BALFOUR BEATTY PLC RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2020

10 March 2021

Record year end order book and net cash: capacity for enhanced returns

- Underlying profit from operations (PFO) at £51 million (2019: £221 million), after decision to repay UK Job Retention Scheme
- Strong cash performance with average net cash at £527 million (2019: £325 million), exceeding previous guidance
- Higher quality order book increased by 15% to £16.4 billion (2019: £14.3 billion); provides clear medium-term visibility
- Directors' valuation of Investments portfolio stable at £1.1 billion (2019: £1.1 billion)
- New Group sustainability strategy with ambition to go beyond net zero carbon by 2040
- Re-iterating 2021 PFO outlook for earnings-based businesses to be in line with 2019
- Board recommended a final dividend of 1.5 pence, in accordance with new sustainable dividend policy
- Initial share buyback programme increased to £150 million in 2021, as part of new capital allocation framework

(£ million unless otherwise specified)	2020		2019	
	Underlying[2]	Total	Underlying[2]	Total
Revenue[1]	8,587	8,593	8,405	8,411
Profit from operations	51	63	221	159
Pre-tax profit	36	48	200	138
Profit for the year	25	30	186	133
Basic earnings per share	3.7p	4.4p	26.7p	19.0p
Dividends per share		1.5p		2.1p

	2020	2019
Order book[1,2]	£16.4bn	£14.3bn
Directors' valuation of Investments portfolio	£1.09bn	£1.07bn
Net cash – recourse	581	512
Net cash – non-recourse[3]	(317)	(302)
Average net cash – recourse	527	325

Leo Quinn, Balfour Beatty Group Chief Executive, said: "Throughout the pandemic, we have protected the Group's strengths, supported our stakeholders and held firm to our disciplines. That we achieved this while exceeding our own targets for net cash demonstrates Balfour Beatty's resilience and the dedication of our people and partners.

"Our leading positions in large growing infrastructure and construction markets, record year end order book and £1.1 billion Investments portfolio provide confidence in future cash generation. This underpins our new capital allocation framework which demonstrates Balfour Beatty's commitment to deliver enhanced returns to shareholders."

Notes:

[1] Including share of joint ventures and associates

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

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

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

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Investor and analyst presentation:

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

Investors and analysts will not be able to attend in person but a presentation will be made by live webcast on: www.balfourbeatty.com/webcast at 09:00 on Wednesday 10 March. The webcast will be recorded and subsequently available at www.balfourbeatty.com/investors/results, reports and presentations.

2020 FULL YEAR RESULTS ANNOUNCEMENT

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GROUP CHIEF EXECUTIVE'S OVERVIEW

Capacity for enhanced returns

Balfour Beatty's goal throughout Build to Last has been to create a sustainable foundation for its next 100 years. Since 2015, the Group has continually upgraded its capability, processes and governance to ensure leadership in its chosen markets. It has underpinned this with a culture which encourages every employee to make a difference, consider all stakeholders and continually improve performance. At the end of 2020, the Group formalised its credentials in a future net zero world with a new sustainability strategy, Building New Futures.

The best measure of long-term business resilience is cash performance – and in delivering another year of positive cash flow the Group exceeded its external guidance with £527 million of average net cash. This performance was achieved despite the impact on profit from COVID-19, while maintaining Balfour Beatty's key strengths and delivering a record £16.4 billion order book at year end. With its strong balance sheet, medium term visibility and market outlook, the Group now has enhanced capacity to drive cash generation through earnings growth and restarting disposals of Investments assets.

Over the last four years, the Group has generated sufficient cash flows to pay down over £430 million of debt and preference shares, while maintaining its Investments portfolio at £1.1 billion. Today, Balfour Beatty is announcing a new capital allocation framework which provides a balanced approach to address the investment needs of the business, regular dividend payments and additional returns to shareholders. In January 2021, the Group commenced a share buyback programme, which is today being increased to £150 million for 2021.

Supporting stakeholders through the crisis: maintaining strengths for the future

The wellbeing and safety of all those who work for and with Balfour Beatty, and of the public, remains the Group's priority. Since the start of the pandemic, Balfour Beatty's focus has been to manage the rapidly changing situation in order to balance the needs of its stakeholders while protecting the Group's capability and strength. In achieving this, the dedication of the Group's employees in supporting each other and the Group's customers has been outstanding. It is in large part due to them that Balfour Beatty has for the second year running won the coveted Britain's Most Admired Company award for our sector.

The first decision to minimise the impact of COVID-19 was keeping the Group's sites operational in line with government guidance, where it was safe to do so. Most sites remained open for business as employees and partners continued to execute contracts for customers safely. At the same time, the Group maintained liquidity for its supply chain and put in place extensive support for employees – whether on-site, working remotely or furloughed. In achieving this, Build to Last's investments in upgraded systems, processes and leadership proved their value as Balfour Beatty demonstrated resilience against unforeseeable challenges.

In response to the pandemic, all stakeholders played their part. Governments provided employee assistance schemes and tax deferrals. Senior employees voluntarily took temporary salary reductions, as did the Group's Board and Executive Committee. In addition, the final dividend for 2019 was cancelled.

Between April and October, the Group made use of the UK Government's Job Retention Scheme (JRS), and supplemented salaries for employees placed on the scheme. The scheme worked effectively as it allowed Balfour Beatty to retain employees during heightened uncertainty when sites were closed and to bring them back as sites re-opened. Given the strength and resilience of the Group's balance sheet, Balfour Beatty fully repaid the UK taxes it had deferred in 2020 during the year and will repay the £19 million that had been claimed under the JRS. In addition, the Board commenced a share buyback programme in January 2021 and has recommended a final dividend for 2020.

Financial summary: maintained strong cash performance

In 2020, for the fifth year running, the Group delivered positive cash flow with the year-end net cash balance at £581 million (2019: £512 million) and average net cash at £527 million (2019: £325 million). The strength of Balfour Beatty's balance sheet provides the flexibility to make the right long-term decisions and allowed the Group to repay US$46 million of its US private placement notes in March 2020 and fully redeem its preference shares for £112 million in July 2020.

For the year ended 31 December 2020, the Group reported a significant reduction in profitability due to a combination of the impact of COVID-19, a reassessment of end of contract forecasts in Construction Services and the decision to defer any disposals from Infrastructure Investments given prevailing market conditions. For the first half of the year, the Group reported a loss from operations, then partially recovered in the second half of the year with all segments recording a profit resulting in a full year underlying profit from operations of £51 million (2019: £221 million).

Operations: impact of COVID-19

All the Group's businesses were impacted by COVID-19, although this varied according to geographic and operational footprint.

For the full year, UK Construction recorded an underlying loss as site closures, lower productivity, additional operating costs and lengthening site programmes triggered a reassessment of the Group's contract end forecast positions. After adjusting for the decision to repay the UK Job Retention Scheme, UK Construction did return to profitability in the second half of the year but specific sectors, such as aviation, have seen a material slowdown throughout the year. US Construction was also negatively impacted by COVID-19 as all geographies were affected, most notably Washington State where sites were closed in the second quarter and in Florida where the hospitality sector was materially impacted throughout the year.

At Gammon both revenue and profit increased in the year as the impact of COVID-19 in Hong Kong has been lower than in the UK and US, in part due to Hong Kong's experiences from previous viruses such as SARS. Given the timing of the spread of COVID-19, the Group was able to take learnings from Gammon, such as working safely and efficiently in enclosed spaces whilst maintaining social distancing, then apply them across the rest of the Group.

In Support Services, the business has been resilient with the Group's contracts generally designated as critical infrastructure and as such profit was broadly in line with the prior year. The Group was able to accelerate road and rail maintenance programmes for some customers due to lower volumes of traffic in the year, but this was offset by general disruption on projects and other customers reducing maintenance expenditure given the economic uncertainty.

Board of Directors: Group Chair succession

Having been the Group Chair since 2015, Philip Aiken notified the Board of Directors of his intention to step down at the next Annual General Meeting in May 2021. The Board would like to thank Philip for his tremendous leadership and stewardship of the business during the transformation of Balfour Beatty. The Nomination Committee is overseeing the externally supported search for a successor.

Order book: clear visibility over the medium term

The Group's order book at year end increased by 15% to £16.4 billion (2019: £14.3 billion). The order book now stands at around two years of revenue, providing clear medium-term visibility. The increase in 2020 was due to the addition of over £3 billion of contracts following the UK Government issuing Notice to Proceed on HS2 in April, including Balfour Beatty's largest ever contract for the Area North main civils work. Additionally, Gammon, the Group's 50:50 joint venture based in Hong Kong, won its largest ever contract with, in total, c. HK$20 billion worth of contracts from the Hong Kong Airport Authority – a significant existing customer.

Over the last three years, the order book has increased approximately 45%, driven by winning large public sector infrastructure projects in the UK, US and Hong Kong. In addition, the quality of the order book continues to improve. At year end, almost 90% of the UK Construction order book is with public or regulated customers and 80% is under target cost or cost reimbursable contracts (including the recent HS2 contracts). In the US, where the percentage of private customers is higher in the Buildings business, price risk is managed through construction management contracts. The increase in total order book value coupled with the shift towards lower risk contracts provides increasing confidence that the Group will deliver profitable managed growth on a sustainable basis.

Infrastructure: global fiscal stimuli

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

In January 2021, Balfour Beatty was selected as one of 30 companies working in a new partnership with the UK Government to steer the COVID-19 economic recovery as part of the Build Back Better Business Council. The council will focus on innovation, infrastructure and skills, all key areas of focus for Balfour Beatty.

In the US, there is strong bipartisan support for accelerated infrastructure investment. The new President has announced a Build Back Better recovery plan proposing significant investment in infrastructure. Although nationwide forecasts show a decline in the overall construction market, Balfour Beatty is positioned in regions that are expected to perform better than the national forecast as demographic shifts continue to favour the Group's chosen states (Southern Smile) in the medium term.

Gammon has a material share of the Hong Kong market, which has historically benefited from significant public sector investment. This appears set to continue with the Government's recently announced ambition in its February 2021 budget to increase spend materially over the medium term.

Build to Last: Lean, Expert, Trusted, Safe, Sustainable

Since 2015, the Group's Build to Last strategy has created a self-help culture based on four values: Lean, Expert, Trusted, Safe. The Group's progress is measured using cash flow and profit from operations, employee engagement, customer satisfaction and Zero Harm, respectively. In 2020, a fifth value was added to this framework – Sustainable, measured by CO_2 emissions.

Lean: The disciplines learnt during Build to Last have served the Group well in ensuring effective and efficient operations. In 2020, underlying net operating expenses reduced further to £226 million (2019: £267 million) – a reduction of more than 50% since the start of Build to Last (2014: £470 million, adjusted for foreign exchange movements).

The Group's successful focus on cash generation is evidenced by average net cash in 2020 at £527 million – ahead of previous guidance and over 60% higher than the prior year (2019: £325 million). As a key part of its strategy to create value by achieving market leadership, the Group has invested over £600 million since 2015 in equity assets (Infrastructure Investments), capex (IT, plant and fleet) and capability (training and development).

These disciplines in cash management and cost efficiencies have been fundamental to the Group's financial transformation and today's announcement of its new capital allocation framework.

Expert: Customers buy Balfour Beatty's services due to the expert capabilities of the Group and its employees. The key metric for Expert is employee engagement, and the challenges presented by COVID-19 have made this even more important. It is a powerful testament to the progress made since 2015 that employee engagement in the October 2020 survey rose to 75% (2019: 66%; 2015: 60%). The survey provides a clear tracker of progress in creating the kind of company where people want to build long-term fulfilling careers, which is of key importance given the strong order book and growth in chosen markets. The survey results are consistent with the reduction in the Group's voluntary attrition rate in the UK, with the twelve-month rolling average now at 10% (2019: 11%, 2014: 16%).

For the second year running, Balfour Beatty secured the accolade of Britain's Most Admired Company in the Heavy Construction category of the longest running annual survey of corporate reputation in the UK. Organised by leading specialists and academic partners, the awards represent a peer-review, considering views from board-level representatives, financial analysts and city commentators to identify Britain's best public companies and leading employers across 25 sectors. Balfour Beatty was scored against 13 criteria points, securing the highest marks in six categories. The Group was praised for its quality of products and services, long-term value potential, competitiveness and quality of marketing as well as its commitment to diversity & inclusion, inspirational leadership and driving forward world-class projects for multinational customers.

In October, Balfour Beatty signed an open letter to Audeliss and INvolve committing to engaging and measuring long-term actions for black inclusion within its business. This UK based initiative saw Balfour Beatty become the first in its industry to commit to engaging and measuring long-term actions for black inclusion. This builds on the Group's 2018 Diversity and Inclusion strategy, with initiatives such as the reverse mentoring programme, focus groups with BAME colleagues, and Affinity Networks for under-represented groups raising awareness for diverse perspectives and experiences within the business.

In October, the Group announced a 30% rise in its UK graduate intake in 2020 compared to 2019, which contributed to an increase in the total percentage of Balfour Beatty's UK workforce in 'earn & learn' positions at year end to 6.0% (2019: 5.4%). This commitment is consistent with Balfour Beatty placing as the sixth most desirable company that students aspire to work for once they have completed their studies. More than 15,000 UK-based university students and graduates were surveyed, with Balfour Beatty the only construction and infrastructure company placed in the league table.

During the year, the Group received its 6,000th idea from its My Contribution programme which crowd sources ideas from employees who want to bring about positive business change. The milestone idea was from the HS2 team to improve the efficiency of concrete deliveries via innovative new technology.

