Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

11 March 2020

Benefits of Build to Last accelerating

Highlights

- 8% increase in Group underlying profit from operations (PFO) to £221 million (2018: £205 million)
- 22% increase in PFO from earnings-based businesses to £172 million (2018: £141 million)
- 68% increase in average net cash to £325 million (2018: £194 million)
- 52% increase in year end net cash to £512 million (2018: £337 million)
- 13% increase in order book to £14.3 billion (2018: £12.6 billion); c. 40% increase with recent HS2 approval
- Investments portfolio decreased to £1.1 billion (2018: £1.2 billion); US military housing valuation reduced by £79 million
- 33% increase in full year dividends to 6.4 pence (2018: 4.8 pence)

(£ million unless otherwise specified)	2019		2018	
	Underlying[2]	Total	Underlying[2]	Total
Revenue[1]	8,405	8,411	7,802	7,814
Profit from operations	221	159	205	147
Pre-tax profit	200	138	181	123
Profit for the year	186	133	179	135
Basic earnings per share	26.7p	19.0p	26.3p	19.7p
Dividends per share		6,4p		4.8p

	2019	2018
Order book[1,2]	£14.3bn	£12.6bn
Directors' valuation of Investments portfolio	£1.07bn	£1.15bn
Net cash – recourse	512	337
Net cash – non-recourse[3]	(302)	(309)
Average net cash – recourse	325	194

Leo Quinn, Balfour Beatty Group Chief Executive, said: "Five years into our Build to Last transformation programme, we continue to drive a culture of transparency, risk management and relentless improvement. Having focused Balfour Beatty's geographic and operational footprint, we have invested significantly in capability, innovation and standard systems and processes.

"In this way we have created a scalable business which – together with the increasing order book – gives us confidence that the Group will continue to deliver profitable managed growth and cash generation on a sustainable basis.

"We are committed to delivering value from this performance. The Group is continuing to pay down around £150 million of borrowings in 2020 and in addition, the Board will review Balfour Beatty's capital structure once there is clearer understanding of the COVID-19 situation."

Notes:

[1] Including share of joint ventures and associates, before non-underlying items

[2] Before non-underlying items (Note 9)

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

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

Investor and analyst enquiries:
Angus Barry
Tel. +44 (0)20 7216 6824
angus.barry@balfourbeatty.com

Media enquiries:
Antonia Walton
Tel. +44 (0)20 7963 2150
antonia.walton@balfourbeatty.com

Investor and analyst presentation:

A presentation to investors and analysts will be made at Farmer and Fletchers, 3 Cloth St, London, EC1A 7LD on Wednesday 11 March at 09:00.

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

GROUP CHIEF EXECUTIVE'S OVERVIEW

Results: Strong financial performance

The 2019 results clearly demonstrate that the benefits of the Build to Last transformation programme are accelerating. Year end net cash was over £500 million, with average net cash up 68%, and the Group's strong balance sheet is underpinned by the Investments portfolio of £1.1 billion. Managed growth is delivering increasing returns, with underlying profit from operations at earnings-based businesses up 22% and the year end order book up 13%. As a result, the Board has decided to recommend an 33% increase in the dividend.

Markets: continued strategic selection

The trading environment for Balfour Beatty's chosen markets and sectors remains positive. The 13% growth in order book, driven by US Construction, was achieved while maintaining strong bidding discipline. The business is continuing to win work on more favourable terms and conditions resulting in improving margins with a lower risk profile. Within this strategy, Balfour Beatty has taken the decision to further de-risk the business by not re-bidding gas contracts under RIIO-GD2, since the terms and conditions do not meet the Group's minimum expectations. This has resulted in a non-cash non-underlying goodwill impairment of £58 million.

HS2: transformative infrastructure scheme

The UK government's decision to proceed with Europe's largest infrastructure project gives the entire industry and its associated supply chain much needed certainty. Balfour Beatty's year end order book does not include the two HS2 civils packages and the Old Oak Common station contract which have been awarded but not yet contracted. These contracts are expected to add over £3 billion to the order book in the first half of 2020. Their inclusion would more than double the UK Construction order book and represents a c.40% increase for the Group compared to the end of 2018.

US Military housing: update

Balfour Beatty Communities (BBC) manages more than 43,000 family housing properties across 55 Army, Navy and Air Force bases under long term concessions. In June 2019, allegations about the handling of certain work orders were publicised about bases managed by BBC. Balfour Beatty instructed outside counsel to conduct an investigation into the allegations, and BBC proactively contacted the Department of Justice (DoJ) to notify them of the review. The DoJ subsequently announced an investigation and BBC is cooperating fully. At this stage, the investigation is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum.

In the year, the Directors' valuation of the Investments portfolio reduced to £1.1 billion (2018: £1.2 billion), primarily as a result of a £79 million reduction in the valuation of the military housing portfolio to £453 million (2018: £532 million). Assumptions, including future rental income, project costs and incentive fees, have been examined both on a project specific basis and with reference to the changing dynamics.

Build to Last: Lean, Expert, Trusted, Safe

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

Lean: The governance and processes introduced during Build to Last continue to drive improved efficiency and effectiveness in all business segments. In 2019, the Group achieved industry standard margins in all earnings-based businesses for the full year.

Costs were further reduced in 2019. Since 2015, operating costs at constant exchange rates have been reduced by over 40% or around £200 million. The Group's continual focus on cash generation is best demonstrated by the average net cash of £325 million – ahead of previous guidance and 68% up on 2018.

As a key part of its strategy to create value by achieving market leadership, the Group has invested over £500 million since 2015 in equity assets (Infrastructure Investments), capex (plant and fleet) and capability (training and development), whilst retiring around £300 million of debt.

Expert: Customers buy Balfour Beatty's services due to the expert capabilities of the Group and its employees; therefore attracting and retaining the top talent in the industry has been and remains fundamental to the Group's strategy of delivering value from its leading positions in growing infrastructure markets.

In December 2019, Balfour Beatty came top in the Heavy Construction category in the 2019 awards for Britain's Most Admired Companies – the longest-running annual survey of UK corporate reputation. Balfour Beatty was praised for its quality of management, inspirational leadership and corporate governance, as well as its commitment to diversity and inclusion and its global competitiveness. In addition, the company was commended for attracting, training and retaining market-leading experts to offer customers the best capabilities whilst providing the quality leadership required to drive forward world class projects across its geographically diversified business.

In 2019, the voluntary attrition rate in the UK continued to fall, with the twelve month rolling average at 11% (2018: 12%). The employee survey results also continued their positive trend with the participation rate increasing to 76% (2018: 72%). The employee engagement index (four questions measuring satisfaction, advocacy, motivation and retention) has risen by 6% since the introduction of the standardised measure in 2015 and is now at a new high of 66% (2018: 65%). The survey provides a clear tracker of progress in creating the kind of company and culture where people want to work and develop fulfilling careers, which is of key importance given the strong order book and growth in chosen markets.

Balfour Beatty continues its sponsorship of The 5% Club, which encourages employers to provide 'earn and learn' training opportunities to help address the UK's skills gap and drive economic prosperity more widely across society. During 2019, Balfour Beatty recruited 119 apprentices, 86 graduates and 22 trainees. The percentage of the UK workforce in 'earn and learn' positions at year end stood at 5.4%.

Trusted: Balfour Beatty is trusted to "do what we say we will do" and is measured on this metric by customer satisfaction. The Group continues to embed a culture of active risk management by underpinning strict adherence to Build to Last disciplines with investment in IT-based processes and controls. These include the Gated Lifecycle process, the Digital Briefcase and Project on a Page. Together, these provide management with a clear, consistent line of sight on all stages of work being bid and delivered, together with key tools for managing commercial risk and project execution. In 2019, around 3,000 customer satisfaction reviews were carried out with the Group customer satisfaction score at 94% (2018: 97%).

Safe: Construction is an inherently dangerous industry. It is therefore essential that the safety and health of everyone who comes into contact with Balfour Beatty is the top priority. Each week the Executive Committee reviews the safety performance of each of the business units with particular attention to lessons which should be learned from any high potential near miss incidents as well as gauging the status of the Group's safety culture. The Group's Lost Time Injury Rate (excluding international joint ventures) continued to fall to 0.14 (2018: 0.15) and is now less than 50% of the rate when the Build to Last programme commenced. However, it is a tragedy that in 2019 one colleague in the UK and two in Gammon suffered fatal injuries following separate accidents.

Outlook

Five years into its Build to Last transformation programme, Balfour Beatty continues to drive a culture of transparency, risk management and relentless improvement. It has focused its geographic and operational footprint while investing significantly in capability, innovation and standard systems and processes. This has created a scalable business model which together with the increasing order book gives the Board confidence that it will continue to deliver profitable managed growth and cash generation on a sustainable basis.

The Group is committed to delivering value from this performance. It is continuing to pay down borrowings with US$46 million of US private placement notes repaid in early March 2020, and £112 million of preference shares to be repaid in July 2020. In addition, the Board will review Balfour Beatty's capital structure once there is clearer understanding of the COVID-19 situation.

While COVID-19 continues to evolve, Balfour Beatty is monitoring developments closely, looking to mitigate the risk that it may have on the Group's employees, customers and supply chain. At this point in time, all sites and offices in the UK, the US and Hong Kong remain open. However, it is too early to fully assess any impact of the outbreak on the operational and financial performance of the Group.

RESULTS OVERVIEW AND OUTLOOK

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

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

Group financial summary

In 2019, the Group reported an underlying profit from operations of £221 million (2018: £205 million), as for the first time UK Construction, US Construction and Support Services (earnings-based businesses) all reported underlying PFO margins in the range of industry standard margins for the full year.

The focus on profitable managed growth is having a significant impact on Balfour Beatty's financial performance both in terms of profit, with more efficient overhead absorption, and cash, with the associated working capital benefit. The 9% increase in revenue for 2019 from the earnings-based businesses delivered a 22% increase in underlying profit from operations across the Group's chosen markets in the UK, US and Hong Kong.

In 2019, cash performance was particularly strong. Operating cash flows at £213 million (2018: £127 million) were the main contributor, as the working capital inflow during the year of £32 million (2018: £229 million outflow) returned to a more normalised level. This resulted in an increase in net cash at year end to £512 million (2018: £337 million). The average monthly net cash for the year at £325 million (2018: £194 million) was significantly ahead of the original £220 - £260 million guidance range provided in March 2019.

The Group continues to have one of the strongest balance sheets in the sector with customers increasingly recognising this competitive advantage. Net assets increased from £1,241 million to £1,377 million.

The order book increased by 13% to £14.3 billion (2018: £12.6 billion), up 15% at constant exchange rates (CER) while maintaining strong bidding discipline. The increase was driven by US Construction, where the Buildings business won significant mixed-use projects across a number of regions, and Support Services where the first tranche of the ten year Central Track Alliance has been included in the order book. The year end order book does not include the HS2 Lots N1 and N2 civils contracts or Old Oak Common station. These contracts are expected to add over £3 billion to the order book in the first half of 2020.

The Group's financial position was further strengthened by the successful refinancing of the core revolving credit facility entering into a £375 million agreement that extends to October 2022 and reaching a new triennial agreement with the trustees of the Balfour Beatty Pension Fund with no material change to the deficit payments to be made by the Group.

Underlying revenue was up 8% at £8,405 million (2018: £7,802 million), up 5% at CER. Statutory revenue, which excludes joint ventures and associates, was £7,313 million (2018: £6,634 million).

Construction Services underlying revenues were up 12% (9% at CER) at £6,858 million (2018: £6,127 million) as a result of higher volume in both the UK and US. Support Services revenue decreased by 7% to £1,023 million (2018: £1,104 million) as expected following lower volumes in the power transmission and distribution business and the conclusion of the Area 10 highways maintenance contract.

In the earnings-based businesses underlying profit from operations increased 22% to £172 million (2018: £141 million), which contributed to the 8% increase in the Group's underlying profit from operations to £221 million (2018: £205 million). Statutory profit from operations increased to £159 million (2018: £147 million).

Underlying profit from operations[2]	2019 £m	2018 £m	%age change
UK Construction	47	28	68%
US Construction	52	44	18%
Gammon	26	23	13%
Construction Services	125	95	32%
Support Services	47	46	2%
Earnings-based businesses	172	141	22%
Infrastructure Investments pre-disposal operating profit	13	15	(13)%
Infrastructure Investments profit on disposals	69	82	(16)%
Corporate activities	(33)	(33)	-
Total	221	205	8%

[2] Before non-underlying items (Note 9)

UK Construction achieved an underlying profit from operations of £47 million (2018: £28 million) representing a 2.1% underlying profit from operations (PFO) margin (2018: 1.5%). US Construction delivered a profit from operations of £52 million (2018: £44 million), representing an improved PFO margin of 1.4% (2018: 1.3%). Gammon, the Group's 50:50 joint venture with Jardine Matheson based in Hong Kong, also reported an increase in profit from operations with Balfour Beatty's share at £26 million (2018: £23 million). In Support Services, underlying profit from operations and PFO margin improved to £47 million (2018: £46 million) and 4.6% (2018: 4.2%) respectively. Infrastructure Investments decreased from prior year, as in 2018 the sell-down of Infrastructure Investments generated £82 million profit on disposals compared to £69 million of profit on disposals from the portfolio in 2019.

Net finance costs decreased to £21 million (2018: £24 million) as a result of lower interest costs as the Group continued to pay down debt. Underlying pre-tax profit increased 10% to £200 million (2018: £181 million).

The taxation charge on underlying profits increased to £14 million (2018: £2 million) due to the higher profits in the US during the year. In both 2018 and 2019 the tax charge has benefitted from the recognition of deferred tax assets for some of the Group's historical UK tax losses. In 2019, the benefit to the tax charge on underlying profits was £28 million (2018: £38 million) which has been driven by improving UK market conditions following the approval of HS2.

Underlying profit after tax of £186 million (2018: £179 million) represents a £7 million increase for the year. Underlying basic earnings per share were 26.7 pence (2018: 26.3 pence), which, along with a non-underlying loss per share of 7.7 pence per share (2018: 6.6 pence loss), gave a total basic earnings per share of 19.0 pence (2018: 19.7 pence). Total statutory profit after tax for the year was £133 million (2018: £135 million), as a result of the net effect of non-underlying items.

Non-underlying items

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

Non-underlying items after taxation were a net charge of £53 million to the profit for the year (2018: £44 million charge).

Following the Group's decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts under the current RIIO-GD1 cycle, the Group has reassessed the long term outlook for its gas and water cash generating unit (CGU). This reassessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58 million (2018: £nil). This charge has been treated as a non-underlying item. Other non-underlying items were a £6 million charge relating to the amortisation of acquired intangible assets, a £2 million credit for release of provisions relating to settlements of health and safety claims and a £9 million tax credit for recognition of additional UK deferred tax assets resulting from pension actuarial gains.

Cash flow performance

The total cash movement in the year resulted in a £175 million increase (2018: £2 million) in the Group's year end net cash position to £512 million (2018: £337 million) excluding non-recourse net borrowings. This performance was driven by cash inflows from operations, dividends from joint ventures and associates and net disposal proceeds, partially offset by IFRS 16 lease payments, ordinary dividends paid and capital expenditure.

