Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2018

13 March 2019

Results demonstrate the value being created through Build to Last programme

Highlights

- Underlying pre-tax profit increased 10% to £181 million (2017: £165 million)
- Industry standard margins achieved in second half of 2018; Construction Services profit from operations increased 32%
- Gross debt reduced by over 40%; repaid £231 million convertible bonds
- Higher quality order book; increased 11% to £12.6 billion (2017: £11.4 billion)
- Average net cash increased to £194 million (2017: £42 million); year-end net cash £337 million (2017: £335 million)
- Directors' valuation of Investments portfolio broadly stable at £1.15 billion (2017: £1.24 billion)
- Recommended final dividend of 3.2p, up 33%; full year 4.8p (2017: full year 3.6p)

£ million unless otherwise specified	2018		2017	
	Underlying[3]	Total	Underlying[3]	Total
Revenue[1,2]	7,802	7,814	8,234	8,264
Profit from operations[2]	205	147	196	148
Pre-tax profit[2]	181	123	165	117
Profit for the year	179	135	143	168
Basic earnings per share[4]	26.3p	19.7p	20.9p	24.7p
Dividends per share		4.8p		3.6p

	2018	2017
Order book[1,2,3]	£12.6bn	£11.4bn
Directors' valuation of Investments portfolio[5]	£1.15bn	£1.24bn
Net cash – recourse	337	335
Net borrowings – non-recourse[6]	(309)	(305)

Leo Quinn, Balfour Beatty Group Chief Executive, said: "These results demonstrate the value being created through Build to Last. We continue to strengthen the Group and meet our targets. The businesses are back at industry standard margins, underpinned by a strong balance sheet and asset base.

"But Balfour Beatty's transformation goes well beyond resolving the issues of forced growth. We have relentlessly invested in capability and leadership to forge a culture which provides sustainable competitive advantage through standardisation of our systems and processes, on a reducing overhead base.

"This gives us a scalable platform to drive profitable managed growth. With this internal momentum and our positions in large growing infrastructure markets, we are well placed to deliver market leading performance."

Notes:

[1] underlying revenue and order book includes share of joint ventures and associates

[2] from continuing operations

[3] before non-underlying items (Note 9)

[4] underlying basic earnings per share are from underlying continuing operations

[5] 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. These proceeds were received on 23 February 2018

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

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

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Investor and analyst presentation:

A presentation to investors and analysts will be made at Numis, Floor Five, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT on 13 March 2019 at 09.00.

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

2018 FULL-YEAR RESULTS ANNOUNCEMENT

- **GROUP CHIEF EXECUTIVE'S REVIEW**
- **RESULTS OVERVIEW AND OUTLOOK**
- **DIVISIONAL OPERATING REVIEWS**
- **OTHER FINANCIAL ITEMS**
- **MEASURING OUR PERFORMANCE**

GROUP CHIEF EXECUTIVE'S REVIEW

These results demonstrate the value being created through the Build to Last programme. Balfour Beatty's transformation has gone beyond resolving the legacy issues of forced growth: the Group's strong competitive positions in large and growing infrastructure markets, and the platform provided by its scalable operating model, provide the ability to deliver profitable managed growth.

Since the start of Build to Last in 2015, Balfour Beatty has simplified and refocused its operations, embedded new governance, reduced operating expenses by almost 40% and invested steadily in innovation, capability and leadership. As well as the delivery of all Build to Last targets, culminating in industry standard margins, every metric for a culture which is Lean, Expert, Trusted and Safe shows significant continuous improvement. To ensure these improvements are sustainable, they are embedded within consistent systems and processes which address risk and provide management with transparency and control.

The Group reported an underlying profit from operations (PFO) of £205 million (2017: £196 million) driven by improvements in the earnings based businesses. In the second half of the year, UK Construction, US Construction and Support Services all reported underlying PFO margins in, or above, the range of industry standard margins. Underlying earnings per share from continuing operations increased 26% to 26.3 pence per share (2017: 20.9 pence) and the Board has recommended a 33% increase in the final dividend giving a total recommended dividend for the year of 4.8 pence per share (2017: 3.6 pence).

Cash remains Balfour Beatty's compass and ultimately the most reliable barometer of financial performance. During the year, the Group had average net cash of £194 million (2017: £42 million) and at year end, the Group had net cash of £337 million (2017: £335 million). During the year, Balfour Beatty paid down over 40% of its gross debt including repayment of the convertible bonds.

Balfour Beatty's net cash position and the value of its Investments portfolio underline the ongoing strength of the balance sheet, which constitutes a strong competitive benefit with customers and supply chain partners. The Investments portfolio is a strategic source of value and opportunity to the Group's businesses. The Directors' valuation of the Investments portfolio has remained broadly stable at £1.15 billion (2017: £1.24 billion), following £58 million of investments and £187 million of disposals in the year.

The order book increased by 11% to £12.6 billion (2017: £11.4 billion). This increase occurred whilst maintaining disciplined selective bidding in line with the Group's stated policy. The businesses increased bid margin thresholds and focused on projects where Balfour Beatty's capabilities can deliver value, coupled with a lower risk profile, to ensure that the Group wins work at appropriate terms and conditions.

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

In Lean, the governance and processes introduced during Build to Last have driven improved performance in all business segments and ensured that the earnings based businesses achieved industry standard margins in the second half of 2018. At the start of 2018, the Group extended its investment in systems standardisation with the migration of its US businesses onto a single JD Edwards ERP platform. This transition was achieved smoothly and followed the consolidation of the UK Construction business onto Oracle R12. These moves will enable the Group to drive significant ongoing value through increased productivity underpinned by greater transparency and assurance.

During the year the Group launched its 25 by 2025 vision. With the goal to reduce onsite activity by 25% by 2025 Balfour Beatty will increasingly use modular, innovation and digital solutions, in order to become more productive and efficient. From modular on tall towers such as the Madison project in London to the prefabrication of bridges at the £1 billion A14 project, the Group will look increasingly to utilise offsite manufacturing. With enhanced BIM modelling, virtual reality, drones and laser scanning, new technologies are transforming the construction industry. Properly applied, they have the power to lower cost, improve quality and enhance safety.

Customers contract with Balfour Beatty due to the engineering excellence and Expert capabilities of the Group and its employees. In a market where there will be increasing intense competition for the best talent, Balfour Beatty places a major focus on recruitment, training and retention in order to maintain the highest calibre workforce. The employee survey in December 2018 measured employee engagement at 65% (2017: 60%), the highest level of engagement since the introduction of the survey in 2015.

Leadership changes made at the start of 2018 are already delivering benefits. In US Construction, the promotion of two internal candidates to lead the Buildings and Civils businesses, has delivered an improved overall performance with growing momentum in the pipeline. In Support Services, where the Power T&D, Gas & Water and Rail businesses work with similar types of customers, uniting this expertise has increased flexibility and productivity.

Balfour Beatty continues its sponsorship of The 5% Club, which encourages employers to provide 'earn and learn' training opportunities to help address the UK's skills gap and drive economic prosperity more widely across society. During 2018, Balfour Beatty recruited 102 apprentices, 94 graduates and 20 trainees. The percentage of the UK workforce in 'earn and learn' positions at year end stood at 5.6%. Membership of The 5% Club now includes key customers and supply chain partners of Balfour Beatty, all committed to ensuring the sector has the right capability required to support the growing infrastructure market.

Trusted is Balfour Beatty "doing what we say we will do" and is measured by customer satisfaction. During the year, over 4,000 customer satisfaction reviews were carried out (2017: 3,375), primarily in the UK. The Group customer satisfaction average increased to 97% (2017: 94%).

Following the successful completion of Build to Last Phase One targets at the end of 2016 (£200 million Cash In: £100 million Cost Out) the Group has now delivered its Phase Two targets with all earnings based businesses achieving industry standard margins in the second half of 2018 as follows:

	Underlying PFO margin target %	Underlying PFO margin H2 2018 %
UK Construction	2-3	2.4
US Construction	1-2	1.5
Support Services	3-5	5.2

The Group now has a higher quality order book with work won at appropriate levels of risk and return. Combined with the Gated Lifecycle, the Digital Briefcase and Project on a Page, the governance and controls introduced under Build to Last provide management with a clear, consistent line of sight on all stages of work which is being bid and delivered, together with key tools for managing commercial risk and project execution. This common contracting framework enables Balfour Beatty to: selectively bid business to match capability; assess and price risk appropriately; track, and thus intervene on, execution all the way through the lifecycle of a project, including the defect period; and ultimately to achieve higher margins for the Construction Services and Support Services businesses.

By maintaining Build to Last disciplines, underpinned by actions which have reduced geographic, commercial, operational and financial risk, the Group continues to embed a culture of active risk mitigation by investing in capability and IT-based processes and controls. Balfour Beatty is ensuring a more collaborative working environment which is being supported by the Group's investment in systems such as the roll-out of the Microsoft Office 365 platform across the Group. Balfour Beatty is also continuing to take steps to better capture and utilise real-time data on projects to provide unparalleled transparency, efficiency and forecasting through the enhancements of visual management, collaboration with project stakeholders through BIM enhancements, and accelerating business intelligence for better business agility.

Construction is an inherently dangerous industry. It is therefore essential that the safety and health of everyone who comes into contact with Balfour Beatty is the top priority. Each week the Executive Committee reviews the safety performance of each of the business units with particular attention to lessons which should be learnt from any high potential near miss incidents, as well as gauging the status of the Group's safety culture. Safety is also a leading indicator of future performance and productivity.

In 2018, the indicators continued to trend positively, with the Group's Lost Time Injury Rate (LTIR) (excluding international joint ventures) reducing for the fourth consecutive year to 0.15 (2017: 0.17). This LTIR is now approximately 50% of the rate when Build to Last commenced and all other key lagging indicators also continue to trend positively.

The Group primarily operates across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments). This provides resilience as the Group is less exposed to a downturn in a single geography or sector.

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable.

In the UK, Government policy continues to drive a strong pipeline of major infrastructure projects in transport and energy. Over the next few years, the '4Hs' – HS2 (high speed rail), new nuclear power at Hinkley Point C, the Road Investment Strategy for Highways England and the continued expansion of Heathrow airport – will contribute to the Government's investment in infrastructure commitment, which is targeted to rise from 0.8% in 2015/16 to over 1% of GDP by 2020/21.

In the US, with blue chip repeat customers such as Disney and Microsoft, the Group's Buildings opportunities are robust. In Civils in December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill, was signed, providing authorised spending for a five-year period. There are further opportunities being created, for example with the number of state-backed infrastructure bonds (over US$200 billion multi-state transportation bonds, over US$35 billion of education bonds in California) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming with the third runway at the international airport, a ten-year hospital development plan and continued investment in transportation infrastructure.

Having achieved industry standard margins, Balfour Beatty now has the platform in place to scale the business to drive profitable managed growth. The Group will look to benefit fully from its strong competitive positions in large and growing infrastructure markets to deliver market leading performance.

RESULTS OVERVIEW AND OUTLOOK

Unless otherwise stated, all commentary in this section, the Divisional operating reviews and Other financial items is on an underlying continuing operations 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 and the results from discontinued operations are the causes of the differences between underlying and statutory profitability. Additionally, underlying revenue includes the Group's share of revenue in joint ventures and associates and is presented on a continuing operations basis.

Group financial summary

These results demonstrate the value being created through the Build to Last programme. The Group's financial position and order book both improved in the year and Balfour Beatty is now operating from a position of strength.

In the second half of 2018, the Group successfully delivered on its Build to Last underlying PFO margin targets by delivering industry standard margins for UK Construction, US Construction and Support Services.

Net cash at year end was consistent with the prior year despite cash used in operations of £132 million (2017: £41 million generated from operations) which was negatively impacted by the Aberdeen Western Peripheral Route (AWPR) project. The average monthly net cash for the year at £194 million (2017: £42 million) was ahead of the £140 - £170 million guidance range provided during 2018.

The Group continues to have one of the strongest balance sheets in the sector with net assets increasing from £1,066 million to £1,241 million.

The order book increased by 11% to £12.6 billion, up 8% at constant exchange rates (CER) (2017: £11.4 billion). The Group's focus on disciplined bidding is continuing to build a higher quality order book capable of delivering managed profitable growth from the rising infrastructure spend in the UK, US and Hong Kong.

Underlying revenue was down 5% (3% at CER) at £7,802 million (2017: £8,234 million), following the managed reduction in the order book during 2017. Statutory revenue, which excludes joint ventures and associates, was £6,634 million (2017: £6,916 million).

Construction Services underlying revenue was down 8% (6% at CER) at £6,127 million (2017: £6,649 million) as a result of the expected decline in the US. Support Services underlying revenue was 4% higher at £1,104 million (2017: £1,061 million) with an increase in the utilities business.

Underlying profit from operations[2,3]	2018 £m	2017 £m	Change %age
UK Construction	28	16	75%
US Construction	44	41	7%
Gammon	23	15	53%
Construction Services	95	72	32%
Support Services	46	41	12%
Earnings based businesses	141	113	25%
Infrastructure Investments	97	116	(16)%
Corporate activities	(33)	(33)	-
Total	205	196	5%

[2] from continuing operations

[3] before non-underlying items (Note 9)

In the earnings based businesses underlying profit from operations increased 25% to £141 million (2017: £113 million), which contributed to the 5% increase in the Group's underlying profit from operations to £205 million (2017: £196 million). Statutory profit from operations was £147 million (2017: £148 million).

Construction Services improved 32% to an underlying profit from operations of £95 million (2017: £72 million) with increases in all three geographies. Support Services improved 12% with underlying profit from operations of £46 million (2017: £41 million). Following significant disposals in 2017, Infrastructure Investments underlying profit from operations decreased to £97 million (2017: £116 million).

Net finance costs decreased to £24 million (2017: £31 million) as a result of higher net finance income in relation to the Group's retirement benefit schemes and lower interest costs as the Group continues to pay down debt, partially offset by lower net income from Infrastructure Investments as a result of disposals.

Underlying pre-tax profit from continuing operations increased 10% to £181 million (2017: £165 million). The Group's underlying profit before tax resulted in an underlying tax charge of £2 million (2017: £23 million) following the recognition of deferred tax assets for some of the Group's UK historical tax losses.

Underlying profit after tax for the year including discontinued operations increased to £179 million (2017: £143 million). Total statutory profit after tax for the year was £135 million (2017: £168 million), after non-underlying items.

Non-underlying items

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

Non-underlying items from continuing operations of £44 million were a net charge to profit for the year (2017: £20 million net credit).

The Group recognised additional retirement benefit obligations following the judgment on the Lloyds Banking Group High Court hearing with regard to Guaranteed Minimum Pension (GMP) equalisation which was published on 26 October 2018. The judgment indicated that pension trustees need to amend scheme benefits to equalise for the effect of unequal GMPs and indicated an acceptable range of methods for how to do so. The charge arising from the recognition of GMP equalisation on the Group's pension schemes amounted to £28 million and has been recognised in the Group's income statement as a plan amendment. The Group has treated this item as non-underlying due to the size and nature of the income statement charge.

The Group recognised an additional indemnity provision of £12 million in the year following the re-assessment of several projects which were indemnified by the Group as part of the disposal of Heery International Inc. This estimate is subject to final ongoing negotiations with various clients and any further gains or losses that arise as part of this indemnity obligation will be recorded within non-underlying items as part of the Heery disposal.