Trusted: Balfour Beatty is trusted to "do what we say we will do" and is measured on this metric by customer satisfaction. In the year, around 2,000 customer satisfaction reviews were carried out with the Group customer satisfaction score at 95% (2019: 94%; 2014: 77%). The Group continues to focus on active risk management underpinning strict adherence to the Build to Last values with investment in IT-based processes and controls. These include the Gated Business Lifecycle process, the Digital Briefcase and Project on a Page. Together, these provide management with a clear, consistent line of sight on all stages of work being bid and delivered, together with key tools for managing commercial risk and project execution.

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

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

Balfour Beatty has made a provision in its 2020 year end results for an estimate of the historical incentive fees that its investigation was unable to fully verify and which BBC has proposed to be repaid. The Group's external counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

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's operations is the top priority.

During 2020 four individuals working across the Group's operations have lost their lives, one in the UK and three in Hong Kong. Additionally, an individual working for a joint venture partner lost their life in the US. Full investigations have been undertaken to ensure learnings are shared and implemented quickly across Balfour Beatty. In remembering those lost, the Group will continue to strive for Zero Harm by making conditions as safe as possible on its sites.

In August, both the UK and US businesses recorded a whole month without a lost time injury – for the first time since 2016 – demonstrating Zero Harm in action. For the full year, the Group's lost time injury rate (excluding international joint ventures), calculated as the lost time injuries that occur per every 100,000 hours worked, reduced to 0.10 (2019: 0.14; 2014: 0.29). All other lagging indicators also showed improvement.

During the year safety assumed an even greater emphasis as Balfour Beatty developed new COVID-19 Site Operating Procedures to support safe working to government guidelines. Despite the challenges of adapting operations to maintain social distancing, Balfour Beatty has seen a positive and significant reduction in injury rates. In November, the Group launched a new safety engagement approach 'The Big Conversation' where projects partnered across the UK, US and Hong Kong to share learning on fatal risk controls and mental health.

Sustainable: In December, Balfour Beatty included a fifth Build to Last value and launched the Group's new sustainability strategy, Building New Futures. Sustainability has always been at the heart of Balfour Beatty. From reducing carbon emissions by over 50% in the past decade, to improving biodiversity, training the next generation, channelling spend through smaller businesses, and looking after employees. Balfour Beatty is currently rated AA by MSCI and medium risk by Sustainalytics.

As a key lever of economic growth, the construction and infrastructure industry will be central to a sustainable recovery. New, low carbon infrastructure (HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating growth. From the Green New Deal proposed by the US President, to the Green Industrial Revolution launched by the UK Prime Minister, governments are investing in ensuring that economies come back stronger from COVID-19 without the increase in carbon emissions that accompanied the last financial recovery.

The new sustainability strategy goes further and has been developed using a materiality assessment with input from key stakeholder groups in the UK, US and Hong Kong. It is focused on the three areas most important to the Group's business – the environment, materials and communities. The strategy requires faster, more significant action setting out:

- 2030 targets, including a formal commitment to a science-based target to reduce carbon emissions; and
- 2040 ambitions to go beyond net zero carbon, to generate zero waste and to positively impact more than one million people.

Outlook: 2021 in line with 2019

Balfour Beatty's operations recovered steadily through the second half of 2020 and today, all the Group's sites are open and operating safely in accordance with local regulations.

Despite the continuing COVID-19 restrictions, the Board expects that the earnings-based businesses (Construction Services and Support Services) will deliver underlying profit from operations for 2021 in line with 2019 (£172 million).

As a result of market uncertainty caused by COVID-19, in 2020 Balfour Beatty did not dispose of any Investments assets. In 2021, the Group will re-commence the sale of Investments assets timed to optimise value to shareholders, as demand for high quality infrastructure assets in the secondary market is expected to exceed supply.

For 2022 and beyond, the strength of the Group's order book and positive infrastructure markets creates the capacity to drive profitable managed growth and sustainable cash generation.

Capital allocation framework: sustainable return of surplus capital

Over the last four years, Balfour Beatty has repaid over £400 million of debt and preference shares, principally from selling approximately £100 million per annum of Investments assets into the secondary market, whilst reinvesting approximately £50 million per annum in new Infrastructure Investments opportunities. The Group has established one of the strongest balance sheets in its sector, with average net cash over £500 million and an Investments portfolio valued at £1.1 billion. From this position of strength, Balfour Beatty commenced a share buyback programme in January 2021.

Balfour Beatty understands the importance of delivering attractive total cash returns to shareholders. The Group is therefore committed to maintaining an appropriate balance between investment in the business, maintaining a strong capital position and cash returns to shareholders. The new capital allocation framework comprises:

- Continued investment in organic growth opportunities in Infrastructure Investments which meet the Group's return hurdles;
- Active realisation of Investments assets with disposals timed to optimise value for shareholders;
- A strong but efficient balance sheet which provides the financial platform to make long-term business decisions, in response to both opportunities and periods of market dislocation;
- Commitment to paying a sustainable ordinary dividend, targeted at a pay-out ratio of 40% of underlying profit after tax (excluding gain on disposal of Investments assets). The Board expects dividends to grow over time with underlying profit; and
- Additional cash returns via share buybacks (or other mechanisms depending on market conditions) broadly based on surplus cash delivered from Investments disposals as well as surplus operating cash flows.

As part of this framework, Balfour Beatty is increasing its initial £50 million share buyback programme, commenced in January 2021, to £150 million for 2021, which it expects to complete by 31 December 2021.

Conclusion

Throughout the pandemic, Balfour Beatty has focused on balancing the needs of all stakeholders whilst protecting the Group's capability, disciplines and financial strength. The transformation delivered under the Build to Last strategy has enabled the Group to successfully navigate these challenges and from this platform Balfour Beatty has the capacity to deliver enhanced shareholder returns.

RESULTS OVERVIEW

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

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

Group financial summary

The Group reported a loss from operations in the first half of 2020 but as new working practices developed and sites reopened, operations recovered through the second half of 2020 so that for the full year, Balfour Beatty reported underlying profit from operations of £51 million (2019: £221 million).

Despite the reduction in profit, the Group demonstrated its resilience delivering positive operating cash flow as the year end net cash balance increased to £581 million (2019: £512 million) with average net cash ahead of previous guidance at £527 million (2019: £325 million). The Group's year end order book also increased by 15% to £16.4 billion (2019: £14.3 billion).

Underlying revenue was up 2% (3% at CER) at £8,587 million (2019: £8,405 million). Statutory revenue, which excludes joint ventures and associates, was £7,320 million (2019: £7,313 million). Construction Services revenue was up 2% (2% at CER) at £6,964 million (2019: £6,858 million) as a result of higher volumes at Gammon. Support Services revenue increased by 4% to £1,067 million (2019: £1,023 million) following higher volumes in power and transportation.

Construction Services was materially impacted by COVID-19 as underlying profit from operations decreased to £29 million (2019: £125 million). Throughout the year, the Group worked hard to minimise the impact of the pandemic as the majority of its projects remained operational. Site closures, particularly in the second quarter, combined with a reduction in productivity and the cost of implementing new operating procedures, led to a material reduction in margin. In addition, COVID-19 has led to lengthened site programmes triggering a reassessment of the Group's contract end forecast positions which also contributed to the decrease in profit.

Support Services was resilient with underlying profit from operations of £46 million (2019: £47 million), whilst the decision to defer disposals from Infrastructure Investments led to a significant reduction in underlying profit at £8 million (2019: £82 million). In total, after including corporate costs, the Group reported underlying profit from operations of £51 million (2019: £221 million).

During the year, the Group received grant income of £19 million in relation to the UK Government's Job Retention Scheme (JRS). This income was recognised as a non-underlying item in the Group's results in 2020. The scheme provided welcome and timely support but the Group has made the decision post 31 December 2020 to voluntarily refund this income. Due to the timing of the decision to repay the JRS, there was no liability recognised at 31 December 2020 and the cost of the refund will be recognised as a non-underlying item within the Group's 2021 results. Statutory profit from operations was £63 million (2019: £159 million).

Net finance costs decreased to £15 million (2019: £21 million) as a result of lower interest costs as Balfour Beatty fully redeemed its preference shares for £112 million in July 2020. Underlying pre-tax profit was £36 million (2019: £200 million).

The taxation charge on underlying profits at £11 million (2019: £14 million), relating primarily to the derecognition of UK tax losses, led to an underlying profit after tax of £25 million (2019: £186 million). Total statutory profit after tax for the year was £30 million (2019: £133 million), as a result of the net effect of non-underlying items. The underlying basic earnings per share was 3.7 pence (2019: 26.7 pence), which, along with a non-underlying gain per share of 0.7 pence per share (2019: 7.7 pence loss), gave a total basic earnings per share of 4.4 pence (2019: 19.0 pence).

Non-underlying items

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

Non-underlying items after taxation were a net credit of £5 million for the year (2019: £53 million net charge). This includes a £19 million credit for amounts received under the UK Job Retention Scheme in 2020, which will be reversed as a non-underlying charge in the Group's 2021 accounts following the Board's decision to fully repay the £19 million. A tax charge of £6 million was also recognised as a result of movements in retirement benefit assets and the effect of tax rate changes.

Cash flow performance

The total cash movement in the year resulted in a £69 million increase (2019: £175 million) in the Group's year end net cash position to £581 million (2019: £512 million) excluding non-recourse net borrowings. The strong performance was driven by positive operating cash flows and significant working capital inflows, partially offset by the redemption of the preference shares, lease payments, investment in Infrastructure Investments and capital expenditure.

Cash flow performance	2020 £m	2019 £m
Operating cash flows	127	213
Working capital inflow	167	32
Pension deficit payments+	(18)	(33)
Cash from operations	276	212
Lease payments (including interest paid)	(64)	(51)
Dividends from joint ventures and associates∞	50	54
Capital expenditure	(34)	(24)
Ordinary dividends	–	(36)
Redemption of preference shares	(112)	–
Infrastructure Investments		
- disposal proceeds	–	102
- new investments	(46)	(64)
Other	(1)	(18)
Net cash movement	69	175
Opening net cash*	512	337
Closing net cash*	581	512

* Excluding infrastructure investments (non-recourse) net borrowings

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

+ Including £3 million (2019: £3 million) of regular funding

Working capital

In the year, the Group's working capital position resulted in an inflow of £167 million (2019: £32 million). The strong performance was underpinned by movements in net contract assets which benefited from a number of settlements during the year, both in the US and UK (including the Aberdeen Western Peripheral Route (AWPR) contract) and the mobilisation of a number of highways projects in the US. The working capital outflow from trade and other payables, partly offset by an inflow from trade and other receivables, was a result of the timing of payments at year end.

Working capital flows^	2020 £m	2019 £m
Inventories	(14)	(18)
Net contract assets	154	(30)
Trade and other receivables	42	(56)
Trade and other payables	(69)	157
Provisions	54	(21)
Working capital inflow^	167	32

^ 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 £887 million (2019: £725 million). The Group expects negative working capital as a percentage of revenue to be between 10-12% (2020: 12.1%) with the range dependent on contract mix and the timing of project starts and completions.

Prompt Payment Code

Balfour Beatty was reinstated to the Prompt Payment Code (PPC) in the UK on 22 January 2020. In the first six months of 2020 the percentage of invoices paid within 60 days reduced to 89% as a result of disruption at the start of the year following an internal change to systems to improve and standardise the Group's approach. In the second half of the year, this contributed to an improvement in the percentage of invoices paid within 60 days to 91%.

	Percentage of invoices paid within 60 days	**Average days to pay invoices**
Jan – Jun 2018	77%	54
Jul – Dec 2018	82%	50
Jan – Jun 2019	86%	40
Jul – Dec 2019	90%	38
Jan – Jun 2020	89%	41
Jul – Dec 2020	91%	40

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. On 1 March 2021 the UK's new VAT Domestic Reverse Charge regulations for construction services came 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 2020 improved substantially to £527 million (2019: £325 million). The Group's net cash position at 31 December 2020, excluding non-recourse net borrowings, was £581 million (2019: £512 million).

The redemption of the preference shares in July 2020 reduced 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.

Non-recourse net borrowings, held in Infrastructure Investments entities consolidated by the Group, were £317 million (2019: £302 million). The balance sheet also included £125 million for lease liabilities (2019: £120 million). Statutory net cash at 31 December 2020 was £139 million (2019: £20 million net debt).

Banking facilities

The Group's £375 million committed bank facility has been extended to October 2023 following the exercise of an extension option during the year. The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. The agreement includes a further one-year extension option, to take final maturity to October 2024, with the agreement of the lending banks. During the year this facility remained undrawn. The Group does not undertake supply chain financing arrangements.

Going concern

In light of the COVID-19 pandemic and the impact on the Group's performance in 2020, the Directors have reconsidered the Group's medium-term cash forecasts and conducted stress-test analysis on these projections in order to assess the Group's ability to continue as a going concern. Having also made appropriate enquiries, the Directors consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the Group financial statements. Further detail is provided in Note 2 Going Concern.

Pensions

In January 2020, the Group concluded negotiations with the trustees of the Balfour Beatty Pension Fund (BBPF) on the formal triennial funding valuation as at 31 March 2019. Under this agreement Balfour Beatty and the trustees re-confirmed their commitment to a journey plan approach to managing the BBPF with the Group agreeing to make total cash deficit contributions of £64 million from 2021 to 2023, whereby the BBPF is aiming to reach self-sufficiency by 2027. There is an agreed mechanism for accelerating the payment of contributions set out above if the earnings cover for total shareholder returns (both dividends and other capital returns) falls below 2x. The Group remains committed to meeting its obligations to its pension schemes and this forms part of its commitment to maintaining an appropriate balance between investment in the business, maintaining a strong capital position and cash returns to shareholders.

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

The Group's balance sheet includes net retirement benefit assets of £89 million (2019: £133 million) as measured on an IAS 19 basis, with the surplus on the BBPF partially offset by deficits on the RPS and other schemes. The accounting for the BBPF in 2020 has been impacted by a reduction in the discount rate and an increase in the life expectancy assumption. Refer to Note 18.

