BALFOUR BEATTY PLC RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2021

10 March 2022

Delivered 2021 results ahead of expectations; increased 2022 share buyback to £150 million

Highlights

- Continued recovery in underlying profit from operations (PFO) at £197 million (2020: £51 million)
- Underlying PFO from earnings-based businesses at £181 million, ahead of expectations (2020: £75 million; 2019: £172m)
- Strong cash performance: full year average net cash at £671 million (2020: £527 million; 2019: £325 million)
- Sector leading balance sheet, underpinned by £1.1 billion Investments portfolio (2020: £1.1 billion)
- Higher quality order book at £16.1 billion (2020: £16.4 billion) provides clear short- and medium-term visibility
- US Department of Justice investigation into military housing complete following US$65 million resolution in December 2021
- Recommended full year dividend 9.0 pence per share (2020: 1.5p) equivalent to £57 million
- Today announcing next phase of multi-year share buyback programme of £150 million for 2022 (2021: £150 million)

(£ million unless otherwise specified)	2021		2020	
	Underlying[2]	Total	Underlying[2]	Total
Revenue[1]	8,280	8,263	8,587	8,593
Profit from operations	197	97	51	63
Pre-tax profit	187	87	36	48
Profit for the year	194	139	25	30
Basic earnings per share	29.7p	21.3p	3.7p	4.4p
Dividends per share		9.0p		1.5p

	2021	2020
Order book[1]	£16.1bn	£16.4bn
Directors' valuation of Investments portfolio	£1.1bn	£1.1bn
Net cash – recourse	790	581
Net cash / (debt) – non-recourse[3]	(243)	(317)
Average net cash – recourse	671	527

Leo Quinn, Balfour Beatty Group Chief Executive, said: "In 2021, despite the challenges presented by COVID-19, we have delivered operating profits ahead of expectations.

"Balfour Beatty emerges from the last two years with capabilities intact and a higher quality order book. Together these provide the visibility to deliver profitable managed growth and sustainable cash generation.

"With a transformed portfolio focused on favourable infrastructure markets across our chosen geographies and our sector leading balance sheet, we are confident of delivering significant future 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:

A presentation to investors and analysts will be made at Numis, 45 Gresham Street, London, EC2V 7BF at 09:00 (GMT) on 10 March 2022. There will be a live webcast of this presentation on: www.balfourbeatty.com/webcast. The webcast will be recorded and subsequently available at www.balfourbeatty.com/investors/results-reports-and-presentations.

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

2021 results ahead of expectations

In 2021, the Group reported underlying profit from operations from the earnings-based businesses of £181 million which represents a significant recovery from the prior year (2020: £75 million) and is also 5% ahead of pre-pandemic levels (2019: £172 million). In addition, after approximately £180 million of returns to shareholders in the year, the Group delivered another year of significant cash flow with the year-end net cash balance at £790 million (2020: £581 million) and average net cash at £671 million (2020: £527 million).

Balfour Beatty transformed into resilient, diversified Group

The strong financial performance in 2021 was delivered by the Group's diversified portfolio (both geographically – UK, US and Hong Kong; and operationally – Construction Services, Support Services and Infrastructure Investments) which provided the resilience required to address the significant challenges of COVID-19.

Since the launch of Build to Last, the Group's portfolio has been transformed and will continue to focus on high quality opportunities that utilise Balfour Beatty's capabilities. Support Services is now characterised by profitable recurring revenues underpinned by long-term contracts following its strategic exit from gas and water. The power, road and rail maintenance business are all performing well and during the year the Group upgraded its Support Services margin target from 3-5% to 6-8%. Construction Services saw another strong contribution from Gammon alongside the recovery of US Construction to pre-pandemic levels. UK Construction delivered a profit in the second half of the year, recovering from the loss position in the first half. During the year, the decision was taken that Balfour Beatty will no longer bid for fixed price residential property projects in central London.

Higher quality order book provides clear visibility

Looking forward, the Group's £16.1 billion order book provides clear short- and medium-term visibility. The Group's focus on selectively bidding for contracts where Balfour Beatty has expert capability has resulted in a higher quality order book providing a measure of inflation protection through improved contract terms. The risk profile continues to decrease at UK Construction, where at year end only 14% of the order book is from fixed price contracts (2020: 20%; HY 2018: 50%).

Expert capabilities matched to favourable infrastructure markets

Balfour Beatty's chosen markets all have a favourable outlook. As a key lever of economic growth, the construction and infrastructure sector is central to a sustainable recovery in the Group's core markets. New infrastructure - HS2, low carbon wind power, energy efficient buildings, carbon capture, new nuclear, highways, airports and rail electrification - will all play a leading role in stimulating economic growth from which Balfour Beatty is well placed to benefit.

Attractive Infrastructure Investments portfolio and opportunities

The Infrastructure Investments business strategy is to continue to invest in new opportunities (targeting a minimum 2x end to end multiple) 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. The Directors' valuation of the Investments portfolio remained at £1.1 billion (2020: £1.1 billion). In 2021, Balfour Beatty re-commenced disposals of assets with all transactions above the Directors' valuation, demonstrating the continuing strength of the secondary market for assets where values are positively correlated with inflation.

Significant future capital returns

With a transformed portfolio and a favourable outlook, Balfour Beatty is confident of delivering significant future shareholder returns. As such, the Board is today recommending a final dividend of 6.0 pence per share, giving a total recommended dividend for the year of 9.0 pence per share (2020: 1.5 pence) equivalent to £57 million. The Group has also increased its 2022 share buyback programme from the intention of at least £100 million, announced in December 2021, to £150 million. The buyback will commence immediately and is expected to complete during 2022.

The increased share buyback programme and recommended final dividend announced today will bring the cumulative return to shareholders since the introduction in 2021 of the multi-year capital allocation framework to £367 million.

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

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

Lean: The disciplines learnt during Build to Last have served the Group well in ensuring effective and efficient operations. In 2021, underlying net operating expenses remained at £226 million (2020: £226 million) – a reduction of more than 50% since the start of Build to Last (2014: £460 million, adjusted for foreign exchange movements). The emphasis on efficiency is best demonstrated by My Contribution (MyC), the Group's employee engagement programme, which continues to deliver tracked and measured employee led improvements for the business. In 2021, more than 2,500 MyC ideas were submitted with those delivered generating over £4 million of cash inflows, £20 million of cost savings and 241,000 hours of time saved.

The Group's continued focus on cash generation is evidenced by another increase in average net cash to £671 million (2020: £527 million). As a key part of its strategy to create value by achieving market leadership, the Group has invested around £700 million since 2015 in equity assets (Infrastructure Investments), capex (IT, plant and fleet) and capability (training and development).

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.

The latest annual employee engagement survey was collated in October 2021, with the results again very positive as the overall engagement score reached its highest level under Build to Last at 76% (2020: 75%; 2019: 66%). 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 not least in the current labour market, where demand across all sectors is high. Encouragingly, in response to the question "I can see myself working here in 12 months", 85% responded yes (2020: 76%, 2019: 67%). The challenge to recruit, train and retain the best employees is omnipresent across construction, as with other industries, and in 2021 there was an increase in the Group's voluntary attrition rate in the UK, with the twelve-month rolling average at 14% (2020: 10%).

In January 2021, the UK Prime Minister's Build Back Better Business Council was created. The Council, which brought together 30 business leaders from across the British economy, met four times during 2021. As the first representative from the construction and infrastructure sector, Leo Quinn engaged with the UK Government and other CEOs representing all sectors of the economy in a series of focused sessions. Key industry themes for policy-makers distilled from these meetings, included: the need for pipeline certainty; planning system reform; action to address the skills gap; and the importance of a genuinely collaborative approach to deliver net zero.

Trusted: Balfour Beatty is trusted to "do what we say we will do" and is measured on this metric by customer satisfaction. In the year, over 1,500 customer satisfaction reviews were carried out with the Group customer satisfaction score at 96% (2020: 95%).

However, in December, the US Department of Justice's military housing investigation concluded with Balfour Beatty Communities agreeing to pay US$65 million. Moving forward, the Group must ensure that it maintains the highest standards in line with its Code of Conduct, acting always with integrity and building on the hard-earned trust and confidence of colleagues, customers, partners, and the communities it serves.

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, Circles of Risk, 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 also continues to make strong progress on its digital journey with a number of key milestones being reached in 2021. In the UK, a number of major highway projects have installed AIMS, a leading-edge real time activity management tool, to better enable monitoring of on-site progress, down to individual work teams, and feed back into the plan on a daily basis.

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.

The Group's lost time injury rate (excluding international joint ventures) increased to 0.14 in the year (2020: 0.10; 2019: 0.14) reflecting a wider industry trend as working practices return to normal post-pandemic. Balfour Beatty's safety focus remains on its four Zero Harm Golden Rules (Be fit for work; Always receive a briefing before starting work; Report all unsafe events and conditions; and Stop work if anything changes). Leading indicators continue to trend positively, exampled by increased health and safety observations and employee health safety and wellbeing survey results. Observations, a sign of workforce engagement, have risen by over 40% in 2021.

However, vigilance can never be relaxed. In July, a man working in the Group's US joint venture operations lost his life. In October, a subcontractor working for the Group's Gammon joint venture in Hong Kong suffered a fatal accident after falling from height. In remembering those lost, the Group has conducted thorough investigations, taking the lessons learnt onboard across the business, and continues to strive for Zero Harm across all of Balfour Beatty's operations.

Sustainable: In December 2020, Balfour Beatty launched the Group's refreshed sustainability strategy, Building New Futures, to update its approach and raise the bar on its performance. This is now the blueprint guiding how Balfour Beatty does business.

Building New Futures is focused on the three areas most material to the Group's business – the environment, materials, and communities. These areas were determined through consultation with key stakeholders including the Group's customers, employees, shareholders, and the communities in which the Group operates. The strategy sets firm 2030 targets, including achievement of a science-based target to reduce carbon emissions, a reduction in waste generated by 40% and the delivery of £3 billion in social value. It also outlines the Group's 2040 ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People.

In 2021, Balfour Beatty became a signatory to the UN Race to Zero campaign, aligned with the Paris Agreement to limit global temperature increase to 1.5°, and is on schedule to submit its target for validation by the Science-Based Target Initiative (SBTI) during 2022. The Group is currently rated AA by MSCI and medium risk by Sustainalytics, which recently awarded Balfour Beatty 'Top Rated' for its industry.

Generating zero waste means moving increasingly to a circular economy approach where the Group focuses on choosing the right materials and using less, reducing how much waste is produced and creating value from the materials no longer needed rather than sending them to landfill. The total waste generated in 2021 was 204 tonnes per £ million of revenue, a 35% reduction from 2020. in the UK, over 99% of the waste produced avoided landfill. The UK business delivered over £700 million in social value in 2021, including using local supply chain partners and employees wherever possible, targeting spend to deprived areas of the country, and investing in future talent through apprenticeship schemes and work placement opportunities.

Outlook

The Board's expectations are that its earnings-based businesses (Construction Services and Support Services) will deliver further profit growth in 2022, whilst at Infrastructure Investments, the Group will continue to divest assets and make new investments in line with its capital allocation framework.

For 2023 and beyond, the strength of the Group's order book and positive infrastructure markets create the visibility to deliver profitable managed growth and sustainable cash generation. With a transformed portfolio, the Group is confident of delivering significant future 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 underlying profit from operations for the year at £197 million (2020: £51 million) represents a significant improvement from 2020 as Balfour Beatty recovered from the COVID-19 pandemic.

Construction Services underlying profit at £79 million (2020: £29 million) resulted from: continued strong performance from Gammon with £30 million of profit (2020: £29 million); US Construction broadly doubling its profit to £51 million (2020: £26 million) as it returned to pre-pandemic levels; and UK Construction recording a £2 million loss (2020: £26 million loss) as, following write-downs on private sector property projects in central London, it returned to profitability in the second half of the year.

Support Services more than doubled its underlying profit from operations to £102 million (2020: £46 million) as a result of improved performance across the portfolio, coupled with the exit from the gas and water sector and end of contract gains.

At Infrastructure Investments underlying profits increased to £49 million (2020: £8 million) following the recommencement of disposals from the Investments portfolio, which yielded gains on disposal of £35 million.

In total, after including corporate costs, Balfour Beatty reported underlying profit from operations of £197 million (2020: £51 million). Statutory profit from operations was £97 million (2020: £63 million).

Underlying profit / (loss) from operations[2]	2021 £m	2020 £m	2019 £m
UK Construction	(2)	(26)	47
US Construction	51	26	52
Gammon	30	29	26
Construction Services	79	29	125
Support Services	102	46	47
Earnings-based businesses	181	75	172
Infrastructure Investments pre-disposals operating profit	14	8	13
Infrastructure Investments gain on disposals	35	–	69
Corporate activities	(33)	(32)	(33)
Total	197	51	221

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

The order book decreased by 2% to £16.1 billion (2020: £16.4 billion), down 2% at constant exchange rates (CER) as a £0.8 billion decrease at UK Construction was partially offset by a £0.5 billion increase at Gammon. The quality of bookings is consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities.

Underlying revenue was down 4% at £8,280 million (2020: £8,587 million) due to exchange rate movements in the year (no change at CER). Statutory revenue, which excludes joint ventures and associates, was £7,185 million (2020: £7,320 million). Construction Services underlying revenue was down 3% (up 1% at CER) at £6,746 million (2020: £6,964 million) with higher volumes at UK

Construction more than offset by lower volumes at US Construction and Gammon. Support Services revenue was flat at £1,066 million (2020: £1,067 million) as higher volumes in power and transportation were offset by the exit from the gas and water sector.