As a result of Carillion filing for liquidation on 15 January 2018, the Group and its remaining joint venture partner on the AWPR project, Galliford Try plc, became jointly liable to deliver Carillion's remaining obligations on the contract in addition to each partner's existing 33% share. This has resulted in the Group now having a 50% interest in the AWPR contract. Balfour Beatty recognised an additional £29 million loss on the AWPR project in 2018. A third of this charge (£10 million) has been recognised in non-underlying items as this reflects the additional loss that the Group has incurred in fulfilling Carillion's obligations on the contract. The loss incurred on Balfour Beatty's original 33% joint venture share (£19 million) is treated as part of the Group's underlying performance. The AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believes are highly probable to be agreed. The final section of the AWPR project was fully open to traffic on 19 February 2019 with the final financial out-turn of this contract dependent upon the result of ongoing claims discussions.

Offsetting these charges is a non-underlying provision release of £13 million relating to settlements of health and safety claims. These claims were previously included in non-underlying items as part of the Group's overall reassessment in 2016 of potential liabilities relating to historical health and safety breaches following new sentencing guidelines.

Significant other non-underlying items included £11 million of restructuring costs relating to the Group's Build to Last transformation programme and amortisation of acquired intangible assets of £8 million.

Earnings per share

Underlying basic earnings per share from continuing operations were 26.3 pence (2017: 20.9 pence), which, along with a non-underlying loss per share from continuing operations of 6.6 pence (2017: 2.8 pence gain), gave a total basic earnings per share for continuing operations of 19.7 pence (2017: 23.7 pence). Discontinued operations contributed nil pence (2017: 0.1 pence) to the total underlying basic earnings of 26.3 pence per share (2017: 21.0 pence). Total basic earnings per share were 19.7 pence (2017: 24.7 pence).

Cash flow performance

The total cash movement in the year resulted in a £2 million increase in the Group's net cash position to £337 million (2017: £335 million), excluding non-recourse net borrowings. Operating cash flows and proceeds from Infrastructure Investments disposals were largely offset by working capital outflows and investment in new Infrastructure assets.

Cash flow performance	2018 £m	2017 £m
Operating cash flows	124	39
Working capital (outflow)/inflow	(229)	27
Pension deficit payments	(27)	(25)
Cash (used in)/from operations	(132)	41
Infrastructure Investments		
- disposal proceeds	187	105
- new investments	(58)	(35)
Other	5	51
Net cash movement	2	162
Opening net cash*	335	173
Closing net cash*	337	335

* excluding infrastructure concessions (non-recourse) net borrowings

Working capital

During the year, the Group's working capital position resulted in an outflow of £229 million (2017: £27 million inflow), primarily as a result of significant cash outflows on the AWPR project, reduced working capital as a result of the expected decline in revenues in US Construction, and improved supply chain payment processes.

Working capital flows^*	2018 £m	2017 £m
Inventories	(16)	(12)
Net contract assets	51	7
Trade and other payables	(196)	(92)
Trade and other receivables	12	95
Provisions	(80)	29
Working capital (outflow)/inflow^*	(229)	27

^ excluding impact of foreign exchange and disposals

* the movement in operating working capital has been presented to exclude movements arising from IFRS15 *Revenue from Contracts with Customers* reclassification adjustments

The decrease in trade and other payables has resulted in a working capital outflow of £196 million (2017: £92 million). This is mainly attributable to the decrease in revenues in US Construction and the Group's focus on improving payment processes resulting in faster payment of suppliers compared to the prior year.

The working capital outflow from provisions of £80 million (2017: £29 million inflow) predominantly relates to the significant AWPR cash outflows in 2018.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital decreased to £680 million at 31 December 2018 (2017: £888 million).

Net cash/borrowings

The Group's average monthly net cash in 2018 improved substantially to £194 million (2017: £42 million). The Group's net cash position at 31 December 2018, excluding non-recourse net borrowings, was £337 million (2017: £335 million). Non-recourse net borrowings, held in infrastructure concessions entities consolidated by the Group, increased to £309 million (2017: £305 million). The balance sheet also includes £106 million (2017: £103 million) for the liability component of the preference shares. Statutory net debt at 31 December 2018 was £78 million (2017: £73 million).

Pensions

Following the formal triennial funding valuation of the Balfour Beatty Pension Fund (BBPF) at 31 March 2016, the Company and the trustees agreed the key commercial principles of a plan for the BBPF to reach self-sufficiency during 2027, some three years earlier than previously planned. Under the current plan Balfour Beatty will make cash contributions totalling £116 million over the five years 2019 to 2023. There is an agreed dividend sharing mechanism such that if the dividend cover ratio falls below 2x, funding to the BBPF will be accelerated. Preparation is underway for the next formal triennial valuation of the BBPF which will be as at 31 March 2019.

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

The Group's balance sheet includes net retirement benefit assets of £54 million (2017: £32 million) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. The increase in pension surplus in the year is due to £30 million of employer contributions and £22 million of net actuarial gains, partially offset by a £28 million charge from the recognition of GMP equalisation.

Impact of IFRS 16

The adoption of IFRS 16 will result in a right-of-use (ROU) asset and a corresponding lease liability amounting to approximately £135 million respectively being brought onto the Group's balance sheet on 1 January 2019. There will be no impact on the Group's opening equity as a result of adopting this standard.

Outlook

Since the start of Build to Last in 2015, Balfour Beatty has: simplified and refocused the Group; strengthened leadership and governance; invested in innovation, systems and processes; and developed a culture which can drive continuous performance improvement.

Having achieved industry standard margins in the second half of 2018, the Board remains confident that the Group will perform in line with market expectations in 2019.

Balfour Beatty now has the platform in place to scale the business to drive profitable managed growth. The Group will look to benefit fully from its strong competitive positions in large and growing infrastructure markets to deliver market leading performance.

Markets

The Group primarily operates across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments). This provides resilience as the Group is less exposed to a downturn in a single geography or sector.

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable.

In the UK, Government policy continues to drive a strong pipeline of major infrastructure projects in transport and energy. Over the next few years, the '4Hs' – HS2 (high speed rail), new nuclear power at Hinkley Point C, the Road Investment Strategy for Highways England and the continued expansion of Heathrow airport – will contribute to the Government's investment in infrastructure commitment, which is targeted to rise from 0.8% in 2015/16 to over 1% of GDP by 2020/21.

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Balfour Beatty recognises the inherent uncertainty arising from this and has been planning for all outcomes. The Group has contingency plans in place to ensure it can continue to deliver on current and future work commitments.

In the US, Balfour Beatty operates in specific geographies. As the population migrates south and west, it is moving to cities, driving urbanisation in the Group's chosen markets. This leads directly to increased demand for buildings and infrastructure. With blue chip repeat customers such as Disney and Microsoft, the Group's Buildings opportunities are robust. In Civils in December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill, was signed, providing authorised spending for a five-year period. There are further opportunities being created, for example with the number of state-backed infrastructure bonds (over US$200 billion multi-state transportation bonds, over US$35 billion of education bonds in California) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming with the third runway at the international airport, a ten-year hospital development plan and continued investment in transportation infrastructure (Central Kowloon Highway, Mass Transit Railway (MTR) upgrades).

In Support Services, power transmission and distribution has a stable underlying market. The gas business operates in an established market and the water business is beginning to transition to the next regulatory cycle (AMP7). Transportation, which includes major road and rail maintenance contracts, is expected to grow steadily in the medium term. Local authorities provide opportunities in highways, whilst a key contract with London Underground, to deliver essential track renewal work across the network, has been re-awarded to Balfour Beatty in February 2019.

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

Dividend

Following the 1.6 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 3.2 pence per share, giving a total recommended dividend for the year of 4.8 pence per share (2017: 3.6 pence). The Board recognises the importance of dividends to shareholders and expects to deliver a continuation of the progressive dividend policy.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

Construction Services continued to make good progress during the year with increasing profit, PFO margin and order book across all three chosen markets.

	2018				2017			
Construction Services	Rev[1,2]	PFO[2]	PFO[2]	Order book[1,2]	Rev[1,2]	PFO[2]	PFO[2]	Order book[1,2]
	£m	£m	%	£bn	£m	£m	%	£bn
UK	1,900	28	1.5	3.0	1,998	16	0.8	2.7
US	3,329	44	1.3	5.2	3,634	41	1.1	4.3
Gammon	898	23	2.6	1.6	1,017	15	1.5	1.3
Underlying[3]	6,127	95		9.8	6,649	72		8.3
Non-underlying	12	(49)		–	30	(36)		–
Total	6,139	46		9.8	6,679	36		8.3

[1] underlying revenue and order book includes share of joint ventures and associates

[2] from continuing operations

[3] before non-underlying items (Note 9)

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

Underlying revenue decreased by 8% to £6,127 million (2017: £6,649 million), a 6% decrease at CER as a result of a managed reduction in the order book during 2017. Revenues declined by 5% in the UK, 8% in the US (5% at CER) and 12% at Gammon (8% at CER).

Underlying profit from operations (PFO) continued to improve under Build to Last as all geographies had an increase in both absolute profit and margin percentage. The Group achieved its industry standard margin targets for UK Construction and US Construction in the second half of 2018.

Construction Services	H2 2018			Target
	Revenue[1,2,3] £m	PFO[2,3] £m	PFO[2,3] %	PFO %
UK	953	23	2.4%	2-3%
US	1,752	27	1.5%	1-2%
Gammon	447	13	2.9%	
Total	3,152	63		

[1] underlying revenue and order book includes share of joint ventures and associates

[2] from continuing operations

[3] before non-underlying items (Note 9)

The order book at £9.8 billion (2017: £8.3 billion) increased by 18% (14% at CER) due to increases in the US (21%, 16% at CER), Gammon (23%, 14% at CER) and the UK (11%). The increases occurred whilst maintaining the Group's policy of selective bidding. The £2.5 billion (Balfour Beatty 50% joint venture) HS2 contracts won in 2017 will not be included in the order book until the conclusion of the Early Contractor Involvement (ECI) phase, now expected at the end of 2019.

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

Operational review

UK

Underlying revenue in the UK reduced by 5% to £1,900 million (2017: £1,998 million). Underlying profit from operations showed an improvement to £28 million (2017: £16 million) with an associated PFO margin of 1.5% (2017: 0.8%). In the second half of 2018, UK Construction's underlying PFO margin was 2.4%, within the 2-3% industry standard margin target range.

The UK order book increased 11% to £3.0 billion (2017: £2.7 billion). The UK Construction business continued to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and better contract governance.

UK Construction is continuing to manage historical problem contracts through to completion. At the start of 2015, 89 historical contracts were identified that had a material negative impact on profitability and cash. At 2018 year end, only five of these contracts were still to reach financial completion.

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

- Major Projects: focused on complex projects in key market sectors such as transportation, heavy infrastructure and energy;
- 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; and
- Rail: civil engineering, track, power and electrification projects.

The Major Projects business continues to pursue a number of key infrastructure opportunities across core transportation and energy markets. Over the next few years HS2, new nuclear power (Hinkley) and airport expansion (Heathrow) will all contribute to the UK Government's investment in infrastructure, which is forecast to rise from 0.8% of GDP in 2015/16 to over 1% of GDP by 2020/21. In addition, the highways market continues to provide good growth opportunities following the UK Government's proposed £32 billion funding for Highways England's Road Investment Strategy.

In April, the Major Projects business completed the third and final phase of the Norwich Northern Distributor Road (NNDR). The scheme, which has seen delivery of 20 kilometres of dual carriageway, including the construction of 13 roundabouts and eight bridges, will alleviate congestion around the city of Norwich.

During the year, significant progress has been made on flagship projects. In November, the UK's largest current road construction project, the A14 in Cambridgeshire, reached its half-way point. The project started in November 2016 and is on target to be completed by December 2020. Since work started, more than eight million working hours have gone into the project, with nine new bridges already opened and construction well underway on 25 more. Following Carillion filing for liquidation, Balfour Beatty has assumed Carillion's share of this contract with the revised three-way joint venture working collaboratively to deliver the project.

On HS2, ECI work is ongoing on the main civils works, which were awarded as two-part design and build contracts in July 2017. Balfour Beatty VINCI won two lots around Birmingham, N1 and N2, worth about £2.5 billion. These contracts are included in awarded but not contracted (ABNC) during the ECI period. The joint venture team is currently working on the design and pricing of the two lots, with the ECI work expected to be completed by the end of 2019.

In February 2019, HS2 announced that it intends to appoint a Balfour Beatty/VINCI/SYSTRA joint venture as the construction team that will be awarded a contract to manage the construction of the £1.0 billion Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in the venture, with Systra having the remaining 16.5%. Procurement processes are also underway on the rail systems contracts. In March 2018, Balfour Beatty VINCI, which will work with Balfour Beatty NG Bailey as a delivery partner, submitted the pre-qualification response for the combined railway systems Lots 1 (track and overhead catenary system works) and 2 (tunnel and open route mechanical and electrical works) worth approximately £1.9 billion. Announcement of successful pre-qualified bidders is due in 2019 with Invitation To Tenders expected late that year and contracts awarded in 2020.

On Crossrail, Balfour Beatty's three major projects: C510 (Liverpool Street and Whitechapel Station tunnels); C512 (Whitechapel Station); and C530 (Woolwich Station) all made headway during the year. C510 has achieved financial completion with the other two projects agreeing new supplementary agreements. Both projects are delivering in line with the revised completion dates.

At Sellafield, good progress has been made with the ongoing nuclear decommissioning projects. The Silo Maintenance Facility (SMF) has completed its commissioning phase and been handed over to Sellafield Ltd to allow it to decommission radioactive equipment.

At Hinkley Point C, Balfour Beatty's expanding team continues to make positive progress on the project. As well as a growing presence at the main site, Balfour Beatty has a larger site at Avonmouth. Occupied in January 2018, it is now home to nearly 200 direct employees and subcontractors. The project involves the construction of a pair of six-metre diameter underwater tunnels to supply the nuclear power station with cooling water and a third seven-metre diameter tunnel to discharge heated water back into the Bristol Channel. Three tunnel boring machines will use rotating cutting heads to excavate a total of 9 kilometres of tunnel – the two 3.5-kilometre intake tunnels and one 1.8-kilometre outfall tunnel.

At the Thames Tideway Tunnel project work continues on the six-kilometre west section which runs from Acton to Wandsworth. Excavation works to the tunnelling shaft at the Carnwath Road Riverside site are now complete with preparation works to launch the main tunnel boring machine well underway.

In 2018, the Aberdeen Western Peripheral Route (AWPR) project experienced schedule slippage and cost increases. In the year, Balfour Beatty recognised an additional £29 million loss on the AWPR project. A third of this charge (£10 million) has been recognised in non-underlying items as this reflects the additional loss that the Group has incurred in fulfilling Carillion's obligations on the contract. The AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believes are highly probable to be agreed. The final section of the AWPR project was fully open to traffic on 19 February 2019 with the final financial out-turn of this contract dependent upon the result of ongoing claims discussions.

The Major Projects business had a number of notable new contract awards in the year. In July, Balfour Beatty was awarded a project to turn the M20 junctions 8-9 into a contraflow system and convert the central reservation into a lorry park.