Dividend

The Board is committed to a sustainable ordinary dividend which is expected to grow over time, targeted at a pay-out ratio of 40% of underlying profit after tax excluding gain on disposal of Investments assets.

The Board has therefore recommended a final dividend of 1.5 pence per share for the year ended 31 December 2020. There was no interim dividend, so the total dividend for the year is also 1.5 pence per share.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

COVID-19 had a material impact on the financial performance of Construction Services in 2020. The underlying revenue increased by 2% to £6,964 million (2019: £6,858 million), a 2% increase at CER, as a result of higher volumes at Gammon. Underlying profit from operations reduced to £29 million (2019: £125 million) with the UK particularly impacted by COVID-19. The order book increased to £13.7 billion (2019: £11.1 billion) following Notice to Proceed at HS2.

Construction Services	2020			2019		
	Revenue[1]	PFO	Order book[1]	Revenue[1]	PFO	Order book[1]
	£m	£m	£bn	£m	£m	£bn
UK	2,190	(26)	6.4	2,213	47	3.0
US	3,789	26	5.2	3,752	52	6.5
Gammon	985	29	2.1	893	26	1.6
Underlying[2]	6,964	29	13.7	6,858	125	11.1
Non-underlying	6	12	–	6	1	–
Total	6,970	41	13.7	6,864	126	11.1

[1] Including share of joint ventures and associates

[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

Revenue in the UK decreased by 1% to £2,190 million (2019: £2,213 million) as an expected increase given prior year order book growth was offset by site closures and other disruption caused by COVID-19. The national lockdown in the second quarter of the year, where Scotland was effectively closed and productivity in London was limited due to public transport availability, led to a lengthening of site programmes which triggered a reassessment of the Group's contract end forecast positions.

UK Construction reported an underlying loss from operations of £23 million in the first half of the year. This increases to a £34 million loss after adjustment for the intended repayment of funds received through the UK Job Retention Scheme which together with a profit of £8 million for the second half resulted in a full year underlying loss from operations of £26 million (2019: £47 million profit). Specific sectors, such as aviation, have seen a material slowdown throughout the year.

The UK Construction order book more than doubled during the year to £6.4 billion (2019: £3.0 billion) following Notice to Proceed at HS2. Balfour Beatty, in joint venture with VINCI, will deliver Lots N1 and N2 south of Birmingham – comprising extensive earthworks, ground engineering, viaducts and tunnels along a 90-kilometre stretch – and the London hub station at Old Oak Common. The increase in order book occurred whilst maintaining the Group's policy of selective bidding. During Build to Last, there has also been a shift towards a lower risk contract portfolio in UK Construction, with a reduction in the number of fixed price contracts offset by an increase in target cost contracts and framework agreements. Both target cost contracts and framework agreements require early contract involvement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties. As at December 2020, the UK order book was 80% target cost and cost reimbursable compared to 50% at June 2018.

Revenue in the US increased marginally by 1% (2% at CER) to £3,789 million (2019: £3,752 million) as an expected increase given prior year order book growth was broadly offset by site closures and other disruption. In part due to the impact of COVID-19, there were a number of civil infrastructure projects where operational developments led to contractual recoveries and end of contract forecast positions being re-assessed which contributed to the underlying profit from operations for the year reducing to £26 million (2019: £52 million). Following a 25% rise in 2019, the order book decreased 20% to £5.2 billion (17% at CER) following a slow down of orders in the second half of the year. Although nationwide forecasts show a decline in the overall construction market, Balfour Beatty is positioned in regions that are expected to perform better than the national forecast as demographic shifts continue to favour the Group's chosen states (Southern Smile) in the medium term.

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of revenue increased by 10% (10% at CER) to £985 million (2019: £893 million). Underlying profit increased to £29 million (2019: £26 million), as the impact of COVID-19 in Hong Kong has been lower than in the other geographies in which the Group operates and in response to the pandemic the Government provided an employee assistance scheme. This is partly due to Hong Kong's experiences from other viruses such as SARS which has meant that wearing face masks in public is part of the culture. Given the timing of the spread of COVID-19, the Group has been able to take learnings from Gammon, such as working safely and efficiently in enclosed spaces whilst maintaining social distancing, and apply them across the rest of the Group.

The order book at Gammon increased by 31% (31% at CER) to £2.1 billion (2019: £1.6 billion) following significant wins at Hong Kong Airport, which is expanding capacity by adding a third runway. Gammon has been awarded contracts for the expansion of the Terminal 2 building and to deliver tunnels and associated works for an automatic people mover and baggage handling system. In addition, Gammon won another Central Kowloon Route contract to deliver buildings, mechanical and electrical works for the Highways Department.

Operational review

UK Construction

In November, the UK Government released details of its five-year plan, the National Infrastructure Strategy (NIS), which sets out the UK Government's plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050. The £640 billion of funding for developments in roads, railways, power networks, schools, hospitals and telecommunications represents an increase of around £100 billion compared to the status quo.

Included within the NIS are budgets for some of the Group's key customers such as Highways England and Network Rail. At Highways England the second Road Investment Strategy (RIS2) has been increased by a further £2 billion for delivery of additional projects such as the Lower Thames Crossing. The total budget of £27 billion over the 2020-2025 period is a significant increase over the £15 billion spent during RIS1 (2015-2020). At Network Rail the work focus is shifting with maintenance and renewals receiving an extra £10 billion of funding as part of the total CP6 budget at £53 billion (2019-2024) – materially higher than CP5 where £38 billion was spent in the period 2014-2019.

In December, the UK Government launched the Construction Playbook, which sets out a shared ambition between government and industry for the sector to deliver public sector works in a more modern and efficient way. The 14 key policies in the Playbook set out how the Government will assess, procure and deliver construction and outlines the role the construction sector will play in both the UK's recovery from COVID-19 and work to bring greenhouse gas emissions down to net zero by 2050. The publication of the Playbook builds on the great strides made by industry and the Government in recent years, notably during COVID-19, and is instrumental in ensuring the sector moves forward together with its key customer.

Balfour Beatty is one of 30 companies working in a new partnership with the Government to steer the COVID-19 economy recovery as part of the Build Back Better Business Council. The council will focus on innovation, infrastructure and skills – all key Balfour Beatty themes.

Whilst the infrastructure market, with the highest level of investment in decades, is positive the buildings market is more challenging. Balfour Beatty will continue to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and improved contract governance.

Following the Grenfell Tower tragedy in 2017, the Group mobilised a dedicated team to review its approach to building fire safety. This included expert advice, enhancing its training and development approach and establishing a Fire and Building Safety resource. The current landscape around building fire safety in the UK is complex, involves multiple stakeholders and is an industry-wide issue. In the UK, the Group is currently investigating a small number of completed building projects with cladding, alongside the building owners or the developers, to agree the right course of action.

The Brexit transition period between the EU and UK came to an end on 31 December 2020 and the Trade and Co-operation Agreement, which governs significant aspects of the trade relationship between the UK and EU, is now in force. Balfour Beatty's Group-wide committee continues to monitor developments and issue guidance, particularly in relation to the flow of goods and people across borders. Specific risks and mitigations continue to be monitored at a project level and controlled by individual business units.

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

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

At Major Projects, the A14, Britain's largest road project, opened to traffic in May, eight months early. The Balfour Beatty joint venture upgraded the 21-mile stretch between Cambridge and Huntingdon from two to three lanes in each direction and built a new 12-mile bypass south of Huntingdon. To open the scheme early, the integrated delivery team focused on innovative and sustainable construction methods with the use of digital asset management and in-field visualisation software. In addition, the Group also opened the M6 Junction 2-4a Smart Motorway project on time in March 2020.

At the M4 Smart Motorway contract, a Balfour Beatty VINCI joint venture is converting the hard shoulder into an additional lane for traffic and introducing electronically policed variable speed restrictions between junctions 3 and 12. During the year, the scheme reached a major milestone by completing its final bridge demolition. The project has now passed the halfway point and remains on track for completion in 2022.

At the Hinkley Point C nuclear power plant, Balfour Beatty achieved two important milestones in the year, completing the tunnelling for intake tunnel 1 and the final concrete pour on the first intake head which will sit on the sea-bed. The project, to construct a pair of underwater tunnels to supply the nuclear power station with cooling water and a third tunnel to discharge heated water back into the Bristol Channel, is using three tunnel boring machines to excavate around nine kilometres of tunnel.

At HS2, Notice to Proceed was issued in April with the formal start of construction in September. Balfour Beatty, in joint venture with VINCI, will deliver the c. £5 billion Area North section south of Birmingham. Balfour Beatty's in-depth expertise in delivering critical major infrastructure across the UK will combine with and complement VINCI's global capability in high speed rail. Construction is already well underway, with over 250 Balfour Beatty employees transferred to the project, as all four key dates required in 2020 were delivered to schedule.

HS2 also awarded a Balfour Beatty/VINCI/SYSTRA joint venture a c. £1 billion construction management contract for the Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in that joint venture, with SYSTRA having the remaining 16.5%. Procurement processes continue across multiple HS2 workstreams. In December, a Balfour Beatty/VINCI/TSO joint venture was shortlisted for four lots of track systems contracts and a Balfour Beatty / NG Bailey joint venture was shortlisted for a tunnel and M&E systems contract. The Group will also tender for contracts on Phase 2a, which was approved by parliament in February 2021, as the line extends north of Birmingham to Crewe.

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

The Regional business comprises:

- Regional Construction: public and private projects, providing customers with locally delivered, flexible and fully integrated civil and construction services;
- Balfour Beatty Ground Engineering: specialist geotechnical contractor providing innovative piling and ground improvement solutions; and
- Balfour Beatty Kilpatrick: heavy mechanical and electrical (M&E) installations and building services.

Construction procurement in the UK continues to evolve, presenting opportunities for progressive and collaborative contractors. Leading the way are innovative frameworks such as SCAPE, Crown Commercial Services (CCS) and NHS Shared Business Services (SBS) which are redefining how construction is procured nationwide, and Balfour Beatty is participating as a major contractor on all. 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. 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). In December 2020, as part of the £10.5 billion NHS SBS, it was announced that Balfour Beatty had been selected as one of seven contractors on Lot 5: Public Sector (National) £35m+. As part of the UK Government's Build Back Better initiative these frameworks will become increasingly important to help kick start the UK economy.

In the year, the Regional business successfully completed the new temporary NHS Louisa Jordan hospital, at Glasgow's Scottish Events Campus (SEC), on behalf of the Scottish Government. Acting as principal contractor, Balfour Beatty, along with its local supply chain and partner contractors, completed the works in just 20 days. In addition, the Group is currently constructing a 'mega lab' in the Midlands which, when completed, will materially increase the UK's coronavirus testing capability.

Despite the impact of COVID-19, which led to delays on projects in the Regional business, good progress continues to be made on many of its contracts with a major milestone reached following completion of Eastern Gateway Phase 1, part of the Wokingham Major Highways programme which comprises 10 road projects that are being delivered under the SCAPE framework for Wokingham Borough Council. Other material ongoing projects include: the seven-storey 'MEC Hall' building at the £287 million Manchester Engineering Campus Development (MECD) project; the £267 million contract to complete the Midland Metropolitan University Hospital in Birmingham; the £186 million contract to construct student accommodation at the University of Sussex; the £96 million Caernarfon bypass project in North Wales; the £83 million East Leeds Orbital Road project; and phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park.

Although COVID-19 has delayed the contract signing of some large projects in the Regional pipeline the Group was awarded a £197 million contract to construct Phase Two of the Lewisham Gateway regeneration scheme on behalf of Lewisham Gateway Developments. The contract will see Balfour Beatty construct four mixed-use buildings, including 530 homes for rent, 119 co-living units, a cinema and gym, office facilities, as well as retail and restaurant areas. Included in awarded but not contracted (ABNC) at 31 December 2020, the Group has been selected as preferred bidder for a new Mayfield Riverside retirement complex.

US Construction

There is strong bi-partisan support for accelerated infrastructure investment in the US. The new President's economic recovery plan, called Build Back Better, includes investing in modern, sustainable infrastructure – from roads to bridges, to energy grids and schools. In the US approximately 80% of revenues are generated from the general building market (Buildings), with the civil infrastructure market (Civils) accounting for the remaining 20%.

The US Buildings business operates in specifically chosen growth regions. As the population further migrates south and west, it continues to drive urbanisation and demand for buildings and social infrastructure. The construction management business (lower risk contract with the contractor principally responsible for delivery risk) is focused on specific states, 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, education, hospitality, residential and healthcare. Balfour Beatty was recently named the Southeast's No.1 contractor in the education sector for 2020 (Florida, North Carolina, South Carolina, Georgia, Alabama and Tennessee) and has long been one of the largest education contractors in California (ENR rank No.2). This diversified geographical and operational capability provides resilience against the recent slowdown in the Buildings market as a result of COVID-19. With blue-chip repeat customers and significant state-backed education bonds, including another US$13 billion approved in California at the same time as the Presidential election in November, the Group's opportunities remain robust in the medium term.

In the year, Buildings completed several notable projects including:

- 1331 Maryland: In October, Balfour Beatty completed a 14-storey luxury apartment project providing residents with unrivalled views of Washington D.C. The project has won a number of awards, including being named 'Best Project' in the Speciality Construction category by ENR MidAtlantic;
- Jacksonville Regional Transportation Centre (JRTC): the 67,000 square foot project delivered 21 bus bays, seven bus staging bays and space for future micro and e-mobility solutions. The JRTC was awarded 'Project of the Year' by the Associated Builders and Contractors, Florida First Coast Chapter in the institutional US$25-100 million category;
- Hoover High School: located in San Diego, California, Balfour Beatty demolished three buildings replacing them with new classrooms, administrative building, theatre and outdoor courtyard;
- Legacy Magnet Academy: located in Tustin, California, Balfour Beatty constructed this new 1,400 pupil school in time for the 2020/21 academic year. The project was built on a former Marine Corps Air Station and was designed to mimic aircraft hangers and incorporate elliptical glulam beams and trellis steel on a 32-acre site which also includes an outdoor amphitheatre;
- Capitol Crossing: located in Washington D.C., a 2.2 million square foot multi-phase development including two LEED Platinum certified 12-storey office buildings and a 700,000 square foot parking garage; and
- River Landing: located in Miami, Florida, Balfour Beatty delivered 360,000 square feet of commercial space, 118,000 square feet of office space, 528 apartments, more than 2,000 parking spaces and a landscaped riverwalk.