Cash flow performance	2019 £m	2018 £m
Operating cash flows	213	127
Working capital inflow/(outflow)	32	(229)
Pension deficit payments+	(33)	(30)
Cash from/(used in) operations	212	(132)
Lease payments including interest paid (reclassified under IFRS 16)	(51)	-
Dividends from joint ventures and associates∞	54	76
Capital expenditure	(24)	(41)
Ordinary dividends	(36)	(27)
Infrastructure Investments		
- disposal proceeds	102	187
- new investments	(64)	(58)
Other	(18)	(3)
Net cash movement	175	2
Opening net cash*	337	335
Closing net cash*	512	337

* Excluding infrastructure concessions (non-recourse) net borrowings

∞ Excludes £41 million dividends received in 2019 in relation to Investments asset disposals within joint ventures and associates

\+ Includes £3 million (2018: £3 million) of regular funding

Working capital

In the year, the Group's working capital position resulted in an inflow of £32 million (2018: £229 million outflow). Trade and other payables increased during the year, creating a working capital inflow of £157 million, which was partially offset by increases in trade and other receivables and net contract assets, creating working capital outflows of £56 million and £30 million, respectively. The primary driver of the large inflow from trade and other payables was the mobilisation of construction projects in the UK and US. Higher revenue in both these geographies also contributed to the increase which outweighed the improved supply chain payment processes made in the UK during the year.

In 2018, the Group's working capital position resulted in an outflow of £229 million, primarily as a result of significant cash outflows on the Aberdeen Western Peripheral Route (AWPR) project, reduced working capital as a result of the expected decline in revenues in US Construction, and improved supply chain payment processes.

Working capital flows^	2019 £m	2018 £m
Inventories	(18)	(16)
Net contract assets	(30)	51
Trade and other payables	157	(196)
Trade and other receivables	(56)	12
Provisions	(21)	(80)
Working capital inflow/(outflow)^	32	(229)

^ Excluding impact of foreign exchange and disposals

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £725 million at year end (2018: £680 million).

Prompt Payment Code

Balfour Beatty was reinstated to the Prompt Payment Code (PPC) in the UK on 22 January 2020. The Group had been suspended along with a number of other companies, in April 2019, with an action plan for reinstatement subsequently agreed by the Code administrators in June 2019.

Over the past 24 months the Group has consistently improved its UK payment statistics. The percentage of invoices paid within 60 days, including disputed invoices, for the last six months of 2019 was 90%.

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

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.

From 1 October 2020 the UK's new VAT Domestic Reverse Charge regulations for construction services are expected to come into effect, which may impact the ability of the Group's supply chain to accurately invoice Balfour Beatty.

Net cash/borrowings

The Group's average net cash in 2019 improved significantly to £325 million (2018: £194 million). The Group's net cash position at 31 December 2019, excluding non-recourse net borrowings, was £512 million (2018: £337 million). Non-recourse net borrowings, held in infrastructure concession entities consolidated by the Group, decreased to £302 million (2018: £309 million). The balance sheet also includes £110 million (2018: £106 million) for the liability component of the preference shares and £120 million for lease liabilities following the adoption of IFRS 16 (2018: £nil). Statutory net debt at 31 December 2019 was £20 million (2018: £78 million).

The repayment of the preference shares in July 2020 will reduce cash without a corresponding reduction in the level of debt as the Group does not take preference shares into account in its measure of net cash/borrowings in line with the definition of net debt set out in the Group's borrowing facilities.

Banking facilities

In October, the Group successfully concluded the refinancing of its core revolving credit facility, entering into a £375 million agreement that extends to October 2022. The terms of the new facility are substantially unchanged. The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. The agreement includes two one year extension options, to take final maturity to October 2024, with the agreement of the lending banks. At 31 December 2019, this facility was undrawn.

The Group does not undertake supply chain financing arrangements. In 2018, the last remaining bank supported facilities were closed.

Adoption of IFRS 16 Leases

On 1 January 2019 the Group transitioned from IAS 17 to IFRS 16. As outlined in the 2018 accounts, the Group elected to use the cumulative effect approach which does not require restating comparative years. On transition the Group recognised £121 million of right-of-use assets and £129 million of corresponding lease liabilities. No adjustment was made to opening equity; the difference between the assets and liabilities relates to reclassification of items previously included on the balance sheet and offset against the right-of-use assets.

For 2019, the right-of-use asset depreciation charge included in Group operating profit was £45 million and a £6 million interest expense was recognised within finance costs. Within the cash flow statement, in accordance with accounting standards, the £51 million cash expense is included in the statement of cash flows within financing activities, of which £6 million relating to interest is included in interest paid. Under IAS 17, all items would have been included in operating activities. At 31 December 2019, the Group has recognised right-of-use assets of £113 million and corresponding lease liabilities of £120 million.

The Group excludes IFRS 16 lease liabilities from its measure of net cash/borrowings as they are excluded from the definition of net debt set out in the Group's borrowing facilities.

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

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

The Group's balance sheet includes net retirement benefit assets of £133 million (2018: £54 million) as measured on an IAS 19 basis, with the surplus on the BBPF partially offset by deficits on the RPS and other schemes.

Markets

Balfour Beatty has a diversified portfolio of businesses, in its three chosen geographies of the US, the UK and Hong Kong, and the three chosen sectors of Construction Services, Support Services and Infrastructure Investments. This focus was arrived at by assessing the attractive growth characteristics of each area, and the Group's strong market positions therein. Having over 50% of both its order book and the Infrastructure Investments portfolio dollar denominated increases the Group's resilience against cyclicality in any one geography or sector, or any individual project.

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable, particularly in the UK, following government approval of HS2. The recent announcement to proceed with HS2 gives much needed certainty for the entire industry and its associated supply chain. At the same time, new nuclear power capacity at Hinkley Point C is well under construction and the second Road Investment Strategy (RIS2) for Highways England has a record budget of £25 billion for the 2020-2025 period.

In the US, the Buildings business operates in specifically chosen regions. As the population migrates south and west, it is moving to cities, driving urbanisation in the Group's chosen markets. This leads directly to increased demand for buildings and infrastructure. With blue chip repeat customers, such as Disney and Microsoft, and significant state backed education bonds (US$35 billion in California) the Group's opportunities in Buildings are robust as evidenced by the increasing order book. In Civils, the Group is focused on road, rail and water projects. These large and growing markets are supported by the c. US$77 billion 2020 Unified Transportation Program (UTP) from the Texas Department of Transportation (TxDOT), a number of state-backed infrastructure bonds (over US$200 billion of multi-state transportation bonds) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming, including two new terminal buildings and other works associated with the third runway at the international airport; a ten year housing target; a ten year hospital development plan; and continued investment in transportation infrastructure.

In Support Services, the power transmission and distribution market is set to grow after a short term reduction in spend through 2019. In the water business, Balfour Beatty will continue to selectively bid for projects where the Group's expertise delivers value for clients at an appropriate risk return ratio. On this basis, the Group has taken the strategic decision not to re-bid gas contracts under RIIO-GD2 because the terms and conditions do not meet the Group's expectations. The transportation market, which includes major rail and road maintenance works, is positive given the increased funding under Network Rail's Control Period 6 (CP6) programme and as work continues on the M25 Connect Plus contract.

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

Dividend

Following the 2.1 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 4.3 pence per share, giving a total recommended dividend for the year of 6.4 pence per share (2018: 4.8 pence). The Board recognises the importance of dividends to shareholders and expects to deliver a continuation of the progressive dividend policy.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

Construction Services continued to make good progress during 2019 with increasing revenue, profit, PFO margin and order book. Both UK Construction and US Construction achieved industry standard margins for the full year.

Construction Services	2019				2018			
	Rev[1]	PFO	PFO	Order book[1]	Rev[1]	PFO	PFO	Order book[1]
	£m	£m	%	£bn	£m	£m	%	£bn
UK	2,213	47	2.1	3.0	1,900	28	1.5	3.0
US	3,752	52	1.4	6.5	3,329	44	1.3	5.2
Gammon	893	26	2.9	1.6	898	23	2.6	1.6
Underlying[2]	6,858	125		11.1	6,127	95		9.8
Non-underlying	6	1		–	12	(49)		–
Total	6,864	126		11.1	6,139	46		9.8

[1] Including share of joint ventures and associates, before non-underlying items

[2] Before non-underlying items (Note 9)

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

Underlying revenue increased by 12% to £6,858 million (2018: £6,127 million), a 9% increase at CER. Revenues increased by 16% in the UK and 13% in the US (8% at CER), whilst Gammon's revenues decreased by 1% (5% at CER).

UK Construction recorded a 2.1% PFO margin, within the UK industry standard margin target range of 2-3%. The 1.4% PFO margin at US Construction was also within the US industry standard margin target range of 1-2%.

The order book at £11.1 billion (2018: £9.8 billion) increased by 13% (16% at CER) since the end of 2018 due to a 25% increase in the US (30% at CER), while UK Construction and Gammon were directly in line. The increase occurred whilst maintaining the Group's policy of selective bidding. Following approval of HS2 by the UK government in February 2020, Balfour Beatty expects to book over £3 billion of contracts in the first half of 2020.

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

Operational review

UK

Underlying revenue in the UK increased by 16% to £2,213 million (2018: £1,900 million) – the first year revenue has increased during the managed growth strategy under Build to Last. Underlying profit from operations showed an improvement to £47 million (2018: £28 million) with an associated PFO margin of 2.1% (2018: 1.5%). Importantly, the Aberdeen Western Peripheral Route (AWPR) project, which had negatively impacted results in prior periods, was completed during the year.

The HS2 main civils works and Old Oak Common station contracts are not included within the £3.0 billion order book (2018: £3.0 billion). They will only be included on the final signing of the main civils works contracts, which following the recent UK government approval of the project, is now expected in the first half of 2020. The Group expects to book over £3 billion of orders relating to the HS2 awards – which would more than double the 2019 year end UK Construction order book.

The recent announcement to proceed with HS2 gives much needed certainty for the entire industry and its associated supply chain. At the same time, new nuclear power capacity at Hinkley Point C is well under construction and the second Road Investment Strategy (RIS2) for Highways England has a record budget of £25 billion for the 2020-2025 period.

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

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

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

In February 2019, the final section of the AWPR project was fully opened to traffic. In addition to the 58 kilometres of dual carriageway, the project included the construction of 40 kilometres of side roads, 30 kilometres of access tracks and more than 100 new structures, as well as two bridges over the rivers Dee and Don. In February 2020, the Aberdeen Roads Limited joint venture reached a commercial settlement with the client to resolve its claim on the construction of the AWPR. Balfour Beatty received £32 million as part of the agreement, with no material change to the Group's balance sheet position.

During the year, significant progress has been made on flagship projects. Since January 2019, a Balfour Beatty VINCI joint venture has been working on the M4 Smart Motorway contract. The project is converting the hard shoulder into an additional lane for traffic and introducing electronically policed variable speed restrictions between junction 3 of the M4, just inside the M25 near Heathrow Airport, and junction 12 at Theale, west of Reading. Site works on the Western section are progressing well, with the Eastern section now mobilising.

At the UK's largest current road project, the A14 in Cambridgeshire, construction continues to progress well. The 21-mile project between Cambridge and Huntingdon is upgrading the road from two to three lanes in each direction including a brand new 12-mile bypass south of Huntingdon. Sections 1-3, including the 750-metre River Great Ouse viaduct, were opened ahead of schedule in December 2019. The full upgrade, which is due to complete in Spring 2020, includes the construction of 34 bridges and structures.

On HS2, early contractor involvement (ECI) has been ongoing on the main civils works, which were awarded as two-part design and build contracts in July 2017. Balfour Beatty/VINCI, a 50:50 joint venture, won two Lots around Birmingham, N1 and N2. In September 2019, HS2 also awarded a Balfour Beatty/VINCI/SYSTRA joint venture a contract to manage the construction of the Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in that joint venture, with SYSTRA having the remaining 16.5%. These contracts will only be included in the order book on signing of the main civils works contracts, which is now expected in the first half of 2020. Procurement processes are back underway on the rail systems contracts. In 2018, Balfour Beatty VINCI submitted the HS2 pre-qualification response for the combined railway systems Lots 1 (track and overhead catenary system works) and 2 (tunnel and open route mechanical and electrical works).

On Crossrail, Balfour Beatty's two remaining major projects – C512 (Whitechapel Station) and C530 (Woolwich Station) – made good progress during the year. C530 is effectively complete and, in December, C512 reached Stage Completion Two. C512 is planned to complete in 2020, in line with the revised project schedule.

At Hinkley Point C, Balfour Beatty's expanding team continues to make positive progress on the project to construct a pair of six-metre diameter underwater tunnels to supply the nuclear power station with cooling water and a third seven-metre diameter tunnel to discharge heated water back into the Bristol Channel. Three tunnel boring machines will use rotating cutting heads to excavate a total of 9 kilometres of tunnel – the two 3.5-kilometre intake tunnels and one 1.8-kilometre outfall tunnel. In Avonmouth, Balfour Beatty has built an offsite precast segment facility to make the concrete sections required to line the tunnels consistent with the Group's 25 by 2025 vision to reduce onsite activity by 25% by 2025.

The Regional business comprises:

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

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

During Build to Last, there has been a shift towards a lower risk contract portfolio in the Regional business, with a reduction in the number of fixed price contracts offset by an increase in target cost (negotiated tender) contracts and framework agreements. Both target cost contracts and framework agreements require early contract involvement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties.

The Group's largest framework agreement is the Scape National Civil Engineering and Infrastructure framework. In October 2018, it was announced that Balfour Beatty had been appointed as the sole contractor to Scape's second generation civil engineering frameworks, valued at a combined total of up to £2.1 billion over four years (2019-2022). The Scape National Civil Engineering framework, which is valued at £1.6 billion, covers England, Wales and Northern Ireland, while the Scape Civil Engineering - Scotland framework, valued at £500 million, covers Scotland. The frameworks allow local authorities, local enterprise partnerships and other public sector bodies to commission works through a procurement process that provides the fastest route to market and utilises early contractor engagement to deliver best value design solutions.

In 2019, the Regional business completed the National Automotive Innovation Centre (NAIC) in Coventry for the University of Warwick. This 33,000 square metre development on the existing main campus of the University of Warwick included the construction of a four-storey 'L' shaped building that houses state-of-the-art teaching facilities, as well as research and development, design and engineering facilities. Other projects completed during the year included: engineering and training facilities at RAF Marham in Norfolk; piling at the One Nine Elms project in London; the Fry Building at the University of Bristol; and the Telford Footbridge project.

The Regional business has continued to make good progress at the University of Sussex student village. The first phase (East Slopes) is replacing the previous 600-bed facility on the University's campus with a new living space comprising 2,000 new bedrooms and innovative student amenities, including a new student union facility. Other material ongoing projects include: the seven-storey 'MEC Hall' building at the £287 million Manchester Engineering Campus Development (MECD) project; the £150 million Madison Tower, a 53-storey residential building in Canary Wharf, London, which topped out in June; the renovation and new-build scheme at No.1 Palace Street in St James', London; the 10-kilometre bypass connecting Caernarfon and Bontnewydd in North Wales; and phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park.

The Regional business had a number of notable new contract awards in the year including:

- Midland Met Hospital: a £267 million contract on behalf of Sandwell and West Birmingham Hospitals NHS Trust, having been appointed to complete the hospital following the liquidation of Carillion. Early works started in 2018, and the main award was signed in 2019 allowing Balfour Beatty to progress with the main construction works to the 80,000 square metre hospital including the completion of the external façade, with all associated mechanical, electrical and plumbing services, to be delivered by Balfour Beatty Kilpatrick;
- East Leeds Orbital Route: a £83 million contract for enhancements to the outer ring road (A6120) in Leeds;
- Edinburgh Futures: a £70 million contract to deliver the Edinburgh Futures Institute, a flagship refurbishment and extension project on behalf of the University of Edinburgh; and
- Community Hospitals: contracts worth a combined £38 million for the construction of two new community hospitals at Broadford (Skye) and Aviemore in Scotland.