In November, Major Projects secured a place on two lots – B6 in the South East worth up to £1.1 billion, and B8 in the North worth up to £2 billion – on Highways England's Delivery Integration Partnership Framework. The initial packages of work which Balfour Beatty has secured through these lots are worth a total of £425 million with work commencing in 2019. This regional six-year framework will see contractors work with Highways England as partners responsible for designing and constructing motorway and major A-road projects across England. Balfour Beatty's digitally-enhanced way of working was instrumental in securing both lots. In collaboration with design partner, Atkins, Balfour Beatty will utilise Building Information Modelling (BIM) to improve efficiencies in delivering works and will also deploy offsite manufacturing techniques. This is a direct result of the Group's vision to reduce onsite activity by 25% by the year 2025, driving greater project efficiency and safety and lower waste by moving away from traditional industry methods.

In December, a Balfour Beatty VINCI joint venture was awarded an M4 Smart Motorway contract. The project will convert the hard shoulder into an additional lane for traffic and introduce electronically-policed variable speed restrictions between junction 3 of the M4, just inside the M25 near Heathrow Airport, and junction 12 at Theale, west of Reading. As part of the works, 11 overbridges will be replaced with larger span structures and six underbridges will be widened to accommodate four lanes. The M4 project is subsequent to the same partnership being awarded a contract to convert the M6 junctions 2-4 to a Smart Motorway earlier in 2018.

The Regional business comprises:

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

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

Within Regional, in line with the Group's strategy, the business has simplified with an improved span of control as it operates fewer projects. The number of live projects, which was over 400 at December 2015 has subsequently fallen to under 250 at December 2018. During Build to Last, there has also been a shift towards a lower risk contract portfolio, with a reduction in the number of fixed price contracts offset by an increase in two-stage fixed cost and target cost contracts and framework agreements. These agreements require early contract engagement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties.

The Regional business is increasingly focused on customers with around 75% of all work won in 2018 from repeat customers. In November, Balfour Beatty won 'Partner of the Year' at the Team Heathrow Partnership awards ceremony.

The Group's largest framework agreement, the Scape National Civil Engineering and Infrastructure framework, secured £1.5 billion of civil engineering and infrastructure work under the initial four-year framework. Since being appointed as main contractor in 2015 over 100 projects have been completed on time and on budget. In October, 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. The Scape National Civil Engineering framework, which is valued at £1.6 billion, covers England, Wales and Northern Ireland, while the Scape Civil Engineering - Scotland framework, valued at £500 million, covers Scotland. The frameworks allow local authorities, local enterprise partnerships and other public sector bodies to commission works through a procurement process that provides the fastest route to market and utilises early contractor engagement to deliver best value design solutions.

In September, Balfour Beatty was selected by the Midlands Highway Alliance to deliver vital transport infrastructure as part of its new £500 million Medium Schemes Framework (MSF3). Balfour Beatty is one of four contractors to have been awarded a place on the framework which will cover highways improvements, maintenance and infrastructure works.

In 2018, the Regional business completed the £63 million Rossall coastal defence scheme for Wyre Council in partnership with the Environment Agency. The scheme protects the town's tramway, hospital and schools whilst reducing flood risk to 7,500 nearby residential properties through two kilometres of sea defences. Other projects completed during the year included: Balfour Beatty Kilpatrick's £178 million Urenco Tails Management Facility project; a £46 million project for Wanda at One Nine Elms which represents Balfour Beatty Ground Engineering's largest ever piling project for a non-Group customer; Aberdeen South of the City school, a £47 million project delivering a 1,350 pupil academy on behalf of Hub North Scotland and Aberdeen City Council; a £44 million 33-storey student accommodation scheme at Miles Street, London for Urbanest; a £37 million luxury retirement complex for Audley Retirement Villages at Redwood, Bristol; and the new £30 million Dundee train station and hotel.

In the year, the Regional business achieved a key milestone at the University of Manchester's £287 million Manchester Engineering Campus Development (MECD) project with the first reinforced concrete core reaching full height. The core, which is one of four, will be an integral component of the seven-storey 'MEC Hall' building, housing lift shafts and stairwells. At the University of Sussex student accommodation project, which will incorporate over 2,000 new beds as well as innovative student amenities such as social hubs and a new student union facility, nearly 40% of the rooms had been handed over by year end. Other material ongoing projects include: the £150 million Madison Tower, a 53-storey residential building in Canary Wharf, London where modular construction, including offsite manufacturing techniques, is central to Balfour Beatty's approach in delivering the 187-metre high building; a £54 million project to construct Forth Valley College, Scotland; the renovation and new-build scheme at No.1 Palace Street in St James', London; and train stations at Warrington West (new station) and Queen Street Station, Glasgow (redevelopment).

In addition to the framework wins during the year, the Regional business also had a number of notable new contract awards in the year including:

- Curzon Street: work has begun on a new-build development comprising 32 apartments at 60 Curzon Street, London;
- Vine Street: £85 million contract to construct a student accommodation scheme for Urbanest in the City of London;
- London City Airport: £60 million mechanical and electrical contract to enable growth of the airport;
- New Cross: £40 million contract for student accommodation in Manchester which will feature 274 apartments;
- University of Strathclyde: £33 million contract to construct a new learning and teaching building;
- University of Reading: £33 million contract to deliver a new Health and Life Sciences building;
- Hornsea Project Two: appointed to build the onshore substation for the world's largest offshore wind farm; and
- Midland Metropolitan Hospital: awarded a £10 million early works contract on behalf of Sandwell and West Birmingham Hospitals NHS Trust.

Included in ABNC at 31 December 2018 the Group has been selected as preferred bidder for: the redevelopment of the Darwin Building at the University of Edinburgh; a new 10-kilometre bypass connecting Caernarfon and Bontnewydd in North Wales; phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park; and an Audley retirement village in Scarcroft, Leeds.

In the Rail Construction business, underlying revenues were broadly flat in the year. The business completed the West Outer Track Infrastructure, Western Overhead Electrification and South East Spur projects as part of its continued support of the Crossrail programme and work commenced on the examination, repair specification and report into the condition and safety of the Rhondda Tunnel. During the year, the Rail Construction business won the Reactive Building and Civils contract worth up to £50 million to perform work arising related to Network Rail's building infrastructure in the West Country.

In June, the Group launched a new Rail Innovation Centre at its Raynesway facility in Derby. The purpose-built centre is a dedicated research, development and testing facility to support Balfour Beatty's contribution to the development of the digital railway for a more reliable, cost efficient and safe railway network for all users across the UK and overseas. Omnicom Balfour Beatty, which creates remote surveying systems that give maintenance engineers a distinct advantage, is now actively applying machine learning and artificial intelligence to offer next generation asset management to customers, making the railways safer, more reliable and more efficient.

US

Underlying revenue in the US fell by 8% in the year (5% at CER) to £3,329 million (2017: £3,634 million) following the reduction to the order book during 2017. The business reported an underlying profit from operations for the year of £44 million (2017: £41 million). The underlying PFO margin was 1.3% for the full year (2017: 1.1%). In the second half of 2018, US Construction's underlying PFO margin was 1.5%, within the 1-2% industry standard margin target range. Overall the trajectory of the US business is positive and market conditions are favourable.

The 21% (16% at CER) increase in the US order book has been achieved at a quality consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities. In June, the US$1.95 billion Los Angeles airport (LAX) Automated People Mover project reached financial completion such that the Group's 30% share of the construction contract has been included in the order book. In addition, the Group won over US$1 billion of contracts for schools and higher education, primarily in California and North Carolina, during the year.

Balfour Beatty continues to develop its US organisation, building on the standardisation and leaning out already delivered. At the start of 2018, the promotion of two internal candidates to lead the Buildings and Civils businesses, has delivered an improved overall performance with growing momentum in the pipeline.

In December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill was signed, providing authorised spending for a five-year period. This bill permits longer term project planning horizons in the public market and is leading to improved visibility for publicly funded projects that had been slow to come to market. There are further opportunities being created with the number of state backed infrastructure bonds (over US$35 billion of education bonds in California, over US$200 billion of multi-state transportation bonds) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

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

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

In 2018, Buildings completed a number of notable projects including:

- VY/Reston Heights: in January, the Group completed the 483,000 square foot, mixed-use residential development in Reston, Virginia. The 385-unit residential community includes 89,000 square feet of retail space;
- Park District: in April, Balfour Beatty completed the 916,000 square foot, mixed-used development in Dallas, Texas. The project includes a 20-storey office tower and a 34-storey residence tower;
- Icon Midtown: in October, Balfour Beatty completed work on the 39-storey residential tower in Atlanta, Georgia. Located in Atlanta's Midtown area, the project features 390 luxury apartments with 6,500 square feet of retail space; and
- Broadway Tower: in November, Balfour Beatty completed the 430,000 square foot, mixed-use development in Portland, Oregon. The project includes a 19-storey tower with 175,000 square feet of office space, 180 hotel rooms, and four levels of underground parking.

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

- REI Headquarters: in April, Balfour Beatty broke ground on a mixed-use headquarters project including office buildings, conference centre, market and parking totalling nearly 724,000 square feet in the Spring District of Bellevue, Washington;
- Capitol Crossing: in May, Balfour Beatty topped out the 12-storey 250 Massachusetts tower in Washington DC, having previously topped out the corresponding 12-storey 200 Massachusetts tower. The two towers comprising the North Block will ultimately total 960,000 square feet;
- The Epic: in June, Balfour Beatty topped out a 16-storey office tower located in Dallas which includes 290,000 square feet of office space;
- Gables Station: in July, after contract award, the Group commenced the construction phase of the 1.3 million square foot, mixed-use Gables Station development located in Coral Gables, Florida. Comprised of three towers, the development will feature 120,000 square feet of retail space, 500 residential units, and a 1,000-car parking garage; and
- 500 Folsom: at the end of the year Balfour Beatty had completed 40 floors out of 43 liveable floors and the project was topped out in January 2019. The building will provide 545 residential units in the South of Market (SOMA) district of San Francisco, California.

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

- Los Angeles World Airports: in June, Balfour Beatty and its LAX Integrated Express Solutions (LINXS) joint venture team reached financial close of the design-build-finance-operate-maintain (DBFOM) Automated People Mover (APM) project. Balfour Beatty is a 30% joint venture partner in the US$1.95 billion construction element of the project with the work to be delivered across both the Buildings and Civils divisions;
- Microsoft Redmond Campus: the Group has been selected, in joint venture with Skanska, as general contractor on Microsoft's head office refresh in Redmond, Washington. The project will include 18 new buildings, clustered into four distinct villages to create a unified campus;
- Stovall Street: the Group has been awarded a contract by Perseus TDC for the conversion of a 610,000 square foot office building in Alexandria, Virginia. The adaptive reuse project will transform the existing 13-storey office building into a 16-storey, mixed-use residential development;
- Osprey: Toll Brothers Apartment Living has contracted Balfour Beatty as construction manager for its mixed-use, multifamily project in West Midtown Atlanta, Georgia. Balfour Beatty is leveraging Prescient's modular construction technology and offsite manufacturing platform to build the project's entire tower structure;
- Wellington Green: ZOM Senior Living has contracted Balfour Beatty as construction manager for the first phase of Wellington Green Senior Living, its mixed-use senior housing community located in Wellington, Florida; and
- Shoal Creek: Balfour Beatty has been selected to deliver the first phase of the mixed-use portion of The Grove project in Austin, Texas. The 400,000 square foot development will include a commercial office building, retail space, and a 538-car parking garage.

Included in ABNC, the business has been made preferred bidder for: a US$605 million contract for the Broward County Convention Center Expansion and Headquarters Hotel; a US$150 million contract for an Atlanta airport hotel; a US$120 million contract for a 390,000 square foot office tower, 200-room hotel and adjoining outdoor public plaza in Bethesda, Maryland; and a US$55 million contract for the University of North Carolina Marriott Hotel and Conference Center in Charlotte.

The Civils business continues to operate in the largely regulated markets of rail, water and road. In March 2018, Civils completed the construction of Charlotte's light-rail extension (Blue Line) after four years of build. The 9.6-mile (15.45-kilometre) Blue Line provides service to 15 stations located within the Charlotte city limits. In December, the new Surf City high-rise bridge opened nine months ahead of schedule connecting the mainland of Surf City to the popular tourist destination of Topsail Island in North Carolina.

Additionally during the year, good progress has been made on key contracts with mobilisation at both the US$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor) and US$1.08 billion Green Line extension (25% Balfour Beatty) projects. At Southern

Gateway, an 11-mile stretch of road in Dallas, Texas, the design is now complete, with the widening of frontage roads and mainline barrier demolition well underway. At Green Line, a 4.7-mile commuter rail extension in Boston, Massachusetts, the design is near complete and construction activities commenced in the second half of 2018. At Caltrain, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, design work is near complete and foundation work and overhead catenary system construction are ongoing.

In addition to its involvement with the Buildings business in the Los Angeles World Airports project described above, the Civils business had a number of notable new contract awards in the year including:

- EchoWater Project: in April, Balfour Beatty was awarded a US$299 million contract by Sacramento Regional County Sanitation District to construct a new water treatment plant that will produce cleaner water for discharge to the Sacramento River, as well as for potential reuse as recycled water; and
- Sterling Valley Water: US$150 million contract to construct a wastewater treatment facility that will recharge the natural groundwater aquifer by treating up to eight million gallons of water per day. The project will create a drought-proof source of water for the local aquifers which serve over 800,000 San Bernardino Valley area residents.

Gammon

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of underlying revenue decreased by 12% (8% decrease at CER) to £898 million, consistent with the reduction in order book in 2017. Underlying profit increased to £23 million (2017: £15 million), and the order book increased by 23% (14% at CER) to £1.6 billion as a result of significant wins in the Buildings and Civils businesses. At Gammon, the timing of orders is more variable around a small number of large contracts.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming, including: a third runway at the international airport; a ten-year hospital development plan; and continued investment in transportation infrastructure (Central Kowloon Highway, Mass Transit Railway (MTR) upgrades). The order book is spread across a number of public and private customers. In Buildings, the focus is on productivity, efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever competitive advantage with a key area of future work likely to be from significant infrastructure programmes in Hong Kong and the Rail Circle Line in Singapore.

During the year, the Civils business completed work on the West Kowloon Terminus North project for the express rail link to Shenzhen, China. Work has continued on major Buildings projects including: the redevelopment of Somerset House into a 48-storey office building; the construction of the Lee Garden Three Project, which will include 20 floors of office space atop a five-level retail complex; and the construction of a 71,000 square metre data centre for Global Switch in Hong Kong. Work has also continued on a number of Civils projects in Hong Kong, including the complex Tuen Mun-Chek Lap Kok (TMCLK) Viaduct project, which includes the design and construction of a dual two-lane sea viaduct.