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

- Pavilion at Penn: in response to COVID-19, the Pavilion at Penn Medicine project in Pennsylvania fast-tracked 120 patient rooms 15 months ahead of the facility's planned opening, with Balfour Beatty employees working around the clock for 17 days to deliver 122,000 square feet of space in the emergency department as part of the project to deliver a 1.5 million square foot hospital with 47 operating rooms;
- The University of North Carolina at Wilmington: Balfour Beatty completed the first phase of the project with over 1,000 beds available for freshman students from August. The second phase of the project, providing a further 776 beds, will be delivered in August 2021;
- Bowie State University (BSU): construction of the BSU project commenced in February 2020 and in November, Balfour Beatty topped out the project in Maryland. Scheduled to open in August 2021, the 170,000 square foot housing community will bring 557 beds to the campus, as well as a variety of amenities; and
- Pacific Beach Middle School: in December, Balfour Beatty topped out work on a two-storey classroom hall. In addition, there will be three new classrooms in the library media centre, as well as renovation and expansion of other amenities.

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

- Microsoft Redmond Campus: in 2018, the Group was selected, in joint venture with Skanska, as general contractor on Microsoft's head office refresh in Redmond, Washington. The next phase of the project which in total will deliver 18 new buildings, clustered into four distinct villages to create a unified campus, was signed in March 2020;
- Broward County Convention Center: in 2019, Balfour Beatty signed a construction agreement for the expansion of the Broward County Convention Center and new construction of an 800-room hotel. In January 2020, the second phase (of five) of the US$780 million project in Fort Lauderdale, Florida, was signed;
- Museum Place: Balfour Beatty has been awarded a US$127 million contract for a redevelopment project that will renovate the historic Randall School creating a vibrant arts campus and new residential apartment building in Washington D.C.;
- Epic Phase II: having successfully completed Epic Phase I in 2019, Balfour Beatty has been selected to construct the next phase of the project in downtown Dallas, Texas which will include the largest Uber office outside of San Francisco; and
- Walter Tower: Balfour Beatty has been contracted to construct the US$100 million Walter Tower, a premier luxury residential tower which will be one of the tallest residential buildings in Raleigh, North Carolina.

Included in ABNC at year end, US Buildings has been made preferred bidder for: a US$160 million project for the Oxnard Union High School District, California; and a US$110 million luxury apartment development featuring two 24-storey towers in West Palm Beach, Florida.

In Civils, the Group is focused on highway projects in Texas and North Carolina and mass transit rail projects in major cities across the US, including the electrification of existing lines. These large and growing markets are supported by the c. US$77 billion 2020 Unified Transportation Program (UTP) from the Texas Department of Transportation (TxDOT) and a number of state-backed infrastructure bonds (over US$200 billion of multi-state transportation bonds). As part of the ongoing process to focus the business, Balfour Beatty has decided to exit the water sector.

In October, a Balfour Beatty joint venture team opened the US 183 South expressway to traffic in Austin, Texas. After four years of construction, over 95% of the US 183 corridor from US 290 to SH 71 is now operating as the primary route to and from the airport serving as an alternative to I-35 and providing significant improvements to the corridor, including new multi-modal transportation options, improved safety, system connectivity, travel times and congestion relief. In September, the North Metro Rail line project (known as the 'N line') officially opened to the public in Denver, Colorado, following completion of six new stations and 13 miles of track.

Significant progress has also been made on key projects with the following all now over half way through construction: the US$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor Corporation) project; the US$1.08 billion Green Line extension (25% Balfour Beatty) project; and the Caltrain project, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose. Following the joint venture (Balfour Beatty 30%) breaking ground on the Los Angeles International Airport's (LAX) Automated People Mover (APM) project in 2019, the project took a significant step with the placing of concrete for the first segment of the 2.25 mile elevated guideway and completing structural steel erection activities for the Maintenance and Storage Facility (MSF). Once complete, the APM will transport travellers into and out of LAX. The APM electric train system will connect LAX passengers to airline terminals, a rental car facility, a parking facility and the Metro's regional transit system.

At IH-635 (45% Balfour Beatty, 55% Fluor Corporation) in Texas, the design is complete and construction activities have commenced. In August, Balfour Beatty was awarded, in joint venture with Fluor Corporation, a contract to deliver the Oak Hill Parkway infrastructure project for TxDOT. The project will reconstruct and widen approximately seven miles of interstate highway and improve long-term mobility for communities in Austin, Texas.

Gammon

Gammon has a material share of the Hong Kong market which continues to deliver a strong pipeline of infrastructure and construction projects. Historically the Hong Kong market has benefited from high public sector investment, which appears set to continue with the Government's recently announced ambition (budget speech in February 2021) to increase this spend significantly over the medium term. Major expansions of the Hong Kong Airport and MTR subway system have started and are expected to continue in the coming years, whilst social infrastructure programmes to develop hospitals and universities are well underway. This increase in public spend is set to offset a slowdown in the commercial construction sector.

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

During the year, the Buildings business helped fast-track temporary COVID-19 quarantine facilities by providing project management and mechanical, electrical and plumbing services to construct 110 units at Penny's Bay in just 64 days. Subsequently in June, Gammon was awarded a contract for Phase II of the temporary quarantine facilities including construction of a 5G Smart control centre giving the project management team control over all aspects of the works at all phases, whether on-site or off-site. The centre ensured all members of the team had access to the latest design and enhanced collaborative working such that over 700 units were installed in just one month. The business also designed and installed the heaviest DfMA thermal tanks in Hong Kong at the Global Switch Data Centre (Phase 2) project in Tseung Kwan O.

Work has continued on major Buildings projects including the construction of M+, a new 33 gallery museum in the West Kowloon Cultural District of Hong Kong and the Lohas Park project to deliver three 54-56 storey residential towers. Work has also continued on a number of Civils projects in Hong Kong, including Tuen Mun-Chek Lap Kok Link Northern Connection, where Gammon is providing electrical and mechanical facilitation to serve the newly constructed 5-kilometre tunnel, and the Sai Sha Road widening project.

In December 2019, Gammon moved into a new office it has constructed at Quayside. In 2020, the building achieved Gold level WELL Precertification, making Gammon the first construction company in Hong Kong to have been awarded this international designation. The WELL Building Standard is awarded by the International WELL Building Institute and has become a central certification in the growing importance of developing buildings that promote the health and wellbeing of its users. WELL focuses on seven categories of building performance: air, water, nourishment, light, fitness, comfort and mind.

In addition, Gammon's plant yard was awarded a top prize at the China Light and Power Smart Energy Awards. Gammon Technology Park which incorporates all plant and equipment operations, including design and development, maintenance, assembly and disassembly capabilities won the Grand Award in the category of best renewable energy for the installation of a new solar panel system on the roof of the main building. Gammon has also received the ISO 19650 Kitemark certification, making it one of the few companies in Hong Kong to be recognised for its wider digital transformation. The British Standards Institute (BSI) Kitemark for innovation management has been designed to help organisations improve their performance and demonstrate the value and impact of their innovation outcomes to stakeholders and customers.

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

- Hong Kong Airport Terminal 2 expansion: Gammon's largest ever award, a HK$12.9 billion contract for Airport Authority Hong Kong to expand the main Terminal 2 building and construct interconnecting bridges, mechanical and electrical works as well as associated viaducts and roads. The expansion of Terminal 2 forms part of the three-runway system project, which on completion will allow for both arrivals and departures from one terminal and increase overall passenger capacity;
- Hong Kong Airport automatic people mover (APM): a HK$7.2 billion contract for Airport Authority Hong Kong to construct tunnels and related works for an APM and baggage handling system (BHS). The scope of work includes combined 1.8 kilometre-long eight-cell tunnel structures for the APM and BHS systems, 19 ancillary buildings, as well as building services and airport systems; and
- Central Kowloon Route M&E: a HK$5.7 billion contract by the Highways Department of the Government of the Hong Kong Special Administrative Region to construct buildings, mechanical and electrical works for the Central Kowloon Route (CKR). Gammon is also constructing the Kai Tak West Section of the CKR which includes underwater and cut-and-cover tunnels, as well as roads.

SUPPORT SERVICES

Financial review

Although impacted by COVID-19, Support Services has shown strong resilience in the year. The Group was able to accelerate road and rail maintenance programmes for some customers due to lower volumes of traffic in the year, but this was offset by other customers reducing maintenance expenditure given the economic uncertainty.

Support Services revenue increased by 4% to £1,067 million (2019: £1,023 million) as a result of higher volumes at power transmission and distribution, and transportation. Underlying profit from operations for the year was broadly in line at £46 million (2019: £47 million) as the increase in volume was offset by disruptions caused by COVID-19. The order book decreased to £2.7 billion (2019: £3.2 billion) following the Group's decision to withdraw from the gas and water sectors.

Support Services	2020	2019
Order book[1] (£bn)	2.7	3.2
Revenue[1] (£m)	1,067	1,023
Profit from operations[2] (£m)	46	47
Non-underlying items (£m)	4	(58)
Statutory profit/(loss) from operations (£m)	50	(11)

[1] Including share of joint ventures and associates

[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

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

The power transmission and distribution sector is likely to see a wave of new demand as the UK's Build Back Better initiative is underpinned by key environmental targets. Investments in renewable energy (wind power and new nuclear generation capacity) will provide the power business with material opportunities over the medium term. The highways maintenance market is forecast to see significant investment with the announcement of an additional £2.5 billion in funding, increasing local council budgets by 45% over the next five years. Further, over £700 million of outsourced contracts are up for renewal between 2021 and 2025. The rail maintenance market also has a positive trajectory with an additional £10 billion of funding for renewals as part of the latest Network Rail control period (CP6).

Utilities revenue increased by 3% to £565 million (2019: £551 million) whilst the order book decreased to £0.7 billion (2019: £1.0 billion), as the current regulatory cycles in gas and water reach the end of their periods in 2021 and 2020 respectively.

Performance at power transmission and distribution continues to improve, with a clear plan to deliver key projects such as Hinkley Point C overhead cabling, Viking Link, Inveraray-Crossaig and the National Grid and SSE portfolios. During the year, work commenced at the Viking Link project, a £90 million contract to deliver the onshore civil works for the Viking Link interconnector project with National Grid Ventures. As part of the four-year contract Balfour Beatty will be responsible for the civil engineering and installation of 68 kilometres of high voltage cabling across Lincolnshire.

In December, the Group was awarded a £48 million contract to design and build a new 400 kilovolt (kV) substation in Peterhead, Scotland on behalf of SSEN Transmission. The contract for a 25,000 square metre substation with associated cabling and overhead line works, forms part of the East Coast Reinforcement programme, which will strengthen the network in the area and facilitate the connection of more renewable energy generation 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 continues to manage two long term gas contracts in the RIIO-GD1 period (until second quarter 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 has completed the end of the current UK water regulatory cycle (AMP6 2015-2020). Under the new AMP7 regulatory period (2020-2025) contracts are generally being awarded on terms that are not acceptable to Balfour Beatty and therefore the Group has only retained one contract (Anglian Water).

Transportation revenues increased by 6% to £502 million (2019: £472 million) whilst the order book decreased to £2.0 billion (2019: £2.2 billion).

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

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

INFRASTRUCTURE INVESTMENTS

Financial review

Underlying pre-disposals operating profit in the year decreased to £8 million (2019: £13 million), primarily due to a provision for an estimate of historical military housing incentive fees which Balfour Beatty has proposed to repay. There were no Investments assets disposals in the year, therefore the underlying profit from operations was also £8 million (2019: £82 million).

As a result of the market uncertainty generated by COVID-19, and the strong liquidity position of the Group, Balfour Beatty did not dispose of any Investments assets in the year. In 2021, the Group will re-commence selling Investments assets timed to maximise value to shareholders as demand for high quality infrastructure assets in the secondary market is expected to exceed supply.

Net interest income reduced to £12 million (2019: £16 million), primarily as a result of the recognition of impairment losses on loans to joint ventures, contributing to an underlying profit before tax of £20 million (2019: £98 million).

Infrastructure Investments	2020 £m	2019 £m
Pre-disposals operating profit[2]	8	13
Profit on disposals[2]	–	69
Profit from operations[2]	8	82
Net investment income[~]	12	16
Profit before tax[2]	20	98
Non-underlying items	(5)	(5)
Statutory profit before tax	15	93

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

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

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

Operational review

As a result of the market uncertainty generated by COVID-19, the number of transactions in 2020 was relatively low for the Infrastructure Investments business with only two new projects and no disposals.

Operationally, the majority of operations in the UK continued as normal, supported by the Government advice that private finance initiative (PFI) contractors should consider themselves to be part of the public sector response to COVID-19. Availability-based assets were not affected but a number of demand-based road projects were impacted by lower traffic volumes, which are expected to recover quickly as COVID-19 restrictions lift. The Group's strategy to invest in on-campus accommodation in partnership with established universities resulted in the impact on these projects being immaterial as universities continued to nominate rooms and income remained strong.

In the US, Balfour Beatty Communities continues to work with its partners to support military families, noting that employees are working to social distancing rules, as agreed with the US military, which restrict access to properties and thus maintenance activity. The Group's strategy to work in partnership with universities limited the impact on US student accommodation and in the longer term there are clear demographic drivers to support future cash flows for student accommodation.