Net finance costs decreased to £10 million (2020: £15 million) as a result of lower interest costs as Balfour Beatty fully redeemed its preference shares in July 2020. Underlying pre-tax profit was £187 million (2020: £36 million).

The taxation credit on underlying profits of £7 million (2020: £11 million charge) comprises a £36 million charge on underlying profits, a £26 million credit relating to the recognition of additional UK tax losses and a £17 million credit due to the impact of the UK corporation tax rate changes in March 2021. Underlying profit after tax for the year was £194 million (2020: £25 million).

Total statutory profit after tax for the year was £139 million (2020: £30 million), after a net charge of £55 million from non-underlying items (2020: £5 million net credit). The underlying basic earnings per share were 29.7 pence (2020: 3.7 pence), which, along with a non-underlying loss per share of 8.4 pence per share (2020: 0.7 pence gain), gave total basic earnings per share of 21.3 pence (2020: 4.4 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 charge of £55 million for the year (2020: £5 million net credit). This included two significant items.

The first item was £37 million net of tax in relation to a settlement charge following resolution in December 2021 with the US Department of Justice (DoJ) of its criminal and civil investigations into specific performance incentive fees improperly claimed by Communities between 2013 and 2019 related to maintenance work at certain United States military housing installations. Under the terms of the resolution, Communities pleaded guilty to one count of fraud and agreed to the appointment of an independent compliance monitor for a three-year period. The resolution brings the DoJ investigation of Communities to a close.

The second significant non-underlying item was £34 million net of tax in relation to a provision recognised for rectification works required on a development in London. Balfour Beatty entered into the contract for this development in 2013 with the work completed in early 2016. In June 2021, an initial structural expert assessment was received which indicated that the stone panels affixed to the façades needed to be modified, reinforced or replaced to meet performance requirements. It has now been determined that the remediation will require replacement of the façade with the current best estimate of the cost of the rectification work recognised as a provision. The provision does not include potential recoveries from third parties. In the financial statements for the half-year ended 2 July 2021, this matter was disclosed as a contingent liability as the Group was not able to make a sufficiently reliable estimate of the obligation.

Full details of all non-underlying items are in Note 9.

Cash flow performance

In 2021, the Group delivered positive cash flow with the year-end net cash balance at £790 million (2020: £581 million) and average net cash at £671 million (2020: £527 million). Positive operating cash flows at £115 million (2020: £127 million) were enhanced by working capital inflows of £281 million (2020: £167 million) partially offset by a £151 million outflow (including £1 million costs) as Balfour Beatty delivered the first phase of its multi-year share buyback programme (2020: £nil).

Cash flow performance	2021 £m	2020 £m
Operating cash flows	115	127
Working capital inflow	281	167
Pension deficit payments+	(42)	(18)
Cash from operations	354	276
Dividends from joint ventures and associates∞	60	50
Capital expenditure	(36)	(34)
Lease payments (including interest paid)	(59)	(64)
Ordinary dividends	(29)	–
Buyback of ordinary shares	(151)	–
Redemption of preference shares	–	(112)
Infrastructure Investments		
- disposal proceeds	81	–
- new investments	(19)	(46)
Other	8	(1)
Net cash movement	209	69
Opening net cash*	581	512
Closing net cash*	790	581

* Excluding infrastructure investments (non-recourse) net borrowings

∞ Excludes £8 million dividends received in 2021 in relation to Investments asset disposals within joint ventures and associates

+ Including £3 million (2020: £3 million) of regular funding

Working capital

In the year, the Group's working capital position resulted in an inflow of £281 million (2020: £167 million). The strong performance was underpinned by around £110 million of advance payments from major projects in UK Construction and around £30 million of mobilisation payments at highways projects in US Construction. Collections from the gas and water business following exit from this sector also led to net contract inflows of around £30 million. Trade and other payables increased by £43 million following the introduction of the UK VAT domestic reverse charge for the construction sector and the cost of settlement relating to the DoJ resolution, which was paid in January 2022, partially offset by the timing of trade creditor payments. The increase in provisions of £28 million includes the non-underlying item related to the rectification works to be carried out on a development in London.

Working capital flows^	2021 £m	2020 £m
Inventories	11	(14)
Contract assets / liabilities	221	154
Trade and other receivables	(22)	42
Trade and other payables	43	(69)
Provisions	28	54
Working capital inflow^	281	167

^ 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 £1,118 million (2020: £887 million). In the medium term, the Group expects negative working capital as a percentage of revenue to be in line with its historical long term average of 11-13% (2021: 15.6%; 2020: 12.1%) with the range continuing to be dependent on contract mix and the timing of project starts and completions.

UK Prompt Payment Code

Throughout 2021, the percentage of invoices paid within 60 days and the average time to pay invoices by Balfour Beatty in the UK continued to improve.

	Percentage of invoices paid within 60 days	Average days to pay invoices
Jan – Jun 2020	89%	41
Jul – Dec 2020	91%	40
Jan – Jun 2021	92%	38
Jul – Dec 2021	93%	36

Balfour Beatty is committed to paying all of its supply chain partners on time and to mutually agreed terms and remains focused on its efforts to do so, continually investing in its processes and procedures to improve its payment performance and enhance accuracy and transparency. However, the business 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 terms.

From 1 July 2021 the Prompt Payment Code introduced the requirement to pay 95% of invoices to businesses with fewer than 50 employees within 30 days instead of 60 days. In the second half of 2021, Balfour Beatty paid 80% of its suppliers identified with fewer than 50 employees within the 30-day timeframe, achieving 96% of invoices paid within 60 days. Whilst Balfour Beatty acknowledges that not all businesses with fewer than 50 employees have the latest systems to ensure prompt payment, the Group continues to take the appropriate action to further streamline its e-invoicing platform, and work with them, to try to meet the timeframe set out by the Code.

Net cash/borrowings

The Group's average net cash in 2021 improved substantially to £671 million (2020: £527 million). The Group's net cash position at 31 December 2021, excluding non-recourse net borrowings, was £790 million (2020: £581 million).

Non-recourse net borrowings, held in Infrastructure Investments entities consolidated by the Group, were £243 million (2020: £317 million). The balance sheet also included £129 million for lease liabilities (2020: £125 million). Statutory net cash at 31 December 2021 was £418 million (2020: £139 million).

Banking facilities

In October 2021, the Group extended its £375 million revolving credit facility (RCF) to October 2024 and converted the facility to a sustainability linked loan (SLL). At signing, it was the largest SLL that had been executed in the UK construction industry.

Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score as determined by Sustainalytics, an ESG research, ratings and data provider for institutional investors and companies. Performance in these three areas will be monitored during the lifetime of the facility and depending on the outcomes achieved, a credit margin reduction or increase will be applicable.

The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. During 2021 this facility remained undrawn.

The Group does not undertake supply chain financing arrangements.

Going concern

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

Pensions

Balfour Beatty and the trustees of the Balfour Beatty Pension Fund (BBPF) have committed to a journey plan approach to managing the BBPF whereby the BBPF is aiming to reach self-sufficiency by 2027. The next formal triennial funding valuation is due with effect from 31 March 2022.

As a result of an acceleration mechanism agreed previously between the Group and the trustees plus discussions in light of Balfour Beatty's share buyback programme, Balfour Beatty made deficit contribution payments of £33 million to the BBPF in 2021. The Group is expected to make deficit contributions to the BBPF of £38 million in 2022 and £18 million in 2023.

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

The Group's balance sheet includes net retirement benefit assets of £231 million (2020: £89 million) as measured on an IAS 19 basis, with the surplus on the BBPF (£321 million) partially offset by deficits on the RPS (£44 million) and other schemes (£46 million). The overall increase in the period is primarily due to strong investment performance and deficit contributions paid.

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.

Following the 3.0 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 6.0 pence per share, giving a total recommended dividend for the year of 9.0 pence per share (2020: 1.5 pence).

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

Whilst underlying revenue at £6,746 million was down 3% (2020: £6,964 million), with higher volumes in UK Construction being offset by lower volumes at US Construction and Gammon, this represents a 1% increase at CER as operations continued to normalise post-pandemic. Underlying profit from operations increased to £79 million (2020: £29 million) as both US Construction and Gammon recorded PFO in line with pre-pandemic levels (2019). Statutory profit for the year was £30 million (2020: £41 million) after a net charge of £49 million for non-underlying items (2020: £12 million credit) which included a provision for rectification works to be carried out on a development in London. The order book was down 1% at £13.6 billion (2020: £13.7 billion), a 1% decrease at CER.

Construction Services	2021			2020		
	Revenue[1]	PFO	Order book[1]	Revenue[1]	PFO	Order book[1]
	£m	£m	£bn	£m	£m	£bn
UK	2,593	(2)	5.6	2,190	(26)	6.4
US	3,344	51	5.4	3,789	26	5.2
Gammon	809	30	2.6	985	29	2.1
Underlying[2]	6,746	79	13.6	6,964	29	13.7
Non-underlying	–	(49)	–	6	12	–
Total	6,746	30	13.6	6,970	41	13.7

[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

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

<u>UK Construction</u>: Underlying revenue in the UK increased by 18% to £2,593 million (2020: £2,190 million) as a result of the growth in the order book in 2020 with higher volumes at HS2 and Hinkley Point C. In 2021, 90% of UK Construction revenue was from public sector and regulated industry clients (2020: 82%).

UK Construction reported a £2 million underlying loss from operations in the year (2020: £26 million loss), as the result was negatively impacted by performance issues at three private sector property projects in central London. One of these projects was completed in November 2021, with the remaining two projects expected to complete in the middle and at the end of 2022 respectively. As announced in August 2021, Balfour Beatty will no longer bid for fixed price residential property projects in central London. In the second half of the year, UK Construction recorded an underlying profit of £21 million at a 1.6% PFO margin.

The UK Construction order book, having more than doubled in 2020 following Notice to Proceed on HS2, decreased 12% to £5.6 billion (2020: £6.4 billion) as the Group continued to selectively bid for new projects, particularly when entering into contracts with private clients. At the year end, 91% of the UK Construction order book was from public sector and regulated industry clients (2020: 88%).

<u>US Construction</u>: Although revenue in the US decreased by 12% to £3,344 million (2020: £3,789 million), the reduction was only 6% at CER. US Construction recorded a £51 million underlying profit from operations in the year (2020: £26 million), broadly double the prior year and in line with the pre-pandemic level (2019: £52 million).

The US Construction order book increased 4% (2% at CER) to £5.4 billion (2020: £5.2 billion) as tendering activity returned to pre-pandemic levels. Although nationwide forecasts continue to show a relatively flat overall construction market, Balfour Beatty is positioned in regions that are expected to outperform the national forecast as demographic trends continue to favour the Group's chosen states in the medium term. In addition, the bipartisan Infrastructure Investment and Jobs Act is positive for the industry given that the legislation includes additional funding for infrastructure.

Gammon: The Group's share of revenue decreased by 18% (12% at CER) to £809 million (2020: £985 million). At Gammon, the timing of projects is more variable around a small number of large contracts. Underlying profit remained strong at £30 million (2020: £29 million).

The Gammon order book increased by 24% (24% at CER) to £2.6 billion (2020: £2.1 billion) following the award of four significant construction contracts in the year: Ang Mo Kio Station and Tunnels in Singapore; an office tower on Hong Kong Island; four new residential towers in Kowloon; and three further residential towers in Tseung Kwan O New Town.

Operational review

UK Construction

In November 2020, the UK Government released details of its five-year plan, the National Infrastructure Strategy (NIS), which sets out its plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050. The £650 billion of funding for developments in roads, railways, power networks, schools, hospitals and telecommunications represents an increase of around £110 billion compared to the status quo. Included within the NIS are budgets for some of the Group's key customers such as National Highways and Network Rail. At National Highways the second Road Investment Strategy (RIS2) budget of £24 billion over the 2020-2025 period is a significant increase over the £15 billion spent during RIS1 (2015-2020), even after the postponement of future all lane running Smart Motorway projects.

In December 2020, 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 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.

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 and involves multiple stakeholders. Balfour Beatty is not a significant residential property developer with only a small portfolio of residential projects. The Group has received a small number of enquiries in the UK regarding completed building projects with cladding and is working with the relevant parties to resolve any issues.

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.

Balfour Beatty has a market leading position in the UK infrastructure market. Under Build to Last, the Group has been increasingly focused on utilising its unmatched scale and capability to deliver major projects for the UK Government. In 2021, 90% of UK Construction revenue was from public sector and regulated industry clients (2020: 82%). Whilst the infrastructure market is positive, with the highest level of investment in decades, 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.

At Major Projects, Woolwich Station and Whitechapel Station were successfully handed over to Crossrail in June and August respectively, marking the substantive completion of Balfour Beatty's involvement in the programme. Woolwich involved the delivery of a 276-metre long underground station, with Balfour Beatty Ground Engineering providing the associated diaphragm walls and bearing piles. In addition, Balfour Beatty was responsible for installing Mechanical and Electrical plant at two portals as well as station operations rooms where the Elizabeth line trains will leave the Thames Tunnel at North Woolwich and Plumstead. Whitechapel is acknowledged as one of the most complex and challenging stations on the Crossrail project. The new station concourse was constructed on a bridge consisting of 2,800 tonnes of structural steelwork, above the existing station and two operational railway lines – the London Overground and London Underground.

In December, Balfour Beatty completed the A19 major upgrade project for National Highways, four months ahead of schedule. Originally expected to complete in Spring 2022, the new dual carriageway (increasing capacity from two to three lanes) opened in December 2021. As part of Balfour Beatty's commitment to leaving a lasting, positive legacy in the communities in which it operates, over 60% of the project's overall workforce was local to the scheme. In addition, Balfour Beatty hosted an event at Holme House prison to provide a group of select learners with construction career training and interview guidance, further building on the numerous community initiatives held in Teesside since the start of the project.

