's deferred compensation obligations for which investments in mutual funds of £23m (2020: first half £22m, full-year £21m) are held by the Group to satisfy these obligations.

16 Retirement benefit assets and liabilities continued

Movements in the retirement benefit net assets for the period		2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
At beginning of period		**89**	133	133
Currency translation differences		**1**	(3)	(4)
Current service cost		**(2)**	(2)	(3)
Interest cost		**(30)**	(38)	(76)
Interest income		**31**	39	79
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**–**	–	(48)
	– on obligations from changes to other financial assumptions	**163**	(154)	(249)
	– on obligations from changes in demographic assumptions	**–**	(7)	(162)
	– on obligations from experience gains	**1**	1	5
	– on assets	**(118)**	346	392
Contributions from employer	– regular funding	**1**	2	3
	– ongoing deficit funding	**28**	6	15
Benefits paid		**2**	3	4
At end of period+		**166**	326	89

During 2020 the Group identified certain inconsistencies with the membership data used by the Balfour Beatty Pension Fund's (BBPF) actuary in calculating the mortality experience/assumptions and resulting mortality multiplier in previous years which led to a cumulative increase of £135m in the recognised pension asset as at 26 June 2020 (£129m cumulative impact as at 31 December 2019). This was adjusted in the second half of the year ended 31 December 2020 through actuarial movements from changes in demographic assumptions included in the actuarial losses recognised in the Group's statement of comprehensive income. The Group considered it appropriate that the impact was recognised in the year ended 31 December 2020 due to the size of movements typically experienced relating to actuarial gains and losses, which is inherent with a scheme of this size and complexity, and the nature of the financial statement captions affected.

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 this agreement Balfour Beatty and the trustees re-confirmed their commitment to a journey plan approach to managing the BBPF with the Group agreeing to make total cash deficit contributions of £64m from 2021 to 2023, whereby the BBPF is aiming to reach self-sufficiency by 2027. There is an agreed mechanism for accelerating the payment of these contributions set out above if the earnings cover for shareholder returns (both dividends and other capital returns) falls below 2x. As a result of Balfour Beatty's share buyback programme and following discussions between the Group and the trustees, Balfour Beatty agreed to accelerate the above deficit contributions and also make additional deficit contributions of £2m per month from July 2022 until the next triennial funding valuation at 31 March 2022 is completed or September 2023 at the latest. The Group will now make deficit contributions to the BBPF of £37m in 2021 and £39m in 2022 and is expected to make a deficit contribution of £18m in 2023.

Following the formal triennial funding valuation of the Railways Pension Scheme (RPS) as at 31 December 2019, the Group agreed to continue to make deficit contributions of £6m per annum which should reduce the funding deficit to zero by 2025.

The Group's balance sheet includes net retirement benefit assets of £166m (2020: first half £326m; full-year £89m) as measured on an IAS 19 basis, with the surplus on the BBPF partially offset by deficits on the RPS and other schemes.

In the first half of 2021, the Group recorded net actuarial gains on its retirement benefit schemes of £46m (2020: first half £186m net gains; full-year £62m net losses) primarily driven by an increase in the discount rate, partially offset by increases to inflationary expectations and lower than expected returns on assets.

The investment strategy of the BBBPF and the sensitivity of the Group's retirement benefit obligations and assets to different actuarial assumptions are set out in Note 30 on pages 205 and 210, respectively, of the Annual Report and Accounts 2020.

17 Share capital

During the half-year ended 2 July 2021 nil (2020: first half nil; full-year 3.5m) ordinary shares were purchased for £nil (2020: first half £nil; full-year £8m) by the Group's employee discretionary trust to satisfy awards under the Performance Share Plan, the Deferred Bonus Plan and the Restricted Share Plan.

The Company commenced its share buyback programme on 5 January 2021. As at 2 July 2021, the Company had purchased 33.1m of shares for a total consideration of £99m. These shares are currently held in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m, has utilised £100m of the Company's distributable profits but the cash paid in settlement during the period was £97m.