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

- Lyric Theatre Complex: HK$5.5 billion contract to construct the final stage of the Lyric Theatre Complex. Gammon has supported the delivery of the development of the Lyric Theatre Complex since 2016 when it was awarded a first contract by the West Kowloon Cultural District Authority (WKCDA) to deliver the foundation works, for which it twice received the WKCDA highest commendation for safety performance. In January 2018, Gammon won a further contract award to deliver the public infrastructure and extended basement works. This third contract forms the final stage of the Lyric Theatre development;
- Lohas Park: HK$4 billion construction contract for a large scale residential development at Tseung Kwan O bay in the Sai Kung District, Hong Kong. The development will include the construction of three 54-56 storey residential towers on a five-level podium;
- Tuen Mun-Chek Lap Kok Link: HK$2.6 billion Northern Connection Tunnel Buildings contract for the Highways Department of the Government of the Hong Kong Special Administrative Region. The works comprise the provision of electrical and mechanical facilitation to serve the newly constructed 5-kilometre tunnel from Tuen Mun to Boundary Crossing Facilities Island and will include the tunnel's ventilation, road lighting, central monitoring and control systems;

- Sai Sha Road widening project: HK$2.3 billion contract in a 50:50 joint venture with Sanfield (Management) Ltd for the development project in Shap Sze Heung, Sai Kung, Hong Kong;
- M+ project: appointed by the WKCDA as the management contractor to oversee completion of the M+ project, a museum for visual culture, in Hong Kong; and
- Global Switch: S$253 million data centre contract in Singapore for Global Switch, a leading owner, operator and developer of large-scale, carrier and cloud neutral, multi-tenanted data centres.

Further, in January 2019 Gammon was awarded the Homantin luxury residential project by Gold Topmont Ltd. The project, worth HK$2.9 billion, will become an iconic landmark in the prestigious Homantin residential area in Kowloon, Hong Kong.

Since the start of 2015, Balfour Beatty has exited construction activities in the Middle East, Indonesia, Malaysia, Australia and Canada.

SUPPORT SERVICES

Financial 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.

Support Services revenue increased by 4% to £1,104 million (2017: £1,061 million), driven by an increase in utilities. Underlying profit from operations and PFO margin for the year increased to £46 million (2017: £41 million) and 4.2% (2017: 3.9%) respectively. In the second half of 2018 the underlying PFO margin was 5.2%, above the industry standard margin target range of 3-5%. The order book decreased 10% to £2.8 billion (2017: £3.1 billion) as an increase in transportation was more than offset by the expected decline in gas and water.

Support Services	H1 2018	H2 2018	2018	2017	Change %age
Order book[1] (£bn)			2.8	3.1	(10)%
Revenue[1] (£m)	543	561	1,104	1,061	4%
Profit from operations[3] (£m)	17	29	46	41	12%
Non-underlying items (£m)	4	(11)	(7)	(2)	
Statutory profit from operations (£m)	21	18	39	39	
Underlying PFO margin[3] (%)	3.1%	5.2%	4.2%	3.9%	

[1] underlying revenue and order book includes share of joint ventures and associates

[3] 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.

In 2019, the Group expects a revenue decline in Support Services following the conclusion of the Area 10 highways maintenance contract and a reduction in power transmission and distribution. Support Services underlying profit from operations is expected to be broadly in line with 2018 with the underlying PFO margin expected to increase year on year.

Operational review

Underlying utilities revenue increased by 7% to £651 million (2017: £608 million), driven by an increase at power transmission and distribution. The utilities order book reduced to £0.9 billion (2017: £1.3 billion) as an increase at power was more than offset by the expected decline in gas and water as the current regulatory cycles approach the end of their periods.

Despite the increased revenue, the power transmission and distribution business continues to undergo restructure and cost removal. The business has consolidated its strategy to focus primarily on both core clients and core markets. The actions taken will ensure that the business is focused on the most profitable areas of its market.

In the year, power transmission and distribution successfully installed 148 new composite poles to connect the Dorenell wind farm to Blackhillock substation. The business has continued its work on the Eleclink project, in conjunction with the Rail business, to lay two 50-kilometre cables through the Channel Tunnel and connect them to converter stations in Northern France and Kent. In Folkestone the seven-metre high Helix cable management system has been filled with the first 2.5-kilometre section of cable ready to be pulled into the Channel Tunnel.

After a period of consolidation, notable new contract awards in the year included:

- Hinkley Point: National Grid contract for cabling works which will form part of the Hinkley Point C connection scheme. The contract involves the design, supply and construction of a new 8.5-kilometre 400kV double circuit cable route from Loxton in the Mendip Hills to a new substation at Sandford;
- Two contracts worth c.£47 million for the Fort Augustus to Fort William 132kV Transmission Reinforcement project; and
- Two contracts worth c.£43 million for the Beauly to Keith 132kV modernisation programme.

In January 2019, Balfour Beatty was appointed to deliver a £214 million contract to provide 400kV overhead lines from Hinkley Point C on behalf of National Grid. As part of the contract, Balfour Beatty will design, supply, install, test and commission a new overhead line spanning 48.4 kilometres and crossing through the Mendip Hills in Somerset. On completion, the new line will connect the power station with a new substation in Avonmouth, Bristol. This contract represents the fourth major piece of work won by Balfour Beatty for the new power station, following the electrical works package in joint venture with NG Bailey in 2015, now part of the MEH Joint Venture, the tunnelling and marine works package in 2017 and the 8.5-kilometre cabling contract won in 2018.

In gas, Balfour Beatty delivers network maintenance and asset growth for the largest gas distribution companies in the UK and Ireland. The Group expands and renews underground mains, often in busy and high-impact residential and commercial areas. Working on long-term contracts, the business manages and delivers work, minimising the impact this essential work has on local communities. The gas market is in the RIIO-GD1 period until early 2021. During the year the business managed two long-term gas contracts which made losses in 2018. Leadership changes have been made with a recovery plan put in place.

The water business is now coming towards the end of the UK water regulatory cycle (AMP6 2015 - 2020). Many water contracts are extended over multiple AMP periods and the Group has already started to engage on the AMP7 planning cycle.

In the year, the gas and water business successfully dealt with the 'Beast from the East' storm by tackling burst water mains throughout its areas of operation. In addition the business successfully completed the new Mayflower water treatment facility for South West Water. The Mayflower facility near Roborough, north of Plymouth, replaced the existing Crownhill facility, which dated from the 1950s and had reached the end of its natural life. Capable of delivering up to 90 megalitres of high-quality drinking water per day, the new works will meet the needs of a growing population.

Underlying transportation revenues were stable at £453 million (2017: £453 million). The transportation order book increased to £1.9 billion (2017: £1.8 billion), due to a number of contract wins for Network Rail.

Balfour Beatty continues to maintain, manage and operate major highway and road networks across the UK. The largest contract, M25 Connect Plus, will continue for another 20 years. In October, the Group was awarded a seven year, £103 million contract by Telford and Wrekin Council for the maintenance of local highways assets. During the year, Balfour Beatty decided not to re-tender for the Area 10 contract in the North-West of England.

The rail services business won a number of plant contracts for Network Rail in the year including:

- A seven-year contract worth in excess of £115 million for the supply, operation and maintenance of 13 track maintenance 'tampers'; and
- A four-year contract worth in excess of £40 million for the operation and maintenance of Network Rail's fleet of track maintenance 'stoneblowers'.

In February 2019, Transport for London re-appointed Balfour Beatty to deliver the new London Underground track renewals contract, valued at up to £220 million over four years. Balfour Beatty was first appointed in 2002, with the contract already extended on a number of occasions. The Group's detailed knowledge and experience of London Underground's infrastructure and systems, as well as its commitment to championing innovation, was instrumental in securing the contract.

INFRASTRUCTURE INVESTMENTS

Financial review

The Infrastructure Investments business delivered another strong performance, having continued its strategy of optimising value through the disposal of operational assets, whilst also continuing to invest in new opportunities.

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

Following significant disposals in 2017, underlying profit from operations decreased to £97 million (2017: £116 million), with both pre-disposal operating profit and profit from disposals lower than the prior year. Pre-disposals underlying operating profit decreased to £17 million (2017: £30 million) as a result of the prior year disposals, refinancing costs on the Connect Plus M25 asset and write-downs on two UK investment assets, partially offset by overhead savings. Underlying profit on disposals decreased to £80 million (2017: £86 million). Net interest income decreased to £16 million (2017: £24 million) as a result of the prior year disposals with underlying profit before tax at £113 million (2017: £140 million).

Infrastructure Investments	2018 £m	2017 £m
Pre-disposals operating profit[3]	17	30
Profit on disposals[3]	80	86
Profit from operations[3]	97	116
Net interest income from PPP concessions[+]	16	24
Profit before tax[3]	113	140
Non-underlying items	(2)	(6)
Statutory profit before tax	111	134

[3] before non-underlying items (Note 9)

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

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

Operational review

In 2018, the Infrastructure Investments business added five new projects and disposed of five projects (two full disposals, three partial disposals).

In January 2018, the business was named preferred bidder on the Automated People Mover project at Los Angeles airport. Financial close was reached in June 2018 and Balfour Beatty owns a 27% equity stake in the project.

In the private rented and regeneration sector, the North American business acquired: a 7.5% stake at the Riverchase Landing multifamily housing project located in Birmingham, Alabama; a 50% stake at the Providence at Zephyr Ridge project, located in Tampa, Florida; a 50% stake in the Ridgeland 220-unit community project in Jackson, Mississippi; and a 15% stake at Southwind, a 306-unit apartment community located in Memphis, Tennessee. Balfour Beatty Communities will perform property management services for the properties, leveraging its existing capabilities.

In February 2018, the Group made a 5% partial sale in Connect Plus, the company which operates and maintains the M25 orbital motorway, for £42 million. The Group retains a 15% interest in the Connect Plus M25 asset. In July, Connect Plus completed a refinancing.

In September, the Group disposed of its entire 50% interest in Fife Hospital for £43 million. Following this disposal, the Group only owns one material private finance initiative (PFI) healthcare asset.

In December, the Group sold an 80% interest in its University of Edinburgh student accommodation project for £24 million. In addition, before year end, the Group disposed of its Nesbit Palisades private rental housing in Alpharetta, Georgia, for cash proceeds of £3 million and there was a partial sale of phase one of the University of Texas, Dallas student accommodation project, where the Group reduced its interest from 91% to 10%, generating proceeds of £13 million.

At 31 December 2018, three projects had not yet reached financial close (2017: five projects).

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

Directors' valuation

The Directors' valuation reduced by £93 million to £1,151 million (2017: £1,244 million), primarily due to £187 million being realised from divestments in the year (2017: £105 million). The number of projects in the portfolio increased from 71 to 74. This reflected continued success in targeted sectors with five new projects included in the Directors' valuation for the first time.

Movement in value 2017 to 2018 £m

	2017[5]	Equity invested	Distributions received	Sales proceeds	Unwind of discount	New project wins	Gains on sales	Operational performance gains (inc. FX movements)	**2018**
UK	636	34	(37)	(171)	48	–	2	(21)	**491**
North America	608	24	(52)	(16)	48	7	2	39	**660**
Total	1,244	58	(89)	(187)	96	7	4	18	**1,151**

[5] 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. These proceeds were received on 23 February 2018

The Group invested £58 million (2017: £35 million) in new and existing projects. Cash yield from distributions amounted to £89 million (2017: £53 million) as the portfolio continued to generate cash flow to the Group net of investment.

The business continued its strategy of maximising value through recycling equity from operationally proven projects, whilst preserving interests in strategic projects that offer opportunities to the wider Group.

In February 2018, the Group received £104 million from 12.5% partial sales in Connect Plus, the company which operates the M25 orbital motorway, on completion of a 7.5% sale agreed in December 2017 and a further 5% sale agreed subsequently in February 2018. In the second half of the year, the Group sold its interests in Fife Hospital and the Nesbit Palisades multifamily housing project, and completed partial sell-downs of its interests in the University of Edinburgh student accommodation project and phase one of the student accommodation project at the University of Texas, Dallas. In total, £187 million of proceeds were received in 2018.

Unwind of discount at £96 million (2017: £97 million) is a function of moving the valuation date forward by a year with the result that future cash flows are discounted by one year less. Operational performance movements resulted in an £18 million increase in the value of the portfolio (2017: £33 million), consisting mainly of an exchange rate gain of £36 million on the US portfolio offset by a number of changes in cash flow forecasts, discount rates and economic assumptions, including in respect of two UK investment assets which were written down in the year.

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

Demand for high-quality infrastructure assets in the secondary market continues to exceed supply and the Group will continue to sell investment assets timed to maximise value to shareholders.

The Investments portfolio is now more heavily weighted to North America (UK 43%, North America 57%). Within the UK, roads is still the largest sector despite the partial sales of the Connect Plus M25 investment, whilst in North America US military housing represents the majority of the portfolio. The Investments portfolio includes £1 billion of projects that have completed the construction phase and are operational.

Portfolio valuation December 2018

Value by sector

Sector	2018 No. projects	2017 No. projects	2018 £m	2017[5] £m
Roads	**13**	13	**205**	290
Healthcare	**3**	4	**109**	136
Student accommodation	**4**	4	**43**	64
OFTOs	**3**	3	**50**	51
Waste and biomass	**4**	4	**41**	57
Other	**5**	5	**43**	38
UK total	**32**	33	**491**	636
US military housing	**21**	21	**532**	497
Healthcare and other PPP	**4**	3	**35**	28
Student accommodation	**7**	7	**46**	49
Residential housing	**10**	7	**47**	34
North America total	**42**	38	**660**	608
Total	**74**	71	**1,151**	1,244

[5] 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. These proceeds were received on 23 February 2018

Value by phase

Phase	2018 No. projects	2017 No. projects	2018 £m	2017[5] £m
Operations	**64**	56	**1,003**	1,089
Construction	**7**	10	**130**	130
Preferred bidder	**3**	5	**18**	25
Total	**74**	71	**1,151**	1,244

[5] 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. These proceeds were received on 23 February 2018

Value by income type

Income type	2018 No. projects	2017 No. projects	2018 £m	2017[5] £m
Availability based	**25**	25	**414**	518
Demand – operationally proven (2+ years)	**40**	33	**614**	559
Demand – early stage (less than 2 years)	**9**	13	**123**	167
Total	**74**	71	**1,151**	1,244

[5] 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. These proceeds were received on 23 February 2018

UK portfolio

In the year, £34 million was invested across four projects in the portfolio: Aberdeen Western Peripheral Route; Irish Primary Care; Welland Bio Power; and the regeneration development at East Wick and Sweetwater.

In February 2018, there were partial sales of 12.5% of the Connect Plus M25 asset, comprising the completion of a 7.5% sale agreed in December 2017 and a further 5% sale agreed subsequently in February 2018, which generated proceeds of £104 million. In September, the Group completed the sale of its entire 50% interest in Fife Hospital for a cash consideration of £43 million. In December, the Group sold an 80% interest in its investment in the University of Edinburgh student accommodation project which generated proceeds of £24 million.

In aggregate operational performance movements resulted in a £21 million reduction in value arising from the net effect of revised cash flow forecasts and discount rates for certain projects, including in respect two investment assets which were written down in the year.

Discount rates applied to the UK portfolio range between 7% and 11.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.5% (2017: 8.5%). A 1% change in discount rate would change the value of the UK portfolio by approximately £49 million.

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.

North American portfolio

In 2018, the business won five projects: four investments in private rental housing portfolios at Birmingham (Alabama), Zephyrhills (Florida), Ridgeland (Mississippi) and Memphis (Tennessee); and a PPP project to construct and operate the Automated People Mover at Los Angeles Airport in California.

Investment of £24 million was made during the year in two existing and four new projects: a PPP data centre in Canada; a student accommodation project at Purdue University; and the stakes acquired in the four private rental housing portfolios.