At HS2, good progress continues to be made on the Area North civils package east of Birmingham and at Old Oak Common station in London. In 2021, both projects successfully met their performance targets. In December, Area North launched its first tunnel boring machine (TBM) at Long Itchington Wood. Around 170 engineers worked on the 2,000 tonne, 125-metre long TBM during its construction and assembly. A tunnelling team will now work around the clock in shifts to operate the machine for around five months as it excavates the first bore of the one-mile tunnel. The machine will remove a total of 250,000 cubic metres of mudstone and soil which will be transported to the on-site slurry treatment plant where the material is separated out before being reused on embankments and landscaping along the route.

At Old Oak Common permanent works commenced in June as construction started on a 1.8-kilometre long underground diaphragm wall around what will become the station's 'underground box', where six HS2 platforms will accommodate trains serving the Midlands and the North. Pilling rigs are in the process of installing 160 reinforced concrete columns inside the wall to help form the box and support the structure.

At Hinkley Point C, following the completion of the first intake tunnel in 2020, Balfour Beatty completed the outfall tunnel in 2021 and carried out extensive preparatory dredging work in the Bristol Channel. For the outfall tunnel, 24 metres below the Bristol Channel, a TBM excavated 100,000 tonnes of material and a trial lift for the tunnel intake and outfall heads has also been undertaken.

Procurement processes continue across multiple HS2 workstreams. A Balfour Beatty/VINCI/TSO joint venture is shortlisted for four lots of track systems contracts and a Balfour Beatty / NG Bailey joint venture is shortlisted for a tunnel and M&E systems contract. The Group will also tender for contracts on Phase 2a, for the extension north of Birmingham to Crewe, which was approved by the UK Parliament in February 2021.

In December, the Technip Energies and General Electric Gas Power consortium for which Balfour Beatty is the construction partner, was selected (as one of two) to participate in a Front-End Engineering Design (FEED) competition for the Net Zero Teesside Power, Capture and Compression project. The proposed development of the UK's first full-scale integrated power and carbon capture scheme, the FEED competition will see Balfour Beatty assist in the design and development of optimal technical solutions for Net Zero Teesside Power's planned 860MW power station and carbon capture plant as well as the Northern Endurance Partnership's high-pressure CO_2 compression and export facilities.

The Regional business comprises:

- Regional Construction: public and private projects, providing customers with locally delivered 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 January 2022, Balfour Beatty completed its 100th project procured through the SCAPE civil engineering frameworks; the A51 Tarvin Junction on behalf of Cheshire West and Chester Council. The £7 million project saw Balfour Beatty deliver a series of major junction, carriageway and roundabout improvement works to reduce traffic congestion and increase capacity along the A51 corridor between Tarvin and Chester. Under the frameworks, Balfour Beatty has worked with over 40 public sector customers to complete those projects, on time and to budget. The Group is currently working on its bids for the third-generation SCAPE frameworks.

In May, the Regional business successfully handed over the Manchester Engineering Campus Development (MECD) to the University of Manchester. MECD represents one of the largest construction projects completed by a higher education institution in the UK and provides world-class research facilities. The development includes a number of existing and new buildings: the eight-storey Engineering Building A; Engineering Building B; the James Chadwick Building; refurbished Grade II listed Oddfellows Hall; and the York Street Building. In addition, during the year, the business completed a teaching and learning hub for the University of Strathclyde and an upgrade of Queen Street station in Glasgow for Network Rail.

The Regional business continues to make good progress on its contracts. During the year, Balfour Beatty won and then delivered a new COVID-19 testing laboratory in Royal Leamington Spa, Warwickshire, on behalf of NHS Test and Trace. Awarded through the Crown Commercial Services framework, the Group constructed a new 225,000 square foot laboratory which enabled the adding of hundreds of thousands of tests to the UK's daily COVID-19 testing capacity. Works included the construction of a series of laboratory lines within the facility as well as the associated welfare and waste management facilities to support these essential operations, with Balfour Beatty Kilpatrick providing the associated mechanical and electrical works. In addition, significant progress has been made at the Lewisham Gateway project where Balfour Beatty is constructing four mixed-use buildings, at the Edinburgh Future Institute project for Edinburgh University, and at the North Bridge refurbishment for the City of Edinburgh Council.

During the year, Balfour Beatty was awarded a £68 million contract by Audley Group to complete the new Mayfield retirement village in Watford which will include 255 one and two bed apartments, alongside communal facilities. To support the delivery of its sustainability strategy, Balfour Beatty will deploy safe and sustainable working practices throughout the project lifecycle including the offsite manufacture of 180 apartment balconies, reducing the working at height risk as well as improving overall project efficiency. The award follows on from previous developments for Audley with Balfour Beatty having delivered the first and second phase of the Cooper's Hill development in Surrey. In addition, Balfour Beatty secured awards from NHS Highland for a National Treatment Centre, and on the A630 which links Rotherham and Sheffield. Included in awarded but not contracted (ABNC) at 31 December 2021, the Group has been selected as preferred bidder to deliver a significant project for the Atomic Weapons Establishment.

US Construction

In the US, the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act includes around US$550 billion of new funding to upgrade roads, bridges, public transport and energy projects over the next five years. As part of this significant infrastructure investment, the US$634 billion of funds allocated to the FAST Act (2021 – 2026) is more than double the previous five-year period. Not only is this investment positive for the infrastructure sector, but it also provides funding for local governments to evaluate P3 opportunities (38 states having now passed P3 legislation) in which Balfour Beatty combines the expertise of its Construction Services and Infrastructure Investments businesses.

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%. Balfour Beatty's 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.

US Buildings 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). The US Buildings business model is considered lower risk as the supply chain is largely bought out on back-to-back terms when the main contract is signed.

This diversified geographical and operational capability provides resilience. Following a slow-down in the Buildings market during COVID-19, tendering levels are now back to pre-pandemic levels. 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 2020, the Group's opportunities remain robust in the medium term.

In the year, Buildings completed several notable projects including:

- The Jasper: In September, Balfour Beatty successfully completed the construction of a new 12-storey mixed-use building located in Charleston, South Carolina. The property features retail space, office space and luxury rental homes;
- UNCW Student Village: In October, Balfour Beatty delivered phase two of the student village at the University of North Carolina Wilmington (UNCW). The project included the construction of 776 additional student beds and a student success centre;
- Penn Medicine: In December, a joint venture team including Balfour Beatty completed the US$1 billion Pavilion at the University of Pennsylvania. The project team provided general contracting services to deliver the new medical centre that will provide world class care for the community; and
- 1001 Office Towers: in December, Balfour Beatty achieved substantial completion on this contract located in Bellevue, Washington. The project included construction of two 15-storey office towers, on top of an 8-level below-grade parking garage.

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

- Broward County Convention Center: In October, Balfour Beatty substantially completed the West Expansion on this project in Florida. To successfully reach this milestone, the Group delivered major site work and utility relocations, completed demolition activities and built a new Central Energy Plant to service the County's Convention Center. Balfour Beatty will continue to work on this multi-phase project over the coming years;
- Midtown Atlanta: Balfour Beatty is progressing three construction projects in the same city block in Atlanta, Georgia – the Novel Midtown Residential Tower, the 14th+Spring Office Tower and an associated garage for both towers. The residential tower and the office tower both topped out in 2021, whilst the garage was bottomed out during the year. In 2022, the Novel Midtown Residential Tower is on track to receive a National Green Building Standard certification and the 14th+Spring Office Tower is tracking to become LEED Certified;
- Jane & John Justin Patient Surgical Tower: In March 2021, Balfour Beatty topped out on this nine-storey patient tower which will add 144 patient beds, 15 surgical suites and a new pre-operative and post-operative services area to the Texas Health Fort Worth hospital; and
- Block 216; During the year Balfour Beatty topped out the hotel portion at level twenty on this 35-storey, high-rise tower project. Work continues on the curtain wall and completed precast at the project in Portland, Oregon.

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

- Broward County Convention Center: in 2019, Balfour Beatty signed a construction agreement for the expansion of the Broward County Convention Center. In December 2021, phase four (out of five) of the US$780 million project in Fort Lauderdale, Florida, was signed;
- 2000 & 2001 South Bell Street: Balfour Beatty was selected by repeat client JBG Smith to construct a two-tower residential complex with 775 units in Arlington, Virginia. Balfour Beatty provided two years of dedicated preconstruction work before the project award;
- Del Sol High School: Balfour Beatty has been selected to construct the new Del Sol High School in Oxnard, California, which features classroom buildings and a library, gymnasium and multi-purpose building. The project also includes an athletics stadium, baseball and softball fields, and pool building;
- Hazel and Azure National Landing: Located in Arlington, Virginia, this new multifamily residential development will comprise two 14-storey mixed-use buildings with 492 apartment units, ground-floor retail space, a two-level parking garage, and an open-air plaza. ZOM Living and Balfour Beatty are long-standing partners, successfully constructing several multifamily units

across the US including the Solitair Brickell, a luxury residential tower in Miami which was awarded the Eagle Award and Project of the Year Award by Associated Builders and Contractors' Florida chapter; and

- Sage at National Landing: In November, Balfour Beatty was contracted to construct another residential and multifamily building in Arlington, Virginia. The tower will feature 306 new apartments over 19 floors including retail and entertainment space.

Included in ABNC at year end, US Buildings has been made preferred bidder for a number of material projects including: phase five of the Broward County Convention Center to deliver a 800-room hotel; a 40-storey multi-use development in Washington; a 13-storey residential project in the District of Columbia; a 47-storey residential building in Texas; and 84,000 square feet of ancillary buildings for a college in California.

In Civils, the Group is focused on highway projects in Texas and the South East 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) of the Texas Department of Transportation (TxDOT) and a number of state-backed infrastructure bonds (over US$200 billion of multi-state transportation bonds).

During the year the Civils business completed the Elysian Street project in Houston, Texas. The scope of the project, which was adjacent to IH-10 in downtown Houston, included bridgework and the building of several direct connectors. In 2020, when there were fewer cars on the road, Balfour Beatty and TxDOT maximised opportunities to fast-track the project, enabling an expedited completion in 2021.

Progress has also been made on Civils projects notably at Caltrain where, in December, the Group reached a US$347 million contractual agreement to revise and modify the scope of work and project schedule from the original contract valued at US$697 million in 2016. The agreement, which is exclusive to the construction scope of work, is the result of Balfour Beatty and project stakeholders partnering to find the most efficient and cost-effective solutions to deliver the rail service's 25kv AC Overhead Catenary System (OCS). The Caltrain Electrification project will electrify the commuter rail corridor from San Francisco's 4th and King Caltrain station to the Tamien Caltrain station in San Jose.

During the year, Civils won two highways projects in the South East - Effingham Parkway in Georgia and Harkers Island in North Carolina - both of which are for long term customers where the scope of work fits within the expertise and capabilities of the business.

Gammon

Gammon has a material share of the Hong Kong market and is well positioned to benefit from the social and economic infrastructure outlook in the region following the Government's announced ambition in its February 2021 budget to increase spend materially to around HK$1 trillion over the next decade. Major expansions of Hong Kong Airport and the MTR subway system have commenced, whilst social infrastructure programmes to develop hospitals and housing are also well underway.

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 Gammon completed the M+ museum in West Kowloon. The museum features 33 galleries, three cinemas, a Mediatheque, a Learning Hub, a Research Centre and other facilities. Given the complexity of the project, Gammon made extensive use of advanced construction technology during the planning and implementation of the works. Among the technologies deployed were Building Information Modelling (BIM), 3D scanning, lasers, drones, IoT sensors and Augmented Reality (AR), all integrated under Gammon's Integrated Digital Project Delivery (IDPD) approach for better planning, progress tracking and decision-making. Other notable projects completed in 2021 included the Water World Ocean Park, The Fullerton Ocean Park Hotel, the University of Hong Kong Medical Complex extension, the Lohas Park Package 9 residential development and the fit out of the St. Regis serviced apartments at the Londoner, Macau.

Gammon also continues to make good progress at Hong Kong Airport where it is delivering the structures for the Automatic People Mover and Baggage Handling System in addition to working on the Terminal 2 (T2) expansion. The T2 project, Gammon's largest ever award, is to expand the main Terminal 2 building, construct interconnecting bridges and associated viaducts and roads and carry out mechanical and electrical works. The T2 expansion 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. During the year, the terminal concrete frame works continued, with the first of the 21 steel roof modules completed.

On major highways projects, Gammon is also progressing well, including at the Central Kowloon Route (CKR) project where it is constructing buildings and carrying out mechanical and electrical works. Gammon is also building the Kai Tak West section of the CKR which includes underwater and cut-and-cover tunnels, as well as roads.