Included in ABNC at 31 December 2019, the Group has been selected as preferred bidder for the following significant projects: the redevelopment of the Darwin Building at the University of Edinburgh; a further two retirement homes for Audley Retirement; two schools in Bishop's Stortford; and the next phase of the Lewisham Gateway scheme.

US

Underlying revenue in the US increased by 13% in the year (8% at CER) to £3,752 million (2018: £3,329 million) following the increase in the order book during 2018. The business reported an underlying profit from operations for the year of £52 million (2018: £44 million). The underlying PFO margin was 1.4% (2018: 1.3%), within the 1-2% industry standard margin target range. The rate of progress achieved by the Buildings business has been partially offset by the Civils business.

The 25% (30% at CER) increase in the US order book since the end of 2018 to £6.5 billion (2018: £5.2 billion) follows another twelve months of strong work winning. The most notable award was the US$1.7 billion Interstate 635 LBJ East project for the Texas Department of Transportation, for which Balfour Beatty's Civils business has a 45 percent share in the joint venture. The Buildings business order book also increased, with the Northwest division booking more work from Microsoft's campus modernisation in Redmond, Washington and winning new projects including Block 216 in Portland, Oregon, and 1001 Office Towers in Seattle, Washington. In addition, the Texas division won more work with the Harris Methodist's Surgery Tower and Legacy West projects in the Dallas / Fort Worth area and the Florida division won a multi-phase contract for the expansion of the Broward County Convention Center. The quality of bookings is consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities.

In the US approximately 85% of revenues are generated from the general building market (Buildings), with the civil infrastructure market (Civils) accounting for the remaining 15%. The Buildings business operates in specifically chosen regions. As the population migrates south and west, it is moving to cities, driving urbanisation in the Group's chosen markets. This leads directly to increased demand for buildings and infrastructure. With blue chip repeat customers such as Disney and Microsoft, and significant state backed education bonds ($35 billion in California), the Group's opportunities in Buildings are robust as evidenced by the increasing order book. In Civils, the Group is focused on: road opportunities in Texas and North Carolina; mass transit rail projects in major cities across the country, including the electrification of existing lines; and water treatment and purification projects. These large and growing markets are supported by the c. US$77 billion 2020 Unified Transportation Program (UTP) from the Texas Department of Transportation (TxDOT), a number of state-backed infrastructure bonds (over US$200 billion of multi-state transportation bonds) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

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

In the year, Buildings completed a number of notable projects including:

- 500 Folsom: a 43-storey residential tower located in the South of Market (SOMA) district of San Francisco, California. This US$305 million project created 545 residential units;
- Disney Coronado Springs: this 15-storey, 450,000 square-foot project located in Orlando, Florida was valued at US$172 million. The project represents a continuation of previous Balfour Beatty work, and is the fastest design/delivery completed for Disney on a resort project to date;
- The Portland Building: a US$159 million renovation of a designated historical landmark in Portland, Oregon that used target-value design to complete the project early and under budget; and
- Apex High School: this new US$85 million, 384,000 square foot high school was completed in November 2019 for Wake County Public Schools.

During the year, good progress has been made on flagship projects including:

- LAX: in March 2019, the project joint venture broke ground on the Los Angeles International Airport's (LAX) Automated People Mover (APM) project for Los Angeles World Airports (LAWA). This project involves both the Buildings and Civils parts of the business;
- The University of North Carolina – Wilmington: in February 2019, Balfour Beatty broke ground on a project to deliver over 1,300 student housing beds located on campus;
- Capitol Crossing: located in Washington D.C., this project, which is due for imminent completion, is a 2.2 million square foot multi-phase development that includes two LEED Platinum certified 12-storey office buildings and a 700,000 square foot parking garage; and
- The Osprey: a 500,000 square foot mixed-use facility in Atlanta, Georgia, this project topped out in June 2019 and is scheduled for completion in early 2020.

The Buildings business had several notable new contract awards in the year including:

- Broward County Convention Center: in August, Balfour Beatty signed a construction agreement for the expansion of the Broward County Convention Center and new construction of an 800-room hotel. With enabling projects underway, the five-phase US$780 million project in Fort Lauderdale, Florida, will significantly increase Broward County's meetings, convention and exhibition capacity;
- Block 216: a mixed-use US$370 million contract to build five levels of below ground garage, eight levels of offices, 11 levels of hotel, and 14 levels of high-end apartments located in Portland, Oregon;
- The Wharf: Balfour Beatty has been selected to initiate Phase 2, which consists of US$305 million work contracts for the construction of office buildings and below ground parking garages in Washington D.C.;
- 1001 Office Towers (formerly Binary Office Towers): a US$253 million project in Seattle, Washington, won in June 2019 to construct a pair of office towers, both 15 storeys;
- Harris Methodist Surgery Tower: this US$192 million project located in Fort Worth, Texas, was awarded in October 2019 and includes a 600,000 square foot tower with three new parking garages;
- Jacksonville International Airport, Florida: the Jacksonville Aviation Authority has awarded Balfour Beatty a US$150 million contract for its terminal expansion project. The project includes construction of the new Concourse B that will add six gates;
- Legacy West: Balfour Beatty has been awarded a US$150 million 12-storey corporate office building consisting of 540,000 square feet of office space in Plano, Texas;
- 2100 Penn: Balfour Beatty has been contracted to build the US$137 million, 12-storey, 460,000 square foot building in Washington, D.C. with two wings connected by a ten-storey atrium, featuring new offices, 30,000 square feet of ground floor retail and three levels of below ground parking;
- Hoffman Town Center: in November 2019, in a 50:50 joint venture with Walsh Construction, Balfour Beatty was awarded the US$252 million Hoffman Town Center Lots 4/5 project, which consists of approximately 1 million square feet of development located in Alexandria, Virginia; and
- Juvenile Justice Center: in December 2019, a US$112 million contract for phase one of this development for the County of San Diego, California.

Included in ABNC at 31 December 2019, the business has been made preferred bidder for: a US$180 million contract for a mixed-use project on behalf of a real estate development company in Dallas, Texas; a US$100 million contract to deliver a private student housing development at Florida International University in Miami; and a US$85 million project to build a 200-unit senior living community in Kiawah Island, South Carolina.

The Civils business continues to operate in the largely regulated markets of road rail and water. In May 2019, Civils completed two rail projects in Denver, Colorado. Firstly, construction of the 11-mile Gold Line (G Line) connecting Union Station in downtown Denver to Wheat Ridge Station in the city's western suburbs and, secondly, the 2.3-mile extension of the Regional Transportation District's E, F and R light rail lines. Known as the Southeast Rail Extension during construction, the project added three new stations: Sky Ridge, Lone Tree City Center and Ridgegate Parkway. In November, the US17 bypass project, which shortens road trips in North Carolina by skirting the towns of Maysville and Pollocksville, opened to vehicles. Construction on the bypass started in October 2015 and was completed over six months early.

During the year, progress has been made on key contracts with mobilisation at both the US$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor Corporation) and US$1.08 billion Green Line extension (25% Balfour Beatty) joint venture projects. At Southern Gateway, an 11-mile stretch of road in Dallas, Texas, full scale production is underway, including roadway, bridges, walls and drainage. At Green Line, a 4.7-mile commuter rail extension in Boston, Massachusetts, the design is near complete and construction activities have commenced with activities underway including the building of noise walls, drilled shaft work and drainage. At Caltrain, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, full scale production is underway, with foundation works and overhead catenary system construction ongoing.

The most notable award for the Civils business in the year was the US$1.7 billion Interstate 635 LBJ East project for the Texas Department of Transportation. Balfour Beatty has a 45 percent share in the joint venture, with Fluor Corporation holding 55 percent. In October, Balfour Beatty was awarded a US$203 million contract by the North Carolina Department of Transportation to improve traffic on a 5.1-mile stretch of the US70 in James City, Craven County. The project will upgrade this section of the US70, which is one of the primary east-west corridors across eastern North Carolina, to interstate standards.

Gammon

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of underlying revenue decreased by 1% (5% at CER) to £893 million (2018: £898 million). Underlying profit increased to £26 million (2018: £23 million), and the order book remained stable at £1.6 billion. At this stage it is too early to assess the full effects of the COVID-19 virus on the Group's operations in Hong Kong.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant upcoming opportunities including: two new terminal buildings and other works associated with the third runway at the international airport; a ten year housing target; a ten year hospital development plan; and continued investment in transportation infrastructure. The order book is spread across a number of public and private customers. In Buildings, the focus is on the use of design for manufacture and assembly and modular construction to improve productivity and efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever engineering excellence, with a key area of future work likely to be from significant infrastructure programmes in Hong Kong and in Singapore.

During the year, the Buildings business completed work on the redevelopment of Somerset House into a 48-storey office building and the Civils business completed the Tuen Mun-Chek Lap Kok (TMCLK) South Viaduct project, which included the design and construction of a dual two-lane 1.6-kilometre viaduct over the sea.

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

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

- Advanced Manufacturing Centre (AMC): awarded the HK$4.75 billion works contract for the Hong Kong Science & Technology Parks Corporation. Located in Tseung Kwan O Industrial Estate, the project involves the construction of a nine-storey building block with a two-storey basement;
- Sands China: two Macau projects totalling HK$3.6 billion for Sands China. These projects will rebrand the Sands Cotai Central into the Londoner Macau;
- Kai Tak 6564 Residential Development: a HK$1.7 billion contract for two 31-storey luxury residential blocks for the Wheelock Group; and
- 139-147 Argyle Street: a HK$1.3 billion contract for three 20-storey luxury residential blocks for the Sino Group.

During the year, Gammon was chosen as a Grand Award winner at the Hong Kong Management Association Quality Awards 2019. The top award recognises the achievement of exceptional standards of quality and a lasting commitment to the process of quality management. Feedback from the judges included the comment that Gammon was a “progressive company that demonstrates effective leadership with passion and a clear focus on safety and innovations”. Gammon’s processes and systems were also considered to be well-deployed, enabling the company to “optimise the construction process and excel in the construction industry”. The judging panel consisted of respected captains of industry who carried out stringent assessments of management processes across seven focus areas: leadership; strategy; customers; workforce; operations; results and measurement; and analysis and knowledge management.

SUPPORT SERVICES

Financial review

Support Services had a transitional year in 2019, as an expected decline in revenue was successfully offset with higher margins such that overall underlying profit from operations increased.

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

Support Services revenue decreased by 7% to £1,023 million (2018: £1,104 million), as expected following lower volumes in the power transmission and distribution business and the conclusion of the Area 10 highways maintenance contract. Underlying profit from operations and PFO margin for the year improved to £47 million (2018: £46 million) and 4.6% (2018: 4.2%) respectively. The order book increased by 14% to £3.2 billion (2018: £2.8 billion) following the initial bookings from the ten year Central Track Alliance contract in transportation.

Following the Group’s decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group’s experience in managing historically underperforming contracts under the current RIIO-GD1 cycle, the Group has reassessed the long term outlook for its gas and water cash generating unit (CGU). This reassessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58 million (2018: £nil). This charge has been treated as a non-underlying item.

Support Services	2019	2018	%age change
Order book[1] (£bn)	3.2	2.8	14%
Revenue[1] (£m)	1,023	1,104	(7)%
Profit from operations[2] (£m)	47	46	2%
Non-underlying items (£m)	(58)	(7)	
Statutory profit from operations (£m)	(11)	39	
Underlying PFO margin[2] (%)	4.6%	4.2%	

[1] Including share of joint ventures and associates, before non-underlying items

[2] Before non-underlying items (Note 9)

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

Operational review

Underlying utilities revenue decreased by 15% to £551 million (2018: £651 million), driven by an expected decrease at power transmission and distribution. The utilities order book increased to £1.0 billion (2018: £0.9 billion) as an increase at power was only partially offset by the expected decline in gas and water as the current regulatory cycles approach the end of their periods in 2021 and 2020 respectively.

Performance at the power transmission and distribution business is now accelerating, following significant restructuring and cost removal, with the business consolidating its strategy to focus primarily on core clients and markets.

In the year, power transmission and distribution successfully completed the South Wales 400kV power line refurbishment for National Grid and has continued its good progress on both the Beauly-Keith and Fort Augustus-Fort William 132kV power line refurbishments for SSE. These three schemes provide critical regional refurbishments to existing lines originally constructed over 50 years ago.

The business recently won and has commenced construction on the National Grid Hinkley Point 400kV cabling project and has continued its work on the Eleclink project, in conjunction with the Rail business, to lay two 50-kilometre cables through the Channel Tunnel and connect them to converter stations in Northern France and Kent.

Notable new contract awards in the year included:

- Hinkley Point Overhead Lines: a £214 million contract to provide 400kV overhead lines from Hinkley Point C on behalf of National Grid. As part of the contract, Balfour Beatty will design, supply, install, test and commission a new overhead line spanning 48 kilometres and crossing through the Mendip Hills in Somerset. On completion, the new line will connect the power station with a new substation in Avonmouth, Bristol. This contract represents the fourth major piece of work won by Balfour Beatty for the new power station, following the electrical works package in 2015, the tunnelling and marine works package in 2017 and the 8.5-kilometre cabling contract won in 2018;
- Viking Link: a £90 million contract to deliver the British onshore civils works for the Viking Link Interconnector Project. Balfour Beatty will be responsible for the installation of 68 kilometres of high voltage cabling across Lincolnshire; and
- Littlebrook Power Station: a £50 million contract to replace a high voltage substation at Littlebrook Power Station in Kent on behalf of National Grid. Balfour Beatty will design, supply and construct the 400kV substation, utilising the capabilities of Balfour Beatty Ground Engineering to complete the ground engineering works. The project includes the installation of the cabling and overhead line connections to the national grid.

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

The water business is now coming towards the end of the UK water regulatory cycle (AMP6 2015-2020). Balfour Beatty has existing contracts with Thames Water, Anglian Water and United Utilities. Bidding under the AMP7 regulatory period (2020-2025) is currently underway.

Underlying transportation revenues increased by 4% to £472 million (2018: £453 million) as higher volumes at road maintenance contracts offset the conclusion of the Area 10 highways maintenance contract. The transportation order book increased to £2.2 billion (2018: £1.9 billion), due to a number of contract wins for Network Rail. At 31 December 2019, only £0.2 billion (out of Balfour Beatty's £1.2 billion share) of the ten year Central Track Alliance contract has been included in the order book.

Balfour Beatty continues to maintain, manage and operate major highway and road networks across the UK. The largest contract, M25 Connect Plus, will continue for another 20 years. In December, Balfour Beatty was awarded a six year £217 million contract by Lincolnshire County Council for the maintenance of highways assets. There is an option to extend the contract for a further six years. The Group will work with the Council to provide a safe and sustainable local road network through the maintenance of 9,000 kilometres of highways, carriageways and footpaths. Further, in July, Balfour Beatty was awarded a £34 million, one year extension for its Warwickshire Highways Maintenance Contract. This latest award, which extends the contract to 2025, marks the second extension on the original seven year contract following a history of good performance and effective asset management.

The rail services business won two significant contracts in the year as follows:

- Central Track Alliance: selected for Network Rail's £1.5 billion Central Track Alliance contract, Balfour Beatty has an 80% share in the ten year alliance which will be responsible for the development, design and delivery of track renewals and crossings, as well as associated infrastructure works across the London North West, London North East and East Midland routes; and
- London Underground: Transport for London re-appointed Balfour Beatty in February 2019 to deliver the new London Underground track renewals contract, valued at up to £220 million over four years. Balfour Beatty was first appointed in 2002, with the contract already extended on a number of occasions. The Group's detailed knowledge and experience of London Underground's infrastructure and systems, as well as its commitment to championing innovation, were instrumental in securing the contract.