In December, the Group completed the sale of its investment in the Nesbit Palisades multifamily housing project in Alpharetta, Georgia generating cash proceeds of £3 million. In addition, there was a partial sale of the Group's investment in phase one of the University of Texas, Dallas student accommodation project which generated proceeds of £13 million.

Operational performance movements resulted in a £39 million increase in the value of the portfolio, consisting mainly of an increase of £36 million due to exchange rate movements, together with some revised cash flow forecasts and discount rate assumptions for certain projects.

Discount rates applied to the North American portfolio range between 7.5% and 10.5%. The implied weighted average discount rate is 8.2% (2017: 8.2%) and a 1% change in the discount would change the value of the North American portfolio by approximately £86 million.

Under the Tax Cuts and Jobs Act passed by the US Government in December 2017 there are provisions to restrict the tax deductibility of interest expense. The Group's assessment of the provisions is that the restriction will not have a material effect on the Directors' valuation.

OTHER FINANCIAL ITEMS

Taxation

The Group's underlying profit before tax from continuing operations for subsidiaries of £153 million (2017: £106 million) resulted in an underlying tax charge of £2 million (2017: £23 million) following the recognition of deferred tax assets for some of the Group's historical UK tax losses.

Goodwill

The goodwill on the Group's balance sheet increased to £903 million (2017: £874 million) as a result of foreign exchange movements. The Group has conducted impairment reviews on its goodwill balance at the year end and has concluded that it was fully recoverable.

Factoring

During the year, the Group closed its bank-supported supply chain financing arrangements (2017: £0.2 million drawn).

Banking facilities

The Group's core committed revolving credit facilities total £400 million and extend to December 2020. The purpose of the facilities is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. At 31 December 2018, these facilities were undrawn.

Financial risk factors and going concern

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

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2018, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

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

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

- the Group has a strong order book;
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates;
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had net cash balances of £337 million at 31 December 2018;
- the Group's portfolio of Infrastructure Investments comprises reasonably realisable securities which can be sold to meet funding requirements as necessary; and
- the Group has access to committed credit facilities totalling £400 million through to December 2020. At 31 December 2018, these facilities were wholly undrawn.

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

MEASURING OUR FINANCIAL PERFORMANCE

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

Readers are encouraged to review this announcement in its entirety.

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Measuring the Group's performance

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

Statutory measures

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

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 120 to 127 of the Annual Report and Accounts 2018.

The Group's statutory measures take into account all of the factors, including those that it cannot influence (principally foreign currency fluctuations) and also large 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 2018. 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 Investment portfolio. Refer to section (h).

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

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

+ Refer to Note 4.3 in the Annual Report and Accounts 2018.

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;
- acquisition and similar costs related to business combinations such as transaction costs; and
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets). These are non-underlying costs as they do not relate to the underlying performance of the Group.

From time to time, it may be appropriate to disclose further items as non-underlying items in order to reflect the underlying performance of the Group.

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

Further details of these 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 2018 statutory results to performance measures

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

Reconciliation of 2018 statutory results to performance measures by segment

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

Reconciliation of 2017 statutory results to performance measures

	2017 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	(Gain)/loss on disposals £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	US Federal tax rate change £m	UK deferred tax asset £m	2017 performance measures £m
		Non-underlying items							
Continuing operations									
Revenue including share of joint ventures and associates (performance)	8,264	–	–	–	(30)	–	–	–	8,234
Share of revenue of joint ventures and associates	(1,348)	–	–	–	8	–	–	–	(1,340)
Group revenue (statutory)	6,916	–	–	–	(22)	–	–	–	6,894
Cost of sales	(6,605)	–	–	–	20	44	–	–	(6,541)
Gross profit	311	–	–	–	(2)	44	–	–	353
Gain on disposals of interests in investments	86	–	–	–	–	–	–	–	86
Amortisation of acquired intangible assets	(9)	–	9	–	–	–	–	–	–
Other net operating expenses	(299)	12	–	(17)	2	–	–	–	(302)
Group operating profit	89	12	9	(17)	–	44	–	–	137
Share of results of joint ventures and associates	59	–	–	–	–	–	–	–	59
Profit from operations	148	12	9	(17)	–	44	–	–	196
Investment income	42	–	–	–	–	–	–	–	42
Finance costs	(73)	–	–	–	–	–	–	–	(73)
Profit before taxation	117	12	9	(17)	–	44	–	–	165
Taxation	45	–	(3)	1	–	–	(32)	(34)	(23)
Profit for the year from continuing operations	162	12	6	(16)	–	44	(32)	(34)	142
Profit for the year from discontinued operations	6	–	–	(5)	–	–	–	–	1
Profit for the year	168	12	6	(21)	–	44	(32)	(34)	143

Reconciliation of 2017 statutory results to performance measures by segment

Profit/(loss) from operations	2017 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	(Gain)/loss on disposals £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	US Federal tax rate change £m	UK deferred tax asset £m	2017 performance measures £m
		Non-underlying items							
Segment									
Construction Services	36	6	4	(18)	–	44	–	–	72
Support Services	39	2	–	–	–	–	–	–	41
Infrastructure Investments	110	–	5	1	–	–	–	–	116
Corporate activities	(37)	4	–	–	–	–	–	–	(33)
Total	148	12	9	(17)	–	44	–	–	196

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:

		2018 £m	2017 £m
Underlying profit from operations (section (b) and Note 5)		**97**	116
Add:	Subordinated debt interest receivable+	**21**	26
	Interest receivable on PPP financial assets+	**9**	11
Less:	Non-recourse borrowings finance cost+	**(14)**	(13)
Underlying profit before tax		**113**	140
Non-underlying items (section (b) and Note 5)		**(2)**	(6)
Statutory profit before tax		**111**	134

+ Refer to Note 7 and Note 8.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2018 pence	2017 pence
Statutory basic earnings per ordinary share	**19.7**	24.7
Less: earnings from discontinued operations	**–**	(1.0)
Statutory basic earnings per ordinary share from continuing operations	**19.7**	23.7
Amortisation of acquired intangible assets	**0.9**	0.8
Other non-underlying items	**5.7**	(3.6)
Underlying basic earnings per ordinary share from continuing operations (performance)	**26.3**	20.9

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

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

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

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

f) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the period end. This is analysed using only elements that are recourse to the Group and excludes the liability component of the Company's preference shares, which is debt in nature according to statutory measures, as this is excluded from the definition of net debt in the covenants set out in the Group's facilities.

Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies.

Net cash/borrowings reconciliation

		2018 statutory £m	**Adjustment £m**	**2018 performance £m**	2017 statutory £m	Adjustment £m	2017 performance £m
Total cash within the Group		**661**	**(70)**	**591**	968	(135)	833
Cash and cash equivalents	– infrastructure concessions	**70**	**(70)**	–	135	(135)	–
	– other	**591**	**–**	**591**	833	–	833
Total debt within the Group		**(739)**	**485**	**(254)**	(1,041)	543	(498)
Borrowings – non-recourse loans		**(379)**	**379**	–	(440)	440	–
– other		**(254)**	**–**	**(254)**	(498)	–	(498)
Liability component of preference shares		**(106)**	**106**	–	(103)	103	–
Net (borrowings)/cash		**(78)**	**415**	**337**	(73)	408	335

g) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and the liability component of the Company's preference shares, and this performance measure shows average net cash of £194 million for 2018 (2017: £42 million).

Using a statutory measure, which is derived using the average opening and closing figures for the year, inclusive of non-recourse elements and the liability component of the Company's preference shares, gives average net borrowings of £76 million for 2018 (2017: £117 million).

h) Directors' valuation of the Investments portfolio

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

The Directors have valued the Investments portfolio at £1.15 billion at year end (2017: £1.24 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

	2018 £m	2017 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**653**	629
Less: Recourse loans presented within Corporate activities relating to Infrastructure Investments projects	**(15)**	(13)
Less: Net assets not included within the Directors' valuation – Housing division	**(25)**	(24)
Comparable statutory measure of the Investments portfolio under IFRS	**613**	592

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

	2018 £m	2017 £m
Statutory measure of the Investments portfolio (as above)	**613**	592
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: • historical cost; • amortised cost; and • fair value	**538**	652
Directors' valuation (performance measure)+	**1,151**	1,244

+ 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. The proceeds were received on 23 February 2018.

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 reporting period.

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

i) Constant exchange rates (CER)

The Group operates across a variety of geographic locations and in its statutory results, the results of its overseas entities are translated into the Group's presentational currency at average rates of exchange for the period. The Group's key exchange rates applied in deriving its statutory results are shown in Note 4.

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

2018 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2018 statutory	1,903	3,314	–	5,217	1,076	341	6,634
2017 statutory	2,011	3,586	–	5,597	1,031	288	6,916
Statutory growth (%)	(5)%	(8)%	–	(7)%	4%	18%	(4)%
2018 performance^	1,900	3,329	898	6,127	1,104	571	7,802
2017 performance retranslated^	1,998	3,519	979	6,496	1,062	516	8,074
Performance CER growth (%)	(5)%	(5)%	(8)%	(6)%	4%	11%	(3)%
Order book (£bn)							
2018	3.0	5.2	1.6	9.8	2.8	–	12.6
2017	2.7	4.3	1.3	8.3	3.1	–	11.4
Growth (%)	11%	21%	23%	18%	(10)%	–	11%
2018	3.0	5.2	1.6	9.8	2.8	–	12.6
2017 retranslated	2.7	4.5	1.4	8.6	3.1	–	11.7
CER growth (%)	11%	16%	14%	14%	(10)%	–	8%

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

Forward-looking statements

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

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 58 to 66 of the Annual Report and Accounts 2018.

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 its historical earnings per share. 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 2018

	Notes	2018 Underlying items[1] £m	2018 Non-underlying items (Note 9) £m	2018 Total £m	2017 Underlying items[1] £m	2017 Non-underlying items (Note 9) £m	2017 Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**7,802**	**12**	**7,814**	8,234	30	8,264
Share of revenue of joint ventures and associates	15	**(1,171)**	**(9)**	**(1,180)**	(1,340)	(8)	(1,348)
Group revenue		**6,631**	**3**	**6,634**	6,894	22	6,916
Cost of sales		**(6,250)**	**(13)**	**(6,263)**	(6,541)	(64)	(6,605)
Gross profit/(loss)		**381**	**(10)**	**371**	353	(42)	311
Gain on disposals of interests in investments	21.2	**80**	**–**	**80**	86	–	86
Amortisation of acquired intangible assets	9	**–**	**(8)**	**(8)**	–	(9)	(9)
Other net operating expenses		**(284)**	**(35)**	**(319)**	(302)	3	(299)
Group operating profit/(loss)		**177**	**(53)**	**124**	137	(48)	89
Share of results of joint ventures and associates	15	**28**	**(5)**	**23**	59	–	59
Profit/(loss) from operations		**205**	**(58)**	**147**	196	(48)	148
Investment income	7	**35**	**–**	**35**	42	–	42
Finance costs	8	**(59)**	**–**	**(59)**	(73)	–	(73)
Profit/(loss) before taxation		**181**	**(58)**	**123**	165	(48)	117
Taxation	10	**(2)**	**14**	**12**	(23)	68	45
Profit/(loss) for the year from continuing operations		**179**	**(44)**	**135**	142	20	162
Profit for the year from discontinued operations		**–**	**–**	**–**	1	5	6
Profit/(loss) for the year		**179**	**(44)**	**135**	143	25	168
Attributable to							
Equity holders		**179**	**(44)**	**135**	143	25	168
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit/(loss) for the year		**179**	**(44)**	**135**	143	25	168

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

	Notes	2018 pence	2017 pence
Basic earnings per ordinary share			
- continuing operations	11	**19.7**	23.7
- discontinued operations	11	**–**	1.0
	11	**19.7**	24.7
Diluted earnings per ordinary share			
- continuing operations	11	**19.5**	23.4
- discontinued operations	11	**–**	1.0
	11	**19.5**	24.4
Dividends per ordinary share proposed for the year	12	**4.8**	3.6

Group Statement of Comprehensive Income

For the year ended 31 December 2018

	2018			2017		
	Group £m	**Share of joint ventures and associates £m**	**Total £m**	Group £m	Share of joint ventures and associates £m	Total £m
Profit for the year	**112**	**23**	**135**	108	60	168
Other comprehensive income/(loss) for the year						
Items which will not subsequently be reclassified to the income statement						
Actuarial gains/(losses) on retirement benefit liabilities	**22**	**(1)**	**21**	242	4	246
Tax on above	**–**	**–**	**–**	(37)	–	(37)
	22	**(1)**	**21**	205	4	209
Items which will subsequently be reclassified to the income statement						
Currency translation differences	**18**	**7**	**25**	(30)	(18)	(48)
Fair value revaluations – PPP financial assets	**(4)**	**9**	**5**	3	60	63
– cash flow hedges	**3**	**15**	**18**	4	11	15
– investments in mutual funds measured at fair value through OCI	**(1)**	**–**	**(1)**	3	–	3
Recycling of revaluation reserves to the income statement on disposal^	**–**	**(5)**	**(5)**	–	(85)	(85)
Tax on above	**–**	**(3)**	**(3)**	–	(13)	(13)
	16	**23**	**39**	(20)	(45)	(65)
Total other comprehensive income/(loss) for the year	**38**	**22**	**60**	185	(41)	144
Total comprehensive income for the year	**150**	**45**	**195**	293	19	312
Attributable to						
Equity holders			**195**			312
Non-controlling interests			**–**			–
Total comprehensive income for the year			**195**			312

^ 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 2018

	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/ (losses) £m	Non-controlling interests £m	Total £m
At 1 January 2017	345	65	22	184	191	(50)	5	762
Total comprehensive income/(loss) for the year	–	–	–	19	(20)	313	–	312
Ordinary dividends	–	–	–	–	–	(20)	–	(20)
Joint ventures' and associates' dividends	–	–	–	(69)	–	69	–	–
Movements relating to share-based payments	–	–	–	–	6	1	–	7
Reserve transfers relating to joint venture and associate disposals	–	–	–	(21)	–	21	–	–
Minority interests	–	–	–	–	–	–	5	5
Convertible bonds repurchase	–	–	–	–	(2)	2	–	–
At 31 December 2017	345	65	22	113	175	336	10	1,066
Adjustment as a result of transitioning to IFRS 15 on 1 January 2018[2]	**–**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
Adjusted equity at 1 January 2018	**345**	**65**	**22**	**113**	**175**	**339**	**10**	**1,069**
Total comprehensive income for the year	**–**	**–**	**–**	**45**	**16**	**134**	**–**	**195**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(27)**	**–**	**(27)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(76)**	**–**	**76**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**4**	**–**	**–**	**4**
Transfers	**–**	**–**	**–**	**–**	**(9)**	**9**	**–**	**–**
Reserve transfers relating to joint venture and associate disposals	**–**	**–**	**–**	**(19)**	**–**	**19**	**–**	**–**
Convertible bonds repayment	**–**	**–**	**–**	**–**	**(24)**	**24**	**–**	**–**
At 31 December 2018	**345**	**65**	**22**	**63**	**162**	**574**	**10**	**1,241**

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 3.1 and 26).