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

- Ang Mo Kio MRT Station and Tunnels: a S$644 million contract from Singapore's Land Transport Authority for the design and construction of Ang Mo Kio MRT Station and Tunnels for the Cross Island Line. Gammon will deliver the works in a 50:50 joint venture with Bachy Soletanche. The contract includes the construction of a new underground station, two underpasses and six passenger entrances, as well as alteration works to the existing above-ground Ang Mo Kio Station;
- Ho Man Tin towers: a HK$2.6 billion contract for Chinachem Group to construct four residential towers, providing 845 units next to Ho Man Tin MTR Station. The project aims to achieve BEAM Plus Platinum and WELL Gold. Gammon will also be aspiring to its own sustainability targets of zero waste in energy, water and resources and an overall reduction in carbon intensity through approaches such as off-site precasting and use of green concrete;
- Lung Cheung Road: a HK$1.8 billion high-rise residential development including 133 units overlooking Kowloon Peninsula. The project will deploy Gammon's co-developed mass battery storage system, the Enertainer, for power supply in lieu of diesel generators to reduce carbon emissions and fuel consumption;
- Lohas Park Package 11: a HK $2.7 billion residential development for 1,800 units through construction of three towers atop a five-level podium and four link bridges;
- Lohas Park Package 12: a HK$ 3.4 billion residential development including 2,000 units; and
- Queen's Road East: Gammon has been contracted to construct an office tower and associated infrastructure on Hong Kong Island. With the support of the client, a 5G network within the entire construction site area will be developed to facilitate effective data flow as well as support the application of operational innovation during construction cycle.

SUPPORT SERVICES

Financial review

Following the strategic repositioning of Support Services to focus on power, road and rail maintenance, it is now characterised by profitable recurring revenues underpinned by long-term contracts. The significant outperformance in 2021 is a result of improved performance across the portfolio, coupled with the exit from the gas and water sector and end of contract gains. Support Services continues to deliver for its clients and has a robust order book and a positive market outlook. During the year, Balfour Beatty upgraded its margin target range from 3-5% to 6-8%.

Support Services revenue was flat at £1,066 million (2020: £1,067 million) as higher volumes at power, road maintenance and rail maintenance were offset by a reduction in gas and water. Underlying profit from operations more than doubled to £102 million (2020: £46 million). The Group's decision to withdraw from the gas and water sector, which had a negative impact on the prior year PFO, contributed to an increase in profit for the year. PFO also benefited from the recognition of a completion bonus at the Eleclink project. After delays caused by regulatory approvals, the power and rail maintenance businesses are successfully completing the project, providing a 1GW electricity interconnector between France and England through the Channel Tunnel.

Support Services	2021	2020
Order book[1] (£bn)	2.5	2.7
Revenue[1] (£m)	1,066	1,067
Profit from operations[2] (£m)	102	46
Non-underlying items (£m)	(5)	4
Statutory profit from operations (£m)	97	50

[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 has withdrawn from the market as future opportunities did not meet the Group's selective bidding criteria.

In Support Services, the markets for power, road and rail maintenance are all positive. In power, the proposed RIIO-T2 spend period (2021-2026) includes £30 billion for investment in energy networks and potential for a further £10 billion on green energy projects. The highways maintenance market is forecast to see significant investment with the announcement of an additional £2.7 billion in funding for road patching, increasing local council budgets by around 50% over the next four years. The rail maintenance market also has a positive trajectory with an additional £10 billion of funding for maintenance and renewals as part of Network Rail's current CP6 control period (2019-2024).

Utilities revenue decreased by 17% to £469 million (2020: £565 million) and the order book decreased to £0.5 billion (2020: £0.7 billion), following the Group's exit from the gas and water sectors.

Performance in power transmission and distribution continues to improve. During the year, the Group completed the Beauly to Keith overhead line upgrade contract. This project reinforced over 100 kilometres of overhead line and its upgrade will play a key role in ensuring security of supply for the communities served by the line. The refurbishment has also enabled the connection of 70MW of new solar energy generation to the grid, supporting the transition to a net zero economy.

In September, Balfour Beatty announced that it had successfully built the world's inaugural T-pylon on behalf of National Grid, representing the first new electricity pylon design in the UK for almost 100 years. Upon completion, the 116 newly designed pylons to be erected along the 57-kilometer route in Somerset will connect six million homes and businesses in the surrounding area with low-carbon electricity generated at Hinkley Point C, the UK's first nuclear power station in a generation.

Also at Hinkley Point C, Balfour Beatty completed the installation of over 100 kilometres of high voltage, 400kV cables under the Mendip Hills Area of Outstanding Natural Beauty. The next milestone is the jointing and testing of the cables with energisation expected in the second half of 2022. Reinstatement of the land is already underway on different parts of the route. The Mendip cables section of the Hinkley Connection Project will be fully complete by the end of 2023.

During the year, work continued 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 2021, the power, transmission and distribution business won a number of key contracts and positions on long term frameworks with key customers:

- Port Ann to Crossaig: An £85 million contract to deliver the second phase of overhead line works in Scotland on behalf of SSEN Transmission. Phase Two of the scheme will see Balfour Beatty design, construct, and engineer a new 45-kilometre 275kV double circuit overhead line between the existing substations at Port Ann and Crossaig;
- London Power Tunnels (LPT): A £52 million contract on behalf of National Grid to deliver essential cabling works as part of the LPT2 project. Having delivered the cabling works for phase one of the project in 2017, Balfour Beatty will now install 200 kilometres of 400kV cables within a 32.5-kilometer underground tunnel network between Wimbledon and Crayford; and
- National Grid's £1.5 billion RIIO-2 electricity transmission construction framework: Balfour Beatty was selected on all three parts of the new framework which will cover the design, engineering, manufacturing, supply, project management, construction and commissioning of overhead line, underground cable systems and substations for the UK's power infrastructure.

In gas, the Group managed two long term gas contracts in the RIIO-GD1 period which both completed in 2021. The gas market is no longer considered viable to the Group because of the unfavourable working capital and onerous terms and conditions. The Group has completed its contracts under the AMP6 UK water regulatory cycle. Under the new AMP7 regulatory period (2020-2025) contracts are generally being awarded on terms that are not acceptable to Balfour Beatty and the Group is now only engaged in one contract for Anglian Water.

Transportation revenues increased by 19% to £597 million (2020: £502 million), with increased volumes in both road and rail maintenance, whilst the order book was consistent with prior year at £2.0 billion (2020: £2.0 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. The Group also provides reactive and capital works for the following local authorities: Lincolnshire County Council; Herefordshire County Council; Southampton City Council; Telford & Wrekin Council; Warwickshire County Council and West Sussex County Council. In addition, Balfour Beatty delivers street lighting maintenance contracts for certain local authorities across the UK.

The largest contract in rail maintenance is for Network Rail under a £1.5 billion Central Rail Systems 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 inception of the contract in 2019 with sustainable and consistent delivery of the work ensuring that vital national rail infrastructure remains operational. In 2021, Balfour Beatty completed its work under the Alliance on the King's Cross Remodelling Project which redesigned the approach to the station. The work included six kilometres of new track, more than 30 new sets of points and the re-opening of a disused tunnel to add two additional lines into the station from the north.

INFRASTRUCTURE INVESTMENTS

Financial review

Underlying pre-disposals operating profit increased to £14 million (2020: £8 million), broadly consistent with pre-pandemic profitability (2019: £13 million).

As a result of the market uncertainty generated by the pandemic, and the strong liquidity position of the Group, Balfour Beatty did not dispose of any investments assets in 2020. In June 2021, the Group recommenced asset disposals with the sale of its stake in the BC Children's and BC Women's hospitals in Vancouver, Canada, for £20 million (profit on disposal of £7 million). In the second half of the year it sold a bundle of UK assets for £48 million (profit on disposal of £19 million) and two US multi-family housing projects for £12 million (profit on disposal of £9 million).

All transactions were above the Directors' valuation, demonstrating the strength of the secondary market for infrastructure assets. The demand for infrastructure assets continues to exceed supply and Balfour Beatty will maximise shareholder value through selective disposal of assets from its portfolio.

Underlying profit from operations was £49 million (2020: £8 million). Net interest income was in line with the prior year at £12 million (2020: £12 million), contributing to an underlying profit before tax of £61 million (2020: £20 million). Statutory profit before tax for the year was £15 million (2020: £30 million), as a result of the net effect of non-underlying items which included the DoJ resolution.

Infrastructure Investments	2021 £m	2020 £m
Pre-disposals operating profit[2]	14	8
Gain on disposals	35	–
Profit from operations[2]	49	8
Net investment income˜	12	12
Profit before tax[2]	61	20
Non-underlying items	(46)	(5)
Statutory profit before tax	15	15

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

˜ Subordinated debt interest receivable, net interest receivable on PPP financial assets and non-recourse borrowings, impairments to subordinated debt receivable and accrued interest, and fair value gain on investment asset

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

Operational review

The majority of operations in the UK continued as normal, supported by the Government's 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 continue to recover 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 continued to work with its partners to support military families, noting that employees were required to work to social distancing rules, as agreed with the US military, which restricted 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 (targeting a 2x end to end multiple) 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 by student accommodation projects for Sussex University in the UK and the University of North Carolina Wilmington in the US. There is an inherent advantage in bidding for projects when the Infrastructure Investments business utilises the expertise of the wider Group.

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

In December, Balfour Beatty Communities (Communities) reached a resolution with the US Department of Justice (DoJ) which resolved the DoJ's criminal and civil investigations into specific performance incentive fees improperly claimed by Communities between 2013 and 2019 related to maintenance work at certain US military housing installations. Under the terms of the resolution, Communities pleaded guilty to one count of fraud and agreed to the appointment of an independent compliance monitor for a three-year period. The resolution brings the DoJ investigation of Communities to a close, with Communities paying a total resolution amount of US$65 million in January 2022.

Balfour Beatty is committed to the highest standards of ethical conduct. The wrongdoing that took place is completely contrary to the way the Company expects its people to behave. The Company apologises for the actions of Communities to all its stakeholders. It has been made clear to all employees that breaches of policies, procedures, or law will not be tolerated. Communities welcomes the appointment of the independent compliance monitor and looks forward to a constructive engagement. Communities is committed to delivering a consistently high level of performance to the military residents it serves and will continue to work responsively with its military partners and other government stakeholders to achieve this.

Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required Communities to develop a comprehensive Performance Improvement Plan (PIP). The plan, which included a variety of objectives and performance metrics, was agreed with the Air Force in 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. In 2021, all 44 lines of effort were approved by the Air Force.

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 to build new homes and renovate existing housing stock across a number of Army bases.

Directors' valuation

The Directors' valuation increased 2% to £1,106 million (2020: £1,086 million). With more investment in the US and more disposals from the UK the portfolio is now 57% weighted towards the US (2020: 53%). The number of projects in the portfolio decreased to 64 (2020: 67).

The value of the UK portfolio is positively correlated with inflation. The US portfolio is also positively correlated with inflation, although indirectly through the link to rental inflation.

Movement in value 2020 to 2021

£m	2020	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Operational performance	Other, including fx	2021
UK	514	2	(21)	(49)	38	(24)	14	**474**
US	572	17	(41)	(32)	45	51	20	**632***
Total	1,086	19	(62)	(81)	83	27	34	**1,106**

* US valuation includes future estimated costs of monitorship of the military housing business but excludes the resolution payment to the DoJ

Balfour Beatty invested £19 million (2020: £46 million) in new and existing projects. During the year, the Group added four new assets with two student accommodation projects (Vanderbilt University and Royal Holloway) and two US multi-family housing projects in Houston, Texas and San Mateo, Florida.

Cash yield from distributions amounted to £62 million (2020: £72 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.

Balfour Beatty recommenced disposals in the year with proceeds of £81 million (2020: £nil). This included: £48 million from the sale of its stakes in a portfolio of three assets in the UK (Aberdeen Western Peripheral Route, Woodland View Hospital and North West Fire and Rescue); £20 million from the sale of its 70% stake in BC Children's and BC Women's hospitals in Vancouver; and £12 million from the sale of two multifamily projects in Alabama and Florida.

Unwind of discount at £83 million (2020: £83 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. Operational performance movements resulted in a £27 million increase (2020: £20 million decrease) whilst Other (which includes foreign exchange, gains on disposals and new wins) amounted to £34 million (2020: £19 million decrease).

The operational performance movements in the UK were primarily due to the increase in future corporation tax rates. In the US, the operational performance movements were primarily due to higher military housing rents agreed for 2022, as well as rent increases realised in student accommodation and residential housing within the year.

The methodology used for the Directors' valuation is unchanged, producing an asset by asset valuation that reflects market value and 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. They also factor in secondary market assumptions. These cash flows are then discounted using different discount rates, which are based on the risk and maturity of individual projects and also reflect 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.

Discount rates applied to the UK portfolio range between 7% and 9.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.1% (2020 8.0%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.3% (2020: 8.4%). Consistent with other infrastructure funds, Balfour Beatty's experience is that there is limited correlation between the discount rates used to value PPP and similar infrastructure investments, and long-term interest rates. In the event that interest rates increase in response to rising inflation, the impact of any increase in discount rates would be mitigated by the positive correlation between the value of the UK portfolio and changes in inflation. A 1% change in the discount rate would change the value of the UK portfolio by approximately £50 million. A 1% change in the discount rate would change the value of the North American portfolio by approximately £74 million.

Portfolio valuation December 2021

Value by sector

Sector	**2021**	2020	**2021**	2020
	No. projects	No. projects	**£m**	£m
Roads	**12**	13	**158**	188
Healthcare	**2**	3	**108**	114
Student accommodation	**5**	4	**95**	88
OFTOs	**3**	3	**44**	44
Waste and biomass	**2**	2	**46**	51
Other	**3**	4	**23**	29
UK total	**27**	29	**474**	514
US military housing	**21**	21	**491**	446
Student accommodation and other PPP	**4**	5	**72**	73
Residential housing	**12**	12	**69**	53
North America total	**37**	38	**632**	572
Total	**64**	67	**1,106**	1,086

Value by phase

Phase	2021	2020	2021	2020
	No. projects	No. projects	**£m**	£m
Operations	**60**	65	**1,070**	1,037
Construction	**3**	2	**34**	49
Preferred bidder	**1**	–	**2**	–
Total	**64**	67	**1,106**	1,086

Value by income type

Income type	2021	2020	2021	2020
	No. projects	No. projects	**£m**	£m
Availability based	**17**	22	**311**	371
Demand – operationally proven (2+ years)	**39**	39	**580**	519
Demand – early stage (less than 2 years)	**8**	6	**215**	196
Total	**64**	67	**1,106**	1,086

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 investment income and is the key measure used to assess the Group's performance in the Construction Services and Support Services segments. This is also a common measure used by the Group's peers operating in these sectors.