INFRASTRUCTURE INVESTMENTS

Financial review

The business continues its strategy of optimising value through the disposal of operational assets, whilst also continuing to invest in new opportunities.

The Group achieves enhanced returns when Infrastructure Investments, Construction Services and Support Services deliver as one. There is an inherent advantage in bidding for projects when the Infrastructure Investments business utilises the expertise of Construction Services and Support Services. Additionally, the negative working capital generated in the Construction Services business provides opportunity for Infrastructure Investments.

Pre-disposals underlying operating profit was broadly consistent with prior year at £13 million (2018: £15 million). Underlying profit from operations at £82 million (2018: £97 million) was lower than the prior year, due to a decrease in profit on disposals. Net interest income remained consistent at £16 million (2018: £16 million) with underlying profit before tax at £98 million (2018: £113 million).

Infrastructure Investments	2019 £m	2018 £m	%age change
Pre-disposals operating profit[2]	13	15	(13)%
Profit on disposals[2]	69	82	(16)%
Profit from operations[2]	82	97	(15)%
Net interest income from PPP concessions[+]	16	16	-
Profit before tax[2]	98	113	(13)%
Non-underlying items	(5)	(2)	
Statutory profit before tax	93	111	

[2] Before non-underlying items (Note 9)

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

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

Operational review

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

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

BBC recognises it has faced operational challenges at some of the military bases where it manages properties. Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required BBC to develop a comprehensive Performance Improvement Plan. The plan, which includes a variety of objectives and performance metrics, was submitted in December 2019 and agreed with the Air Force in February 2020. A number of the initiatives set out in the plan have already been completed, including implementing a significant management restructuring to better align technical support and resident services and appointing a Transformation Director. BBC is working with the Air Force to ensure all the objectives are met. BBC is committed to improving the quality of service it provides to meet the expectations of its residents and military partners across the entire portfolio.

In response to these challenges, all military housing assumptions, including future rental income, project costs and incentive fees have been examined both on a project specific basis and with reference to the changing dynamics in the military housing sector which resulted in a reduction to the valuation of the military housing portfolio by £69 million. When incorporating distributions received, unwind of discount and foreign exchange movements in the year, the overall reduction in value was £79 million with the year end military housing portfolio valued at £453 million (2019: £532 million).

The military housing portfolio is made up of 21 special purpose vehicles which have the following characteristics. Each project is entitled to receive rent from the housing it manages (effective gross rent – EGR). From this income the project pays the operating costs including utilities, maintenance and insurance. In addition, it pays management fees based on a percentage of EGR to the property manager. The net operating income is the net of the gross rent and the costs above. From the net operating income the project must service the debt (interest and principal) incurred to construct, renovate and maintain the housing. After debt service, the project pays an incentive fee to the property manager, also based on a percentage of EGR but subject to a performance matrix of key performance indicators.
After this, the project pays a preferred return to the project owners based on a percentage of their initial investment. The residual cashflow after all of these payments is then split between the project owners and a re-investment account held on behalf of the military which is intended to be used to pay for future renovation and development of the housing stock of the project. These residual cashflow payments to the project owners are capped in some cases at a percentage of the equity initially invested. When money is spent from the re-investment account, there is also a percentage paid to the property manager from this account, for managing the renovation and development spend.

As project owner and property manager, Balfour Beatty receives the following income streams:

- base management fees (based on a percentage of EGR);
- incentive fees (based on a percentage of EGR, subject to performance);
- from the residual cash flow, preferred returns (based on a percentage of the original investment) and equity cashflow split (typically 10% of the residual cashflow); and
- renovation and development fees (based on a percentage of renovation and development spend).

The updated portfolio valuation has been negatively impacted by the following two key line items:

- operating costs: increases have been agreed with the Military, partly to improve the military family housing experience and partly to cover higher insurance costs. The higher costs lead to a lower equity cash flow split and renovation and development fees; and
- incentive fees: the prospective incentive fee matrix includes a higher discretionary portion than the historical agreement. Without a clear track record in the current environment, the Group has taken a more conservative view with regard to assumptions for the discretionary element of incentive fees.

In the private rented and regeneration sector, the North American business purchased 50% interests in each of: the 278-unit Waterchase Apartments in Largo, Florida; the Legends of Wolfchase 300-unit community in Bartlett, Tennessee; the 330-unit Landings at Lake Grey in Jacksonville, Florida; the 260-unit Paces Brook residential community development in Columbia, South Carolina; and the 270-unit Schillinger residential community development in Mobile, Alabama.

Balfour Beatty Communities (BBC) will perform property management services for the properties, leveraging its existing capabilities as the Group continues to focus on growth through value-add multifamily investments. The Group focuses on markets within the mid-Atlantic, Southeastern and Southwestern regions of the US where it has an existing footprint. BBC seeks opportunities that allow the in-house renovations and operations group to make capital improvements and elevate property performance to more effectively compete with top-tier communities in the marketplace. Yield requirements are competitive and commensurate with the risks attributed to each opportunity.

In the year, the Group disposed of the following ten assets:

- Borden Data Centre: its entire 50% interest in the Borden Data Centre project in Ontario, Canada;
- ITE College: its entire 50% interest in the ITE College West project in Singapore;
- North Island Hospitals: its entire 50% interest in the North Island Hospitals project in Vancouver Island, Canada which comprises the Campbell River and Comox Valley hospitals;
- Iowa student accommodation: its 100% interest in the Aspire at West Campus student accommodation project at the University of Iowa in Iowa City;
- Reno student accommodation: its 100% interest in the Ponderosa Village student accommodation project at the University of Nevada, Reno; and
- Multifamily housing: the Group disposed of its entire interests in five multifamily housing projects (Ranch at Pinnacle Point, Dallas 5 Portfolio, Mobile Alabama portfolio, Evergreen portfolio and Townlake of Coppell).

In addition, the Group reached financial close on the first phase of the East Wick and Sweetwater project. At 31 December 2019, two projects had not yet reached financial close (2018: three projects).

Directors' valuation

The Directors' valuation decreased by 7% to £1,068 million (2018: £1,151 million), as the number of disposals in the year and negative operational performance, including re-evaluation of the military housing portfolio, more than offset the unwind of discount. The number of projects in the portfolio decreased to 69 (2018: 74).

Movement in value 2018 to 2019

£m	2018	Equity invested	Distributions received	Sales proceeds	Unwind of discount	New project wins	Gains on sales	Operational performance	Foreign exchange	2019
UK	491	31	(19)	(25)	38	–	9	(11)	–	**514**
North America	660	33	(46)	(77)	49	13	16	(75)	(19)	**554**
Total	1,151	64	(65)	(102)	87	13	25	(86)	(19)	**1,068**

The Group invested £64 million (2018: £58 million) in new and existing projects. Cash yield from distributions amounted to £65 million (2018: £89 million) as the portfolio continued to generate cash flow to the Group net of investment.

The business continued its strategy of maximising value through recycling equity from operationally proven projects, whilst preserving interests in strategic projects that offer opportunities to the wider Group. Demand for high quality infrastructure assets in the secondary market continues to exceed supply and the Group will continue to sell investment assets timed to maximise value to shareholders.

In 2019, the Group received: £6 million from a sale of its 50% interest in Borden Data Centre in Canada; £25 million from the sale of its 50% interest in the ITE College West project in Singapore; £17 million from the sale of its entire 50% interest in the North Island Hospitals project in Vancouver Island, Canada; £14 million from the sale of its 100% interest in the student accommodation project at the University of Iowa in Iowa City; £7 million from the sale of its 100% interest in the student accommodation project at the University of Nevada, Reno; and £33 million from the sale of its interests in five multifamily housing projects (Ranch at Pinnacle Point, Dallas 5 Portfolio, Mobile Alabama portfolio, Evergreen portfolio and Townlake of Coppell). Unwind of discount at £87 million (2018: £96 million) is a function of moving the valuation date forward by one year with the result that future cash flows are discounted by one year less. Operational performance movements resulted in an £86 million decrease, primarily as a result of the re-evaluation of the military housing portfolio.

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

The Investments portfolio is slightly more weighted to North America (UK 48%, North America 52%) at 31 December 2019. Within the UK, roads is still the largest sector, whilst in North America US military housing represents the majority of the portfolio. The Investments portfolio includes over £900 million of projects that have completed the construction phase and are operational.

Portfolio valuation December 2019

Value by sector

Sector	**2019**	2018	**2019**	2018
	No. projects	No. projects	**£m**	£m
Roads	**13**	13	**206**	205
Healthcare	**3**	3	**112**	109
Student accommodation	**4**	4	**59**	43
OFTOs	**3**	3	**53**	50
Waste and biomass	**4**	4	**60**	41
Other	**4**	5	**24**	43
UK total	**31**	32	**514**	491
US military housing	**21**	21	**453**	532
Healthcare and other PPP	**2**	4	**17**	35
Student accommodation	**5**	7	**40**	46
Residential housing	**10**	10	**44**	47
North America total	**38**	42	**554**	660
Total	**69**	74	**1,068**	1,151

Value by phase

Phase	2019	2018	2019	2018
	No. projects	No. projects	**£m**	£m
Operations	**62**	64	**954**	1,003
Construction	**5**	7	**114**	130
Preferred bidder	**2**	3	**-**	18
Total	**69**	74	**1,068**	1,151

Value by income type

Income type	2019	2018	2019	2018
	No. projects	No. projects	**£m**	£m
Availability based	**22**	25	**389**	414
Demand – operationally proven (2+ years)	**38**	40	**517**	614
Demand – early stage (less than 2 years)	**9**	9	**162**	123
Total	**69**	74	**1,068**	1,151

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 8.3% (2018: 8.5%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.3% (2018: 8.2%). 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 discount rate would change the value of the UK portfolio by approximately £52 million. A 1% change in the discount would change the value of the North American portfolio by approximately £75 million.

OTHER FINANCIAL ITEMS

Financial risk factors and going concern

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

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12 month basis as at the June and December reporting dates. At 31 December 2019, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

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

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

- the Group has a strong and growing order book;
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates;
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had net cash balances of £512 million at 31 December 2019;
- the Group's portfolio of Infrastructure Investments comprises reasonably realisable securities which can be sold to meet funding requirements as necessary; and
- the Group has access to a committed credit facility totalling £375 million through to October 2022. At 31 December 2019, this facility was wholly undrawn.

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

MEASURING OUR FINANCIAL PERFORMANCE

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

Readers are encouraged to review this announcement in its entirety.

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

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 2017, 2018 and 2019 PSP awards. The 2017 PSP awards vested in 2019. Refer to page 134 of the Annual Report and Accounts 2019.

Measuring the Group's performance

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

Statutory measures

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

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

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

Performance measures

In assessing its performance, the Group has adopted certain non-statutory measures because, unlike its statutory measures, these cannot be derived directly from its financial statements.

The Group commonly uses the following measures to assess its performance:

a) Order book

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

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

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

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

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

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

		2019 £m	2018 £m
Order book (performance measure)		**14,339**	12,625
Less:	Share of orders included within the Group's joint ventures and associates	**(1,987)**	(2,013)
Less:	Estimated orders under framework agreements included in the order book disclosure	**(114)**	(358)
Add:	Transaction price allocated to remaining performance obligations in Infrastructure Investments+	**1,866**	2,641
Transaction price allocated to remaining performance obligations for the Group+ (statutory measure)		**14,104**	12,895

+ Refer to Note 4.3 in the Annual Report and Accounts 2019.

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 9.

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 2019 statutory results to performance measures

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

Reconciliation of 2019 statutory results to performance measures by segment

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

Reconciliation of 2018 statutory results to performance measures

	2018 statutory results £m	Non-underlying items: Build to Last restructuring costs £m	Intangible amortisation £m	Additional loss on AWPR contract £m	Loss on GMP equalisation £m	(Gain)/loss on disposals £m	Provision release on health & safety claims £m	Joint venture items £m	Results of Rail Germany £m	2018 performance measures £m
Revenue including share of joint ventures and associates (performance)	7,814	–	–	–	–	–	–	–	(12)	7,802
Share of revenue of joint ventures and associates	(1,180)	–	–	–	–	–	–	–	9	(1,171)
Group revenue (statutory)	6,634	–	–	–	–	–	–	–	(3)	6,631
Cost of sales	(6,263)	–	–	10	–	–	–	–	3	(6,250)
Gross profit	371	–	–	10	–	–	–	–	–	381
Gain on disposals of interests in investments	80	–	–	–	–	–	–	–	–	80
Amortisation of acquired intangible assets	(8)	–	8	–	–	–	–	–	–	–
Other net operating expenses	(319)	11	–	–	28	9	(13)	–	–	(284)
Group operating profit	124	11	8	10	28	9	(13)	–	–	177
Share of results of joint ventures and associates	23	–	–	–	–	–	–	5	–	28
Profit from operations	147	11	8	10	28	9	(13)	5	–	205
Investment income	35	–	–	–	–	–	–	–	–	35
Finance costs	(59)	–	–	–	–	–	–	–	–	(59)
Profit before taxation	123	11	8	10	28	9	(13)	5	–	181
Taxation	12	(2)	(2)	(2)	(5)	(3)	–	–	–	(2)
Profit for the year	135	9	6	8	23	6	(13)	5	–	179

Reconciliation of 2018 statutory results to performance measures by segment

Profit/(loss) from operations	2018 statutory results £m	Non-underlying items: Build to Last restructuring costs £m	Intangible amortisation £m	Additional loss on AWPR contract £m	Loss on GMP equalisation £m	(Gain)/loss on disposals £m	Provision release on health & safety claims £m	Joint venture items £m	Results of Rail Germany £m	2018 performance measures £m
Segment										
Construction Services	46	6	3	10	15	12	(2)	5	–	95
Support Services	39	5	–	–	13	–	(11)	–	–	46
Infrastructure Investments	95	–	5	–	–	(3)	–	–	–	97
Corporate activities	(33)	–	–	–	–	–	–	–	–	(33)
Total	147	11	8	10	28	9	(13)	5	–	205

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:

	2019 £m	2018 £m
Underlying profit from operations (section (b) and Note 5)	**82**	97
Add: Subordinated debt interest receivable[+]	**20**	21
Add: Interest receivable on PPP financial assets[+]	**9**	9
Less: Non-recourse borrowings finance cost[+]	**(13)**	(14)
Underlying profit before tax (performance)	**98**	113
Non-underlying items (section (b) and Note 5)	**(5)**	(2)
Statutory profit before tax	**93**	111

[+] Refer to Note 7 and Note 8.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2019 pence	2018 pence
Statutory basic earnings per ordinary share	**19.0**	19.7
Amortisation of acquired intangible assets net of tax	**0.9**	0.9
Other non-underlying items net of tax	**6.8**	5.7
Underlying basic earnings per ordinary share (performance)	**26.7**	26.3

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

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

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

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

f) Operating cash flow from operations (OCF)

The table below reconciles the Group's internal performance measure of OCF to the statutory measure of cash generated from operating activities as reported in the Group's Statement of Cash Flows (page 155 in the Annual Report and Accounts 2019).

Reconciliation from statutory cash generated from operations to OCF

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

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

Pension payments including deficit funding (£33 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) (£51 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 (£54 million inflow): dividends received from joint ventures and associates which are generated from non-disposal activities are included in the Group's OCF measure as these cash returns to the Group from cash flows generated from operating activities within joint ventures and associates. Under IFRS, these returns are classified as investing activities.