Group Balance Sheet
At 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets – goodwill	13	**903**	874
– other	14	**258**	281
Property, plant and equipment		**168**	157
Investment properties		**33**	46
Investments in joint ventures and associates	15	**524**	531
Investments		**30**	39
PPP financial assets		**156**	163
Trade and other receivables	16	**212**	216
Retirement benefit assets	18	**171**	156
Deferred tax assets		**80**	52
Derivative financial instruments		**–**	1
		2,535	2,516
Current assets			
Inventories[2]		**84**	107
Contract assets[2]		**363**	–
Due from construction contract customers[2]		**–**	377
Trade and other receivables[2]	16	**902**	899
Cash and cash equivalents – infrastructure concessions	20.3	**70**	135
– other	20.3	**591**	833
Current tax receivable		**5**	8
Derivative financial instruments		**1**	2
		2,016	2,361
Assets held for sale		**16**	–
		2,032	2,361
Total assets		**4,567**	4,877
Current liabilities			
Due to construction contract customers[2]		**–**	(535)
Contract liabilities[2]		**(489)**	–
Trade and other payables[2]	17	**(1,373)**	(1,542)
Provisions[2]		**(167)**	(194)
Borrowings – non-recourse loans	20.3	**(48)**	(8)
– other	20.3	**(15)**	(268)
Current tax payable		**(17)**	(15)
Derivative financial instruments		**(4)**	(5)
		(2,113)	(2,567)
Liabilities held for sale		**(11)**	–
		(2,124)	(2,567)
Non-current liabilities			
Contract liabilities[2]		**(2)**	–
Trade and other payables[2]	17	**(143)**	(157)
Provisions[2]		**(149)**	(98)
Borrowings – non-recourse loans	20.3	**(331)**	(432)
– other	20.3	**(239)**	(230)
Liability component of preference shares		**(106)**	(103)
Retirement benefit liabilities	18	**(117)**	(124)
Deferred tax liabilities		**(90)**	(70)
Derivative financial instruments		**(25)**	(30)
		(1,202)	(1,244)
Total liabilities		**(3,326)**	(3,811)
Net assets		**1,241**	1,066
Equity			
Called-up share capital		**345**	345
Share premium account		**65**	65
Special reserve		**22**	22
Share of joint ventures' and associates' reserves		**63**	113
Other reserves		**162**	175
Retained profits[2]		**574**	336
Equity attributable to equity holders of the parent		**1,231**	1,056
Non-controlling interests		**10**	10
Total equity		**1,241**	1,066

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 3.1 and 26).

Group Statement of Cash Flows

For the year ended 31 December 2018

		Notes	2018 £m	2017 £m
Cash flows (used in)/from operating activities				
Cash (used in)/from:				
- continuing operations	– underlying[1]	20.1	**(54)**	62
	– non-underlying	20.1	**(78)**	(21)
Income taxes received/(paid)			**2**	(3)
Net cash (used in)/from operating activities			**(130)**	38
Cash flows from investing activities				
Dividends received from joint ventures and associates:				
	- infrastructure concessions		**36**	16
	- other		**40**	53
Interest received – infrastructure concessions – joint ventures			**7**	9
Interest received – infrastructure concessions – subsidiaries			**8**	12
Acquisition of businesses, net of cash and cash equivalents acquired		21.1	**(3)**	(3)
Purchases of:	- intangible assets – infrastructure concessions^		**(63)**	(82)
	- intangible assets – other		**(3)**	(5)
	- property, plant and equipment		**(38)**	(20)
	- investment properties		**–**	(3)
	- other investments		**–**	(1)
Investments in and long-term loans to joint ventures and associates			**(56)**	(30)
PPP financial assets cash expenditure			**(2)**	(1)
PPP financial assets cash receipts			**14**	15
Disposals of:	- investments in joint ventures – infrastructure concessions		**160**	103
	- investments in joint ventures – other		**4**	3
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions		**21**	4
	- subsidiaries net of cash disposed, separation and transaction costs – other		**–**	36
	- property, plant and equipment		**7**	11
	- investment properties		**7**	–
	- other investments		**11**	8
Net cash from investing activities			**150**	125
Cash flows (used in)/from financing activities				
Purchase of ordinary shares			**(4)**	(2)
Proceeds from:	- new loans – infrastructure concessions	20.4	**4**	212
Repayments of:	- loans – infrastructure concessions	20.4	**(6)**	(4)
	- loans – other	20.4	**(33)**	(52)
Repayment/repurchase of convertible bonds		20.4	**(231)**	(21)
Ordinary dividends paid		12	**(27)**	(20)
Interest paid – infrastructure concessions^			**(15)**	(10)
Interest paid – other			**(25)**	(24)
Preference dividends paid			**(12)**	(12)
Net cash (used in)/from financing activities			**(349)**	67
Net (decrease)/increase in cash and cash equivalents			**(329)**	230
Effects of exchange rate changes			**22**	(30)
Cash and cash equivalents at beginning of year			**968**	768
Cash and cash equivalents at end of year		20.2	**661**	968

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

^ Re-presented to include payments on capitalised interest within purchases of intangible assets in investing activities rather than within the interest paid line in financing activities.

Notes to the financial statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2018. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 12 March 2019, does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2018 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 2019.

2 Going concern

The Directors have acknowledged the guidance Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 published by the Financial Reporting Council in October 2009 and consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements. Further information is provided within the Other Financial Items section.

3 Accounting policies

3.1 Adoption of new and revised standards

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to the following standards:
  - IAS 40 Transfers of Investment Property
  - IFRS 2 Classification and Measurement of Share-based Payment Transactions
  - IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Improvements to IFRSs (2014 – 2016).

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

3.1 Adoption of new and revised standards continued

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 retrospectively from 1 January 2018. There was no material impact on adoption of this new standard. As disclosed in the Group's Annual Report and Accounts 2017, under the new standard the Group is able to continue to record movements in its PPP financial assets through Other Comprehensive Income (OCI) using the fair value through OCI category. This is because these financial assets are held within a business model whose objective at Group level is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset meet the "solely payments of principal and interest on the principal outstanding" criterion.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018. The Group has adopted IFRS 15 retrospectively and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2018 by a credit of £3m to reflect the impact of transitioning to IFRS 15. This adjustment primarily reflects the impact of unbundling a handful of contracts according to what the Group has assessed to be the performance obligations to be delivered to the customer.

In line with the requirements of the standard with regards to the transition option adopted, the Group has not restated its comparative information which continues to be reported under previous revenue standards, IAS 11 and IAS 18. To aid comparability, the Group has also presented its 2018 results under IAS 11 and IAS 18 which can be found in Note 26.

As a result of this new standard, the Group has also revised its accounting policies around revenue recognition (where applicable). This can be found in Notes 2.4 and 2.5 on pages 122 to 123 of the Annual Report and Accounts 2018.

3.2 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  - IAS 1 & IAS 8 Definition of Material
  - IAS 19 Plan Amendment, Curtailment or Settlement
  - IAS 28 Long-term Interests in Associates and Joint Ventures
  - IFRS 3 Business Combinations
  - IFRS 9 Prepayment Features with Negative Compensation
- Improvements to IFRSs (2015 – 2017)
- References to the Conceptual Framework.

The Directors have substantially completed their assessment of IFRS 16 and the Group will adopt the new standard for the financial year ending 31 December 2019 using the modified retrospective approach. This transition option does not require the Group to restate its comparative year.

The adoption of IFRS 16 will result in a right-of-use (ROU) asset and a corresponding lease liability amounting to approximately £135m respectively being brought onto the Group's balance sheet on 1 January 2019. There is no impact on the Group's opening equity as a result of adopting this standard.

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

3.3 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty are set out in Note 2.27 of the Annual Report and Accounts 2018.

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

4 Exchange rates

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

Average rates

£1 buys	**2018**	2017	Change
US$	**1.33**	1.29	3.1%
HK$	**10.46**	10.07	3.9%
Euro	**1.13**	1.14	(0.9)%

Closing rates

£1 buys	**2018**	2017	Change
US$	**1.27**	1.35	(5.9)%
HK$	**9.97**	10.56	(5.6)%
Euro	**1.11**	1.13	(1.8)%

5 Segment analysis

Reportable segments of the Group:

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

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

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

5.1 Total Group

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

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

Income statement – performance by activity from continuing operations	Construction Services 2017 £m	Support Services 2017 £m	Infrastructure Investments 2017 £m	Corporate activities 2017 £m	Total 2017 £m
Revenue including share of joint ventures and associates[1]	6,649	1,061	524	–	8,234
Share of revenue of joint ventures and associates[1]	(1,074)	(30)	(236)	–	(1,340)
Group revenue[1]	5,575	1,031	288	–	6,894
Group operating profit/(loss)[1]	42	41	87	(33)	137
Share of results of joint ventures and associates[1]	30	–	29	–	59
Profit/(loss) from operations[1]	72	41	116	(33)	196
Non-underlying items:					
- additional loss on the AWPR contract as a result of Carillion's liquidation	(44)	–	–	–	(44)
- amortisation of acquired intangible assets	(4)	–	(5)	–	(9)
- other non-underlying items	12	(2)	(1)	(4)	5
	(36)	(2)	(6)	(4)	(48)
Profit/(loss) from operations	36	39	110	(37)	148
Investment income					42
Finance costs					(73)
Profit before taxation					117

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

5 Segment analysis continued

5.1 Total Group continued

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

* Includes non-operating items and current working capital.

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

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 3.1 and 26).

Assets and liabilities by activity	Construction Services 2017 £m	Support Services 2017 £m	Infrastructure Investments 2017 £m	Corporate activities 2017 £m	Total 2017 £m
Due from construction contract customers	254	123	–	–	377
Due to construction contract customers	(440)	(95)	–	–	(535)
Inventories and non-construction work in progress	29	51	27	–	107
Trade and other receivables – current	688	96	101	14	899
Trade and other payables – current	(1,205)	(242)	(53)	(42)	(1,542)
Provisions – current	(150)	(18)	(6)	(20)	(194)
Working capital from continuing operations*	(824)	(85)	69	(48)	(888)

* Includes non-operating items and current working capital.

Total assets	2,119	539	1,264	955	4,877
Total liabilities	(2,030)	(270)	(635)	(876)	(3,811)
Net assets	89	269	629	79	1,066

5 Segment analysis continued

5.1 Total Group continued

Other information – continuing operations	**Construction Services 2018 £m**	**Support Services 2018 £m**	**Infrastructure Investments 2018 £m**	**Corporate activities 2018 £m**	**Total 2018 £m**
Capital expenditure on property, plant and equipment	**18**	**19**	**–**	**1**	**38**
Capital expenditure on intangible assets	**1**	**2**	**63**	**–**	**66**
Depreciation	**11**	**10**	**3**	**5**	**29**
Gain on disposals of interests in investments (Note 21.2)	**–**	**–**	**80**	**–**	**80**

	2017 £m	2017 £m	2017 £m	2017 £m	2017 £m
Capital expenditure on property, plant and equipment	5	9	–	6	20
Capital expenditure on investment properties	–	–	3	–	3
Capital expenditure on intangible assets	–	–	82	5	87
Depreciation	13	8	3	5	29
Gain on disposals of interests in investments	–	–	86	–	86

Performance by geographic destination – continuing operations	**United Kingdom 2018 £m**	**United States 2018 £m**	**Rest of world 2018 £m**	**Total 2018 £m**
Revenue including share of joint ventures and associates	**3,164**	**3,622**	**1,028**	**7,814**
Share of revenue of joint ventures and associates	**(114)**	**(99)**	**(967)**	**(1,180)**
Group revenue	**3,050**	**3,523**	**61**	**6,634**

	2017 £m	2017 £m	2017 £m	2017 £m
Revenue including share of joint ventures and associates	3,200	3,819	1,245	8,264
Share of revenue of joint ventures and associates	(139)	(55)	(1,154)	(1,348)
Group revenue	3,061	3,764	91	6,916

5.2 Infrastructure Investments

Underlying profit from operations[1]	**Group 2018 £m**	**Share of joint ventures and associates (Note 15)**[+] **2018 £m**	**Total 2018 £m**	Group 2017 £m	Share of joint ventures and associates (Note 15)[+] 2017 £m	Total 2017 £m
UK^	**9**	**(17)**	**(8)**	9	15	24
North America	**24**	**19**	**43**	30	14	44
Gain on disposals of interests in investments	**80**	**–**	**80**	86	–	86
	113	**2**	**115**	125	29	154
Bidding costs and overheads	**(18)**	**–**	**(18)**	(38)	–	(38)
	95	**2**	**97**	87	29	116

[+] The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
[^] Including Singapore.
[1] Before non-underlying items (Note 9).

6. Revenue

6.1 Nature and services of goods

6.1.1 Construction Services

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

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction services, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit-out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However for certain types of contracts, services relating to fit-out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small scale infrastructure works 24 to 60 months for large scale complex construction	The Group provides construction services to three main types of infrastructure assets: highways, railways and other large scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK and the US. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway construction services primarily in the UK and US 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 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 4-5 years for large scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses the maintenance element as a separate PO and revenue from this PO is recognised in the Support Services segment. Refer to Note 6.1.2.

6 Revenue continued

6.1 Nature and services of goods continued

6.1.2 Support Services

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

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

6 Revenue continued

6.1 Nature and services of goods continued

6.1.3 Infrastructure Investments

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

Types of services	Nature, timing of satisfaction of performance obligations and significant payment terms
Service concessions	The Group operates a UK and North America portfolio of service concession assets comprising of assets in the roads, healthcare, schools, 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 lifecycle elements, then this is considered to be a separate PO. Contract terms can be up to 40 years. The Group recognises revenue over time using the input method. Consideration is paid through a fixed unitary payment charge spread over the life of the contract. *Revenue from this service is presented across Buildings, Infrastructure or Utilities in Note 6.2.*
Management services	The Group provides real estate management services such as property, development and asset management services. Contract terms can be up to 50 years. The Group recognises revenue over time as and when service is delivered to the customer. *Revenue from this service is presented within Buildings in Note 6.2.*
Housing development	The Group also develops housing units on land that is owned by the Group. Revenue is recognised on the sale of individual units at a point in time, which depicts when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. *Revenue from this service is presented within Buildings in Note 6.2.*

6 Revenue continued

6.2 Disaggregation of revenue

Following the implementation of IFRS 15 from 1 January 2018, the Group presents a disaggregation of its 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 revenue is also presented according to the Group's reportable segments as described in Note 5.

The revenue disaggregation below represents the Group's underlying revenue excluding the Group's revenue generated by Rail Germany which is presented as non-underlying.

For the year ended 31 December 2018

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	1,885	3,324	918+	6,127
	Group revenue	1,885	3,309	20+	5,214
Support Services	Revenue including share of joint ventures and associates	1,041	–	63	1,104
	Group revenue	1,041	–	35	1,076
Infrastructure Investments	Revenue including share of joint ventures and associates	238	298	35	571
	Group revenue	124	214	3	341
Total revenue	**Revenue including share of joint ventures and associates**	**3,164**	**3,622**	**1,016**	**7,802**
	Group revenue	**3,050**	**3,523**	**58**	**6,631**

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

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

+Excludes revenue earnt in Rail Germany of £12m including share of joint ventures and associates or £3m excluding share of joint ventures and associates.