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

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 a number of military bases managed by Balfour Beatty Communities (BBC). Subsequently, the US Department of Justice (DoJ) commenced an investigation into the allegations of false claims. Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct its own investigation, and BBC proactively contacted the DoJ to notify them of the review. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ.

Balfour Beatty has made a provision in its 2020 year end results for an estimate of the historical incentive fees that its investigation was unable to fully verify and which BBC has proposed to be repaid. The Group's external counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required BBC to develop a comprehensive Performance Improvement Plan (PIP). The plan, which includes a variety of objectives and performance metrics, was agreed with the Air Force in February 2020. All initiatives set out in the plan have been completed, including implementing a significant management restructuring to better align technical support and resident services and appointing a Transformation Director. To date, 44 lines of effort have been signed off by the Air Force, whilst four remain under review.

There are opportunities for Infrastructure Investments in the military housing sector in connection with ongoing efforts by the US Army to refinance its military housing projects. Proceeds from any such refinancing of projects within Balfour Beatty's military housing portfolio would be used toward continued demolition of older housing and replacement with new construction homes, as well as for renovations of other homes across a number of Army bases.

Directors' valuation

The Directors' valuation increased 2% to £1,086 million (2019: £1,068 million), primarily as a result of the unwind of discount in the year. The number of projects in the portfolio decreased to 67 (2019: 69).

Movement in value 2019 to 2020

£m	2019	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Operational performance	Forex movements	2020
UK	514	24	(33)	–	38	(29)	–	**514**
North America	554	22	(39)	–	45	9	(19)	**572**
Total	1,068	46	(72)	–	83	(20)	(19)	**1,086**

The Group invested £46 million (2019: £64 million) in new and existing projects. The two new assets were both multifamily housing projects in the US: a 260-unit site at Chenal Point in Little Rock, Arkansas; and a 135-unit site named Moretti at Vulcan Park in Birmingham, Alabama. Material investment in existing projects included student accommodation projects at Sussex University in the UK and the University of Dallas, Texas.

Four projects that were all previously included at nil value in the Directors' valuation have now been removed from the project count. Two of these projects have been at preferred bidder stage for several years without progressing further and are no longer expected to reach financial close. The other two projects are no longer expected to generate a return and have accordingly been removed.

Cash yield from distributions amounted to £72 million (2019: £65 million) as the portfolio continued to generate cash flow to the Group net of investment. The continuing yield during COVID-19 demonstrates the essential nature of the Infrastructure Investments portfolio. Unwind of discount at £83 million (2019: £87 million) is a function of moving the valuation date forward by one year with the result that future cash flows are discounted by twelve months less. Negative foreign exchange movements were consistent with prior year at £19 million (2019: £19 million) whilst operational performance movements resulted in a £20 million decrease (2019: £86 million decrease).

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

Portfolio valuation December 2020

Value by sector

Sector	**2020**	2019	**2020**	2019
	No. projects	No. projects	**£m**	£m
Roads	**13**	13	**188**	206
Healthcare	**3**	3	**114**	112
Student accommodation	**4**	4	**88**	59
OFTOs	**3**	3	**44**	53
Waste and biomass	**2**	4	**51**	60
Other	**4**	4	**29**	24
UK total	**29**	31	**514**	514
US military housing	**21**	21	**446**	453
Healthcare and other PPP	**2**	2	**21**	17
Student accommodation	**3**	5	**52**	40
Residential housing	**12**	10	**53**	44
North America total	**38**	38	**572**	554
Total	**67**	69	**1,086**	1,068

Value by phase

Phase	**2020**	2019	**2020**	2019
	No. projects	No. projects	**£m**	£m
Operations	**65**	62	**1,037**	954
Construction	**2**	5	**49**	114
Preferred bidder	**–**	2	**–**	–
Total	**67**	69	**1,086**	1,068

Value by income type

Income type	**2020**	2019	**2020**	2019
	No. projects	No. projects	**£m**	£m
Availability based	**22**	22	**371**	389
Demand – operationally proven (2+ years)	**39**	38	**519**	517
Demand – early stage (less than 2 years)	**6**	9	**196**	162
Total	**67**	69	**1,086**	1,068

Discount rates applied to the UK portfolio range between 7% and 10.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.0% (2019: 8.3%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.4% (2019: 8.3%). Consistent with other infrastructure funds, Balfour Beatty's experience is that there is limited correlation between the discount rates used to value PPP, and similar infrastructure investments, and long term interest rates. In the event that interest rates increase in response to rising inflation, the impact of any increase in discount rates would be mitigated by the positive correlation between the value of the UK portfolio and changes in inflation. A 1% change in the discount rate would change the value of the UK portfolio by approximately £51 million. A 1% change in the discount rate would change the value of the North American portfolio by approximately £72 million.

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 Authority (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

Underlying profit from operations (PFO)

Underlying PFO is presented before non-underlying items, 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 2018, 2019 and 2020 PSP awards.

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRSs) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 170 to 176 of the Annual Report and Accounts 2020.

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

Performance measures

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

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

a) Order book

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

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

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

In accordance with IFRS 15 Revenue from Contracts with Customers, the Group is required to disclose the remaining transaction price allocated to performance obligations not yet delivered. This can be found in Note 4.3 in the Annual Report and Accounts 2020. This is similar to the Group's order book disclosure however it differs for the following reasons:

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

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

		2020 £m	2019 £m
Order book (performance measure)		**16,392**	14,339
Less:	Share of orders included within the Group's joint ventures and associates	**(2,443)**	(1,987)
Less:	Estimated orders under framework agreements included in the order book disclosure	**(367)**	(114)
Add:	Transaction price allocated to remaining performance obligations in Infrastructure Investments+	**1,656**	1,866
Transaction price allocated to remaining performance obligations for the Group+ (statutory measure)		**15,238**	14,104

+ Refer to Note 4.3 in the Annual Report and Accounts 2020.

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 2020 statutory results to performance measures

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

Reconciliation of 2020 statutory results to performance measures by segment

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

Reconciliation of 2019 statutory results to performance measures

	2019 statutory results £m	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
		Non-underlying items					
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	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
		Non-underlying items					
Segment							
Construction Services	126	–	1	(2)	–	–	125
Support Services	(11)	58	–	–	–	–	47
Infrastructure Investments	77	–	5	–	–	–	82
Corporate activities	(33)	–	–	–	–	–	(33)
Total	159	58	6	(2)	–	–	221

c) Underlying profit before tax

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

		2020 **£m**	2019 £m
Underlying profit from operations (section (b) and Note 5)		**8**	82
Add:	Subordinated debt interest receivable+	**25**	20
Add:	Interest receivable on PPP financial assets+	**8**	9
Less:	Non-recourse borrowings finance cost+	**(11)**	(13)
Less:	Impairment of subordinated debt receivable+	**(10)**	–
Underlying profit before tax (performance)		**20**	98
Non-underlying items (section (b) and Note 5)		**(5)**	(5)
Statutory profit before tax		**15**	93

+ 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 (EPS) on an underlying basis. The table below reconciles this to the statutory earnings per share.

Reconciliation from statutory basic EPS to performance EPS

	2020 **pence**	2019 pence
Statutory basic earnings per ordinary share	**4.4**	19.0
Amortisation of acquired intangible assets net of tax	**0.5**	0.9
Other non-underlying items net of tax	**(1.2)**	6.8
Underlying basic earnings per ordinary share (performance)	**3.7**	26.7

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

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

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

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

f) Operating cash flow (OCF)

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

Reconciliation from statutory cash generated from operations to OCF

	2020 £m	2019 £m
Cash generated from operating activities (statutory)	**274**	211
Add back: Pension payments including deficit funding (Note 18)	**18**	33
Less: Repayment of lease liabilities (including lease interest payments)	**(64)**	(51)
Add: Operational dividends received from joint ventures and associates	**50**	54
Add back: Cash flow movements relating to non-operating items	**5**	3
Less: Operating cash flows relating to non-recourse activities	**(3)**	(7)
Operating cash flow (OCF) (performance)	**280**	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 (£18 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) (£64 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 (£50 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 are 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 (£5 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 (£3 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. These shares were redeemed in the year. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, lease liabilities recognised on the Group's balance sheet, are deemed to be debt in nature under statutory measures.

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

Net cash/borrowings reconciliation

		2020 statutory £m	**Adjustment £m**	**2020 performance £m**	2019 statutory £m	Adjustment £m	2019 performance £m
Total cash within the Group		**792**	**(22)**	**770**	778	(35)	743
Cash and cash equivalents	– infrastructure concessions	**22**	**(22)**	**–**	35	(35)	–
	– other	**770**	**–**	**770**	743	–	743
Total debt within the Group		**(653)**	**464**	**(189)**	(798)	567	(231)
Borrowings – non-recourse loans		**(339)**	**339**	**–**	(337)	337	–
– other		**(189)**	**–**	**(189)**	(231)	–	(231)
Liability component of preference shares		**–**	**–**	**–**	(110)	110	–
Lease liabilities		**(125)**	**125**	**–**	(120)	120	–
Net cash/(borrowings)		**139**	**442**	**581**	(20)	532	512

h) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt, the liability component of the Company's preference shares and lease liabilities recognised. This performance measure shows average net cash of £527 million for 2020 (2019: £325 million).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and the lease liabilities recognised) gives average net cash of £71 million for 2020 (2019: net borrowings of £49 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 £1.09 billion at year end (2019: £1.07 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

	2020 £m	2019 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**706**	676
Less: Net assets not included within the Directors' valuation – Housing division	**(27)**	(30)
Comparable statutory measure of the Investments portfolio under IFRS	**679**	646

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

	2020 £m	2019 £m
Statutory measure of the Investments portfolio (as above)	**679**	646
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: • historical cost • amortised cost • fair value	**407**	422
Directors' valuation (performance measure)	**1,086**	1,068

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

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

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

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

- historical cost
- amortised cost
- 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:

2020 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2020 statutory	2,192	3,776	–	5,968	1,037	315	7,320
2019 statutory	2,214	3,737	–	5,951	991	371	7,313
Statutory growth (%)	**(1)%**	**1%**	**–**	**–**	**5%**	**(15)%**	**–**
2020 performance^	2,190	3,789	985	6,964	1,067	556	8,587
2019 performance retranslated^	2,213	3,721	894	6,828	1,023	521	8,372
Performance CER growth (%)	**(1)%**	**2%**	**10%**	**2%**	**4%**	**7%**	**3%**
Order book (£bn)							
2020	6.4	5.2	2.1	13.7	2.7	–	16.4
2019	3.0	6.5	1.6	11.1	3.2	–	14.3
Growth (%)	**113%**	**(20)%**	**31%**	**23%**	**(16)%**	**–**	**15%**
2020	6.4	5.2	2.1	13.7	2.7	–	16.4
2019 retranslated	3.0	6.3	1.6	10.9	3.2	–	14.1
CER growth (%)	**113%**	**(17)%**	**31%**	**26%**	**(16)%**	**–**	**16%**

^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 94 to 101 of the Annual Report and Accounts 2020.

No representation or warranty is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved, and projections are not guarantees of future performance. Forward-looking statements speak only as at the date of this 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 2020

	Notes	2020 Underlying items[1] £m	2020 Non-underlying items (Note 9) £m	2020 Total £m	2019 Underlying items[1] £m	2019 Non-underlying items (Note 9) £m	2019 Total £m
Revenue including share of joint ventures and associates		**8,587**	**6**	**8,593**	8,405	6	8,411
Share of revenue of joint ventures and associates	15	**(1,269)**	**(4)**	**(1,273)**	(1,093)	(5)	(1,098)
Group revenue		**7,318**	**2**	**7,320**	7,312	1	7,313
Cost of sales		**(7,079)**	**(2)**	**(7,081)**	(6,930)	(1)	(6,931)
Gross profit		**239**	**–**	**239**	382	–	382
Gain on disposals of interests in investments		**–**	**–**	**–**	40	–	40
Amortisation of acquired intangible assets	9	**–**	**(6)**	**(6)**	–	(6)	(6)
Other net operating expenses		**(226)**	**18**	**(208)**	(267)	(56)	(323)
Group operating profit/(loss)		**13**	**12**	**25**	155	(62)	93
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**38**	**–**	**38**	37	–	37
Gain on disposals of interests in investments		**–**	**–**	**–**	29	–	29
Share of results of joint ventures and associates	15	**38**	**–**	**38**	66	–	66
Profit/(loss) from operations		**51**	**12**	**63**	221	(62)	159
Investment income	7	**38**	**–**	**38**	34	–	34
Finance costs	8	**(53)**	**–**	**(53)**	(55)	–	(55)
Profit/(loss) before taxation		**36**	**12**	**48**	200	(62)	138
Taxation	10	**(11)**	**(7)**	**(18)**	(14)	9	(5)
Profit/(loss) for the year		**25**	**5**	**30**	186	(53)	133
Attributable to							
Equity holders		**25**	**5**	**30**	183	(53)	130
Non-controlling interests		**–**	**–**	**–**	3	–	3
Profit/(loss) for the year		**25**	**5**	**30**	186	(53)	133

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

	Notes	2020 pence	2019 pence
Earnings per ordinary share			
- basic	11	**4.4**	19.0
- diluted	11	**4.4**	18.8
Dividends per ordinary share proposed for the year	12	**1.5**	2.1