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

Operating cash flows relating to non-recourse activities (£7 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 year end. This is analysed using only elements that are recourse to the Group and excludes the liability component of the Company's preference shares, which is debt in nature according to statutory measures. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, as a result of adopting IFRS 16 Leases on 1 January 2019, the Group has recognised £129 million of lease liabilities on its balance sheet, which are also deemed to be debt in nature under statutory measures. Refer to Note 3.1.

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

Net cash/borrowings reconciliation

		2019 statutory £m	Adjustment £m	2019 performance £m	2018 statutory £m	Adjustment £m	2018 performance £m
Total cash within the Group		**778**	**(35)**	**743**	661	(70)	591
Cash and cash equivalents	– infrastructure concessions	**35**	**(35)**	**–**	70	(70)	–
	– other	**743**	**–**	**743**	591	–	591
Total debt within the Group		**(798)**	**567**	**(231)**	(739)	485	(254)
Borrowings – non-recourse loans		**(337)**	**337**	**–**	(379)	379	–
– other		**(231)**	**–**	**(231)**	(254)	–	(254)
Liability component of preference shares		**(110)**	**110**	**–**	(106)	106	–
Lease liabilities		**(120)**	**120**	**–**	–	–	–
Net (borrowings)/cash		**(20)**	**532**	**512**	(78)	415	337

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 the lease liabilities recognised as a result of adopting IFRS 16 on 1 January 2019. This performance measure shows average net cash of £325 million for 2019 (2018: £194 million).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and the lease liabilities) gives average net borrowings of £49 million for 2019 (2018: £76 million).

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.

The Directors have valued the Investments portfolio at £1.07 billion at year end (2018: £1.15 billion).

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

	2019 £m	2018 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**676**	653
Less: Recourse loans presented within Corporate activities relating to Infrastructure Investments projects	**–**	(15)
Less: Net assets not included within the Directors' valuation – Housing division	**(30)**	(25)
Comparable statutory measure of the Investments portfolio under IFRS	**646**	613

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

	2019 £m	2018 £m
Statutory measure of the Investments portfolio (as above)	**646**	613
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 • fair value	**422**	538
Directors' valuation (performance measure)	**1,068**	1,151

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

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

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 4.

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:

2019 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2019 statutory	2,214	3,737	–	5,951	991	371	7,313
2018 statutory	1,903	3,314	–	5,217	1,076	341	6,634
Statutory growth (%)	16%	13%	–	14%	(8)%	9%	10%
2019 performance^	2,213	3,752	893	6,858	1,023	524	8,405
2018 performance retranslated^	1,900	3,465	937	6,302	1,105	584	7,991
Performance CER growth (%)	16%	8%	(5)%	9%	(7)%	(10)%	5%
Order book (£bn)							
2019	3.0	6.5	1.6	11.1	3.2	–	14.3
2018	3.0	5.2	1.6	9.8	2.8	–	12.6
Growth (%)	–%	25%	–%	13%	14%	–	13%
2019	3.0	6.5	1.6	11.1	3.2	–	14.3
2018 retranslated	3.0	5.0	1.6	9.6	2.8	–	12.4
CER growth (%)	–%	30%	–%	16%	14%	–	15%

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

Forward-looking statements

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

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

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

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

Group Income Statement
For the year ended 31 December 2019

	Notes	2019 Underlying items[1] £m	2019 Non-underlying items (Note 9) £m	2019 Total £m	2018# Underlying items[1] £m	2018# Non-underlying items (Note 9) £m	2018# Total £m
Revenue including share of joint ventures and associates		**8,405**	**6**	**8,411**	7,802	12	7,814
Share of revenue of joint ventures and associates	15	**(1,093)**	**(5)**	**(1,098)**	(1,171)	(9)	(1,180)
Group revenue		**7,312**	**1**	**7,313**	6,631	3	6,634
Cost of sales		**(6,930)**	**(1)**	**(6,931)**	(6,250)	(13)	(6,263)
Gross profit/(loss)		**382**	**–**	**382**	381	(10)	371
Gain on disposals of interests in investments	21.2	**40**	**–**	**40**	80	–	80
Amortisation of acquired intangible assets	9	–	**(6)**	**(6)**	–	(8)	(8)
Other net operating expenses		**(267)**	**(56)**	**(323)**	(284)	(35)	(319)
Group operating profit/(loss)		**155**	**(62)**	**93**	177	(53)	124
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**37**	**–**	**37**	26	(5)	21
Gain on disposals of interests in investments	21.2	**29**	**–**	**29**	2	–	2
Share of results of joint ventures and associates	15	**66**	**–**	**66**	28	(5)	23
Profit/(loss) from operations		**221**	**(62)**	**159**	205	(58)	147
Investment income	7	**34**	**–**	**34**	35	–	35
Finance costs	8	**(55)**	**–**	**(55)**	(59)	–	(59)
Profit/(loss) before taxation		**200**	**(62)**	**138**	181	(58)	123
Taxation	10	**(14)**	**9**	**(5)**	(2)	14	12
Profit/(loss) for the year		**186**	**(53)**	**133**	179	(44)	135
Attributable to							
Equity holders		**183**	**(53)**	**130**	179	(44)	135
Non-controlling interests		**3**	**–**	**3**	–	–	–
Profit/(loss) for the year		**186**	**(53)**	**133**	179	(44)	135

[1] Before non-underlying items (Note 9).

Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

	Notes	2019 pence	2018 pence
Earnings per ordinary share			
- basic	11	**19.0**	19.7
- diluted	11	**18.8**	19.5
Dividends per ordinary share proposed for the year	12	**6.4**	4.8

Group Statement of Comprehensive Income

For the year ended 31 December 2019

	2019			2018		
	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 year	**67**	**66**	**133**	112	23	135
Other comprehensive income for the year						
Items which will not subsequently be reclassified to the income statement						
Actuarial gains/(losses) on retirement benefit liabilities	**43**	**2**	**45**	22	(1)	21
Tax on above	**(8)**	**(1)**	**(9)**	–	–	–
	35	**1**	**36**	22	(1)	21
Items which will subsequently be reclassified to the income statement						
Currency translation differences	**(12)**	**(7)**	**(19)**	18	7	25
Fair value revaluations – PPP financial assets	**3**	**24**	**27**	(4)	9	5
– cash flow hedges	**(4)**	**2**	**(2)**	3	15	18
– investments in mutual funds measured at fair value through OCI	**2**	**–**	**2**	(1)	–	(1)
Recycling of revaluation reserves to the income statement on disposal^	**(2)**	**(2)**	**(4)**	–	(5)	(5)
Tax on above	**–**	**(5)**	**(5)**	–	(3)	(3)
	(13)	**12**	**(1)**	16	23	39
Total other comprehensive income for the year	**22**	**13**	**35**	38	22	60
Total comprehensive income for the year	**89**	**79**	**168**	150	45	195
Attributable to						
Equity holders			**165**			195
Non-controlling interests			**3**			–
Total comprehensive income for the year			**168**			195

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

Group Statement of Changes in Equity
For the year ended 31 December 2019

	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2018	345	65	22	113	175	339	10	1,069
Total comprehensive income for the year	–	–	–	45	16	134	–	195
Ordinary dividends	–	–	–	–	–	(27)	–	(27)
Joint ventures' and associates' dividends	–	–	–	(76)	–	76	–	–
Movements relating to share-based payments	–	–	–	–	4	–	–	4
Transfers	–	–	–	–	(9)	9	–	–
Reserve transfers relating to joint venture and associate disposals	–	–	–	(19)	–	19	–	–
Convertible bonds repurchase	–	–	–	–	(24)	24	–	–
At 31 December 2018	345	65	22	63	162	574	10	1,241
Adjustment as a result of transitioning to IFRIC 23 on 1 January 2019[3]	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Adjusted equity at 1 January 2019	**345**	**65**	**22**	**63**	**162**	**575**	**10**	**1,242**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**79**	**(13)**	**99**	**3**	**168**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(36)**	**–**	**(36)**
Non-controlling interest's dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(95)**	**–**	**95**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**(7)**	**14**	**–**	**7**
Reserve transfers relating to joint venture and associate disposals	**–**	**–**	**–**	**(1)**	**–**	**1**	**–**	**–**
At 31 December 2019	**345**	**65**	**22**	**46**	**142**	**748**	**9**	**1,377**

[3] The Group adopted IFRIC 23 Uncertainty over Tax Treatments on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 3.1).

Group Balance Sheet

At 31 December 2019

		Notes	**2019 £m**	2018 £m
Non-current assets				
Intangible assets	– goodwill	13	**828**	903
	– other	14	**300**	258
Property, plant and equipment			**91**	168
Right of use assets[2]			**113**	–
Investment properties			**32**	33
Investments in joint ventures and associates		15	**550**	524
Investments			**27**	30
PPP financial assets			**155**	156
Trade and other receivables		16	**207**	212
Retirement benefit assets		18	**249**	171
Deferred tax assets			**92**	80
			2,644	2,535
Current assets				
Inventories			**101**	84
Contract assets			**377**	363
Trade and other receivables		16	**939**	902
Cash and cash equivalents	– infrastructure investments	20.3	**35**	70
	– other	20.3	**743**	591
Current tax receivable			**2**	5
Derivative financial instruments			**–**	1
			2,197	2,016
Assets held for sale			**–**	16
			2,197	2,032
Total assets			**4,841**	4,567
Current liabilities				
Contract liabilities			**(469)**	(489)
Trade and other payables		17	**(1,520)**	(1,373)
Provisions			**(153)**	(167)
Borrowings	– non-recourse loans	20.3	**(4)**	(48)
	– other	20.3	**(35)**	(15)
Liability component of preference shares			**(110)**	–
Lease liabilities[2]			**(42)**	–
Current tax payables			**(16)**	(17)
Derivative financial instruments			**(4)**	(4)
			(2,353)	(2,113)
Liabilities held for sale			**–**	(11)
			(2,353)	(2,124)
Non-current liabilities				
Contract liabilities			**(2)**	(2)
Trade and other payables		17	**(108)**	(143)
Provisions			**(142)**	(149)
Borrowings	– non-recourse loans	20.3	**(333)**	(331)
	– other	20.3	**(196)**	(239)
Lease liabilities[2]			**(78)**	–
Liability component of preference shares			**–**	(106)
Retirement benefit liabilities		18	**(116)**	(117)
Deferred tax liabilities			**(108)**	(90)
Derivative financial instruments			**(28)**	(25)
			(1,111)	(1,202)
Total liabilities			**(3,464)**	(3,326)
Net assets			**1,377**	1,241
Equity				
Called-up share capital			**345**	345
Share premium account			**65**	65
Special reserve			**22**	22
Share of joint ventures' and associates' reserves			**46**	63
Other reserves			**142**	162
Retained profits			**748**	574
Equity attributable to equity holders of the parent			**1,368**	1,231
Non-controlling interests			**9**	10
Total equity			**1,377**	1,241

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 3.1).

Group Statement of Cash Flows

For the year ended 31 December 2019

		Notes	2019 £m	2018 £m
Cash flows from/(used in) operating activities				
Cash from/(used in) operations			**212**	(132)
Income taxes (paid)/received			**(1)**	2
Net cash from/(used in) operating activities			**211**	(130)
Cash flows from investing activities				
Dividends received from:				
	- joint ventures and associates – infrastructure investments		**59**	36
	- joint ventures and associates – other		**36**	40
Interest received – infrastructure investments – joint ventures			**5**	7
Interest received – infrastructure investments – subsidiaries			**3**	8
Acquisition of businesses, net of cash and cash equivalents acquired		21.1	**(3)**	(3)
Purchases of:	- intangible assets – infrastructure investments		**(58)**	(63)
	- intangible assets – other		**(4)**	(3)
	- property, plant and equipment		**(20)**	(38)
Return of equity from joint ventures and associates			**14**	–
Investments in and long-term loans to joint ventures and associates			**(58)**	(56)
PPP financial assets cash expenditure			**(3)**	(2)
PPP financial assets cash receipts			**16**	14
Disposals of:	- investments in joint ventures – infrastructure investments		**24**	160
	- investments in joint ventures – other		**1**	4
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments		**59**	21
	- property, plant and equipment – infrastructure investments		**22**	–
	- property, plant and equipment – other		**7**	7
	- net assets held for sale – infrastructure investments		**8**	–
	- investment properties		**–**	7
	- other investments		**5**	11
Net cash from investing activities			**113**	150
Cash flows (used in)/from financing activities				
Purchase of ordinary shares			**(2)**	(4)
Proceeds from other new loans relating to infrastructure investments assets		20.4	**6**	4
Repayments of:	- loans – infrastructure investments	20.4	**(48)**	(6)
	- loans – other	20.4	**(15)**	(33)
Repayment/repurchase of convertible bonds			**–**	(231)
Repayment of lease liabilities[2]			**(45)**	–
Ordinary dividends paid		12	**(36)**	(27)
Other dividends paid – non-controlling interest			**(4)**	–
Interest paid – infrastructure investments			**(13)**	(15)
Interest paid – other			**(23)**	(25)
Preference dividends paid			**(12)**	(12)
Net cash used in financing activities			**(192)**	(349)
Net increase/(decrease) in cash and cash equivalents			**132**	(329)
Effects of exchange rate changes			**(15)**	22
Cash and cash equivalents at beginning of year			**661**	968
Cash and cash equivalents at end of year		20.2	**778**	661

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 3.1).

Notes to the financial statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2019. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 10 March 2020, does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2019 accounts; the report is unqualified, did not draw attention to any matters by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements for the Group that comply with IFRS in April 2020.

2 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 financial statements. Further information is provided within the Other Financial Items section.

3 Accounting policies

3.1 Adoption of new and revised standards

The following accounting standards, interpretations and amendments have been adopted by the Group in the year ended 31 December 2019:

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

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

IFRS 16 Leases

From 1 January 2019 the Group has adopted IFRS 16 Leases which replaces IAS 17 Leases and eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single lessee accounting model. The Group has chosen to apply the retrospective cumulative effect approach which resulted in a £nil impact on its opening equity. The adoption of IFRS 16 has resulted in right-of-use (ROU) assets and corresponding lease liabilities amounting to approximately £121m and £129m respectively being brought onto the Group’s balance sheet on 1 January 2019.

3.1 Adoption of new and revised standards continued

In addition to the initial impact on the Group's balance sheet of adopting this standard, the Group's income statement has been impacted. Lease charges which were accounted for as and when hire charges were incurred within cost of sales or operating expenses are replaced with a depreciation charge and an interest cost, resulting in a higher profit from operations and a higher interest cost. Cash payments made for these leases are reported within financing activities on the Group's cash flow statement rather than within cash from operations. In 2019, the Group incurred depreciation costs on its ROU assets of £45m and interest costs on the corresponding lease liabilities of £6m. Total lease payments made for lease liabilities inclusive of interest paid amounted to £51m in the year.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 Uncertainty over Tax Treatments from 1 January 2019 retrospectively and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2019 by a credit of £1m to reflect the impact of transitioning to IFRIC 23. This adjustment reflects the Group's reassessment of its tax provisions in relation to uncertain tax positions in line with the requirements of this interpretation.

3.2 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2019:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 and IAS 8 Definition of Material
  - IFRS 3 Business Combinations
  - IFRS 9, IAS 39 & IFRS 7 Interest Rate Benchmark Reform
- References to the Conceptual Framework.

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

3.3 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty are set out in Note 2.27 of the Annual Report and Accounts 2019. In the construction portfolio there are a small number of long-term and complex projects where the Group has incorporated judgements over contractual entitlements. The range of potential outcomes as a result of uncertain future events could result in a materially positive or negative swing to profitability and cash flow. These contracts are primarily within the Group's major infrastructure business units in the UK, US and Gammon.