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

Underlying profit before tax (PBT)

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

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

Operating cash flow (OCF)

The Group uses an internally defined measure of OCF to measure the performance of its earnings-based businesses and subsequently to determine the amount of incentive awarded to employees in these businesses under the Group's Annual Incentive Plan (AIP). This measure also aligns to one of the vesting conditions attributable to the Group's 2019, 2020 and 2021 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 have been prepared in accordance with International Accounting Standards and in accordance with UK-adopted International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 187 to 192 of the Annual Report and Accounts 2021.

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 2021. This is similar to the Group's order book disclosure however it differs for the following reasons:

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

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

		2021 £m	2020 £m
Order book (performance measure)		**16,057**	16,392
Less:	Share of orders included within the Group's joint ventures and associates	**(2,974)**	(2,443)
Less:	Estimated orders under framework agreements included in the order book disclosure	**(60)**	(367)
Add:	Transaction price allocated to remaining performance obligations in Infrastructure Investments[+]	**1,664**	1,656
Transaction price allocated to remaining performance obligations for the Group[+] (statutory measure)		**14,687**	15,238

[+] Refer to Note 4.3 in the Annual Report and Accounts 2021.

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.

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 2021 statutory results to performance measures

	2021 statutory results £m	Non-underlying items: Intangible amortisation £m	Repayment of grant income in relation to UK Job Retention Scheme £m	Release of Heery provision £m	Provision in relation to rectification works in London £m	Release of PB accrual £m	Settlement charge following resolution with DoJ £m	UK deferred tax asset £m	2021 performance measures £m
Revenue including share of joint ventures and associates (performance)	**8,263**	**–**	**–**	**–**	**–**	**–**	**17**	**–**	**8,280**
Share of revenue of joint ventures and associates	**(1,078)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,078)**
Group revenue (statutory)	**7,185**	**–**	**–**	**–**	**–**	**–**	**17**	**–**	**7,202**
Cost of sales	**(6,904)**	**–**	**–**	**–**	**42**	**–**	**–**	**–**	**(6,862)**
Gross profit	**281**	**–**	**–**	**–**	**42**	**–**	**17**	**–**	**340**
Gain on disposals of interests in investments	**26**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**26**
Amortisation of acquired intangible assets	**(5)**	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other net operating expenses	**(262)**	**–**	**19**	**(6)**	**–**	**(1)**	**24**	**–**	**(226)**
Group operating profit	**40**	**5**	**19**	**(6)**	**42**	**(1)**	**41**	**–**	**140**
Share of results of joint ventures and associates	**57**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**57**
Profit from operations	**97**	**5**	**19**	**(6)**	**42**	**(1)**	**41**	**–**	**197**
Investment income	**39**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**39**
Finance costs	**(49)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(49)**
Profit before taxation	**87**	**5**	**19**	**(6)**	**42**	**(1)**	**41**	**–**	**187**
Taxation	**52**	**(1)**	**(4)**	**1**	**(8)**	**–**	**(4)**	**(29)**	**7**
Profit for the year	**139**	**4**	**15**	**(5)**	**34**	**(1)**	**37**	**(29)**	**194**

Reconciliation of 2021 statutory results to performance measures by segment

Profit/(loss) from operations	2021 statutory results £m	Non-underlying items: Intangible amortisation £m	Repayment of grant income in relation to UK Job Retention Scheme £m	Release of Heery provision £m	Provision in relation to rectification works in London £m	Release of PB accrual £m	Settlement charge following resolution with DoJ £m	UK deferred tax asset £m	2021 performance measures £m
Segment									
Construction Services	**30**	**–**	**13**	**(6)**	**42**	**–**	**–**	**–**	**79**
Support Services	**97**	**–**	**5**	**–**	**–**	**–**	**–**	**–**	**102**
Infrastructure Investments	**3**	**5**	**–**	**–**	**–**	**–**	**41**	**–**	**49**
Corporate activities	**(33)**	**–**	**1**	**–**	**–**	**(1)**	**–**	**–**	**(33)**
Total	**97**	**5**	**19**	**(6)**	**42**	**(1)**	**41**	**–**	**197**

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**

c) Underlying profit before tax

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

		2021 £m	2020 £m
Underlying profit from operations (section (b) and Note 5)		**49**	8
Add:	Subordinated debt interest receivable+	**23**	25
Add:	Interest receivable on PPP financial assets+	**5**	8
Less:	Non-recourse borrowings finance cost+	**(11)**	(11)
Less:	Impairment of subordinated debt receivable+	**(4)**	(10)
Less:	Impairment of accrued interest+	**(10)**	–
Add:	Fair value gain on investment asset+	**9**	–
Underlying profit before tax (performance)		**61**	20
Non-underlying items (section (b) and Note 5)		**(46)**	(5)
Statutory profit before tax		**15**	15

+ 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

	2021 pence	2020 pence
Statutory basic earnings per ordinary share	**21.3**	4.4
Amortisation of acquired intangible assets net of tax	**0.6**	0.5
Other non-underlying items net of tax	**7.8**	(1.2)
Underlying basic earnings per ordinary share (performance)	**29.7**	3.7

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

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

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

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

f) Operating cash flow (OCF)

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

Reconciliation from statutory cash generated from operations to OCF

	2021 £m	2020 £m
Cash generated from operating activities (statutory)	**353**	274
Add back: Pension payments including deficit funding (Note 21)	**42**	18
Less: Repayment of lease liabilities (including lease interest payments)	**(59)**	(64)
Add: Operational dividends received from joint ventures and associates	**60**	50
Add back: Cash flow movements relating to non-operating items	**1**	5
Less: Operating cash flows relating to non-recourse activities	**(5)**	(3)
Operating cash flow (OCF) (performance)	**392**	280

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

Pension payments including deficit funding (£42m): 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) (£59m 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 (£60m 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 (£1m): 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 (£5m): 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. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, lease liabilities recognised on the Group's balance sheet are deemed to be debt in nature under statutory measures.

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

Net cash/borrowings reconciliation

		2021 statutory £m	**Adjustment £m**	**2021 performance £m**	2020 statutory £m	Adjustment £m	2020 performance £m
Total cash within the Group		**1,033**	**(17)**	**1,016**	792	(22)	770
Cash and cash equivalents	– infrastructure concessions	**17**	**(17)**	**–**	22	(22)	–
	– other	**1,016**	**–**	**1,016**	770	–	770
Total debt within the Group		**(615)**	**389**	**(226)**	(653)	464	(189)
Borrowings – non-recourse loans		**(260)**	**260**	**–**	(339)	339	–
– other		**(226)**	**–**	**(226)**	(189)	–	(189)
Lease liabilities		**(129)**	**129**	**–**	(125)	125	–
Net cash		**418**	**372**	**790**	139	442	581

h) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and lease liabilities, and this performance measure shows average net cash of £671 million for 2021 (2020: £527 million).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and lease liabilities) gives average net cash of £279 million for 2021 (2020: net cash of £71 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 on an asset by asset basis, 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 £1.11 billion at year end (2020: £1.09 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

	2021 £m	2020 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**599**	706
Less: Net assets not included within the Directors' valuation – Housing division	**(24)**	(27)
Comparable statutory measure of the Investments portfolio under IFRS	**575**	679

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

	2021 £m	2020 £m
Statutory measure of the Investments portfolio (as above)	**575**	679
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases:		
• historical cost		
• amortised cost		
• fair value	**531**	407
Directors' valuation (performance measure)	**1,106**	1,086

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

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

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

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

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

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

j) Constant exchange rates (CER)

The Group operates across a variety of geographic locations and in its statutory results, the results of its overseas entities are translated into the Group's presentational currency at average rates of exchange for the year. 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 year 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 year's figures at the current year's exchange rates, using average rates for revenue and closing rates for order book. A comparison of the Group's statutory growth rate to the CER growth rate is provided in the table below:

2021 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2021 statutory	2,593	3,327	–	5,920	1,046	219	7,185
2020 statutory	2,192	3,776	–	5,968	1,037	315	7,320
Statutory growth (%)	**18%**	**(12)%**	–	**(1)%**	**1%**	**(30)%**	**(2)%**
2021 performance^	2,593	3,344	809	6,746	1,066	468	8,280
2020 performance retranslated^	2,190	3,558	923	6,671	1,066	534	8,271
Performance CER growth (%)	**18%**	**(6)%**	**(12)%**	**1%**	**–**	**(12)%**	**–**
Order book (£bn)							
2021	5.6	5.4	2.6	13.6	2.5	–	16.1
2020	6.4	5.2	2.1	13.7	2.7	–	16.4
Growth (%)	**(12)%**	**4%**	**24%**	**(1)%**	**(7)%**	**–**	**(2)%**
2021	5.6	5.4	2.6	13.6	2.5	–	16.1
2020 retranslated	6.4	5.3	2.1	13.8	2.7	–	16.5
CER growth (%)	**(12)%**	**2%**	**24%**	**(1)%**	**(7)%**	**–**	**(2)%**

^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 statements that are or may be forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty's business, financial condition and results of operations. All statements other than historical facts included in this announcement may be forward-looking statements.

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, changes to spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 105 to 112 of the Annual Report and Accounts 2021.

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 2021

	Notes	2021 Underlying items[1] £m	2021 Non-underlying items (Note 9) £m	2021 Total £m	2020 Underlying items[1] £m	2020 Non-underlying items (Note 9) £m	2020 Total £m
Revenue including share of joint ventures and associates		**8,280**	**(17)**	**8,263**	8,587	6	8,593
Share of revenue of joint ventures and associates	15	**(1,078)**	**–**	**(1,078)**	(1,269)	(4)	(1,273)
Group revenue		**7,202**	**(17)**	**7,185**	7,318	2	7,320
Cost of sales		**(6,862)**	**(42)**	**(6,904)**	(7,079)	(2)	(7,081)
Gross profit		**340**	**(59)**	**281**	239	–	239
Gain on disposals of interests in investments		**26**	**–**	**26**	–	–	–
Amortisation of acquired intangible assets	9	**–**	**(5)**	**(5)**	–	(6)	(6)
Other net operating (expenses)/income		**(226)**	**(36)**	**(262)**	(226)	18	(208)
Group operating profit/(loss)		**140**	**(100)**	**40**	13	12	25
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**48**	**–**	**48**	38	–	38
Gain on disposals of interests in investments		**9**	**–**	**9**	–	–	–
Share of results of joint ventures and associates	15	**57**	**–**	**57**	38	–	38
Profit/(loss) from operations		**197**	**(100)**	**97**	51	12	63
Investment income	7	**39**	**–**	**39**	38	–	38
Finance costs	8	**(49)**	**–**	**(49)**	(53)	–	(53)
Profit/(loss) before taxation		**187**	**(100)**	**87**	36	12	48
Taxation	10	**7**	**45**	**52**	(11)	(7)	(18)
Profit/(loss) for the year		**194**	**(55)**	**139**	25	5	30
Attributable to							
Equity holders		**195**	**(55)**	**140**	25	5	30
Non-controlling interests		**(1)**	**–**	**(1)**	–	–	–
Profit/(loss) for the year		**194**	**(55)**	**139**	25	5	30

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

	Notes	2021 pence	2020 pence
Earnings per ordinary share			
- basic	11	**21.3**	4.4
- diluted	11	**21.1**	4.4
Dividends per ordinary share proposed for the year	12	**9.0**	1.5

Group Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 Group £m	2021 Share of joint ventures and associates £m	2021 Total £m	2020 Group £m	2020 Share of joint ventures and associates £m	2020 Total £m
Profit/(loss) for the year	**82**	**57**	**139**	(8)	38	30
Other comprehensive income/(loss) for the year						
Items which will not subsequently be reclassified to the income statement						
Actuarial gains/(losses) on retirement benefit assets/(liabilities)	**98**	**7**	**105**	(62)	–	(62)
Tax on above	**(22)**	**(1)**	**(23)**	5	–	5
	76	**6**	**82**	(57)	–	(57)
Items which will subsequently be reclassified to the income statement						
Currency translation differences	**2**	**(1)**	**1**	(11)	(4)	(15)
Fair value revaluations – PPP financial assets	**(3)**	**(6)**	**(9)**	5	8	13
– cash flow hedges	**8**	**(6)**	**2**	(4)	1	(3)
– investments in mutual funds measured at fair value through OCI	**3**	**–**	**3**	2	–	2
Recycling of revaluation reserves to the income statement on disposal^	**(3)**	**(7)**	**(10)**	–	–	–
Tax on above	**(2)**	**(2)**	**(4)**	–	(2)	(2)
	5	**(22)**	**(17)**	(8)	3	(5)
Total other comprehensive income/(loss) for the year	**81**	**(16)**	**65**	(65)	3	(62)
Total comprehensive income/(loss) for the year	**163**	**41**	**204**	(73)	41	(32)
Attributable to						
Equity holders			**205**			(32)
Non-controlling interests			**(1)**			–
Total comprehensive income/(loss) for the year			**204**			(32)