Group Statement of Comprehensive Income

For the year ended 31 December 2020

			2020			2019
	Group £m	**Share of joint ventures and associates £m**	**Total £m**	Group £m	Share of joint ventures and associates £m	Total £m
Profit/(loss) for the year	**(8)**	**38**	**30**	67	66	133
Other comprehensive (loss)/income for the year						
Items which will not subsequently be reclassified to the income statement						
Actuarial (losses)/gains on retirement benefit liabilities	**(62)**	**–**	**(62)**	43	2	45
Tax on above	**5**	**–**	**5**	(8)	(1)	(9)
	(57)	**–**	**(57)**	35	1	36
Items which will subsequently be reclassified to the income statement						
Currency translation differences	**(11)**	**(4)**	**(15)**	(12)	(7)	(19)
Fair value revaluations – PPP financial assets	**5**	**8**	**13**	3	24	27
– cash flow hedges	**(4)**	**1**	**(3)**	(4)	2	(2)
– investments in mutual funds measured at fair value through OCI	**2**	**–**	**2**	2	–	2
Recycling of revaluation reserves to the income statement on disposal^	**–**	**–**	**–**	(2)	(2)	(4)
Tax on above	**–**	**(2)**	**(2)**	–	(5)	(5)
	(8)	**3**	**(5)**	(13)	12	(1)
Total other comprehensive (loss)/income for the year	**(65)**	**3**	**(62)**	22	13	35
Total comprehensive (loss)/income for the year	**(73)**	**41**	**(32)**	89	79	168
Attributable to						
Equity holders			**(32)**			165
Non-controlling interests			**–**			3
Total comprehensive (loss)/income for the year			**(32)**			168

^ 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 2020

	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 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
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**41**	**(9)**	**(64)**	**–**	**(32)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(50)**	**–**	**50**	**–**	**–**
Reserve transfers relating to joint ventures and associates	**–**	**–**	**–**	**28**	**–**	**(28)**	**–**	**–**
Redemption of preference shares	**–**	**111**	**–**	**–**	**(17)**	**(94)**	**–**	**–**
At 31 December 2020	**345**	**176**	**22**	**65**	**116**	**612**	**9**	**1,345**

Group Balance Sheet
At 31 December 2020

		Notes	2020 £m	2019 £m
Non-current assets				
Intangible assets	– goodwill	13	**811**	828
	– other	14	**312**	300
Property, plant and equipment			**93**	91
Right-of-use assets			**121**	113
Investment properties			**30**	32
Investments in joint ventures and associates		15	**554**	550
Investments			**26**	27
PPP financial assets			**155**	155
Trade and other receivables		16	**250**	207
Retirement benefit assets		18	**215**	249
Deferred tax assets			**80**	92
			2,647	2,644
Current assets				
Inventories			**114**	101
Contract assets			**288**	377
Trade and other receivables		16	**838**	939
Cash and cash equivalents	– infrastructure investments	20.3	**22**	35
	– other	20.3	**770**	743
Current tax receivable			**6**	2
			2,038	2,197
Total assets			**4,685**	4,841
Current liabilities				
Contract liabilities			**(524)**	(469)
Trade and other payables		17	**(1,403)**	(1,520)
Provisions		21	**(200)**	(153)
Borrowings	– non-recourse loans	20.3	**(6)**	(4)
	– other	20.3	**–**	(35)
Liability component of preference shares			**–**	(110)
Lease liabilities			**(47)**	(42)
Current tax payable			**(14)**	(16)
Derivative financial instruments			**(4)**	(4)
			(2,198)	(2,353)
Non-current liabilities				
Contract liabilities			**(2)**	(2)
Trade and other payables		17	**(128)**	(108)
Provisions		21	**(150)**	(142)
Borrowings	– non-recourse loans	20.3	**(333)**	(333)
	– other	20.3	**(189)**	(196)
Lease liabilities			**(78)**	(78)
Retirement benefit liabilities		18	**(126)**	(116)
Deferred tax liabilities			**(104)**	(108)
Derivative financial instruments			**(32)**	(28)
			(1,142)	(1,111)
Total liabilities			**(3,340)**	(3,464)
Net assets			**1,345**	1,377
Equity				
Called-up share capital			**345**	345
Share premium account			**176**	65
Special reserve			**22**	22
Share of joint ventures' and associates' reserves			**65**	46
Other reserves			**116**	142
Retained profits			**612**	748
Equity attributable to equity holders of the parent			**1,336**	1,368
Non-controlling interests			**9**	9
Total equity			**1,345**	1,377

Group Statement of Cash Flows

For the year ended 31 December 2020

		Notes	2020 £m	2019 £m
Cash flows from operating activities				
Cash from operations			**276**	212
Income taxes paid			**(2)**	(1)
Net cash from operating activities			**274**	211
Cash flows from investing activities				
Dividends received from:				
	- joint ventures and associates – infrastructure investments		**20**	59
	- joint ventures and associates – other		**30**	36
Interest received – infrastructure investments – joint ventures			**15**	5
Interest received – infrastructure investments – subsidiaries			**3**	3
Acquisition of businesses, net of cash and cash equivalents acquired		22.1	**(3)**	(3)
Purchases of:	- intangible assets – infrastructure investments		**(32)**	(58)
	- intangible assets – other		**(1)**	(4)
	- property, plant and equipment		**(33)**	(20)
Return of equity from joint ventures and associates			**–**	14
Investments in and long-term loans to joint ventures and associates			**(25)**	(58)
PPP financial assets cash expenditure			**(2)**	(3)
PPP financial assets cash receipts			**15**	16
Disposals of:	- investments in joint ventures – infrastructure investments		**1**	24
	- investments in joint ventures – other		**1**	1
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments		**–**	59
	- property, plant and equipment – infrastructure investments		**–**	22
	- property, plant and equipment – other		**12**	7
	- investment property		**3**	–
	- net assets held for sale – infrastructure investments		**–**	8
	- other investments		**3**	5
Net cash from investing activities			**7**	113
Cash flows used in financing activities				
Purchase of ordinary shares			**(8)**	(2)
Proceeds from other new loans relating to infrastructure investments assets		20.4	**6**	6
Repayments of:	- loans – infrastructure investments	20.4	**(4)**	(48)
	- loans – other	20.4	**(36)**	(15)
Redemption of preference shares			**(112)**	–
Repayment of lease liabilities			**(58)**	(45)
Ordinary dividends paid		12	**–**	(36)
Other dividends paid – non-controlling interest			**–**	(4)
Interest paid – infrastructure investments			**(12)**	(13)
Interest paid – other			**(23)**	(23)
Preference dividends paid			**(6)**	(12)
Net cash used in financing activities			**(253)**	(192)
Net increase in cash and cash equivalents			**28**	132
Effects of exchange rate changes			**(14)**	(15)
Cash and cash equivalents at beginning of year			**778**	661
Cash and cash equivalents at end of year		20.2	**792**	778

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 (the Act) and in accordance with International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Group has adopted these standards for accounting periods beginning on 1 January 2020. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 9 March 2021, does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2020 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 2021.

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.

Other than the uncertainty of the ongoing effects of the COVID-19 outbreak on the Group's financial performance and cash flows, the key financial risk factors for the Group remain largely unchanged. The Group's principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 94 to 101 in the Annual Report and Accounts 2020.

The Group's US private placement and committed bank facility contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2020, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

The Directors have carried out an assessment on the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements This assessment has involved the review of medium-term cash forecasts based on the Group's Three Year Plan which reflects the estimated impact of COVID-19 on each of the Group's operations. The Directors have also considered the strength of the Group's order book which amounted to £16.4bn at 31 December 2020 and will provide a pipeline of secured work over the going concern assessment period. These base case projections indicate that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the going concern assessment period.

Having repaid US$46m of its US private placement notes on maturity in March 2020 and redeemed its preference shares in full for £112m in July 2020, the Group does not have any debt repayment obligations in the going concern assessment period. US$259m of its US private placement notes remain outstanding, with the next tranche of US$209m being due in March 2023 and the final tranche of US$50m being due in March 2025. The Group does not have any other debt apart from these US private placement notes and non-recourse borrowings ringfenced within certain infrastructure investment companies. The Group's £375m committed bank facility, which was undrawn throughout the year ended 31 December 2020, remains fully available to the Group until October 2023, with a one-year extension option through to October 2024 available to the Group subject to lenders' consent.

2 Going concern continued

The Directors have stress-tested the Group's base case projections of both cash and profit against key sensitivities which could materialise as a result of adverse changes in the economic environment including COVID-19 and a deterioration in commercial or operational conditions. The Group has sensitised its projections against severe but plausible downside scenarios which include:

- Further restrictions for two months on a portion of the Group's activities in the UK and the US, mandated either by federal or local government authorities or by the Group's customers;
- Elimination of a portion of unsecured work assumed within the Group's base case projections and a delay of three months for any awarded but not yet contracted work;
- A deterioration of contract judgements;
- A reduction in productivity in the UK in 2021 resulting in cost increases for subcontract work and procurement of materials;
- Delay in payments received from a portion of non-government customers;
- Removal of dividends from Gammon; and
- Delay in the disposal of Investments assets by 12 months.

A downside scenario to reflect lagging effects from the end of the transition period following the UK's exit from the European Union was also overlaid in addition to the downsides modelled above.

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

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

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

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 2020:

- 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
    - IFRS 16 Leases Covid-19-Related Rent Concessions
- Amendments to References to the Conceptual Framework in IFRS Standards.

These amended standards did not have a material effect on the Group.

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 2020:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
  - IAS 16 Property, Plant and Equipment
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
  - IFRS 3 Business Combinations
  - IFRS 4 Insurance Contracts – Deferral of IFRS 9
  - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendments to Annual Improvements 2018 – 2020.

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 2020.

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

4 Exchange rates

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

Average rates

£1 buys	**2020**	2019	Change
US$	**1.29**	1.28	0.8%
HK$	**10.02**	10.03	(0.1)%
Euro	**1.13**	1.14	(0.9)%

Closing rates

£1 buys	**2020**	2019	Change
US$	**1.37**	1.32	3.8%
HK$	**10.58**	10.28	2.9%
Euro	**1.11**	1.17	(5.1)%

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

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

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).

5 Segment analysis continued

5.1 Total Group continued

Assets and liabilities by activity	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Contract assets	**172**	**91**	**25**	**–**	**288**
Contract liabilities – current	**(418)**	**(105)**	**(1)**	**–**	**(524)**
Inventories	**51**	**34**	**29**	**–**	**114**
Trade and other receivables – current	**683**	**114**	**35**	**6**	**838**
Trade and other payables – current	**(1,120)**	**(216)**	**(38)**	**(29)**	**(1,403)**
Provisions – current	**(165)**	**(7)**	**(15)**	**(13)**	**(200)**
Working capital*	**(797)**	**(89)**	**35**	**(36)**	**(887)**
Total assets	**2,107**	**493**	**1,169**	**916**	**4,685**
Total liabilities	**(2,035)**	**(405)**	**(463)**	**(437)**	**(3,340)**
Net assets	**72**	**88**	**706**	**479**	**1,345**

* Includes non-operating items and current working capital.

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

* Includes non-operating items and current working capital.

5 Segment analysis continued

5.1 Total Group continued

Other information	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Capital expenditure on property, plant and equipment	**15**	**12**	**–**	**6**	**33**
Capital expenditure on intangible assets (Note 14)	**–**	**–**	**33**	**–**	**33**
Depreciation	**36**	**33**	**1**	**12**	**82**

	2019 £m	2019 £m	2019 £m	2019 £m	2019 £m
Capital expenditure on property, plant and equipment	11	8	–	1	20
Capital expenditure on intangible assets	–	4	58	–	62
Depreciation	25	35	4	10	74
Gain on disposals of interests in investments	–	–	40	–	40
Gain on disposals of interests in investments within joint ventures and associates	–	–	29	–	29

Performance by geographic destination	United Kingdom 2020 £m	United States 2020 £m	Rest of world 2020 £m	Total 2020 £m
Revenue including share of joint ventures and associates[1]	**3,377**	**4,155**	**1,055**	**8,587**
Share of revenue of joint ventures and associates[1]	**(102)**	**(143)**	**(1,024)**	**(1,269)**
Group revenue[1]	**3,275**	**4,012**	**31**	**7,318**

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

	2019 £m	2019 £m	2019 £m	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).

5.2 Infrastructure Investments

Underlying profit from operations[1]	Group 2020 £m	Share of joint ventures and associates (Note 15)[+] 2020 £m	Total 2020 £m	Group 2019 £m	Share of joint ventures and associates (Note 15)[+] 2019 £m	Total 2019 £m
UK^	**2**	**(6)**	**(4)**	4	(4)	–
North America	**12**	**14**	**26**	18	13	31
Gain on disposals of interests in investments	**–**	**–**	**–**	40	29	69
	14	**8**	**22**	62	38	100
Bidding costs and overheads	**(14)**	**–**	**(14)**	(18)	–	(18)
	–	**8**	**8**	44	38	82

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

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

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

6. Revenue

6.1 Nature of services provided

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 of services provided 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 of services provided 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, 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 the point in time when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. *Revenue from this service is presented within Buildings in Note 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 2020

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	**2,165**	**3,789**	**1,010**	**6,964**
	Group revenue	**2,165**	**3,776**	**25**	**5,966**
Support Services	Revenue including share of joint ventures and associates	**1,034**	**–**	**33**	**1,067**
	Group revenue	**1,034**	**–**	**3**	**1,037**
Infrastructure Investments	Revenue including share of joint ventures and associates	**178**	**366**	**12**	**556**
	Group revenue	**76**	**236**	**3**	**315**
Total revenue	**Revenue including share of joint ventures and associates**	**3,377**	**4,155**	**1,055**	**8,587**
	Group revenue	**3,275**	**4,012**	**31**	**7,318**

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

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

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

6 Revenue continued

6.2 Disaggregation of revenue continued

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.