4 Exchange rates

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

Average rates

£1 buys	**2019**	2018	Change
US$	**1.28**	1.33	(3.8)%
HK$	**10.03**	10.46	(4.1)%
Euro	**1.14**	1.13	0.9%

Closing rates

£1 buys	**2019**	2018	Change
US$	**1.32**	1.27	3.9%
HK$	**10.28**	9.97	3.1%
Euro	**1.17**	1.11	5.4%

5 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.

5.1 Total Group

Income statement – performance by activity

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

[1] Before non-underlying items (Note 9).

Income statement – performance by activity

	Construction Services 2018 £m	Support Services 2018 £m	Infrastructure Investments 2018 £m	Corporate activities 2018 £m	Total 2018 £m
Revenue including share of joint ventures and associates[1]	6,127	1,104	571	–	7,802
Share of revenue of joint ventures and associates[1]	(913)	(28)	(230)	–	(1,171)
Group revenue[1]	5,214	1,076	341	–	6,631
Group operating profit/(loss)[1]	67	48	95	(33)	177
Share of results of joint ventures and associates[1]	28	(2)	2	–	28
Profit/(loss) from operations[1]	95	46	97	(33)	205
Non-underlying items:					
- additional loss on the AWPR contract as a result of Carillion's liquidation	(10)	–	–	–	(10)
- amortisation of acquired intangible assets	(3)	–	(5)	–	(8)
- other non-underlying items	(36)	(7)	3	–	(40)
	(49)	(7)	(2)	–	(58)
Profit/(loss) from operations	46	39	95	(33)	147
Investment income					35
Finance costs					(59)
Profit before taxation					123

[1] Before non-underlying items (Note 9).

5 Segment analysis continued

5.1 Total Group continued

Assets and liabilities by activity	Construction Services 2019 £m	Support Services 2019 £m	Infrastructure Investments 2019 £m	Corporate activities 2019 £m	Total 2019 £m
Contract assets	**264**	**90**	**23**	**–**	**377**
Contract liabilities – current	**(392)**	**(74)**	**(3)**	**–**	**(469)**
Inventories	**60**	**8**	**33**	**–**	**101**
Trade and other receivables – current	**800**	**88**	**43**	**8**	**939**
Trade and other payables – current	**(1,249)**	**(190)**	**(47)**	**(34)**	**(1,520)**
Provisions – current	**(111)**	**(5)**	**(13)**	**(24)**	**(153)**
Working capital*	**(628)**	**(83)**	**36**	**(50)**	**(725)**
Total assets[2]	**2,341**	**501**	**1,149**	**850**	**4,841**
Total liabilities[2]	**(2,059)**	**(335)**	**(473)**	**(597)**	**(3,464)**
Net assets	**282**	**166**	**676**	**253**	**1,377**

* Includes non-operating items and current working capital.

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 3.1).

Assets and liabilities by activity	Construction Services 2018 £m	Support Services 2018 £m	Infrastructure Investments 2018 £m	Corporate activities 2018 £m	Total 2018 £m
Contract assets	251	97	15	–	363
Contract liabilities – current	(411)	(76)	(2)	–	(489)
Inventories	46	12	26	–	84
Trade and other receivables – current	741	126	28	7	902
Trade and other payables – current	(1,117)	(195)	(43)	(18)	(1,373)
Provisions – current	(128)	(8)	(7)	(24)	(167)
Working capital*	(618)	(44)	17	(35)	(680)

* Includes non-operating items and current working capital.

Total assets	2,171	509	1,162	725	4,567
Total liabilities	(1,966)	(289)	(509)	(562)	(3,326)
Net assets	205	220	653	163	1,241

5 Segment analysis continued

5.1 Total Group continued

Other information	Construction Services 2019 £m	Support Services 2019 £m	Infrastructure Investments 2019 £m	Corporate activities 2019 £m	Total 2019 £m
Capital expenditure on property, plant and equipment	**11**	**8**	**–**	**1**	**20**
Capital expenditure on intangible assets (Note 14)	**–**	**4**	**58**	**–**	**62**
Depreciation[2]	**25**	**35**	**4**	**10**	**74**
Gain on disposals of interests in investments (Note 21.2)	**–**	**–**	**40**	**–**	**40**
Gain on disposals of interests in investments within joint ventures and associates (Note 21.2)	**–**	**–**	**29**	–	**29**

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 1.4).

	2018 £m	2018 £m	2018 £m	2018 £m	2018 £m
Capital expenditure on property, plant and equipment	18	19	–	1	38
Capital expenditure on intangible assets	1	2	63	–	66
Depreciation	11	10	3	5	29
Gain on disposals of interests in investments	–	–	80	–	80
Gain on disposals of interests in investments within joint ventures and associates	–	–	2	–	2

Performance by geographic destination	United Kingdom 2019 £m	United States 2019 £m	Rest of world 2019 £m	Total 2019 £m
Revenue including share of joint ventures and associates[1]	**3,353**	**4,067**	**985**	**8,405**
Share of revenue of joint ventures and associates[1]	**(77)**	**(77)**	**(939)**	**(1,093)**
Group revenue[1]	**3,276**	**3,990**	**46**	**7,312**

[1] Before non-underlying items (Note 9).

	2018 £m	2018 £m	2018 £m	2018 £m
Revenue including share of joint ventures and associates[1]	3,164	3,622	1,016	7,802
Share of revenue of joint ventures and associates[1]	(114)	(99)	(958)	(1,171)
Group revenue[1]	3,050	3,523	58	6,631

[1] Before non-underlying items (Note 9).

5.2 Infrastructure Investments

Underlying profit from operations[1]	Group 2019 £m	Share of joint ventures and associates (Note 15)+ 2019 £m	Total 2019 £m	Group 2018 £m	Share of joint ventures and associates (Note 15) +# 2018 £m	Total 2018 £m
UK^	**4**	**(4)**	**–**	9	(17)	(8)
North America	**18**	**13**	**31**	24	17	41
Gain on disposals of interests in investments	**40**	**29**	**69**	80	2	82
	62	**38**	**100**	113	2	115
Bidding costs and overheads	**(18)**	**–**	**(18)**	(18)	–	(18)
	44	**38**	**82**	95	2	97

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

^ Including Singapore and Ireland.

Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

[1] Before non-underlying items (Note 9).

6. Revenue

6.1 Nature and services of goods

6.1.1 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 6.1.2.

6 Revenue continued

6.1 Nature and services of goods continued

6.1.2 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.

6 Revenue continued

6.1 Nature and services of goods continued

6.1.3 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, then this is considered to be a separate PO. Contract terms can be up to 40 years. The Group recognises revenue over time using the input method. Consideration is paid through a fixed unitary payment charge spread over the life of the contract. *Revenue from this service is presented across Buildings, Infrastructure or Utilities in Note 6.2.*
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 6.2.*
Housing development	The Group also develops housing units on land that is owned by the Group. Revenue is recognised on the sale of individual units at a point in time, which depicts when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. *Revenue from this service is presented within Buildings in Note 6.2.*

6 Revenue continued

6.2 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 6.1. This disaggregation of underlying revenue is also presented according to the Group's reportable segments as described in Note 5.

For the year ended 31 December 2019

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

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

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

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

6 Revenue continued

6.2 Disaggregation of revenue continued

For the year ended 31 December 2018

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	1,885	3,324	918	6,127
	Group revenue	1,885	3,309	20	5,214
Support Services	Revenue including share of joint ventures and associates	1,041	–	63	1,104
	Group revenue	1,041	–	35	1,076
Infrastructure Investments	Revenue including share of joint ventures and associates	238	298	35	571
	Group revenue	124	214	3	341
Total revenue	**Revenue including share of joint ventures and associates**	3,164	3,622	1,016	7,802
	Group revenue	3,050	3,523	58	6,631

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	3,891	1,840	391	5	6,127
	Group revenue	3,363	1,459	387	5	5,214
Support Services	Revenue including share of joint ventures and associates	–	444	651	9	1,104
	Group revenue	–	444	623	9	1,076
Infrastructure Investments	Revenue including share of joint ventures and associates	398+	127	43	3	571
	Group revenue	336+	3	–	2	341
Total revenue	**Revenue including share of joint ventures and associates**	4,289	2,411	1,085	17	7,802
	Group revenue	3,699	1,906	1,010	16	6,631

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	6,120	1,096	536	7,752
At a point in time	7	8	35	50
Revenue including share of joint ventures and associates	6,127	1,104	571	7,802
Over time	5,207	1,068	306	6,581
At a point in time	7	8	35	50
Group revenue	5,214	1,076	341	6,631

+ Includes rental income of £32m including share of joint ventures and associates or £18m excluding share of joint ventures and associates.

7 Investment income

	2019 £m	2018 £m
Subordinated debt interest receivable	**20**	21
Interest receivable on PPP financial assets	**9**	9
Other interest receivable and similar income	**3**	3
Net finance income on pension scheme assets and obligations (Note 18)	**2**	2
	34	35

8 Finance costs

		2019 £m	2018 £m
Non-recourse borrowings	– bank loans and overdrafts	**13**	14
Preference shares	– finance cost	**12**	12
	– accretion	**4**	3
Convertible bonds	– finance cost	**–**	4
	– accretion	**–**	5
US private placement	– finance cost	**12**	12
Interest on lease liabilities[2]		**6**	–
Other interest payable	– committed facilities	**2**	1
	– letter of credit fees	**3**	3
	– other finance charges	**3**	5
		55	59

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 3.1).

9 Non-underlying items

	2019 £m	2018 £m
Items (charged against)/credited to profit		
9.1 Amortisation of acquired intangible assets	**(6)**	(8)
9.2 Other non-underlying items:		
– impairment of goodwill relating to Gas & Water	**(58)**	–
– provision release relating to settlements of health and safety claims	**2**	13
– Build to Last transformation costs	**–**	(11)
– additional loss on the AWPR contract as a result of Carillion's liquidation	**–**	(10)
– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	(28)
– loss on disposal of Heery International Inc	**–**	(12)
– additional gain on disposal of Balfour Beatty Infrastructure Partners	**–**	3
Total other non-underlying items	**(56)**	(45)
	(62)	(53)
9.3 Share of results of joint ventures and associates:		
– costs relating to the liquidation of the Malaysia joint venture	**–**	(5)
Charged against profit before taxation	**(62)**	(58)
9.4 Tax credits:		
– non-underlying recognition of deferred tax assets in the UK	**9**	–
– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	5
– tax on other items above	**–**	9
Total tax credit	**9**	14
Charged against profit for the year	**(53)**	(44)

9.1 The amortisation of acquired intangible comprises: customer contracts £5m (2018: £5m); and customer relationships £1m (2018: £3m).

The charge was recognised in the following segments: Construction Services £1m (2018: £3m) and Infrastructure Investments £5m (2018: £5m).

9.2.1 Following the Group's decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts within this cash-generating unit (CGU), the Group has reassessed the long-term outlook for its Gas & Water CGU. This assessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58m (2018: £nil). This charge has been treated as a non-underlying item. Refer to Note 13.

This charge was recognised in the Support Services segment.

9.2.2 In 2019, the Group recognised a provision release of £2m relating to the settlement of health and safety claims (2018: £13m). These claims were previously included as part of the Group's overall reassessment of potential liabilities relating to historical health and safety breaches following new sentencing guidelines which was conducted in 2016. As a result of this reassessment, a non-underlying charge of £25m was recognised in the first half of 2016.

The credit of £2m was recognised in the Construction Services segment.

9.2.3 In 2018, the Group continued its Build to Last transformation programme initially launched in February 2015. The transformation programme aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies. As a result of this programme, restructuring costs of £11m were incurred in 2018 relating to: Construction Services £6m; and Support Services £5m. These restructuring costs comprised: redundancy costs £4m; property-related costs £5m; and other restructuring costs £2m.

9 Non-underlying items continued

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

In 2018, the Group recognised additional losses on this project. £10m of this charge was recognised in non-underlying as this reflected the additional loss that the Group suffered in fulfilling Carillion's obligations on the contract. The loss incurred on the Group's original 33% joint venture share was treated as part of the Group's underlying performance. The additional AWPR loss represented a net charge made up of cost increases on the project partially offset by recovery positions that the Group believes are highly probable to be agreed. These losses were recognised in the Construction Services segment.

9.2.5 In 2018, the Group recognised additional retirement benefit liabilities following the judgment on the Lloyds Banking Group High Court hearing on Guaranteed Minimum Pension (GMP) equalisation which was published on 26 October 2018. The judgment indicated that pension trustees needed to amend scheme benefits to equalise for the effect of unequal GMPs and indicated an acceptable range of methods for how to do so.

The judgement therefore created an obligation to equalise for both the BBPF and RPS schemes. The effect of GMP equalisation which amounted to £28m was recognised in the Group's income statement as a plan amendment. The Group also treated this item as non-underlying due to the size and nature of the income statement charge. Any future changes in relation to GMP equalisation will be treated as part of the Group's actuarial gains/losses which are recognised within OCI. Refer to Note 18.

The charge was recognised in the following segments: Construction Services £15m; and Support Services £13m.

9.2.6 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc (Heery) for a cash consideration of £43m. The disposal resulted in a net gain of £18m being recognised as a non-underlying item.

In 2018, an additional indemnity provision of £12m was recognised in the year following the reassessment of several projects which were indemnified by the Group as part of the sale. This estimate is subject to final ongoing negotiations with various clients and any further gains or losses that arise as part of this indemnity obligation will be recorded within non-underlying as part of the Heery disposal. This provision was included in the Construction Services segment.

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

9.3 In 2018, the decision was made to enter the Group's 70% joint venture Balfour Beatty Rail Sdn. Bhd. into voluntary liquidation. In light of this decision, an assessment of the joint venture's balance sheet was carried out which resulted in the Group's investment balance and associated goodwill being written off. This write off amounted to £5m and was recognised within the Construction Services segment.

9.4.1 In previous periods, significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of deferred tax liabilities. This in turn led to the recognition of additional UK deferred tax assets which the Group recognised as non-underlying due to the size and nature of the credit. In 2019, further actuarial gains in the BBPF resulted in the recognition of UK deferred tax assets of £9m. Applying the same methodology used in previous periods, the Group recognised this credit as a non-underlying item.

9 Non-underlying items continued

9.4.2 As explained in Note 9.2.5, a non-underlying charge of £28m was recognised in 2018 to take into account the effect of GMP equalisation. This charge gave rise to a deferred tax credit of £5m.

9.4.3 The remaining non-underlying items charged against the Group's operating profit gave rise to a tax credit of £nil after prior year adjustments (2018: £9m comprising £3m credit arising on the impact of additional indemnity provisions recognised on the disposal of Heery; £2m credit on the additional loss recognised for the AWPR contract; £2m credit on Build to Last restructuring costs; and £2m credit on amortisation of acquired intangible assets).

10 Income taxes

	Underlying Items[1] x 2019 £m	**Non-underlying items (Note 9) x 2019 £m**	**Total x 2019 £m**	Total x 2018 £m
Total UK tax	**(11)**	**(9)**	**(20)**	(26)
Total non-UK tax	**25**	–	**25**	14
Total tax charge/(credit)	**14**	**(9)**	**5**	(12)
UK current tax				
– current tax	**–**	**–**	**–**	2
	–	**–**	**–**	2
Non-UK current tax				
– current tax	**4**	**2**	**6**	2
– adjustments in respect of previous periods	**(3)**	**–**	**(3)**	(2)
	1	**2**	**3**	–
Total current tax	**1**	**2**	**3**	2
UK deferred tax				
– origination and reversal of temporary differences	**(16)**	**(9)**	**(25)**	(35)
– UK corporation tax rate change	**4**	**–**	**4**	7
– adjustments in respect of previous periods	**1**	**–**	**1**	–
	(11)	**(9)**	**(20)**	(28)
Non-UK deferred tax				
– origination and reversal of temporary differences	**25**	**(1)**	**24**	12
– adjustments in respect of previous periods	**(1)**	**(1)**	**(2)**	2
	24	**(2)**	**22**	14
Total deferred tax	**13**	**(11)**	**2**	(14)
Total tax charge/(credit)	**14**	**(9)**	**5**	(12)

x Excluding joint ventures and associates.
[1] Before non-underlying items (Note 9).