18 Notes to the statement of cash flows

18.1 Cash from operations

	Underlying items 2021 first half unaudited[1] £m	Non-underlying items 2021 first half unaudited £m	Total 2021 first half unaudited £m	Total 2020 first half unaudited £m	Total 2020 year audited £m
Profit/(loss) from operations	**60**	**(20)**	**40**	(16)	63
Share of results of joint ventures and associates	**(18)**	**–**	**(18)**	(14)	(38)
Depreciation of property, plant and equipment	**11**	**–**	**11**	15	24
Depreciation of right-of-use assets	**28**	**–**	**28**	26	56
Depreciation of investment properties	**1**	**–**	**1**	1	2
Amortisation of other intangible assets	**6**	**2**	**8**	9	17
Impairment of other intangible assets	**1**	**–**	**1**	–	1
Pension payments including deficit funding	**(29)**	**–**	**(29)**	(8)	(18)
Movements relating to equity-settled share-based payments	**3**	**–**	**3**	4	8
Gain on disposal of infrastructure investments	**(7)**	**–**	**(7)**	–	–
Profit on disposal of property, plant and equipment	**(3)**	**–**	**(3)**	(3)	(7)
Loss on GMP equalisation	**–**	**–**	–	–	3
Other non-cash items	**–**	**–**	–	–	(2)
Operating cash flows before movements in working capital	**53**	**(18)**	**35**	14	109
Decrease in operating working capital			**123**	74	167
Inventories			**11**	(1)	(14)
Contract assets			**23**	100	87
Trade and other receivables			**6**	(53)	42
Contract liabilities			**90**	1	67
Trade and other payables			**(5)**	6	(69)
Provisions			**(2)**	21	54
Cash from operations			**158**	88	276

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

18.2 Cash and cash equivalents

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Cash and deposits	**614**	520	591
Term deposits	**198**	253	179
Cash balances within infrastructure investments	**21**	24	22
	833	797	792

18.3 Analysis of net cash/(borrowings)

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Cash and cash equivalents (excluding infrastructure investments)	**812**	773	770
US private placement	**(187)**	(210)	(189)
Net cash excluding infrastructure investments	**625**	563	581
Non-recourse infrastructure investments project finance loans at amortised cost with final maturity between 2021 and 2072	**(339)**	(338)	(339)
Infrastructure investments cash and cash equivalents	**21**	24	22
	(318)	(314)	(317)
Net cash	**307**	249	264

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	Total £m
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)
Currency translation differences	–	21	21
Proceeds from new loans	(3)	–	(3)
Repayments of loans	2	–	2
At 31 December 2020 audited	(339)	(189)	(528)
Currency translation differences	**–**	2	**2**
Proceeds from new loans	**(3)**	**–**	**(3)**
Repayments of loans	**3**	**–**	**3**
At 2 July 2021 unaudited	**(339)**	**(187)**	**(526)**

19 Acquisitions and disposals

19.1 Acquisitions

There were no acquisitions made in the first half of 2021. There were no acquisitions made in 2020.

Deferred consideration paid during the period in respect of acquisitions completed in earlier years was £3m (2020: first half £nil; full-year £3m).

19.2 Disposals

In the first half of 2021, the Group disposed of one Infrastructure Investments asset as detailed below. This disposal was structured as the sale of the Group's equity interest in the entity which owns the asset.

Notes	Disposal date	Asset disposed	Cash consideration £m	Net assets disposed £m	Underlying gain £m
19.2.1	2 June 2021	BC Children's and BC Women's Hospitals+	**20**	**13**	**7**

+ Disposal of joint venture.

19.2.1 On 2 June 2021, the Group disposed of its entire 70% interest in the BC Children's and BC Women's Hospitals concession located in Vancouver, Canada for a cash consideration of £20m. The asset disposal resulted in a net gain of £7m being recognised in underlying operating profit, including a gain of £4m in respect of PPP financial asset reserves recycled to the income statement on disposal.

Deferred consideration received in the period in relation to disposals in earlier years was £2m (2020: first half £1m; full-year £2m).

There were no disposals made in 2020.

20 Provisions

	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m
At 31 December 2019 audited	224	48	23	295
Currency translation differences	5	–	–	5
Reclassified from accruals	7	–	–	7
Charged/(credited) to the income statement:				
– additional provisions	60	5	3	68
– unused amounts reversed	(9)	–	–	(9)
Utilised during the period	(46)	(4)	(2)	(52)
Reclassified from contract assets	11	–	–	11
At 26 June 2020 unaudited	252	49	24	325
Currency translation differences	(5)	–	–	(5)
Reclassified toaccruals	(8)	–	1	(7)
Charged/(credited) to the income statement:				
– additional provisions	80	9	4	93
– unused amounts reversed	(31)	(7)	(3)	(41)
Utilised during the period	(14)	(5)	(1)	(20)
Reclassified from contract assets	5	–	–	5
At 31 December 2020 audited	279	46	25	350
Currency translation differences	**(2)**	**–**	**–**	**(2)**
Reclassified from accruals	**1**	**–**	**–**	**1**
Charged/(credited) to the income statement:				
– additional provisions	**71**	**6**	**1**	**78**
– unused amounts reversed	**(18)**	**(5)**	**(2)**	**(25)**
Utilised during the period	**(46)**	**(6)**	**(1)**	**(53)**
Reclassified from contract assets	**(7)**	**–**	**–**	**(7)**
At 2 July 2021 unaudited	**278**	**41**	**23**	**342**