7 Investment income

Continuing operations	2018 £m	2017 £m
Subordinated debt interest receivable	**21**	26
Interest receivable on PPP financial assets	**9**	11
Gain on foreign currency deposits	**–**	1
Other interest receivable and similar income	**3**	4
Net finance income on pension scheme assets and obligations (Note 18)	**2**	–
	35	42

8 Finance costs

Continuing operations		2018 £m	2017 £m
Non-recourse borrowings	– bank loans and overdrafts	**14**	13
Preference shares	– finance cost	**12**	12
	– accretion	**3**	3
Convertible bonds	– finance cost	**4**	5
	– accretion	**5**	7
US private placement	– finance cost	**12**	13
Other interest payable	– committed facilities	**1**	1
	– letter of credit fees	**3**	4
	– other finance charges	**5**	9
Net finance cost on pension scheme assets and obligations (Note 18)		**–**	6
		59	73

9 Non-underlying items

	2018 £m	2017 £m
Items (charged against)/credited to profit		
9.1 Continuing operations		
9.1.1 Trading results of Rail Germany (including £nil (2017: £2m) of other net operating expenses)	**–**	–
9.1.2 Amortisation of acquired intangible assets	**(8)**	(9)
9.1.3 Other non-underlying items:		
– Build to Last transformation costs	**(11)**	(12)
– additional loss on the AWPR contract as a result of Carillion's liquidation	**(10)**	(44)
– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**(28)**	–
– provision release relating to settlements of health and safety claims	**13**	–
– additional gain on disposal of Balfour Beatty Infrastructure Partners	**3**	–
– (loss)/gain on disposal of Heery International Inc	**(12)**	18
– loss on disposal of Blackpool Airport	**–**	(1)
Total other non-underlying items from continuing operations	**(45)**	(39)
	(53)	(48)
9.1.4 Share of results of joint ventures and associates		
– costs relating to the liquidation of the Malaysia joint venture	**(5)**	–
Charged against profit before taxation from continuing operations	**(58)**	(48)
9.1.5 Tax credits:		
– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	**5**	–
– tax on other items above	**9**	2
– tax effect as a result of the reduction in US Federal corporate income tax rate	**–**	32
– non-underlying recognition of deferred tax assets in the UK	**–**	34
Total tax credit on continuing operations	**14**	68
Non-underlying items (charged against)/credited to profit for the year from continuing operations	**(44)**	20
9.2 Discontinued operations		
9.2.1 Gain on disposal of Dutco Balfour Beatty LLC and BK Gulf LLC	**–**	5
Non-underlying items credited to profit for the year from discontinued operations	**–**	5
(Charged against)/credited to profit for the year	**(44)**	25

Continuing operations

9.1.1 Rail Germany's results continue to be presented as part of the Group's non-underlying items within continuing operations as the Group remains committed to exiting its Mainland European rail businesses and does not consider its operations part of the Group's underlying activity. In 2018, the remaining parts of Rail Germany generated £nil profit or loss before tax (2017: £nil).

9.1.2 The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £5m (2017: £6m) and customer relationships £3m (2017: £3m). These have been included as non-underlying items as they relate to costs arising on acquisition of businesses.

The charge was recognised in the following segments: Construction Services £3m (2017: £4m) and Infrastructure Investments £5m (2017: £5m).

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

9 Non-underlying items continued

In 2017, the Group incurred restructuring costs of £12m relating to: Construction Services £6m; Support Services £2m; and Corporate £4m. These restructuring costs comprise: redundancy costs £8m; property-related costs £3m; and other restructuring costs £1m.

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

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

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

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

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

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

The credit was recognised in the following segments: Construction Services £2m and Support Services £11m.

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

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

9 Non-underlying items continued

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

9.1.3.7 On 12 September 2017, the Group disposed of its entire interest in Regional & City Airports (Blackpool) Holdings Ltd for a cash consideration of £4m. The disposal resulted in a £1m loss being recognised as a non-underlying item. This loss has been included in the Infrastructure Investments segment.

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

9.1.5.1 As explained in Note 9.1.3.3, a non-underlying charge of £28m was recognised in 2018 to take into account the effect of GMP equalisation. This charge has given rise to a deferred tax credit of £5m.

9.1.5.2 The remaining non-underlying items charged against the Group's operating profit from continuing operations gave rise to a tax credit of £9m comprising: £3m credit arising on the impact of additional indemnity provisions recognised on the disposal of Heery; £2m credit on the additional loss recognised for the AWPR contract; £2m credit on Build to Last restructuring costs; and £2m credit on amortisation of acquired intangible assets (2017: £1m charge on the gain on disposal of Heery; and £3m credit on amortisation of acquired intangible assets).

9.1.5.3 The US Government reduced the Federal corporate income tax rate from 35% to 21% with effect from 1 January 2018. The net impacts of this change in 2017 were a non-underlying £32m tax credit to the income statement and a £1m credit to equity.

9.1.5.4 In 2017, significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of a deferred tax liability. This in turn led to the recognition of additional UK deferred tax assets in 2017 of £34m. Given the size and nature of the credit resulting from the increase to actuarial gains in the BBPF, the credit was included as a non-underlying item.

Discontinued operations

9.2.1 On 1 March 2017, the Group disposed of its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC to its joint venture partner for a total cash consideration of £11m, resulting in a gain on disposal of £5m.

10 Income taxes

Continuing operations[x]	Underlying Items[1] 2018 £m	Non-underlying items (Note 9) 2018 £m	Total 2018 £m	Total 2017 £m
Total UK tax	**(18)**	**(8)**	**(26)**	(30)
Total non-UK tax	**20**	**(6)**	**14**	(15)
Total tax charge/(credit)	**2**	**(14)**	**(12)**	(45)
UK current tax				
– current tax	**5**	**(3)**	**2**	4
– adjustments in respect of previous periods	**–**	**–**	**–**	(1)
	5	**(3)**	**2**	3
Non-UK current tax				
– current tax	**5**	**(3)**	**2**	3
– adjustments in respect of previous periods	**(2)**	**–**	**(2)**	(6)
	3	**(3)**	**–**	(3)
Total current tax	**8**	**(6)**	**2**	–
UK deferred tax				
– origination and reversal of temporary differences	**(29)**	**(6)**	**(35)**	(36)
– UK corporation tax rate change	**6**	**1**	**7**	3
	(23)	**(5)**	**(28)**	(33)
Non-UK deferred tax				
– origination and reversal of temporary differences	**15**	**(3)**	**12**	18
– US Federal corporate income tax rate change	**–**	**–**	**–**	(32)
– adjustments in respect of previous periods	**2**	**–**	**2**	2
	17	**(3)**	**14**	(12)
Total deferred tax	**(6)**	**(8)**	**(14)**	(45)
Total tax charge/(credit) from continuing operations	**2**	**(14)**	**(12)**	(45)

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

The Group has recognised £14m of tax credits (2017: £68m) within non-underlying items in the year. Refer to Note 9.1.5.

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

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

In addition to the Group tax charge, tax of £3m is charged (2017: £50m) directly to other comprehensive income, comprising: a deferred tax charge of £nil for subsidiaries (2017: £37m); and a deferred tax charge in respect of joint ventures and associates of £3m (2017: £13m).

11 Earnings per ordinary share

Earnings	2018 Basic £m	2018 Diluted £m	2017 Basic £m	2017 Diluted £m
Continuing operations				
Earnings	**135**	**135**	162	162
Amortisation of acquired intangible assets – net of tax credit of £2m (2017: £3m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £12m (2017: £65m)	**38**	**38**	(26)	(26)
Underlying earnings	**179**	**179**	142	142
Discontinued operations				
Earnings	**–**	**–**	6	6
Other non-underlying items	**–**	**–**	(5)	(5)
Underlying earnings	**–**	**–**	1	1
Total operations				
Earnings	**135**	**135**	168	168
Amortisation of acquired intangible assets – net of tax credit of £2m (2017: £3m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £12m (2017: £65m)	**38**	**38**	(31)	(31)
Underlying earnings	**179**	**179**	143	143

	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**682**	**687**	680	688

Earnings per share	Basic pence	Diluted pence	Basic pence	Diluted pence
Continuing operations				
Earnings per ordinary share	**19.7**	**19.5**	23.7	23.4
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**5.7**	**5.6**	(3.6)	(3.5)
Underlying earnings per ordinary share	**26.3**	**26.0**	20.9	20.7
Discontinued operations				
Earnings per ordinary share	**–**	**–**	1.0	1.0
Other non-underlying items	**–**	**–**	(0.9)	(0.9)
Underlying earnings per ordinary share	**–**	**–**	0.1	0.1
Total operations				
Earnings per ordinary share	**19.7**	**19.5**	24.7	24.4
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**5.7**	**5.6**	(4.5)	(4.4)
Underlying earnings per ordinary share	**26.3**	**26.0**	21.0	20.8

12 Dividends on ordinary shares

	2018 Per share pence	2018 Amount £m	2017 Per share pence	2017 Amount £m
Proposed dividends for the year				
Interim – current year	**1.6**	**11**	1.2	8
Final – current year	**3.2**	**22**	2.4	16
	4.8	**33**	3.6	24
Recognised dividends for the year				
Final – prior year		**16**		12
Interim – current year		**11**		8
		27		20

The final 2017 dividend was paid on 6 July 2018 and the interim 2018 dividend was paid on 30 November 2018. Subject to approval at the Annual General Meeting on 16 May 2019, the final 2018 dividend will be paid on 5 July 2019 to holders on the register on 17 May 2019 by direct credit or, where no mandate has been given, by cheque posted on 5 July 2019. The ordinary shares will be quoted ex-dividend on 16 May 2019.

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2018	1,037	(163)	874
Currency translation differences	**34**	**(5)**	**29**
At 31 December 2018	**1,071**	**(168)**	**903**

Carrying amounts of goodwill by cash-generating unit	2018 £m	2018 Pre-tax discount rate %	2017 £m	2017 Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.1**	248	10.3
Balfour Beatty Construction Group Inc.	**438**	**11.0**	413	11.0
Rail UK	**68**	**10.1**	68	10.4
Gas & Water	**58**	**10.0**	58	10.4
Balfour Beatty Communities US	**52**	**11.3**	49	11.0
Other	**39**	**10.0-11.0**	38	10.2-11.0
Group total	**903**		874	

13 Intangible assets – goodwill continued

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 workload of each cash-generating unit (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 2019 to 2021. 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 Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Balfour Beatty recognises the inherent uncertainty arising from this and has been planning for all outcomes. The Group has contingency plans in place to ensure it can continue to deliver on current and future work commitments.

It is anticipated that the US construction market will remain stable, as will tender margins which will also be driven by increased selectivity of projects. In the Support Services segment, market conditions are anticipated to be stable in the UK.

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. 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.

			2018			2017
	Inflation rate %	**Real growth rate %**	**Nominal long-term growth rate applied %**	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	**2.0**	**1.2**	**3.2**	2.1	0.1	2.2
Balfour Beatty Construction Group Inc.	**2.0**	**0.9**	**2.9**	2.0	1.4	3.4
Rail UK	**2.0**	**1.2**	**3.2**	2.1	0.1	2.2
Gas & Water	**2.0**	**1.2**	**3.2**	2.1	0.1	2.2
Balfour Beatty Communities US	**2.0**	**0.1**	**2.1**	1.9	0.1	2.0
Other	**2.0**	**1.1**	**3.1**	2.1	0.2	2.3

Sensitivities

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

A reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs. Sensitivity analysis carried out on the UK Regional and Engineering Services CGU factored in potential adverse implications that may arise from a 'no-deal' exit from the European Union. No impairment was triggered as a result of this. The Group considers that the stabilisation and recovery of the Gas & Water business to more normal levels of performance is a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill. In particular, a reduction of 260 basis points in margin within the Gas & Water CGU would reduce its headroom to £nil.

14 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2018	555	(274)	281
Currency translation differences	**17**	**(12)**	**5**
Additions	**66**	**–**	**66**
Disposal of interest in Holyrood Holdings Ltd	**(77)**	**5**	**(72)**
Charge for the year	**–**	**(20)**	**(20)**
Impairment charge	**–**	**(2)**	**(2)**
Removal of fully amortised intangible asset	**(1)**	**1**	**–**
At 31 December 2018	**560**	**(302)**	**258**

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 Joint ventures and associates

	2018					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Total £m	Total £m
Income statement – continuing operations						
Revenue[1]	913	28	124	106	230	1,171
Underlying operating profit/(loss)[1]	30	(2)	(5)	21	16	44
Investment income	3	–	94	14	108	111
Finance costs	–	–	(104)	(16)	(120)	(120)
Profit/(loss) before taxation[1]	33	(2)	(15)	19	4	35
Taxation	(5)	–	(2)	–	(2)	(7)
Profit/(loss) after taxation before non-underlying items	28	(2)	(17)	19	2	28
Share of results within non-underlying items	(5)	–	–	–	–	(5)
Profit/(loss) after taxation	23	(2)	(17)	19	2	23
Balance sheet						
Non-current assets						
Intangible assets:						
- goodwill	31	–	–	–	–	31
- Infrastructure Investments intangible	–	–	45	–	45	45
- other	–	–	15	–	15	15
Property, plant and equipment	25	–	38	–	38	63
Investment properties	–	–	–	114	114	114
Investments in joint ventures and associates	2	–	–	–	–	2
PPP financial assets	–	–	1,485	257	1,742	1,742
Military housing projects	–	–	–	110	110	110
Other non-current assets	76	–	23	1	24	100
Current assets						
Cash and cash equivalents	328	–	131	28	159	487
Other current assets	184	–	43	200	243	427
Total assets	646	–	1,780	710	2,490	3,136
Current liabilities						
Borrowings – non-recourse	(44)	–	(42)	–	(42)	(86)
Other current liabilities	(441)	–	(137)	(19)	(156)	(597)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,255)	(508)	(1,763)	(1,763)
Other non-current liabilities	(61)	(3)	(275)	(2)	(277)	(341)
Total liabilities	(546)	(3)	(1,709)	(529)	(2,238)	(2,787)
Net assets	100	(3)	71	181	252	349
Loans to joint ventures and associates	–	4	171	–	171	175
Total investment in joint ventures and associates	100	1	242	181	423	524

^ Including Singapore.