7 Investment income

	2020 £m	2019 £m
Subordinated debt interest receivable	**25**	20
Interest receivable on PPP financial assets	**8**	9
Other interest receivable and similar income	**2**	3
Net finance income on pension scheme assets and obligations (Note 18)	**3**	2
	38	34

8 Finance costs

		2020 £m	2019 £m
Non-recourse borrowings	– bank loans and overdrafts	**11**	13
Preference shares	– finance cost	**6**	12
	– accretion	**2**	4
US private placement	– finance cost	**10**	12
Interest on lease liabilities		**6**	6
Other interest payable	– committed facilities	**2**	2
	– letter of credit fees	**2**	3
	– other finance charges	**3**	3
Impairment of loans to joint ventures and associates		**11**	–
		53	55

The impairment of loans to joint ventures and associates of £11m (2019: £nil) relates to expected credit loss assessments performed on the Group's investments in joint ventures and associates. £10m of this impairment relates to subordinated debt receivable from joint ventures and associates held within the Infrastructure Investments segment.

9 Non-underlying items

	2020 £m	2019 £m
Items credited to/(charged against) profit		
9.1 Amortisation of acquired intangible assets	**(6)**	(6)
9.2 Other non-underlying items:		
– grant income received in relation to UK Job Retention Scheme	**19**	–
– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**(3)**	–
– release of provision held for blacklisting claims	**2**	–
– impairment of goodwill relating to Gas & Water	**–**	(58)
– provision release relating to settlements of health and safety claims	**–**	2
Total other non-underlying items	**18**	(56)
Credited to/(charged against) profit before taxation	**12**	(62)
9.3 Tax (charge)/credit:		
– non-underlying (derecognition)/recognition of deferred tax assets in the UK	**(6)**	9
– tax on grant income received in relation to UK Job Retention Scheme	**(4)**	–
– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	**1**	–
– tax on other items above	**2**	–
Total tax (charge)/credit	**(7)**	9
Credited to/(charged against) profit for the year	**5**	(53)

9 Non-underlying items continued

9.1 The amortisation of acquired intangible assets comprises: customer contracts £5m (2019: £5m); and customer relationships £1m (2019: £1m).

The charge was recognised in the following segments: Construction Services £1m (2019: £1m) and Infrastructure Investments £5m (2019: £5m).

9.2.1 During the year, the Group recognised grant income of £19m in respect of the UK Government's Job Retention Scheme (JRS) (2019: £nil). This was a one-off temporary scheme which the Group has decided to voluntarily refund after the balance sheet date. This income has been presented within non-underlying items to avoid distorting the underlying performance of the Group. In line with this treatment, the Group will also present its voluntary refund of the grant income within non-underlying items in its results in 2021. Refer to Note 26.

The credit was recognised in the following segments: Construction Services £13m; Support Services £5m and Corporate £1m.

9.2.2 In 2020, the Group recognised additional retirement benefit liabilities of £3m in relation to Guaranteed Minimum Pension (GMP) equalisation following a further ruling which was published in November 2020. The judgement indicated that members who exercised their statutory right to transfer their benefits will be able to have a top-up payment made from their former scheme to the scheme to which they transferred their benefits. This follows the judgment on the Lloyds Banking Group High Court Hearing which was published on 26 October 2018, following which the Group recognised £28m of additional retirement benefit obligations within non-underlying items.

The charge was recognised in the following segments: Construction Services £2m; and Support Services £1m.

9.2.3 In 2020, the Group recognised a provision release of £2m relating to the resolution of disputes associated with blacklisting claims. The credit of £2m was recognised in the Construction Services segment.

9.2.4 In 2019, 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 reassessed the long-term outlook for its Gas & Water CGU. The assessment resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58m in 2019. This charge was treated as a non-underlying item and was recognised in the Support Services segment.

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

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

9 Non-underlying items continued

9.3.1 In previous periods, significant actuarial gains in the Group's main pension scheme, Balfour Beatty Pension Fund (BBPF), led to the recognition of deferred tax liabilities. This in turn led to the recognition of additional UK deferred tax assets in respect of tax losses which the Group recognised as non-underlying due to the size and nature of the credit. In 2020, actuarial losses in the BBPF resulted in the derecognition of UK deferred tax assets in respect of tax losses. Applying the same methodology used in previous periods, the Group recognised the associated £9m tax charge as a non-underlying item along with a £1m tax charge arising from certain of the actuarial losses in the Railways Pension Scheme. These charges have been partially offset by a deferred tax credit of £4m to restate previous deferred tax assets recognised through non-underlying items due to a tax rate change enacted in the UK during 2020. In 2019, actuarial gains in the BBPF resulted in a £9m tax credit in non-underlying items resulting from the recognition of UK deferred tax assets in respect of tax losses.

The £9m tax charge in non-underlying items in 2020 arising from the BBPF actuarial losses has increased by £25m as a result of the adjustment to actuarial losses arising from the changes to the mortality assumptions disclosed in Note 18.2.

9.3.2 As explained in Note 9.2.1, non-underlying income of £19m was recognised in 2020 in relation to grant income received under the UK Government's JRS. This income gave rise to a tax charge of £4m (2019: £nil).

9.3.3 As explained in Note 9.2.2, a non-underlying charge of £3m was recognised in 2020 to take into account the effect of GMP equalisation. This charge gave rise to a deferred tax credit of £1m (2019: £nil).

9.3.4 The remaining non-underlying items charged against the Group's operating profit gave rise to a tax credit of £2m (mainly on amortisation of acquired intangible assets) (2019: £nil after prior year adjustments).

10 Income taxes

	Underlying Items[1] 2020 £m	Non-underlying items (Note 9) 2020 £m	Total 2020 £m	Total 2019 £m
Total UK tax	**9**	**9**	**18**	(20)
Total non-UK tax	**2**	**(2)**	**–**	25
Total tax charge[x]	**11**	**7**	**18**	5
UK current tax				
– current tax	**(4)**	**4**	**–**	–
– adjustments in respect of previous periods	**(1)**	**–**	**(1)**	–
	(5)	**4**	**(1)**	–
Non-UK current tax				
– current tax	**3**	**–**	**3**	6
– adjustments in respect of previous periods	**(2)**	**–**	**(2)**	(3)
	1	**–**	**1**	3
Total current tax	**(4)**	**4**	**–**	3
UK deferred tax				
– origination and reversal of temporary differences	**22**	**9**	**31**	(25)
– UK corporation tax rate change	**(10)**	**(4)**	**(14)**	4
– adjustments in respect of previous periods	**2**	**–**	**2**	1
	14	**5**	**19**	(20)
Non-UK deferred tax				
– origination and reversal of temporary differences	**4**	**(1)**	**3**	24
– adjustments in respect of previous periods	**(3)**	**(1)**	**(4)**	(2)
	1	**(2)**	**(1)**	22
Total deferred tax	**15**	**3**	**18**	2
Total tax charge[x]	**11**	**7**	**18**	5

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

The Group has recognised a £7m tax charge (2019: £9m credit) within non-underlying items in the year. Refer to Notes 9.3.1 to 9.3.4.

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 2020 includes a derecognition of deferred tax assets for some of the Group's previously recognised UK tax losses due to re-profiling of future UK profits.

In addition to the Group tax charge, tax of £3m is credited (2019: £14m charged) directly to other comprehensive income, comprising: a tax credit of £5m for subsidiaries (2019: £8m charge); and a tax charge in respect of joint ventures and associates of £2m (2019: £6m charge).

11 Earnings per ordinary share

Earnings	2020 Basic £m	2020 Diluted £m	2019 Basic £m	2019 Diluted £m
Earnings	**30**	**30**	130	130
Amortisation of acquired intangible assets – net of tax credit of £2m (2019: £nil)	**4**	**4**	6	6
Other non-underlying items – net of tax charge of £9m (2019: £9m credit)	**(9)**	**(9)**	47	47
Underlying earnings	**25**	**25**	183	183

	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**687**	**690**	685	689

Earnings per share	Basic pence	Diluted Pence	Basic pence	Diluted pence
Earnings per ordinary share	**4.4**	**4.4**	19.0	18.8
Amortisation of acquired intangible assets net of tax	**0.5**	**0.5**	0.9	0.9
Other non-underlying items net of tax	**(1.2)**	**(1.2)**	6.8	6.8
Underlying earnings per ordinary share	**3.7**	**3.7**	26.7	26.5

12 Dividends on ordinary shares

	2020 Per share pence	2020 Amount £m	2019 Per share pence	2019 Amount £m
Proposed dividends for the year				
Interim – current year	**–**	**–**	2.1	14
Final – current year	**1.5**	**10**	–	–
	1.5	**10**	2.1	14
Recognised dividends for the year				
Final – prior year		**–**		22
Interim – current year		**–**		14
		–		36

As announced on 1 June 2020, the proposed final 2019 dividend was cancelled by the Board due to the COVID-19 environment. The Board has recommended a final dividend of 1.5 pence per share for the year ended 31 December 2020. Subject to approval at the Annual General Meeting on 13 May 2021, the final 2020 dividend will be paid on 7 July 2021 to holders on the register on 4 June 2021 by direct credit or, where no mandate has been given, by cheque posted on 7 July 2021. The ordinary shares will be quoted ex-dividend on 3 June 2021.

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2020	1,048	(220)	828
Currency translation differences	**(12)**	**(5)**	**(17)**
At 31 December 2020	**1,036**	**(225)**	**811**

Carrying amounts of goodwill by cash-generating unit	**2020** £m	**2020** Pre-tax discount rate %	2019 £m	2019 Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.3**	248	10.1
Balfour Beatty Construction Group Inc	**408**	**11.4**	423	11.1
Rail UK	**68**	**10.4**	68	10.2
Balfour Beatty Investments US	**49**	**11.1**	51	11.1
Other	**38**	**11.2**	38	10.1
Group total	**811**		828	

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 2021 to 2023. 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.

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

	2020			2019		
	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	**2.3**	**0.5**	**2.8**	2.0	1.1	3.1
Balfour Beatty Construction Group Inc	**1.9**	**0.6**	**2.5**	2.0	0.9	2.9
Rail UK	**2.3**	**0.5**	**2.8**	2.0	1.1	3.1
Balfour Beatty Investments US	**2.0**	**–**	**2.0**	2.0	0.1	2.1
Other	**2.2**	**0.5**	**2.7**	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 Balfour Beatty Investments US CGU to factor in potential adverse implications that may arise from the ongoing investigation into allegations about the handling of certain work orders on military bases managed by Balfour Beatty Communities. No impairment was triggered as a result of these events.

The impact of COVID-19 has been considered as part of the forecast cash flows used within the value-in-use calculations, and no impairment was triggered.

14 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2020	611	(311)	300
Currency translation differences	**(9)**	**6**	**(3)**
Additions	**33**	**–**	**33**
Charge for the year	**–**	**(17)**	**(17)**
Impairment charge	**–**	**(1)**	**(1)**
Removal of fully amortised intangible asset	**(1)**	**1**	**–**
At 31 December 2020	**634**	**(322)**	**312**

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

	2020					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Total £m	Total £m
Income statement						
Revenue[1]	998	30	103	138	241	1,269
Operating profit/(loss)[1]	29	1	(6)	18	12	42
Investment income	3	–	80	15	95	98
Finance costs	(1)	–	(80)	(19)	(99)	(100)
Profit/(loss) before taxation[1]	31	1	(6)	14	8	40
Taxation	(2)	–	–	–	–	(2)
Profit/(loss) after taxation	29	1	(6)	14	8	38
Balance sheet						
Non-current assets						
Intangible assets:						
- goodwill	29	–	–	–	–	29
- Infrastructure Investments intangible	–	–	42	–	42	42
- other	–	–	14	–	14	14
Property, plant and equipment	30	–	17	–	17	47
Investment properties	–	–	–	210	210	210
Investments in joint ventures and associates	2	–	–	–	–	2
Money market funds	–	–	–	94	94	94
PPP financial assets	–	–	1,359	204	1,563	1,563
Military housing projects	–	–	–	104	104	104
Other non-current assets	76	–	16	3	19	95
Current assets						
Cash and cash equivalents	334	–	152	24	176	510
Other current assets	221	–	69	36	105	326
Total assets	692	–	1,669	675	2,344	3,036
Current liabilities						
Borrowings – non-recourse	(60)	–	(43)	–	(43)	(103)
Other current liabilities	(464)	–	(130)	(18)	(148)	(612)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,122)	(456)	(1,578)	(1,578)
Other non-current liabilities	(72)	–	(268)	(7)	(275)	(347)
Total liabilities	(596)	–	(1,563)	(481)	(2,044)	(2,640)
Net assets	96	–	106	194	300	396
Loans to joint ventures and associates	–	–	158	–	158	158
Total investment in joint ventures and associates	96	–	264	194	458	554

^ Including Ireland.

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

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

	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 (Note 9).

16 Trade and other receivables

	2020 £m	2019 £m
Current		
Trade receivables	**526**	575
Less: provision for impairment of trade receivables	**(12)**	(5)
	514	570
Due from joint ventures and associates	**16**	25
Due from joint operation partners	**17**	22
Contract fulfilment assets	**15**	12
Contract retentions receivable	**202**	221
Accrued income	**9**	13
Prepayments	**41**	37
Due on disposals	**2**	5
Other receivables	**22**	34
	838	939
Non-current		
Due from joint ventures and associates	**67**	52
Contract fulfilment assets	**13**	10
Contract retentions receivable	**165**	140
Due on disposals	**1**	2
Other receivables	**4**	3
	250	207
Total trade and other receivables	**1,088**	1,146

17 Trade and other payables

	2020 £m	2019 £m
Current		
Trade and other payables	**763**	837
Accruals	**576**	629
VAT, payroll taxes and social security	**61**	45
Dividends on preference shares	**–**	6
Due on acquisitions	**3**	3
	1,403	1,520
Non-current		
Trade and other payables	**104**	82
Accruals	**11**	10
Due to joint ventures and associates	**10**	10
Due on acquisitions	**3**	6
	128	108
Total trade and other payables	**1,531**	1,628

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 2020, the BBPF received distributions of £3m from the SLP (2019: £2m).