^ 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 2021

	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 2020	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
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**41**	**5**	**159**	**(1)**	**204**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(29)**	**–**	**(29)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(68)**	**–**	**68**	**–**	**–**
Non-controlling interests' dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Purchase of treasury shares	**–**	**–**	**–**	**–**	**–**	**(151)**	**–**	**(151)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**2**	**6**	**–**	**8**
Reserve transfers relating to joint ventures and associates	**–**	**–**	**–**	**34**	**–**	**(34)**	**–**	**–**
At 31 December 2021	**345**	**176**	**22**	**72**	**123**	**631**	**7**	**1,376**

Group Balance Sheet

At 31 December 2021

		Notes	2021 £m	2020 £m
Non-current assets				
Intangible assets	– goodwill	13	**817**	811
	– other	14	**296**	312
Property, plant and equipment			**98**	93
Right-of-use assets			**125**	121
Investment properties			**29**	30
Investments in joint ventures and associates		15	**503**	554
Investments			**35**	26
PPP financial assets			**30**	155
Trade and other receivables		17	**249**	250
Retirement benefit assets		21	**321**	215
Deferred tax assets			**120**	80
			2,623	2,647
Current assets				
Inventories			**104**	114
Contract assets		16.1	**214**	288
Trade and other receivables		17	**865**	838
Cash and cash equivalents	– infrastructure investments	20.3	**17**	22
	– other	20.3	**1,016**	770
Current tax receivable			**7**	6
			2,223	2,038
Total assets			**4,846**	4,685
Current liabilities				
Contract liabilities		16.2	**(669)**	(524)
Trade and other payables		18	**(1,458)**	(1,403)
Provisions		19	**(174)**	(200)
Borrowings	– non-recourse loans	20.3	**(5)**	(6)
	– other	20.3	**(34)**	–
Lease liabilities			**(44)**	(47)
Current tax payable			**(14)**	(14)
Derivative financial instruments			**(1)**	(4)
			(2,399)	(2,198)
Non-current liabilities				
Contract liabilities		16.2	**(9)**	(2)
Trade and other payables		18	**(117)**	(128)
Provisions		19	**(205)**	(150)
Borrowings	– non-recourse loans	20.3	**(255)**	(333)
	– other	20.3	**(192)**	(189)
Lease liabilities			**(85)**	(78)
Retirement benefit liabilities		21	**(90)**	(126)
Deferred tax liabilities			**(115)**	(104)
Derivative financial instruments			**(3)**	(32)
			(1,071)	(1,142)
Total liabilities			**(3,470)**	(3,340)
Net assets			**1,376**	1,345
Equity				
Called-up share capital			**345**	345
Share premium account			**176**	176
Special reserve			**22**	22
Share of joint ventures' and associates' reserves			**72**	65
Other reserves			**123**	116
Retained profits			**631**	612
Equity attributable to equity holders of the parent			**1,369**	1,336
Non-controlling interests			**7**	9
Total equity			**1,376**	1,345

Group Statement of Cash Flows

For the year ended 31 December 2021

		Notes	2021 £m	2020 £m
Cash flows from operating activities				
Cash from operations			**354**	276
Income taxes paid			**(1)**	(2)
Net cash from operating activities			**353**	274
Cash flows from investing activities				
Dividends received from:				
	- joint ventures and associates – infrastructure investments		**30**	20
	- joint ventures and associates – other		**38**	30
Interest received – infrastructure investments – joint ventures			**8**	15
Interest received – infrastructure investments – subsidiaries			**2**	3
Acquisition of businesses, net of cash and cash equivalents acquired		23.1	**(3)**	(3)
Purchases of:	- intangible assets – infrastructure investments		**(1)**	(32)
	- intangible assets – other		**(1)**	(1)
	- property, plant and equipment		**(35)**	(33)
Investments in and long-term loans to joint ventures and associates			**(15)**	(25)
Return of equity from joint ventures and associates			**4**	–
PPP financial assets cash expenditure			**(3)**	(2)
PPP financial assets cash receipts			**10**	15
Disposals of:	- investments in joint ventures – infrastructure investments		**50**	1
	- investments in joint ventures – other		**1**	1
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments		**16**	–
	- property, plant and equipment – other		**10**	12
	- investment property		**–**	3
	- other investments		**5**	3
Net cash from investing activities			**116**	7
Cash flows used in financing activities				
Purchase of ordinary shares			**–**	(8)
Purchase of treasury shares			**(151)**	–
Proceeds from new loans relating to infrastructure investments assets		20.4	**8**	6
Repayments of:	- loans – infrastructure investments	20.4	**(6)**	(4)
	- loans – other		**–**	(36)
Redemption of preference shares			**–**	(112)
Repayment of lease liabilities			**(53)**	(58)
Ordinary dividends paid		12	**(29)**	–
Other dividends paid – non-controlling interest			**(1)**	–
Interest paid – infrastructure investments			**(11)**	(12)
Interest paid – other			**(23)**	(23)
Preference dividends paid			**–**	(6)
Net cash used in financing activities			**(266)**	(253)
Net increase in cash and cash equivalents			**203**	28
Effects of exchange rate changes			**4**	(14)
Cash and cash equivalents at beginning of year			**792**	778
Cash and cash equivalents at end of year		20.2	**999**	792

Notes to the financial statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (the Act) and in accordance with UK-adopted International Financial Reporting Standards (IFRS). The Group has adopted these standards for accounting periods beginning on 1 January 2021. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 10 March 2022, does not constitute the Company's statutory accounts for the years ended 31 December 2021 or 2020, but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2021 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 2022.

2 Going concern

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.

The key financial risk factors for the Group remain largely unchanged although the risk of COVID-19 on the Group's profitability reduced during the year. 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 105 to 112 of the Annual Report and Accounts 2021.

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 2021, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

The Directors have carried out an assessment on the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts based on the Group's Three Year Plan which continue to reflect the estimated impact of COVID-19 on each of the Group's operations. The Directors have also considered the strength of the Group's order book which amounted to £16.1bn at 31 December 2021 and will provide a pipeline of secured work over the going concern assessment period. These base case projections indicate that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the going concern assessment period.

US$259m of the Group's 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 2021, remains fully available to the Group until October 2024.

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:

- elimination of a portion of unsecured work assumed within the Group's base case projections and a delay of three months for any awarded but not yet contracted work;
- a deterioration of contract judgements and restriction of a portion of the Group's margins; and
- delay in the disposal of Investments assets by 12 months.

In the severe but plausible downside scenarios modelled, the Directors have assumed that the second tranche of the US private placement notes will be paid in full and will not be replaced by another form of debt. The Group continues to retain sufficient headroom on liquidity throughout the going concern period. 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 2021:

- Amendments to the following standards:
  - IFRS 4 Insurance Contracts – Deferral of IFRS 9
  - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

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 UK or were not yet effective in the UK at 31 December 2021:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
    - IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
    - IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
    - IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
    - IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
    - IAS 16 Property, Plant and Equipment
    - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
    - IFRS 3 Business Combinations
    - IFRS 16 Leases: Covid-19 Related Rent Concessions
    - IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information
- Amendments to Annual Improvements 2018 – 2020.

The Directors do not expect the standards above to have a material effect on the Group and have 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 2021.

4 Exchange rates

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

Average rates

£1 buys	**2021**	2020	Change
US$	**1.37**	1.29	6.2%
HK$	**10.69**	10.02	6.7%

Closing rates

£1 buys	**2021**	2020	Change
US$	**1.35**	1.37	(1.5)%
HK$	**10.52**	10.58	(0.6)%

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, multifamily residences, 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 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Revenue including share of joint ventures and associates[1]	**6,746**	**1,066**	**468**	**–**	**8,280**
Share of revenue of joint ventures and associates[1]	**(826)**	**(20)**	**(232)**	**–**	**(1,078)**
Group revenue[1]	**5,920**	**1,046**	**236**	**–**	**7,202**
Group operating profit/(loss)[1]	**47**	**101**	**25**	**(33)**	**140**
Share of results of joint ventures and associates[1]	**32**	**1**	**24**	**–**	**57**
Profit/(loss) from operations[1]	**79**	**102**	**49**	**(33)**	**197**
Non-underlying items:					
- amortisation of acquired intangible assets	**–**	**–**	**(5)**	**–**	**(5)**
- settlement charge following resolution with DoJ	**–**	**–**	**(41)**	**–**	**(41)**
- provision recognised for rectification works to be carried out on a development in London	**(42)**	**–**	**–**	**–**	**(42)**
- other net operating expenses	**(7)**	**(5)**	**–**	**–**	**(12)**
	(49)	**(5)**	**(46)**	**–**	**(100)**
Profit/(loss) from operations	**30**	**97**	**3**	**(33)**	**97**
Investment income					**39**
Finance costs					**(49)**
Profit before taxation					**87**

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

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).

5 Segment analysis continued

5.1 Total Group continued

Assets and liabilities by activity	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Contract assets	**132**	**60**	**22**	**–**	**214**
Contract liabilities – current	**(565)**	**(102)**	**(2)**	**–**	**(669)**
Inventories	**49**	**27**	**28**	**–**	**104**
Trade and other receivables – current	**706**	**109**	**31**	**19**	**865**
Trade and other payables – current	**(1,172)**	**(190)**	**(87)**	**(9)**	**(1,458)**
Provisions – current	**(149)**	**(4)**	**(7)**	**(14)**	**(174)**
Working capital*	**(999)**	**(100)**	**(15)**	**(4)**	**(1,118)**
Total assets	**2,158**	**496**	**998**	**1,194**	**4,846**
Total liabilities	**(2,237)**	**(390)**	**(399)**	**(444)**	**(3,470)**
Net assets	**(79)**	**106**	**599**	**750**	**1,376**

* Includes non-operating items and current working capital.

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.

5 Segment analysis continued

5.1 Total Group continued

Other information	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Capital expenditure on property, plant and equipment	**21**	**12**	**–**	**2**	**35**
Capital expenditure on intangible assets (Note 14)	**–**	**–**	**1**	**1**	**2**
Depreciation	**30**	**37**	**2**	**10**	**79**
Gain on disposals of interests in investments	**–**	**–**	**26**	**–**	**26**
Gain on disposals of interests in investments within joint ventures and associates (Note 15)	**–**	**–**	**9**	**–**	**9**

	2020 £m	2020 £m	2020 £m	2020 £m	2020 £m
Capital expenditure on property, plant and equipment	15	12	–	6	33
Capital expenditure on intangible assets	–	–	33	–	33
Depreciation	36	33	1	12	82

Performance by geographic destination	United Kingdom 2021 £m	United States 2021 £m	Rest of world 2021 £m	Total 2021 £m
Revenue including share of joint ventures and associates[1]	**3,793**	**3,636**	**851**	**8,280**
Share of revenue of joint ventures and associates[1]	**(110)**	**(131)**	**(837)**	**(1,078)**
Group revenue[1]	**3,683**	**3,505**	**14**	**7,202**

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

	2020 £m	2020 £m	2020 £m	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).

5.2 Infrastructure Investments

Underlying profit from operations[1]	Group 2021 £m	Share of joint ventures and associates (Note 15)+ 2021 £m	Total 2021 £m	Group 2020 £m	Share of joint ventures and associates (Note 15)+ 2020 £m	Total 2020 £m
UK^	**6**	**1**	**7**	2	(6)	(4)
North America	**15**	**14**	**29**	12	14	26
Gain on disposals of interests in investments	**26**	**9**	**35**	–	–	–
	47	**24**	**71**	14	8	22
Bidding costs and overheads	**(22)**	**–**	**(22)**	(14)	–	(14)
	25	**24**	**49**	–	8	8

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

^ Including Ireland

[1] Before non-underlying items (Note 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 for 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 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 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. 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.
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 2021

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	**2,589**	**3,341**	**816**	**6,746**
	Group revenue	**2,589**	**3,324**	**7**	**5,920**
Support Services	Revenue including share of joint ventures and associates	**1,039**	**–**	**27**	**1,066**
	Group revenue	**1,039**	**–**	**7**	**1,046**
Infrastructure Investments	Revenue including share of joint ventures and associates	**165**	**295**	**8**	**468**
	Group revenue	**55**	**181**	**–**	**236**
Total revenue	**Revenue including share of joint ventures and associates**	**3,793**	**3,636**	**851**	**8,280**
	Group revenue	**3,683**	**3,505**	**14**	**7,202**

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	**3,725**	**2,380**	**630**	**11**	**6,746**
	Group revenue	**3,391**	**1,907**	**611**	**11**	**5,920**
Support Services	Revenue including share of joint ventures and associates	**–**	**578**	**469**	**19**	**1,066**
	Group revenue	**–**	**578**	**449**	**19**	**1,046**
Infrastructure Investments	Revenue including share of joint ventures and associates	**319**+	**132**	**15**	**2**	**468**
	Group revenue	**232**+	**3**	**–**	**1**	**236**
Total revenue	**Revenue including share of joint ventures and associates**	**4,044**	**3,090**	**1,114**	**32**	**8,280**
	Group revenue	**3,623**	**2,488**	**1,060**	**31**	**7,202**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	**6,745**	**1,064**	**436**	**8,245**
At a point in time	**1**	**2**	**32**	**35**
Revenue including share of joint ventures and associates	**6,746**	**1,066**	**468**	**8,280**
Over time	**5,919**	**1,044**	**204**	**7,167**
At a point in time	**1**	**2**	**32**	**35**
Group revenue	**5,920**	**1,046**	**236**	**7,202**

+ Includes rental income of £38m including share of joint ventures and associates or £12m excluding share of joint ventures and associates.

6 Revenue continued

6.2 Disaggregation of revenue continued

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.