The Group has recognised £9m of tax credits (2018: £14m) within non-underlying items in the year. Refer to Note 9.4.1.

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 15), except where tax is levied at the Group level.

The Group's underlying tax charge for the year benefits from the recognition of deferred tax assets for some of the Group's previously unrecognised historical UK tax losses.

In addition to the Group tax charge, tax of £14m is charged (2018: £3m) directly to other comprehensive income, comprising: a deferred tax charge of £8m for subsidiaries (2018: £nil); and a deferred tax charge in respect of joint ventures and associates of £6m (2018: £3m).

11 Earnings per ordinary share

Earnings	2019 Basic £m	2019 Diluted £m	2018 Basic £m	2018 Diluted £m
Earnings	**130**	**130**	135	135
Amortisation of acquired intangible assets – net of tax credit of £nil (2018: £2m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £9m (2018: £12m)	**47**	**47**	38	38
Underlying earnings	**183**	**183**	179	179

	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**685**	**689**	682	687

Earnings per share	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings per ordinary share	**19.0**	**18.8**	19.7	19.5
Amortisation of acquired intangible assets net of tax	**0.9**	**0.9**	0.9	0.9
Other non-underlying items net of tax	**6.8**	**6.8**	5.7	5.6
Underlying earnings per ordinary share	**26.7**	**26.5**	26.3	26.0

12 Dividends on ordinary shares

	2019 Per share pence	2019 Amount £m	2018 Per share pence	2018 Amount £m
Proposed dividends for the year				
Interim – current year	**2.1**	**14**	1.6	11
Final – current year	**4.3**	**30**	3.2	22
	6.4	**44**	4.8	33
Recognised dividends for the year				
Final – prior year		**22**		16
Interim – current year		**14**		11
		36		27

The final 2018 dividend was paid on 5 July 2019 and the interim 2019 dividend was paid on 6 December 2019. Subject to approval at the Annual General Meeting on 14 May 2020, the final 2019 dividend will be paid on 3 July 2020 to holders on the register on 22 May 2020 by direct credit or, where no mandate has been given, by cheque posted on 3 July 2020. The ordinary shares will be quoted ex-dividend on 21 May 2020.

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2019	1,071	(168)	903
Currency translation differences	**(23)**	**6**	**(17)**
Impairment	**–**	**(58)**	**(58)**
At 31 December 2019	**1,048**	**(220)**	**828**

Following the Group's decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts within this cash-generating unit (CGU), the Group has reassessed the long-term outlook for its Gas & Water CGU. This assessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58 million (2018: £nil). This charge has been treated as a non-underlying item. Refer to Note 9.2.1.

	2019		2018	
Carrying amounts of goodwill by cash-generating unit	**£m**	**Pre-tax discount rate %**	£m	Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.1**	248	10.1
Balfour Beatty Construction Group Inc	**423**	**11.1**	438	11.0
Rail UK	**68**	**10.2**	68	10.1
Gas & Water	**–**	**10.2**	58	10.0
Balfour Beatty Investments US	**51**	**11.1**	52	11.3
Other	**38**	**10.1**	39	10.0-11.0
Group total	**828**		903	

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected future revenues and margins of each CGU, giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three Year Plan, which covers the period from 2020 to 2022. The cash flow forecasts for each CGU were compiled from each of its constituent business units as part of the Group's annual financial planning process.

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

The other key inputs in assessing each CGU are its long-term growth rate and discount rate. The discount rates have been calculated using the Weighted Average Cost of Capital (WACC) method, which takes account of the Group's capital structure (financial risk) as well as the nature of each CGU's business (operational risk). Long-term growth rates are assumed to be the estimated future GDP growth rates based on published independent forecasts for the country or countries in which each CGU operates, less 1.0% to reflect current economic uncertainties and their consequent estimated effect on public sector spending on infrastructure.

In the derivation of each CGU's value-in-use, a terminal value is assumed based on a multiple of earnings before interest and tax. The multiple is applied to a terminal cash flow, which is the normalised cash flow in the last year of the forecast period. However, due to the long-term nature and the degree of predictability of some contracts within Balfour Beatty Investments US, the forecast period used in the derivation of this CGU's value-in-use extends beyond the Group's three year cash flow forecast period. The EBIT multiple is calculated using the Gordon Growth Model and is a factor of the discount rate and growth rate for each CGU. The nominal terminal value is discounted to present value.

13 Intangible assets – goodwill continued

	2019			2018		
	Inflation rate %	**Real growth rate %**	**Nominal long-term growth rate applied %**	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	**2.0**	**1.1**	**3.1**	2.0	1.2	3.2
Balfour Beatty Construction Group Inc	**2.0**	**0.9**	**2.9**	2.0	0.9	2.9
Rail UK	**2.0**	**1.1**	**3.1**	2.0	1.2	3.2
Gas & Water	**2.0**	**1.1**	**3.1**	2.0	1.2	3.2
Balfour Beatty Investments US	**2.0**	**0.1**	**2.1**	2.0	0.1	2.1
Other	**2.0**	**1.1**	**3.1**	2.0	1.1	3.1

Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the discount rate and the long-term growth rate, and for certain CGUs, changes to underlying cash projections.

A reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs. Sensitivity analysis carried out on the UK Regional and Engineering Services CGU factored in potential adverse implications that may arise from the UK's exit from the European Union. Sensitivity analysis was also carried out on the Balfour Beatty Investments US CGU to factor in potential adverse implications from the ongoing investigation into allegations about the handling of certain work orders on military bases managed by Balfour Beatty Communities. Refer to Note 22. No impairment was triggered as a result of these events.

14 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2019	560	(302)	258
Currency translation differences	**(6)**	**3**	**(3)**
Additions	**62**	**–**	**62**
Charge for the year	**–**	**(17)**	**(17)**
Removal of fully amortised intangible asset	**(5)**	**5**	**–**
At 31 December 2019	**611**	**(311)**	**300**

Other intangible assets comprise: acquired intangible assets of customer contracts, customer relationships, and brand names; Infrastructure Investments' intangible assets on student accommodation projects in which the Group bears demand risk; and software and other.

15 Investments in joint ventures and associates

	2019					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Total £m	Total £m
Income statement						
Revenue[1]	**908**	**32**	**82**	**71**	**153**	**1,093**
Operating profit/loss excluding gain on disposals of interests in investments[1]	30	(1)	–	16	16	45
Gain on disposals of interests in investments	–	–	9	20	29	29
Operating profit/(loss)[1]	30	(1)	9	36	45	74
Investment income	5	–	88	18	106	111
Finance costs	(1)	–	(90)	(21)	(111)	(112)
Profit/(loss) before taxation[1]	34	(1)	7	33	40	73
Taxation	(5)	–	(2)	–	(2)	(7)
Profit/(loss) after taxation	29	(1)	5	33	38	66
Balance sheet						
Non-current assets						
Intangible assets:						
- goodwill	30	–	–	–	–	30
- Infrastructure Investments intangible	–	–	49	–	49	49
- other	–	–	15	–	15	15
Property, plant and equipment	27	–	33	–	33	60
Investment properties	–	–	–	167	167	167
Investments in joint ventures and associates	1	–	–	–	–	1
Money market funds	–	–	–	166	166	166
PPP financial assets	–	–	1,421	165	1,586	1,586
Military housing projects	–	–	–	107	107	107
Other non-current assets	72	–	19	5	24	96
Current assets						
Cash and cash equivalents	277	–	144	26	170	447
Other current assets	261	–	61	2	63	324
Total assets	668	–	1,742	638	2,380	3,048
Current liabilities						
Borrowings – non-recourse	(53)	–	(43)	–	(43)	(96)
Other current liabilities	(458)	–	(165)	(9)	(174)	(632)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,173)	(444)	(1,617)	(1,617)
Other non-current liabilities	(64)	(4)	(291)	(6)	(297)	(365)
Total liabilities	(575)	(4)	(1,672)	(459)	(2,131)	(2,710)
Net assets	93	(4)	70	179	249	338
Reclassify net liabilities to provisions	–	–	2	–	2	2
Reclassify net liabilities to trade and other receivables	–	–	11	–	11	11
Adjusted net assets	93	(4)	83	179	262	351
Loans to joint ventures and associates	–	4	195	–	195	199
Total investment in joint ventures and associates	93	–	278	179	457	550

^ Including Singapore and Ireland.

[1] Before non-underlying items (Measuring our financial performance).

The Group's investment in military housing joint ventures' and associates' projects is recognised at its remaining equity investment plus the value of the Group's accrued returns from the underlying projects.

15 Investments in joint ventures and associates continued

	2018					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America# £m	Total £m	Total £m
Income statement						
Revenue[1]	913	28	124	106	230	1,171
Underlying operating profit/loss excluding gain on disposals of interests in investments[1]	30	(2)	(5)	19	14	42
Gain on disposals of interests in investments	–	–	–	2	2	2
Underlying operating profit/(loss)[1]	30	(2)	(5)	21	16	44
Investment income	3	–	94	14	108	111
Finance costs	–	–	(104)	(16)	(120)	(120)
Profit/(loss) before taxation[1]	33	(2)	(15)	19	4	35
Taxation	(5)	–	(2)	–	(2)	(7)
Profit/(loss) after taxation before non-underlying items	28	(2)	(17)	19	2	28
Share of results within non-underlying items	(5)	–	–	–	–	(5)
Profit/(loss) after taxation	23	(2)	(17)	19	2	23
Balance sheet						
Non-current assets						
Intangible assets:						
- goodwill	31	–	–	–	–	31
- Infrastructure Investments intangible	–	–	45	–	45	45
- other	–	–	15	–	15	15
Property, plant and equipment	25	–	38	–	38	63
Investment properties	–	–	–	114	114	114
Investments in joint ventures and associates	2	–	–	–	–	2
PPP financial assets	–	–	1,485	257	1,742	1,742
Military housing projects	–	–	–	110	110	110
Other non-current assets	76	–	23	1	24	100
Current assets						
Cash and cash equivalents	328	–	131	28	159	487
Other current assets	184	–	43	200	243	427
Total assets	646	–	1,780	710	2,490	3,136
Current liabilities						
Borrowings – non-recourse	(44)	–	(42)	–	(42)	(86)
Other current liabilities	(441)	–	(137)	(19)	(156)	(597)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,255)	(508)	(1,763)	(1,763)
Other non-current liabilities	(61)	(3)	(274)	(2)	(276)	(340)
Total liabilities	(546)	(3)	(1,708)	(529)	(2,237)	(2,786)
Net assets	100	(3)	72	181	253	350
Loans to joint ventures and associates	–	4	170	–	170	174
Total investment in joint ventures and associates	100	1	242	181	423	524

^ Including Singapore and Ireland.

[1] Before non-underlying items (Measuring our financial performance).

Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

16 Trade and other receivables

	2019 £m	2018 £m
Current		
Trade receivables	**575**	599
Less: provision for impairment of trade receivables	**(5)**	(5)
	570	594
Due from joint ventures and associates	**25**	24
Due from joint operation partners	**22**	19
Contract fulfilment assets[∞]	**12**	20
Contract retentions receivable	**221**	192
Accrued income	**13**	3
Prepayments	**37**	30
Due on disposals	**5**	1
Other receivables[∞]	**34**	19
	939	902
Non-current		
Due from joint ventures and associates	**52**	51
Contract fulfilment assets[∞]	**10**	4
Contract retentions receivable	**140**	150
Due on disposals	**2**	5
Other receivables[∞]	**3**	2
	207	212
Total trade and other receivables	**1,146**	1,114

[∞] Re-presented to show Contract fulfilment assets separately from Other receivables.

17 Trade and other payables

	2019 £m	2018 £m
Current		
Trade and other payables	**837**	758
Accruals	**629**	580
VAT, payroll taxes and social security	**45**	26
Dividends on preference shares	**6**	6
Due on acquisitions	**3**	3
	1,520	1,373
Non-current		
Trade and other payables	**82**	108
Accruals	**10**	18
Due to joint ventures and associates	**10**	9
Due on acquisitions	**6**	8
	108	143
Total trade and other payables	**1,628**	1,516

18 Retirement benefit assets and liabilities

IAS 19 Employee Benefits (IAS 19) prescribes the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on high-quality corporate bonds. The pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net finance income arising from the expected interest income on plan assets and interest cost on scheme obligations is included in investment income. Actuarial gains and losses are reported in the statement of comprehensive income.

The investment strategy of the Balfour Beatty Pension Fund (BBPF) is to hold assets of appropriate liquidity and marketability to generate income and capital growth. The BBPF invests partly in a diversified range of assets including equities and hedge funds in anticipation that, over the longer term, they will grow in value faster than the obligations. The equities are in the form of pooled funds and are a combination of UK, other developed market and emerging market equities. The remaining BBPF assets are principally fixed and index-linked bonds and derivatives, providing protection against movements in inflation and interest rates and hence enhancing the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

The Group operates a Scottish Limited Partnership (SLP) structure which holds the Group's 40% interest in the Birmingham Hospital PFI investment and the Group's 15% share of the Connect Plus (M25) asset. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in the Birmingham Hospital PFI investment and the Connect Plus (M25) asset for other investments from time to time.

Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension surplus presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. In 2019, the BBPF received distributions of £2m from the SLP (2018: £1m).

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2019. As a result, the Group will make deficit contributions of £11m in 2020; £17m in 2021; £22m in 2022 and £24m in 2023.

If the earnings cover for shareholder returns falls below an agreed trigger level then the contributions set out above may need to be accelerated.

This agreement constitutes a minimum funding requirement (MFR) under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the BBPF would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF have been settled.

18 Retirement benefit assets and liabilities continued

Principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes

	2019		2018	
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Discount rate	**1.95**	**1.95**	2.80	2.80
Inflation rate – RPI	**2.95**	**2.95**	3.20	3.20
– CPI	**2.10**	**2.20**	2.20	2.20
Future increases in pensionable salary	**2.10**	**2.20**	2.20	2.20
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.80**	**2.30**	2.95	2.30

	Number	**Number**	Number	Number
Total number of defined benefit members	**28,347**	**3,136**	29,051	3,067

In 2019, the Group performed a review of its equalisation methodology. This review highlighted that, following the Barber judgment in May 1990, some members with post 1990 benefits, retiring after normal pension age should have received the relevant benefit they could have received at their normal pension age with a late retirement factor. This late retirement factor was not previously applied and therefore some members may now need an increase in their benefits giving rise to an additional obligation in the BBPF scheme. The effect of the additional obligation, which amounted to £10m, was recognised in the Group's statement of comprehensive income as an actuarial loss in 2019.

Following independent advice from the Group's actuaries and considering the correspondence between the Chancellor of the Exchequer and the UK Statistics Authority (UKSA) to potentially align the RPI with CPIH (a variant of the Consumer Prices Index that includes an estimate of housing costs), the Group reassessed the difference between RPI and CPI measures of price inflation from 1.0% at December 2018 to an average margin of 0.85% for BBPF and 0.75% for RPS at December 2019. This resulted in an actuarial loss of £35m being recognised within the statement of comprehensive income.