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2019. As a result, the Group is expected to make deficit contributions of £17m in 2021, £22m in 2022 and £25m 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

		2020		2019
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Discount rate	**1.45**	**1.45**	1.95	1.95
Inflation rate – RPI	**2.90**	**2.90**	2.95	2.95
– CPI	**2.25**	**2.45**	2.10	2.20
Future increases in pensionable salary	**2.25**	**2.45**	2.10	2.20
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.75**	**2.55**	2.80	2.30

	Number	**Number**	Number	Number
Total number of defined benefit members	**27,604**	**3,090**	28,347	3,136

On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to check if an additional top up is due as a result of GMP equalisation; this has resulted in an obligation of £3m being recognised as a past service cost for the BBPF in 2020.

For the RPS, further calculations have been carried out by the trustees in relation to the cost of GMP equalisation. As a result the Group has revised its best estimate cost of equalisation from a loading on the liabilities of 0.5% in 2019 to 0.8% in 2020 (with the additional cost being recognised in 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 2020 have been updated to reflect the experience of BBPF pensioners for the period to 31 March 2020. The mortality tables adopted for the 2020 IAS 19 valuation for the BBPF are the Self-Administered Pension Scheme (SAPS) S3 tables 'middle' for males and 'heavy' for females (2019: SAPS S3 tables) with a multiplier of 97% for males and 93% for females (2019: 110% for males and 102% for females); all with future improvements in line with the CMI 2019 core projection model, with default smoothing and initial addition parameter of nil (2019: CMI 2018 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2019: 1.25% per annum and 1.00% per annum). The mortality assumption adopted for the RPS for 2020 is unchanged from 2019, with the exception of setting future improvements in line with the CMI 2019 core projection model (2019: CMI 2018 core projection model).

During the period, following independent advice from its actuaries, the Group made some technical changes to its sourcing of data from which to set the discount rate. In particular, as a result of changes in bond classification system at Bloomberg (the source for data on the bond universes), the Group has amended its approach to establishing the corporate bond universe underlying the corporate bond yield curve. This change has resulted in an increase to the discount rate of 0.15% which led to an actuarial gain of £100m being recognised within the statement of comprehensive income.

18 Retirement benefit assets and liabilities continued

During 2020 the Group identified certain inconsistencies with the membership data used by the BBPF's actuary in calculating the mortality experience/assumptions and resulting mortality multiplier in previous years which led to a cumulative increase of £129m in the recognised pension asset as at 31 December 2019 (£50m cumulative impact as at 31 December 2018). This has been adjusted in the year ended 31 December 2020 through actuarial movements from changes in demographic assumptions included in the actuarial losses recognised in the Group's statement of comprehensive income. The Group considered it appropriate that the impact is recognised in 2020 due to the size of movements typically experienced relating to actuarial gains and losses, which is inherent with a scheme of this size and complexity, and the nature of the financial statement captions affected.

This adjustment led to a corresponding deferred tax credit which is also recognised in the Group's statement of comprehensive income and a deferred tax charge recognised in non-underlying items in the Group's income statement due to the de-recognition of UK deferred tax assets in respect of tax losses as disclosed in Note 9.3.1.

BBPF life expectancies

	2020 Average life expectancy at 65 years of age		2019 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.5**	**23.3**	20.5	22.5
Members not yet in receipt of a pension (current age 50)	**22.5**	**24.2**	21.4	23.4

RPS life expectancies

	2020 Average life expectancy at 65 years of age		2019 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**20.6**	**22.6**	20.5	22.5
Members not yet in receipt of a pension (current age 50)	**21.5**	**23.5**	21.4	23.4

Amounts recognised in the Balance Sheet

	2020				2019			
	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	**(3,828)**	**(443)**	**(46)**	**(4,317)**	(3,503)	(406)	(50)	(3,959)
Fair value of plan assets	**4,043**	**363**	**–**	**4,406**	3,752	340	–	4,092
Assets/(liabilities) in the balance sheet	**215**	**(80)**	**(46)**	**89**	249	(66)	(50)	133

^ Investments in mutual funds of £21m (2019: £22m) are held to satisfy the Group's deferred compensation obligations.

The defined benefit obligations comprise £46m (2019: £50m) arising from wholly unfunded plans and £4,271m (2019: £3,909m) arising from plans that are wholly or partly funded.

18 Retirement benefit assets and liabilities continued

Movements in the retirement benefit assets and obligations for the year		2020 £m
At 1 January 2020		133
Current service cost		**(4)**
Past service cost as a result of GMP equalisation		**(3)**
Interest cost		**(76)**
Interest income		**79**
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**(48)**
	– on obligations from changes to other financial assumptions	**(249)**
	– on obligations from changes in demographic assumptions	**(162)**
	– on obligations from experience gains	**5**
	– on assets	**392**
Contributions from employer	– regular funding	**3**
	– ongoing deficit funding	**15**
Benefits paid		**4**
At 31 December 2020		**89**

Sensitivity of the Group's retirement benefit obligations at 31 December 2020 to different actuarial assumptions

	Sensitivity to increase in assumption			Sensitivity to decrease in assumption		
Assumption	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Discount rate	**0.5%**	**(7.7)%**	**(327)**	**(0.5)%**	**8.7%**	**372**
Market expectation of RPI inflation	**0.5%**	**5.6%**	**241**	**(0.5)%**	**(5.3)%**	**(225)**
Salary growth	**0.5%**	**<0.1%**	**1**	**(0.5)%**	**(<0.1)%**	**(1)**
Life expectancy	**1 year**	**5.0%**	**212**	**(1 year)**	**(4.9)%**	**(209)**

Sensitivity of the Group's retirement benefit assets at 31 December 2020 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	**(7.3)%**	**(321)**
Increase in market expectation of RPI inflation	**0.5%**	**4.5%**	**196**

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 14,383 members at 31 December 2020 (2019: 13,845 members) with £47m (2019: £44m) 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 £57m (2019: £55m).

19 Share capital

During the year ended 31 December 2020, 3.5m (2019: 0.9m) ordinary shares were purchased at a cost of £7.9m (2019: £2.0m) by the Group's employee discretionary trust to satisfy awards under the Company's equity-settled share-based payment arrangements.

On 9 December 2020, the Company announced a £50m share buyback programme, which commenced on 5 January 2021. Refer to Note 26.

On 1 July 2020, the Company redeemed its 112m preference shares in full for £112m and cancelled them. The redemption of these shares resulted in £1m, representing the nominal amount of 1p per preference share, being transferred to the capital redemption reserve (included within other reserves) and £111m being transferred to share premium. These movements were offset by the release of the £18m equity component of the redeemed preference shares and a transfer from retained earnings of £94m.

20 Notes to the statement of cash flows

20.1 Cash from/(used in) operations	Underlying items[1] 2020 £m	Non-underlying items 2020 £m	Total 2020 £m	Total 2019 £m
Profit from operations	**51**	**12**	**63**	159
Share of results of joint ventures and associates	**(38)**	**–**	**(38)**	(66)
Depreciation of property, plant and equipment	**24**	**–**	**24**	28
Depreciation of right-of-use-assets	**56**	**–**	**56**	45
Depreciation of investment properties	**2**	**–**	**2**	1
Amortisation of other intangible assets	**11**	**6**	**17**	17
Impairment of goodwill	**–**	**–**	**–**	58
Impairment of IT intangible assets	**1**	**–**	**1**	–
Impairment of property, plant & equipment	**–**	**–**	**–**	8
Pension payments including deficit funding	**(18)**	**–**	**(18)**	(33)
Movements relating to equity-settled share-based payments	**8**	**–**	**8**	10
Gain on disposal of interests in investments	**–**	**–**	**–**	(40)
Profit on disposal of property, plant and equipment	**(7)**	**–**	**(7)**	(6)
Loss on GMP equalisation	**–**	**3**	**3**	–
Other non-cash items	**(2)**	**–**	**(2)**	(1)
Operating cash flows before movements in working capital	**88**	**21**	**109**	180
Decrease in operating working capital			**167**	32
Inventories			**(14)**	(18)
Contract assets			**87**	(19)
Trade and other receivables			**42**	(56)
Contract liabilities			**67**	(11)
Trade and other payables			**(69)**	157
Provisions			**54**	(21)
Cash from operations			**276**	212

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

20.2 Cash and cash equivalents

	2020 £m	2019 £m
Cash and deposits	**591**	589
Term deposits	**179**	154
Cash balances within infrastructure concessions	**22**	35
	792	778

20 Notes to the statement of cash flows continued

20.3 Analysis of net cash/(borrowings)

	2020 £m	2019 £m
Cash and cash equivalents (excluding infrastructure concessions)	**770**	743
US private placement	**(189)**	(231)
Net cash excluding infrastructure concessions	**581**	512
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2021 and 2072	**(339)**	(337)
Infrastructure concessions cash and cash equivalents	**22**	35
	(317)	(302)
Net cash	**264**	210

20.4 Analysis of movements in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Total £m
At 1 January 2020	(337)	(231)	(568)
Currency translation differences	**–**	**6**	**6**
Proceeds of loans	**(6)**	**–**	**(6)**
Repayments of loans	**4**	**36**	**40**
At 31 December 2020	**(339)**	**(189)**	**(528)**

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

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity as required to support Balfour Beatty in its activities.

In October 2020, the Group agreed a one-year extension to the facility, which will now expire in October 2023. A further one-year extension option through to October 2024 remains available to the Group, subject to lenders' approval. This facility was undrawn at 31 December 2020.

21 Provisions

	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m
At 1 January 2019	236	55	25	316
Currency translation differences	(4)	–	–	(4)
Reclassified from accruals	1	–	–	1
Charged/(credited) to the income statement:				
– additional provisions	97	10	7	114
– unused amounts reversed	(31)	(6)	(5)	(42)
Utilised during the year	(61)	(11)	(6)	(78)
Reclassified to contract assets	(7)	–	–	(7)
Reclassified to trade and other receivables	(7)	–	–	(7)
Reclassify negative investment in the Group's investments in joint ventures and associates to provisions	–	–	2	2
At 31 December 2019	224	48	23	295
Reclassified from/(to) accruals	**(1)**	**–**	**1**	**–**
Charged/(credited) to the income statement:				
– additional provisions	**140**	**14**	**7**	**161**
– unused amounts reversed	**(40)**	**(7)**	**(3)**	**(50)**
Utilised during the year	**(60)**	**(9)**	**(3)**	**(72)**
Reclassified from contract assets	**16**	**–**	**–**	**16**
At 31 December 2020	**279**	**46**	**25**	**350**

22 Acquisitions and disposals

22.1 Current and prior year acquisitions

There were no material acquisitions in 2020.

Deferred consideration paid during 2020 in respect of acquisitions completed in earlier years was £3m (2019: £3m). This related to the Group's acquisition of Centex Construction in 2007.

22.2 Current year disposals

There were no disposals made in 2020.

The Group received £1m of 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.

The Group also received £1m of deferred consideration in relation to the disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. This deferred consideration was received as part of the earn-out agreement that was entered into with the buyer as part of the disposal and was included in the Group's assessment of the additional gain on disposal recognised in 2019.

23 Contingent liabilities

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

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

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

The Group has made a provision in the current year for an estimate of the historical incentive fees that its investigation was unable to fully verify and which BBC has proposed to be repaid. The Group's external counsel is engaging with the DoJ, with the intention of seeking resolution but as the DOJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

24 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 £345m (2019: £334m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 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.

	2020 £m	2019 £m
Sale of goods and services		
Anglian Water Group Limited+	**5**	19
URENCO Ltd	**–**	2
Purchase of goods and services		
Anchor QEA, LLC	**1**	–

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

24 Related party transactions continued

All transactions with these related parties were conducted on normal commercial terms, equivalent to those conducted with external parties. At 31 December 2020, there were no amounts owed by or to these related parties (2019: £nil) and no guarantees have been given or received and no expense has been recognised in either year for bad or doubtful debts in respect of amounts owed by related parties.

25 Principal risks and uncertainties

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

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Annual Report and Accounts 2019.

The Brexit transition period between the EU and UK came to an end on 31 December 2020 and the Trade and Co-operation Agreement, which governs significant aspects of the trade relationship between the UK and EU, is now in force. Balfour Beatty's Group-wide committee continues to monitor developments and issue guidance, particularly in relation to the flow of goods and people across borders. Specific risks and mitigations continue to be monitored at a project level and controlled by individual business units.

26 Events after the reporting date

On 9 December 2020, the Company announced a £50m share buyback programme, which commenced on 5 January 2021. In the period from 5 January 2021 to 8 March 2021 (the last practicable date prior to the date of this document), the Company purchased 8.6m ordinary shares to be held in treasury with no voting rights for a total consideration of £23.6m. On 9 March 2021, the Board decided to extend the Company's initial share buyback programme to £150m for 2021.

During the year the Group received grant income of £19m in relation to the UK Government's Job Retention Scheme (JRS). This income was recognised as a non-underlying item in the Group's results. Refer to Note 9.2.1. The furlough scheme provided welcome and timely support but the Group has made the decision post 31 December 2020 to voluntarily refund this income. Due to the timing of the decision to repay the JRS, there was no liability recognised at 31 December 2020 and the cost of the refund will be recognised as a non-underlying item within the Group's 2021 results.

On 4 March 2021 the UK Government announced an intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. It is currently expected that this will become substantively enacted during 2021 and hence the Group's deferred tax balances will be reassessed at that time. The impact of this rate change would have been an increase of around £20m to the Group's deferred tax assets as at 31 December 2020 if the tax increase had been substantively enacted by that date. The actual impact will be dependent on a number of factors including actuarial movements in the Group's pension schemes.

As at 9 March 2021, there were no other material post balance sheet events arising after the reporting date.