7 Investment income

	2021 £m	2020 £m
Subordinated debt interest receivable	**23**	25
Interest receivable on PPP financial assets	**5**	8
Fair value gain on investment asset	**9**	–
Other interest receivable and similar income	**1**	2
Net finance income on pension scheme assets and obligations (Note 21)	**1**	3
	39	38

8 Finance costs

			2021 £m	2020 £m
Non-recourse borrowings	– bank loans and overdrafts		**11**	11
US private placement	– finance cost		**10**	10
Interest on lease liabilities			**6**	6
Other interest payable	– committed facilities		**2**	2
	– letter of credit fees		**2**	2
	– other finance charges		**4**	3
Impairment of loans to joint ventures and associates		– loans	**4**	11
		– accrued interest	**10**	–
Preference shares		– finance cost	**–**	6
		– accretion	**–**	2
			49	53

The impairment of loans to joint ventures and associates of £4m (2020: £11m) and accrued interest of £10m (2020: £nil) relate to expected credit loss assessments performed. All of this impairment (2020: £10m) relates to subordinated debt receivable from joint ventures and associates held within the Infrastructure Investments segment.

9 Non-underlying items

	2021 £m	2020 £m
Items (charged against)/credited to profit		
9.1 Amortisation of acquired intangible assets	**(5)**	(6)
9.2 Other non-underlying items:		
– grant income (repaid)/received in relation to UK Job Retention Scheme	**(19)**	19
– settlement charge following resolution with DoJ in relation to handling of work orders within Balfour Beatty Communities	**(41)**	–
– provision recognised for rectification works to be carried out on a development in London	**(42)**	–
– release of indemnity provisions relating to sale of Heery International Inc.	**6**	–
– release of accrual relating to sale of Parsons Brinckerhoff	**1**	–
– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	(3)
– release of provision held for blacklisting claims	**–**	2
Total other non-underlying items	**(95)**	18
(Charged against)/credited to profit before taxation	**(100)**	12
9.3 Tax credit/(charge):		
– recognition/(derecognition) of deferred tax assets in the UK	**11**	(10)
– tax on grant income repaid/received in relation to UK Job Retention Scheme	**4**	(4)
– tax on DoJ settlement charge	**4**	–
– tax on rectification works provision	**8**	–
– impact of tax rate change on deferred tax assets previously recognised through non-underlying	**18**	–
– 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 credit/(charge)	**45**	(7)
(Charged against)/credited to profit for the year	**(55)**	5

9.1 The amortisation of acquired intangible assets comprises: customer contracts £4m (2020: £5m); and customer relationships £1m (2020: £1m).

The charge was recognised in the following segments: Construction Services £nil (2020: £1m); and Infrastructure Investments £5m (2020: £5m).

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

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

9.2.2 In December 2021, the Group through its subsidiary Balfour Beatty Communities (BBC), reached a resolution with the US Department of Justice (DoJ) following the completion of its investigation into specific performance incentive fees improperly claimed by BBC between 2013 and 2019 related to maintenance work at certain US military housing installations. As part of the resolution, BBC has agreed to pay a settlement totalling US$65.4m. These costs have been recorded within non-underlying, net of provisions already held in the previous year. The Group has presented this within non-underlying due to the size and nature of this charge.

This charge has been recognised in the Infrastructure Investments segment.

9 Non-underlying items continued

9.2.3 In 2021, the Group recognised a provision of £42m in relation to rectification works to be carried out on a development in London which was constructed by the Group between 2013 and 2016. The rectification work will include the replacement of stone panels affixed to the façade of the development to meet performance requirements. The provision has been calculated in line with a methodology based on an independent expert's assessment of the rectification and includes an estimate of costs associated with any potential consequential disruption to the development as a result of these rectification works. The provision does not include potential recoveries from third parties. The Group has presented this within non-underlying due to the size of the defect provision.

This charge has been recognised in the Construction Services segment.

9.2.4 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc (Heery). As part of the gain on disposal recorded, the Group recognised indemnity provisions relating to several projects which were indemnified by the Group as part of the sale. This estimate was subject to final ongoing negotiations with various clients. Following completion of these projects, reassessment of this provision was conducted resulting in a £6m release.

This credit has been recognised in the Construction Services segment.

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

This credit has been recognised in Corporate activities.

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 2021, actuarial gains in the BBPF resulted in the recognition of UK deferred tax assets in respect of tax losses. Applying the same methodology used in previous periods, the Group recognised the associated £13m tax credit as a non-underlying item along with a £2m tax charge arising from certain of the actuarial losses in the Railway Pension Scheme (RPS). In 2020 actuarial losses in the BBPF resulted in a £9m tax charge in non-underlying items resulting from the derecognition of UK deferred tax assets in respect to tax losses along with a £1m tax charge arising from the actuarial losses in the RPS.

9.3.2 As explained in Note 9.2.1, a non-underlying charge of £19m was recognised in 2021 in relation to grant income repaid under the UK Government's JRS. This expense gave rise to a tax credit of £4m (2020: £4m charge).

9.3.3 As explained in Note 9.2.2, a non-underlying charge of £41m was recognised in 2021 in relation to the resolution with the DoJ. This expense gave rise to a tax credit of £4m.

9.3.4 As explained in Note 9.2.3, a non-underlying charge of £42m was recognised in 2021 in relation to the rectification works on a development in London. This expense gave rise to a tax credit of £8m.

9.3.5 There is an additional deferred tax credit of £18m to revalue previous deferred tax assets recognised through non-underlying items due to a corporation tax rate change enacted in the UK during 2021 (2020: £4m).

9.3.6 The remaining non-underlying items (charged against)/credited to the Group's operating profit gave rise to a tax credit of £nil (mainly on amortisation of acquired intangible assets £1m credit and the release of indemnity provisions relating to the sale of Heery International Inc. £1m charge) (2020: £2m, mainly on amortisation of acquired intangible assets).

10 Income taxes

	Underlying Items[1] 2021 £m	Non-underlying items (Note 9) 2021 £m	Total 2021 £m	Total 2020 £m
Total UK tax	**(26)**	**(41)**	**(67)**	18
Total non-UK tax	**19**	**(4)**	**15**	–
Total tax (credit)/charge[x]	**(7)**	**(45)**	**(52)**	18
UK current tax				
– current tax	**8**	**(8)**	**–**	–
– adjustments in respect of previous periods	**(1)**	**(4)**	**(5)**	(1)
	7	**(12)**	**(5)**	(1)
Non-UK current tax				
– current tax	**7**	**(1)**	**6**	3
– adjustments in respect of previous periods	**(1)**	**–**	**(1)**	(2)
	6	**(1)**	**5**	1
Total current tax	**13**	**(13)**	**–**	–
UK deferred tax				
– origination and reversal of temporary differences	**(16)**	**(11)**	**(27)**	31
– UK corporation tax rate change	**(17)**	**(18)**	**(35)**	(14)
– adjustments in respect of previous periods	**–**	**–**	**–**	2
	(33)	**(29)**	**(62)**	19
Non-UK deferred tax				
– origination and reversal of temporary differences	**13**	**(3)**	**10**	3
– adjustments in respect of previous periods	**–**	**–**	**–**	(4)
	13	**(3)**	**10**	(1)
Total deferred tax	**(20)**	**(32)**	**(52)**	18
Total tax (credit)/charge[x]	**(7)**	**(45)**	**(52)**	18

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

The Group has recognised a £45m tax credit (2020: £7m charge) within non-underlying items in the year. Refer to Notes 9.3.1 to 9.3.6.

The Group tax (credit)/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 credit for 2021 includes a recognition of deferred tax assets for some of the Group's previously unrecognised UK tax losses due to re-profiling of future UK profits.

In addition to the Group tax (credit)/charge, tax of £27m is charged (2020: £3m credit) directly to other comprehensive income, comprising: a tax charge of £24m for subsidiaries (2020: £5m credit); and a tax charge in respect of joint ventures and associates of £3m (2020: £2m charge).

11 Earnings per ordinary share

Earnings	2021 Basic £m	2021 Diluted £m	2020 Basic £m	2020 Diluted £m
Earnings	**140**	**140**	30	30
Amortisation of acquired intangible assets – net of tax credit of £1m (2020: £2m)	**4**	**4**	4	4
Other non-underlying items – net of tax credit of £44m (2020: £9m charge)	**51**	**51**	(9)	(9)
Underlying earnings	**195**	**195**	25	25

	2021 Basic m	2021 Diluted m	2020 Basic m	2020 Diluted m
Weighted average number of ordinary shares	**657**	**664**	687	690

Earnings per share	2021 Basic pence	2021 Diluted pence	2020 Basic pence	2020 Diluted pence
Earnings per ordinary share	**21.3**	**21.1**	4.4	4.4
Amortisation of acquired intangible assets net of tax	**0.6**	**0.6**	0.5	0.5
Other non-underlying items net of tax	**7.8**	**7.7**	(1.2)	(1.2)
Underlying earnings per ordinary share	**29.7**	**29.4**	3.7	3.7

12 Dividends on ordinary shares

	2021 Per share pence	2021 Amount £m	2020 Per share pence	2020 Amount £m
Proposed dividends for the year				
Interim – current year	**3.0**	**19**	–	–
Final – current year	**6.0**	**38**	1.5	10
	9.0	**57**	1.5	10
Recognised dividends for the year				
Final – prior year		**10**		–
Interim – current year		**19**		–
		29		–

Subject to approval at the Annual General Meeting on 12 May 2022, the final 2021 dividend will be paid on 6 July 2022 to holders on the register on 27 May 2022 by direct credit or, where no mandate has been given, by cheque posted by 6 July 2022. The ordinary shares will be quoted ex-dividend on 26 May 2022. The last date for DRIP (Dividend Reinvestment Plan) elections will be 15 June 2022.

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2021	1,036	(225)	811
Currency translation differences	**(1)**	**7**	**6**
At 31 December 2021	**1,035**	**(218)**	**817**

Carrying amounts of goodwill by cash-generating unit	**2021** £m	**2021** Pre-tax discount rate %	2020 £m	2020 Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**9.2**	248	10.3
Balfour Beatty Construction Group Inc	**414**	**9.3**	408	11.4
Rail UK	**68**	**9.3**	68	10.4
Balfour Beatty Investments US	**49**	**9.4**	49	11.1
Other	**38**	**10.2**	38	11.2
Group total	**817**		811	

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 2022 to 2024. 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

	2021			2020		
	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**	2.3	0.5	2.8
Balfour Beatty Construction Group Inc	**2.0**	**0.8**	**2.8**	1.9	0.6	2.5
Rail UK	**2.3**	**0.5**	**2.8**	2.3	0.5	2.8
Balfour Beatty Investments US	**2.0**	**0.8**	**2.8**	2.0	–	2.0
Other	**2.2**	**0.6**	**2.8**	2.2	0.5	2.7

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.

14 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2021	634	(322)	312
Currency translation differences	**3**	**(3)**	**–**
Additions	**2**	**–**	**2**
Charge for the year	**–**	**(18)**	**(18)**
Removal of fully amortised intangible asset	**(6)**	**6**	**–**
At 31 December 2021	**633**	**(337)**	**296**

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

	2021					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Total £m	Total £m
Income statement						
Revenue[1]	826	20	113	119	232	1,078
Operating profit excluding gain on disposals of interests in investments	37	1	–	19	19	57
Gain on disposals of interests in investments	–	–	–	9	9	9
Operating profit[1]	37	1	–	28	28	66
Investment income	1	–	76	12	88	89
Finance costs	(1)	–	(73)	(17)	(90)	(91)
Profit before taxation[1]	37	1	3	23	26	64
Taxation	(5)	–	(2)	–	(2)	(7)
Profit after taxation	32	1	1	23	24	57
Balance sheet						
Non-current assets						
Intangible assets:						
- goodwill	30	–	–	–	–	30
- Infrastructure Investments intangible	–	–	41	–	41	41
- other	–	–	13	–	13	13
Property, plant and equipment	31	–	–	–	–	31
Investment properties	–	–	–	265	265	265
Investments in joint ventures and associates	3	–	–	–	–	3
Money market funds	–	–	–	81	81	81
PPP financial assets	–	–	1,123	172	1,295	1,295
Military housing projects	–	–	–	106	106	106
Other non-current assets	70	–	15	7	22	92
Current assets						
Cash and cash equivalents	308	–	143	24	167	475
Other current assets	223	–	56	2	58	281
Total assets	665	–	1,391	657	2,048	2,713
Current liabilities						
Borrowings – non-recourse	(51)	–	(36)	–	(36)	(87)
Other current liabilities	(467)	–	(120)	(10)	(130)	(597)
Non-current liabilities						
Borrowings – non-recourse	–	–	(909)	(450)	(1,359)	(1,359)
Other non-current liabilities	(54)	–	(213)	(7)	(220)	(274)
Total liabilities	(572)	–	(1,278)	(467)	(1,745)	(2,317)
Net assets	93	–	113	190	303	396
Loans to joint ventures and associates	–	–	107	–	107	107
Total investment in joint ventures and associates	93	–	220	190	410	503

^ 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

	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).