21 Contract balances

21.1 Contract assets

	£m
At 31 December 2019 audited	377
Currency translation differences	(2)
Transfers from contract assets recognised at the beginning of the year to receivables	(370)
Increase related to services provided in the year	274
Reclassified to contract provisions (Note 20)	16
Impairments on contract assets recognised at the beginning of the year	(7)
At 31 December 2020 audited	288
Currency translation differences	**(2)**
Transfers from contract assets recognised at the beginning of the period to receivables	**(246)**
Increase related to services provided in the period	**231**
Reclassified from contract provisions (Note 20)	**(7)**
At 2 July 2021 unaudited	**264**

21.2 Contract liabilities

	£m
At 31 December 2019 audited	(471)
Currency translation differences	11
Revenue recognised against contract liabilities at the beginning of the year	419
Increase due to cash received, excluding amounts recognised as revenue during the year	(485)
At 31 December 2020 audited	(526)
Currency translation differences	**4**
Revenue recognised against contract liabilities at the beginning of the period	**440**
Increase due to cash received, excluding amounts recognised as revenue during the period	**(531)**
At 2 July 2021 unaudited	**(613)**

22 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £167m (2020: first half £168m, full-year £345m). 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.

	2021 first half unaudited £m	2020 first half unaudited £m	2020 year audited £m
Sale of goods and services			
Anglian Water Group Ltd+	**–**	5	5

+ 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 periods up until his retirement.

All transactions with these related parties were conducted on normal commercial terms, equivalent to those conducted with external parties. At 2 July 2021, there were no amounts owed by or to these related parties (2020: first half £nil, full-year £nil) and 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.

23 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	**2021 first half unaudited £m**	2020 first half unaudited £m	2020 year audited £m
Financial assets			
Level 1			
Investments in mutual fund financial assets	**23**	22	21
Level 2			
Financial assets – foreign currency contracts	**–**	–	–
Level 3			
PPP financial assets (Note 15)	**149**	159	155
Total assets measured at fair value	**172**	181	176
Financial liabilities			
Level 2			
Financial liabilities – infrastructure concessions interest rate swaps	**(28)**	(38)	(36)
Total liabilities measured at fair value	**(28)**	(38)	(36)

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.

23 Financial instruments continued

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £6m decrease (2020: first half £6m; full-year £6m) / £6m increase (2020: first half £7m; full-year £6m) 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.

For PPP financial assets held in joint ventures and associates, a change in the discount rate by a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £50m decrease (2020: first half £57m; full-year £53m)/£54m increase (2020: first half £61m; full-year £56m) in the fair value of the assets taken through equity within the share of joint ventures and associates reserves.

24 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.

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Group's Annual Report and Accounts 2020.

25 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 about a number of military bases managed by Balfour Beatty Communities (BBC). Subsequently, the US Department of Justice (DoJ) commenced an investigation into the allegations of false claims. Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct its own investigation, and BBC proactively contacted the DoJ to notify them of the review. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ. The Group made a provision in the second half of 2020 for an estimate of the historical incentive fees that its investigation was not able to fully verify and which BBC has proposed be repaid. The Group's external resolution counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

25 Contingent liabilities continued

In 2013, the Group entered into a contract to construct a high-rise development in London which completed in early 2016. In June 2021, an initial structural expert assessment was received which indicated that the stone panels affixed to the façades will need to be modified, reinforced or replaced to meet performance requirements. The expert's assessment of the rectification methodology, which will determine the cost of the Group's obligation, is ongoing together with the Group's evaluation of any losses that could be incurred and any potential recovery options from third parties. At this stage, the Group is not able to estimate with sufficient reliability the cost of its obligation as any estimate is subject to a number of unknown factors including what the proposed rectification solution is, any associated planning consents, sequencing, timeline and the consequential disruption to the development. As such there is a wide range of potential outcomes in this specific case. Based on current information, the range of the contingent liability is uncertain and extremely wide but could be as much as £50m. The Group will be pursuing all potential recoveries from third parties.

26 Events after the reporting date

On 6 July 2021, the Group agreed to dispose of its interests in three Infrastructure Investments assets: Aberdeen Western Peripheral Route; Woodland View Hospital; and North West Fire & Rescue, with the final stage of this transaction completing on 6 August 2021. Full consideration of £48m has been received from a subsidiary of BBGI Global Infrastructure S.A. The expected gain on disposal for this transaction is £19m.

As part of the Company's share buyback programme in the period from 3 July 2021 to 16 August 2021 (the last practicable date prior to the date of this report), the Company purchased a further 7.4m ordinary shares to be held in treasury with no voting rights for a total consideration of £23m (including stamp duty and fees).

There were no other material post balance sheet events between the balance sheet date and 17 August 2021, the date of this report.