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes. The mortality assumptions as at 31 December 2019 have been updated to reflect the experience of Balfour Beatty pensioners for the four-year period to 30 September 2018. The mortality tables adopted for the 2019 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S3 tables 'middle' for males and 'heavy' for females (2018: SAPS S2 tables) with a multiplier of 110% for males and 102% for females (2018: 102% for male and female members and 106% for female widows and spouses); all with future improvements in line with the CMI 2018 core projection model, with default smoothing and initial addition parameters (2018: CMI 2017 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2018: 1.25% per annum and 1.00% per annum).

	2019		2018	
	Average life expectancy at 65 years of age		Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**20.5**	**22.5**	21.7	23.5
Members not yet in receipt of a pension (current age 50)	**21.4**	**23.4**	22.8	24.5

18 Retirement benefit assets and liabilities continued

Amounts recognised in the Balance Sheet

	2019				2018			
	Balfour Beatty Pension Fund £m	**Railways Pension Scheme £m**	**Other schemes^ £m**	**Total £m**	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Other schemes^ £m	Total £m
Present value of obligations	**(3,503)**	**(406)**	**(50)**	**(3,959)**	(3,316)	(377)	(49)	(3,742)
Fair value of plan assets	**3,752**	**340**	**–**	**4,092**	3,487	309	–	3,796
Assets/(liabilities) in the balance sheet	**249**	**(66)**	**(50)**	**133**	171	(68)	(49)	54

^ Investments in mutual funds of £22m (2018: £21m) are held to satisfy the Group's deferred compensation obligations.

The defined benefit obligations comprise £50m (2018: £49m) arising from wholly unfunded plans and £3,909m (2018: £3,693m) arising from plans that are wholly or partly funded.

Movements in the retirement benefit assets and obligations for the year		**2019 £m**
At 1 January 2019		54
Currency translation differences		**2**
Current service cost		**(4)**
Interest cost		**(102)**
Interest income		**104**
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**(35)**
	– on obligations from changes to other financial assumptions	**(413)**
	– on obligations from changes in demographic assumptions	**215**
	– on obligations from experience losses	**(53)**
	– on assets	**329**
Contributions from employer	– regular funding	**3**
	– ongoing deficit funding	**30**
Administrative expenses		**(1)**
Benefits paid		**4**
At 31 December 2019		**133**

Sensitivity of the Group's retirement benefit obligations at 31 December 2019 to different actuarial assumptions

	Percentage points/years	**(Decrease)/ increase in obligations %**	**(Decrease)/ increase in obligations £m**
Increase in discount rate	**0.5%**	**(7.5)%**	**(294)**
Increase in market expectation of RPI inflation	**0.5%**	**5.6%**	**220**
Increase in salary growth	**0.5%**	**0.0%**	**1**
Increase in life expectancy	**1 year**	**4.9%**	**191**

Sensitivity of the Group's retirement benefit assets at 31 December 2019 to changes in market conditions

	Percentage points	**(Decrease)/ increase in assets %**	**(Decrease)/ increase in assets £m**
Increase in interest rates	**0.5%**	**(7.8)%**	**(321)**
Increase in market expectation of RPI inflation	**0.5%**	**4.7%**	**194**

The asset sensitivities only take into account the impact of the changes in market conditions on bond type assets. The value of the schemes' return-seeking assets is not directly correlated with movements in interest rates or RPI inflation.

The BBPF includes a defined contribution section with 13,845 members at 31 December 2019 (2018: 13,582 members) with £44m (2018: £45m) of contributions paid and charged in the income statement in respect of this section. The total net pension cost recognised in the income statement in respect of employee service for defined benefit and defined contribution schemes was £55m (2018: £56m).

19 Share capital

During the year ended 31 December 2019, 0.9m (2018: 1.5m) ordinary shares were purchased at a cost of £2m (2018: £4m) by the Group's employee discretionary trust to satisfy awards under the Company's equity-settled share-based payment arrangements.

20 Notes to the statement of cash flows

20.1 Cash from/(used in) operations	Continuing operations: Underlying items[1] 2019 £m	Continuing operations: Non-underlying items (Note 9) 2019 £m	Total 2019 £m	Total[1] 2018 £m
Profit/(loss) from operations	**221**	**(62)**	**159**	147
Share of results of joint ventures and associates	**(66)**	**–**	**(66)**	(23)
Depreciation of property, plant and equipment	**28**	**–**	**28**	28
Depreciation of right-of-use-assets[2]	**45**	**–**	**45**	–
Depreciation of investment properties	**1**	**–**	**1**	1
Amortisation of other intangible assets	**11**	**6**	**17**	20
Impairment of goodwill	**–**	**58**	**58**	–
Impairment of IT intangible assets	**–**	**–**	**–**	2
Impairment of property, plant & equipment	**8**	**–**	**8**	2
Pension payments including deficit funding	**(33)**	**–**	**(33)**	(30)
Movements relating to equity-settled share-based payments	**10**	**–**	**10**	8
Gain on disposal of infrastructure Investments	**(40)**	**–**	**(40)**	(80)
Net gain on disposal of other businesses	**–**	**–**	–	(3)
Loss on disposal of investment properties	**–**	**–**	–	2
Profit on disposal of property, plant and equipment	**(6)**	**–**	**(6)**	(5)
Loss on GMP equalisation	**–**	**–**	–	28
Other non-cash items	**(1)**	**–**	**(1)**	–
Operating cash flows before movements in working capital	**178**	**2**	**180**	97
Decrease/(increase) in operating working capital			**32**	(229)
Inventories			**(18)**	(16)
Contract assets			**(19)**	53
Trade and other receivables			**(56)**	12
Contract liabilities			**(11)**	(2)
Trade and other payables			**157**	(196)
Provisions			**(21)**	(80)
Cash from/(used in) operations			**212**	(132)

[1] Before non-underlying items (Note 9).

[2] The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 3.1).

20.2 Cash and cash equivalents

	2019 £m	2018 £m
Cash and deposits	**589**	587
Term deposits	**154**	4
Cash balances within infrastructure concessions	**35**	70
	778	661

20 Notes to the statement of cash flows continued

20.3 Analysis of net cash/(borrowings)

	2019 £m	2018 £m
Cash and cash equivalents (excluding infrastructure concessions)	**743**	591
US private placement	**(231)**	(239)
Other loans	**–**	(15)
Net cash excluding infrastructure concessions	**512**	337
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2020 and 2072	**(337)**	(379)
Infrastructure concessions cash and cash equivalents	**35**	70
	(302)	(309)
Net cash	**210**	28

20.4 Analysis of movements in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Other £m	Total £m
At 1 January 2019	(379)	(239)	(15)	(633)
Currency translation differences	**–**	**8**	**–**	**8**
Proceeds of loans	**(6)**	**–**	**–**	**(6)**
Repayments of loans	**48**	**–**	**15**	**63**
At 31 December 2019	**(337)**	**(231)**	**–**	**(568)**

In 2019, the Group repaid non-recourse and recourse loans amounting to £45m and £15m respectively following the disposal of its interests in BBCS-Hawkeye Housing LLC (Iowa) and the student accommodation asset in Reno.

The Group refinanced its revolving credit facilities in October 2019, entering into a £375m agreement that extends to October 2022. Two one-year extension options through to October 2024 are available to the Group, subject to lenders' approval. As at 31 December 2019, the Group's revolving credit facility was undrawn.

21 Acquisitions and disposals

21.1 Current and prior year acquisitions

There were no material acquisitions in 2019.

Deferred consideration paid during 2019 in respect of acquisitions completed in earlier years was £3m (2018: £3m). This related to the Group's acquisition of Centex Construction in 2007.

21.2 Current year disposals

During the year, the Group disposed of several Infrastructure Investments assets as detailed below. These disposals were either structured as a sale of the infrastructure investment asset itself or through the sale of the Group's equity interest in the entity which owns the asset. The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates.

Notes	Disposal date	Entity/business	Structure of sale	% disposed	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Underlying gain £m
21.2.1	2 January 2019	Ranch at Pinnacle Point[+]	Asset sale	n/a	**8**	**(5)**	**1**	**4**
21.2.2	1 February 2019	Borden Data Centre[^]	Asset sale	n/a	**6**	**(3)**	**–**	**3**
21.2.3	13 February 2019 to 28 March 2019	Dallas 5 Portfolio[^]	Asset sale	n/a	**11**	**(4)**	**1**	**8**
21.2.4	28 March 2019	Mobile Alabama portfolio[^]	Asset sale	n/a	**5**	**(2)**	**–**	**3**
21.2.5	18 September 2019	THP Partnership (North Island Hospitals)[#]	Equity interest sale	50	**17**	**(11)**	**1**	**7**
21.2.6	27 September 2019	BBCS-Hawkeye Housing LLC (Iowa)[&]	Equity interest sale	100	**60**	**(44)**	**–**	**16**
21.2.7	30 September 2019	Gammon Capital (West) Holdings Pte. Ltd[^]	Equity interest sale	50	**25**	**(17)[~]**	**1**	**9**
21.2.8	10 October 2019	Evergreen Portfolio[^]	Asset sale	n/a	**8**	**(2)**	**–**	**6**
21.2.9	5 December 2019	Townlake of Coppell[#]	Equity interest sale	10	**5**	**(2)**	**–**	**3**
21.2.10	16 December 2019	Reno student accommodation[+]	Asset sale	–	**22**	**(15)**	**–**	**7**
21.2.11		Other		n/a	**3**	**–**	**–**	**3**
					170[∞]	**(105)**	**4**	**69**
	Less: Repayment of debt following disposal of Iowa and Reno assets				**(60)**			
	Less: Cash proceeds not included in the Directors' valuation[@]				**(7)**			
	Less: Cash and cash equivalents disposed relating to Iowa				**(1)**			
	Disposal proceeds per the Directors' valuation				**102**			

+ Disposal of asset within a subsidiary entity.

^ Disposal of asset within a joint venture entity. The disposal of Gammon ITE West was structured as a disposal of equity interests in Gammon Capital (West) Holdings Pte Ltd within a joint venture entity.

Disposal of joint venture.

& Disposal of subsidiary.

∞ Proceeds from the sale within joint venture entities are included within Dividends received from joint ventures and associates – infrastructure investments and within Return of equity from joint ventures and associates in the statement of cash flows. The proceeds shown above include a non-controlling interest element of £4m relating to the disposal of the Group's Dallas 5 Portfolio asset.

~ Net assets disposed include £8m of subordinated debt receivable which was settled as part of the disposal.

@ Sales proceeds per the Directors' valuation do not include the £2m additional sales proceeds received in relation to the Group's disposal of its 50% interest in Consort Healthcare (Fife) Holdings Ltd, the £1m deferred consideration received in relation to the Group's disposal of its Middle eastern joint ventures and the £4m element of consideration attributable to a non-controlling interest relating to the Group's Dallas 5 Portfolio asset.

21 Acquisitions and disposals continued

21.2 Current year disposals continued

21.2.1 On 2 January 2019, the Group disposed of its Ranch at Pinnacle Point asset, a 392-unit residential property located in Rogers, Arkansas, for a cash consideration of £8m. The asset disposal resulted in a gain of £4m being recognised in underlying operating profit, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal.

21.2.2 On 1 February 2019, the Group disposed of its Borden data centre asset located in Ontario, Canada for a total consideration of £6m. The asset disposal resulted in a gain of £3m being recognised in the Group's share of joint ventures and associates.

21.2.3 On 13 February 2019, 15 March 2019, 22 March 2019 and 28 March 2019, the Group disposed of its Dallas 5 Portfolio asset, a 1,593-unit residential portfolio located throughout Dallas, Texas, for a total consideration of £11m. These asset disposals resulted in a gain of £8m being recognised in the Group's share of joint ventures and associates, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal. Part of the consideration and gain recognised by the Group is attributable to a non-controlling interest, amounting to £4m cash consideration and £2m gain respectively.

21.2.4 On 28 March 2019, the Group disposed of its Mobile Alabama portfolio, a 320-unit residential property portfolio located in Mobile, Alabama, for a total cash consideration of £5m. The asset disposal resulted in a gain of £3m being recognised in the Group's share of joint ventures and associates.

21.2.5 On 18 September 2019, the Group disposed of its entire 50% interest in North Island Hospitals, the concession for two Acute Care Centres on Vancouver Island, British Columbia. The infrastructure concession was disposed for a cash consideration of £17m and resulted in a gain being recognised in underlying operating profit of £7m, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal.

21.2.6 On 27 September 2019, the Group disposed of its entire 100% interest in BBCS-Hawkeye Housing LLC (Iowa) for cash consideration of £60m. This disposal resulted in a gain of £16m being recognised in underlying operating profit. The disposal included cash disposed of £1m.

21.2.7 On 30 September 2019, the Group disposed of its entire 50% interest in Gammon Capital (West) Holdings Pte. Ltd for cash consideration of £25m. This disposal resulted in a gain of £9m being recognised in the Group's share of joint ventures and associates, including a gain of £1m and £8m relating to the recycling of foreign currency translation and PPP financial asset reserves respectively and a loss of £8m relating to the recycling of hedging reserves. These reserves were recycled to the income statement on disposal.

21.2.8 On 10 October 2019, the Group disposed of its Evergreen portfolio, a 882-unit residential property portfolio located in Atlanta, Georgia for cash consideration of £8m. The asset disposal resulted in a gain of £6m being recognised in the Group's share of joint ventures and associates.

21.2.9 On 5 December 2019, the Group disposed of its entire 10% interest in Coppell Properties, LLC (Townlake of Coppell) for a cash consideration of £5m. This disposal resulted in a gain of £3m being recognised in underlying operating profit.

21.2.10 On 16 December 2019, the Group disposed of its Reno student accommodation asset for cash consideration of £22m. This disposal resulted in a gain of £7m being recognised in underlying operating profit.

21 Acquisitions and disposals continued

21.2 Current year disposals continued

21.2.11 In 2019, the Group received an additional £2m of proceeds, with a further £1m being deferred into future periods, relating to its disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. The additional proceeds relate to the earn-out agreement that was entered into with the buyer as part of the disposal. At the time of the disposal, the Group did not include an estimate of the potential earn-out within its assessment of the gain on disposal as there was significant uncertainty as to whether the earn-out hurdles would be met. This additional gain of £3m has been recognised as an underlying gain consistent with the Group's treatment of the gain on disposal previously recognised.

The Group also received £1m deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

22 Contingent liabilities

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

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

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

23 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £334m (2018: £269m). 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 16 and 17 respectively.

Transactions with non-Group members

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.

23 Related party transactions continued

	2019 £m	2018 £m
Anglian Water Group Ltd		
Sale of goods and services	**19**	26
Amounts owed by related parties	**–**	–
URENCO Ltd		
Sale of goods and services	**2**	19
Amounts owed by related parties	**–**	2

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

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; strategic risks which may arise as the Group moves into new territories and expands through acquisitions; organisation and management risks including business conduct and people related risks; and operational risks arising from work winning, project delivery, joint ventures, supply chain, data security, cybercrime, 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 Annual Report and Accounts 2018.

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

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

The changing global climate generates a number of risks and opportunities for Balfour Beatty the impact of which, and mitigations against, are considered and reviewed as part of the Group's risk management process. Whilst climate change is not currently considered to be a principal risk to the business it has been recognised as an emerging risk with failure to adapt to climate change pressures, regulatory change and client expectations identified as the main drivers of the risk.

While the COVID-19 situation continues to evolve, Balfour Beatty is monitoring developments closely, looking to mitigate the risk that it may have on the Group's employees, customers and supply chain. It is too early to fully assess any impact of the outbreak on the operational and financial performance of the Group at this point in time.

25 Events after the reporting date

As at 10 March 2020, there were no material post balance sheet events arising after the reporting date.