16 Contract balances

16.1 Contract assets

	£m
At 1 January 2020	377
Currency translation differences	(2)
Transfers from contract assets recognised at the beginning of the year to receivables	(370)
Increase related to services provided in the year	274
Reclassified to contract provisions (Note 19)	16
Impairments on contract assets recognised at the beginning of the year	(7)
At 31 December 2020	288
Transfers from contract assets recognised at the beginning of the year to receivables	**(257)**
Increase related to services provided in the year	**200**
Reclassified from contract provisions (Note 19)	**(7)**
Impairments on contract assets recognised at the beginning of the year	**(10)**
At 31 December 2021	**214**

16.2 Contract liabilities

	£m
At 1 January 2020	(471)
Currency translation differences	11
Revenue recognised against contract liabilities at the beginning of the year	419
Increase due to cash received, excluding amounts recognised as revenue during the year	(485)
At 31 December 2020	(526)
Currency translation differences	**(4)**
Revenue recognised against contract liabilities at the beginning of the year	**477**
Increase due to cash received, excluding amounts recognised as revenue during the year	**(625)**
At 31 December 2021	**(678)**

17 Trade and other receivables

	2021 £m	2020 £m
Current		
Trade receivables	**518**	526
Less: provision for impairment of trade receivables	**(3)**	(12)
	515	514
Due from joint ventures and associates	**15**	16
Due from joint operation partners	**12**	17
Contract fulfilment assets	**12**	15
Contract retentions receivable	**215**	202
Accrued income	**13**	9
Prepayments	**42**	41
Due on disposals	**1**	2
Other receivables	**40**	22
	865	838
Non-current		
Due from joint ventures and associates	**73**	67
Contract fulfilment assets	**32**	13
Contract retentions receivable	**142**	165
Due on disposals	**–**	1
Other receivables	**2**	4
	249	250
Total trade and other receivables	**1,114**	1,088

18 Trade and other payables

	2021 £m	2020 £m
Current		
Trade and other payables+	**748**	763
Accruals	**611**	576
VAT, payroll taxes and social security	**96**	61
Due on acquisitions	**3**	3
	1,458	1,403
Non-current		
Trade and other payables	**97**	104
Accruals	**10**	11
Due to joint ventures and associates	**10**	10
Due on acquisitions	**–**	3
	117	128
Total trade and other payables	**1,575**	1,531

\+ includes the cost of settlement relating to the DOJ resolution. This was settled in full in January 2022.

19 Provisions

	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m
At 1 January 2020	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 (Note 16.1)	16	–	–	16
At 31 December 2020	279	46	25	350
Currency translation differences	**(1)**	**–**	**–**	**(1)**
Reclassified from accruals	**3**	**–**	**–**	**3**
Charged/(credited) to the income statement:				
– additional provisions	**158**	**11**	**4**	**173**
– unused amounts reversed	**(35)**	**(8)**	**(4)**	**(47)**
Utilised during the year	**(76)**	**(13)**	**(3)**	**(92)**
Reclassified to contract assets (Note 16.1)	**(7)**	**–**	**–**	**(7)**
At 31 December 2021	**321**	**36**	**22**	**379**

20 Notes to the statement of cash flows

20.1 Cash from/(used in) operations	**Underlying items[1] 2021 £m**	**Non-underlying items 2021 £m**	**Total 2021 £m**	Total 2020 £m
Profit from operations	**197**	**(100)**	**97**	63
Share of results of joint ventures and associates	**(57)**	**–**	**(57)**	(38)
Depreciation of property, plant and equipment	**24**	**–**	**24**	24
Depreciation of right-of-use-assets	**54**	**–**	**54**	56
Depreciation of investment properties	**1**	**–**	**1**	2
Amortisation of other intangible assets	**13**	**5**	**18**	17
Impairment of other intangible assets	**–**	**–**	**–**	1
Impairment of property, plant & equipment	**2**	**–**	**2**	–
Pension deficit payments, including regular funding	**(42)**	**–**	**(42)**	(18)
Movements relating to equity-settled share-based payments	**7**	**–**	**7**	8
Gain on disposal of interests in investments	**(26)**	**–**	**(26)**	–
Profit on disposal of property, plant and equipment	**(4)**	**–**	**(4)**	(7)
Loss on GMP equalisation	**–**	**–**	**–**	3
Other non-cash items	**(1)**	**–**	**(1)**	(2)
Operating cash flows before movements in working capital	**168**	**(95)**	**73**	109
Decrease in operating working capital			**281**	167
Inventories			**11**	(14)
Contract assets			**74**	87
Trade and other receivables			**(22)**	42
Contract liabilities			**147**	67
Trade and other payables			**43**	(69)
Provisions			**28**	54
Cash from operations			**354**	276

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

20.2 Cash and cash equivalents

	2021 £m	2020 £m
Cash and deposits	**766**	591
Term deposits	**250**	179
Cash balances within infrastructure concessions	**17**	22
Bank overdrafts	**(34)**	–
	999	792

20.3 Analysis of net cash/(borrowings)

	2021 £m	2020 £m
Cash and cash equivalents (excluding infrastructure concessions)	**1,016**	770
Bank overdrafts	**(34)**	–
US private placement	**(192)**	(189)
Net cash excluding infrastructure concessions	**790**	581
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2022 and 2072	**(260)**	(339)
Infrastructure concessions cash and cash equivalents	**17**	22
	(243)	(317)
Net cash	**547**	264

20.4 Analysis of movements in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Bank overdrafts £m	Total £m
At 1 January 2021	(339)	(189)	–	(528)
Currency translation differences	**–**	**(3)**	**–**	**(3)**
Proceeds of loans	**(8)**	**–**	**(34)**	**(42)**
Repayments of loans	**6**	**–**	**–**	**6**
Disposal of Woodland View Hospital (Note 23.2.2)	**41**	**–**	**–**	**41**
Disposal of North West Fire & Rescue (Note 23.2.3)	**40**	**–**	**–**	**40**
At 31 December 2021	**(260)**	**(192)**	**(34)**	**(486)**

US$259m of the Group's 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 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 2021, the Group agreed to the conversion of this revolving credit facility (RCF) to a sustainability linked loan, extending the maturity to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score. This facility was undrawn at 31 December 2021

21 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 2021, the BBPF received distributions of £2m from the SLP (2020: £3m).

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2019. As a result, the Group had agreed to make deficit contributions totalling £64m from 2021 to 2023. During 2021, the trustees and the Group agreed that the remaining deficit contributions due under the schedule of contributions should be accelerated and that the Group should made additional deficit contributions of £2m per month from July 2022 until the completion of the 31 March 2022 valuation, or 30 September 2023, if earlier. Following the agreement between the trustees and the Group, the Group made deficit contributions of £33m in 2021 and is expected to make deficit contributions of £38m in 2022 and £18m 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.

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

		2021		2020	
		Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Discount rate		**1.90**	**1.90**	1.45	1.45
Inflation rate	– RPI	**3.40**	**3.40**	2.90	2.90
	– CPI	**2.80**	**3.00**	2.25	2.45
Future increases in pensionable salary		**2.80**	**3.00**	2.25	2.45
Rate of increase in pensions in payment (or such other rate as is guaranteed)		**3.10**	**3.05**	2.75	2.55

	Number	**Number**	Number	Number
Total number of defined benefit members	**26,938**	**3,010**	27,604	3,090

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.

During 2021, the Continuous Mortality Investigation (CMI) released the 2020 core projections model which incorporated updated death experience up to 31 December 2020. However, given the uncertainty presented with COVID-19, the Group considered it appropriate to continue assuming improvements in line with the CMI 2019 model used for 2020.

The mortality assumption adopted for the RPS for 2021 is unchanged from 2020, with the Group continuing to set future improvements in line with the CMI 2019 core projection model.

BBPF life expectancies

	2021 Average life expectancy at 65 years of age		2020 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.6**	**23.3**	21.5	23.3
Members not yet in receipt of a pension (current age 50)	**22.5**	**24.3**	22.5	24.2

RPS life expectancies

	2021 Average life expectancy at 65 years of age		2020 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**20.6**	**22.6**	20.6	22.6
Members not yet in receipt of a pension (current age 50)	**21.6**	**23.6**	21.5	23.5

Amounts recognised in the Balance Sheet

	2021				2020			
	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	**(3,718)**	**(437)**	**(46)**	**(4,201)**	(3,828)	(443)	(46)	(4,317)
Fair value of plan assets	**4,039**	**393**	**–**	**4,432**	4,043	363	–	4,406
Assets/(liabilities) in the balance sheet	**321**	**(44)**	**(46)**	**231**	215	(80)	(46)	89

^ Investments in mutual funds of £24m (2020: £21m) are held to satisfy the Group's deferred compensation obligations.

The defined benefit obligations comprise £46m (2020: £46m) arising from wholly unfunded plans and £4,155m (2020: £4,271m) arising from plans that are wholly or partly funded.

Movements in the retirement benefit assets and obligations for the year		**£m**
At 1 January 2021		89
Currency translation differences		**2**
Current service cost		**(5)**
Net interest income		**1**
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**(10)**
	– on obligations from changes to other financial assumptions	**20**
	– on obligations from experience gains	**1**
	– on assets	**87**
Contributions from employer	– regular funding	**3**
	– ongoing deficit funding	**39**
Benefits paid		**4**
At 31 December 2021		**231**

Sensitivity of the Group's retirement benefit obligations at 31 December 2021 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%**	**(7.4)%**	**(306)**	**(0.5)%**	**8.3%**	**346**
Market expectation of RPI inflation	**0.5%**	**5.1%**	**214**	**(0.5)%**	**(5.0)%**	**(206)**
Salary growth	**0.5%**	**<0.1%**	**1**	**(0.5)%**	**<(0.1)%**	**(1)**
Life expectancy	**1 year**	**4.8%**	**201**	**(1 year)**	**(4.8)%**	**(199)**

Sensitivity of the Group's retirement benefit assets at 31 December 2021 to changes in market conditions

	Percentage points	**(Decrease)/ increase in assets %**	**(Decrease)/ increase in assets £m**
Increase in interest rates	**0.5%**	**(7.2)%**	**(321)**
Increase in market expectation of RPI inflation	**0.5%**	**4.8%**	**215**

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 14,670 members at 31 December 2021 (2020: 14,383 members) with £49m (2020: £47m) 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 £60m (2020: £57m).

22 Share capital

During the year ended 31 December 2021, no ordinary shares were purchased (2020: 3.5m at a cost of £7.9m) by the Group's employee discretionary trust to satisfy awards under the Company's equity-settled share-based payment arrangements.

On 7 October 2021, the Company completed the share buyback programme, which commenced on 5 January 2021. The Company purchased 50.3m shares for a total consideration of £150m. These shares are currently held in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m, has utilised £151m of the Company's distributable profits.

23 Acquisitions and disposals

23.1 Current and prior year acquisitions

There were no material acquisitions in 2021.

Deferred consideration paid during 2021 in respect of acquisitions completed in earlier years was £3m (2020: £3m). This related to the Group's acquisition of Centex Construction in 2007.

23.2 Current year disposals

The Group disposed of several Infrastructure Investments assets as detailed below. The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates.

Notes	Disposal date	Entity/asset	Structure of sale	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Underlying gain £m
23.2.1	2 June 2021	BC Children's and BC Women's Hospitals#	Equity interest sale	70%	20	(17)	4	7
23.2.2	6 July 2021	Woodland View Hospital+	Equity interest sale	100%	8	(5)	–	3
23.2.3	6 July 2021	North West Fire & Rescue+	Equity interest sale	100%	11	(9)	3	5
23.2.4	6 August 2021	Aberdeen Western Peripheral Route#	Equity interest sale	33.3%	29	(21)	3	11
23.2.5	26 October 2021	Riverchase Landing^	Asset sale	n/a	3	(1)	–	2
23.2.6	12 November 2021	Zephyr Ridge^	Asset sale	n/a	9	(2)	–	7
					80	**(55)**	**10**	**35**
	Add: Proceeds received in relation to deferred consideration on the sale of Consort Healthcare (Fife) Holdings Ltd				**1**			
	Disposal proceeds per the Directors' valuation				**81**			

Disposal of joint venture.

+ Disposal of subsidiary.

^ Disposal of asset within a joint venture entity.

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

23.2.2 On 6 July 2021, the Group disposed of its entire 100% interest in the Woodland View Project Co Ltd for a cash consideration of £8m. The disposal resulted in a net gain of £3m being recognised in underlying operating profit, including a gain of £8m in respect of PPP financial asset reserves and a loss of £8m in respect of hedging reserves recycled to the income statement on disposal. The disposal included cash disposed of £2m.

23 Acquisitions and disposals continued

23.2 Current year disposals continued

23.2.3 On 6 July 2021, the Group disposed of its entire 100% interest in Balfour Beatty Fire and Rescue NW Ltd for a cash consideration of £11m. The disposal resulted in a net gain of £5m being recognised in underlying operating profit, including a gain of £14m in respect of PPP financial asset reserves and a loss of £11m in respect of hedging reserves recycled to the income statement on disposal. The disposal included cash disposed of £1m.

23.2.4 On 6 August 2021, the Group disposed of its entire 33.3% interest in the Aberdeen Roads Holdings Ltd (Aberdeen Western Peripheral Route) for a cash consideration of £29m. The disposal resulted in a net gain of £11m being recognised in underlying operating profit, including a gain of £4m in respect of PPP financial asset reserves and a loss of £1m in respect of hedging reserves recycled to the income statement on disposal.

23.2.5 On 26 October 2021, the Group disposed of its Riverchase Landing multi-family property asset located in Hoover, Alabama, for a total cash consideration of £3m. The asset disposal resulted in an underlying gain of £2m being recognised in the Group's share of joint ventures and associates.

23.2.6 On 12 November 2021, the Group disposed of its Zephyr Ridge multi-family property asset located in Zephyrhills, Florida, for a total cash consideration of £9m. The asset disposal resulted in an underlying gain of £7m being recognised in the Group's share of joint ventures and associates.

In addition to the disposals above, the Group received a further £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 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.

24 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.

25 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 £325m (2020: £345m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 17 and 18 respectively.

26 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 2020.

27 Events after the reporting date

The Group has increased its 2022 share buyback programme from the intention of at least £100m, announced in December 2021, to £150m. The buyback will commence immediately and is expected to complete during 2022.

There were no other material post balance sheet events.