[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 Joint ventures and associates continued

	2017					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Total £m	Total £m
Income statement – continuing operations						
Revenue[1]	1,074	30	173	63	236	1,340
Underlying operating profit[1]	32	–	5	15	20	52
Investment income	3	–	127	9	136	139
Finance costs	(2)	–	(114)	(10)	(124)	(126)
Profit before taxation[1]	33	–	18	14	32	65
Taxation	(3)	–	(3)	–	(3)	(6)
Profit after taxation	30	–	15	14	29	59
Balance sheet						
Non-current assets						
Intangible assets:						
- goodwill	32	–	–	–	–	32
- Infrastructure Investments intangible	–	–	23	–	23	23
- other	3	–	12	–	12	15
Property, plant and equipment	25	–	38	3	41	66
Investment properties	–	–	–	72	72	72
Investments in joint ventures and associates	7	–	–	–	–	7
PPP financial assets	–	–	1,659	184	1,843	1,843
Military housing projects	–	–	–	112	112	112
Other non-current assets	53	–	17	–	17	70
Current assets						
Cash and cash equivalents	329	–	156	19	175	504
Other current assets	206	–	53	3	56	262
Total assets	655	–	1,958	393	2,351	3,006
Current liabilities						
Borrowings – non-recourse	(32)	–	(41)	–	(41)	(73)
Other current liabilities	(456)	(1)	(141)	(11)	(152)	(609)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,331)	(222)	(1,553)	(1,553)
Other non-current liabilities	(52)	–	(355)	–	(355)	(407)
Total liabilities	(540)	(1)	(1,868)	(233)	(2,101)	(2,642)
Net assets	115	(1)	90	160	250	364
Loans to joint ventures and associates	–	4	163	–	163	167
Total investment in joint ventures and associates	115	3	253	160	413	531

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

16 Trade and other receivables

	2018[2] £m	2017 £m
Current		
Trade receivables	**599**	536
Less: provision for impairment of trade receivables	**(5)**	(7)
	594	529
Due from joint ventures and associates	**24**	23
Due from joint operation partners	**19**	25
Contract retentions receivable[+]	**192**	185
Accrued income[2]	**3**	18
Prepayments	**30**	35
Due on disposals	**1**	63
Other receivables	**39**	21
	902	899
Non-current		
Due from joint ventures and associates	**51**	38
Contract retentions receivable[+]	**150**	173
Due on disposals	**5**	4
Other receivables	**6**	1
	212	216
Total trade and other receivables	**1,114**	1,115

[+] Including £339m (2017: £352m) construction contract retentions receivable.

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 3.1 and 26).

17 Trade and other payables

	2018[2] £m	2017 £m
Current		
Trade and other payables[+]	**758**	833
Accruals	**580**	604
Deferred income[2]	**–**	1
VAT, payroll taxes and social security	**26**	68
Advance payments on contracts[2]	**–**	16
Due to joint ventures and associates	**–**	11
Dividends on preference shares	**6**	6
Due on acquisitions	**3**	3
	1,373	1,542
Non-current		
Trade and other payables	**108**	120
Accruals	**18**	19
Due to joint ventures and associates	**9**	7
Due on acquisitions	**8**	11
	143	157
Total trade and other payables	**1,516**	1,699

[+] Included within the Group's trade and other payables balance is thirty three thousand pounds (2017: £0.2m) relating to payments due to UK suppliers who are on bank-supported supply chain finance arrangements. The Group settles these amounts in accordance with the relevant supplier's standard payment terms, normally 30 days. As at 31 December 2018, the Group decided to close down this scheme. The remaining balance outstanding on the scheme was fully settled in January 2019.

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 3.1 and 26).

18 Retirement benefit assets and liabilities

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

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

On 1 July 2015, the Group established a Scottish Limited Partnership (SLP) structure into which its investment in Consort Healthcare (Birmingham) Holdings Ltd (Consort Birmingham), which owns the Group's 40% interest in the Birmingham Hospital PFI investment, was transferred. 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 Consort Birmingham for other investments from time to time. On 29 December 2016 the Group transferred into the SLP its investment in Holyrood Student Accommodation Holdings Ltd, which owned the Group's 100% interest in the Edinburgh student accommodation project. In December 2018, the Group extracted from the SLP the investment in Holyrood Student Accommodation Holdings Ltd and in its place, the Group transferred in its 15% share of the Connect Plus (M25) asset.

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 2018, the BBPF received distributions of £1m from the SLP (2017: £1m).

Alongside the establishment of the SLP, agreement was reached to make a series of deficit payments to the BBPF with the first payment of £4m paid in 2016; £5m in 2017; and a further £7m in 2018. Following this, £9m will be due in 2019; £13m due in 2020; £17m due in 2021; £22m due in 2022; and £25m due in 2023.

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2016. As a result, the Group made ongoing deficit payments in addition to those set out above of £22m in 2017 and £18m in 2018. The Group will make further contributions of £19m per annum from January 2019 and £11m in 2020.

If the dividend cover ratio is below an agreed trigger level then the contributions set out above may need to be accelerated.

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

18 Retirement benefit assets and liabilities continued

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

		2018		2017
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Discount rate	**2.80**	**2.80**	2.55	2.55
Inflation rate – RPI	**3.20**	**3.20**	3.15	3.15
– CPI	**2.20**	**2.20**	2.05	2.05
Future increases in pensionable salary	**2.20**	**2.20**	2.05	2.05
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.95**	**2.30**	2.95	2.20

	Number	**Number**	Number	Number
Total number of defined benefit members	**29,051**	**3,067**	29,949	3,036

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

This recent judgment therefore creates an obligation to equalise for both the BBPF and RPS schemes. The effect of GMP equalisation, which amounted to £26m for the BBPF scheme and £2m for the RPS scheme, has been recognised in the Group's income statement as a plan amendment. The Group has also treated this item as non-underlying due to the size and nature of the income statement charge. Any future changes in relation to GMP equalisation will be treated as part of the Group's actuarial gains/losses which are recognised within OCI.

Following independent advice from the Group's actuaries, the Group reassessed the difference between RPI and CPI measures of price inflation from 1.1% at December 2017 to 1.0% at December 2018. This resulted in an actuarial loss of £16m being recognised within the Statement of Comprehensive Income.

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes. The mortality assumptions as at 31 December 2018 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2017 to 31 March 2018. The mortality tables adopted for the 2018 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2017: SAPS S2 tables) with a multiplier of 102% for all male and female members (2017: 102%) and 106% for female widows and dependants (2017: 106%); all with future improvements in line with the CMI 2017 core projection model (2017: CMI 2016 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2017: 1.25% per annum and 1.00% per annum).

		2018		2017
	Average life expectancy at 65 years of age		Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.7**	**23.5**	21.9	23.6
Members not yet in receipt of a pension (current age 50)	**22.8**	**24.5**	23.0	24.6

18 Retirement benefit assets and liabilities continued

Amounts recognised in the Balance Sheet

	2018				2017			
	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	**(3,316)**	**(377)**	**(49)**	**(3,742)**	(3,512)	(391)	(53)	(3,956)
Fair value of plan assets	**3,487**	**309**	**–**	**3,796**	3,668	320	–	3,988
Assets/(liabilities) in the balance sheet	**171**	**(68)**	**(49)**	**54**	156	(71)	(53)	32

^ Investments in mutual funds of £21m (2017: £22m) are held to satisfy the Group's deferred compensation obligations.

The defined benefit obligations comprise £49m (2017: £53m) arising from wholly unfunded plans and £3,693m (2017: £3,903m) arising from plans that are wholly or partly funded.

Movements in the retirement benefit assets and liabilities for the year		**2018 £m**
At 1 January 2018		32
Currency translation differences		**(2)**
Current service cost		**(5)**
Past service cost		**(28)**
Interest cost		**(98)**
Interest income		**100**
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**(16)**
	– on obligations from changes to other financial assumptions	**133**
	– on obligations from changes in demographic assumptions	**26**
	– on obligations from experience losses	**(4)**
	– on assets	**(117)**
Contributions from employer	– regular funding	**3**
	– ongoing deficit funding	**27**
Administrative expenses		**(1)**
Benefits paid		**4**
At 31 December 2018		**54**

Sensitivity of the Group's retirement benefit obligations at 31 December 2018 to different actuarial assumptions

	Percentage points/years	**(Decrease)/ increase in obligations %**	**(Decrease)/ increase in obligations £m**
Increase in discount rate	**0.5%**	**(7.5)%**	**(278)**
Increase in market expectation of RPI inflation	**0.5%**	**5.3%**	**196**
Increase in salary growth	**0.5%**	**0.0%**	**1**
Increase in life expectancy	**1 year**	**4.0%**	**149**

Sensitivity of the Group's retirement benefit assets at 31 December 2018 to changes in market conditions

	Percentage points	**(Decrease)/ increase in assets %**	**(Decrease)/ increase in assets £m**
Increase in interest rates	**0.5%**	**(8.1)%**	**(306)**
Increase in market expectation of RPI inflation	**0.5%**	**5.1%**	**192**

The BBPF includes a defined contribution section with 13,582 members at 31 December 2018 (2017: 13,534 members) with £45m (2017: £43m) of contributions paid from continuing operations 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 £56m (2017: £52m). The income statement also includes the non-underlying charge of £28m (2017: £nil) relating to past service cost as a result of GMP equalisation.

19 Share capital

During the year ended 31 December 2018, 1.5m (2017: 0.6m) ordinary shares were purchased at a cost of £4.0m (2017: £1.7m) by the Group's employee discretionary trust to satisfy awards under the Company's equity-settled share-based payment arrangements.

20 Notes to the statement of cash flows

20.1 Cash from/(used in) operations	Continuing operations: Underlying items[1] 2018 £m	Continuing operations: Non-underlying items (Note 9) 2018 £m	Total 2018 £m	Total 2017 £m
Profit/(loss) from operations	**205**	**(58)**	**147**	154
Share of results of joint ventures and associates	**(28)**	**5**	**(23)**	(60)
Depreciation of property, plant and equipment	**28**	**–**	**28**	28
Depreciation of investment properties	**1**	**–**	**1**	1
Amortisation of other intangible assets	**12**	**8**	**20**	22
Impairment of IT intangible assets	**–**	**2**	**2**	–
Impairment of property, plant & equipment	**2**	**–**	**2**	–
Pension payments including deficit funding	**(30)**	**–**	**(30)**	(27)
Movements relating to share-based payments	**8**	**–**	**8**	9
Gain on disposal of investments in infrastructure concessions	**(80)**	**–**	**(80)**	(86)
Net gain on disposal of other businesses	**–**	**(3)**	**(3)**	(22)
Loss on disposal of investment properties	**2**	**–**	**2**	–
Profit on disposal of property, plant and equipment	**(5)**	**–**	**(5)**	(6)
Loss on GMP equalisation	**–**	**28**	**28**	–
Other non-cash items	**–**	**–**	**–**	1
Operating cash flows before movements in working capital	**115**	**(18)**	**97**	14
(Increase)/decrease in operating working capital	**(169)**	**(60)**	**(229)**	27
Inventories[2+]	**(16)**	**–**	**(16)**	(12)
Contract assets[2+]	**53**	**–**	**53**	–
Trade and other receivables[2+]	**8**	**4**	**12**	95
Contract liabilities[2+]	**(2)**	**–**	**(2)**	–
Trade and other payables[2+]	**(185)**	**(11)**	**(196)**	(92)
Provisions[2+]	**(27)**	**(53)**	**(80)**	29
Due from construction contract customers[2+]	**–**	**–**	**–**	(14)
Due to construction contract customers[2+]	**–**	**–**	**–**	21
Cash (used in)/from operations	**(54)**	**(78)**	**(132)**	41

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

[2] The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 3.1 and 26).

+ The movement in working capital has been presented to exclude movements arising from IFRS 15 reclassification adjustments. Refer to Note 26 for a re-presentation of the Group's balance sheet at 1 January 2018 under IFRS 15.

20.2 Cash and cash equivalents	2018 £m	2017 £m
Cash and deposits	**587**	717
Term deposits	**4**	116
Cash balances within infrastructure concessions	**70**	135
	661	968

20 Notes to the statement of cash flows continued

20.3 Analysis of net cash

	2018 £m	2017 £m
Cash and cash equivalents (excluding infrastructure concessions)	**591**	833
US private placement	**(239)**	(259)
Liability component of convertible bonds	**–**	(226)
Other loans	**(15)**	(13)
	337	335
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2072	**(379)**	(440)
Infrastructure concessions cash and cash equivalents	**70**	135
	(309)	(305)
Net cash	**28**	30

20.4 Analysis of movement in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Convertible bonds £m	Other £m	Total £m
At 1 January 2018	(440)	(259)	(226)	(13)	(938)
Currency translation differences	**(2)**	**(13)**	**–**	**(1)**	**(16)**
Accretion on convertible bonds	**–**	**–**	**(5)**	**–**	**(5)**
Proceeds from new loans	**(4)**	**–**	**–**	**–**	**(4)**
Repayments of loans	**6**	**33**	**231**	**–**	**270**
Disposal of interest in Holyrood Holdings Ltd	**61**	**–**	**–**	**–**	**61**
Amortisation of arrangement fees	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2018	**(379)**	**(239)**	**–**	**(15)**	**(633)**

During the year ended 31 December 2018, the Group repaid the remaining convertible bonds for £231m. In addition to this, the Group also repaid the first tranche of the US private placement notes amounting to £33m (US$45m). None of these borrowings were replaced with another form of debt. In relation to the Group's non-recourse loans, £61m of these loans were disposed as part of the Group's disposal of an 80% interest in Holyrood Holdings Ltd. Refer to Note 21.2.3. The Group's entire revolving credit facilities of £400m remain undrawn at 31 December 2018.

21 Acquisitions and disposals

21.1 Current and prior year acquisitions

There were no material acquisitions in 2018.

Deferred consideration paid during 2018 in respect of acquisitions completed in earlier years was £3m (2017: £3m). This related to the Group's acquisition of Centex Construction in 2007.

21.2 Current year disposals

Notes	Disposal date	Entity/business	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain £m
21.2.1	19 February 2018	Connect Plus (M25) Holdings Ltd^	5%	**42**	**(41)**	**21**	**–**	**22**
21.2.2	18 September 2018	Consort Healthcare (Fife) Holdings Ltd^	50%	**43**	**(3)+**	**(17)**	**–**	**23**
21.2.3	17 December 2018	Holyrood Holdings Ltd*	80%	**24**	**(7)**	**–**	**5**	**22**
21.2.4	28 December 2018	Northside Campus Partners LP^	81%	**13**	**(1)**	**1**	**–**	**13**
				122#	**(52)**	**5**	**5**	**80**

* Subsidiary.

^ Joint venture.

+ Net assets disposed include £4m of accrued subordinated debt receivable which was settled as part of the disposal. The balance also includes £1m of excess bid costs recovered which were released and credited to the gain on disposal.

Total cash consideration received by the Group also includes £3m of cash received in respect of the Group's disposal of Balfour Beatty Infrastructure Partners in 2016 (Note 9.1.3.5) and £1m of deferred cash consideration received in respect of the Group's disposal of its Middle Eastern joint ventures in 2017.

21.2.1 On 19 February 2018, the Group agreed to dispose of a further 5% interest in Connect Plus (M25) Holdings Ltd to Equitix for a cash consideration of £42m, resulting in a gain on disposal of £22m in the first half of 2018.

In addition to the consideration for this disposal, the Group also received £62m on 23 February 2018 from the disposal of a 7.5% interest in December 2017, which was structured as an unconditional right to sell the stake to Dalmore for an identical price if Equitix failed to exercise its right to acquire this interest. The Group assessed that a loss of control was triggered as a result of this agreement and therefore the gain on disposal for this tranche was recognised in 2017 and £62m of consideration held as amounts due on disposal. Equitix subsequently exercised its right to acquire in 2018 and together with its acquisition of the further 5% stake in 2018, paid a consideration to the Group of £104m. The Group retained a 15% interest in Connect Plus (M25) Holdings Ltd.

21.2.2 On 18 September 2018, the Group disposed of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd for a cash consideration of £43m. The infrastructure concession disposal resulted in a net gain of £23m being recognised in underlying operating profit, comprising: a gain of £40m in respect of the investment in the joint venture and a loss of £17m related to the recycling of revaluation reserves to the income statement.

21.2.3 On 17 December 2018, the Group disposed of 80% of its interest in Holyrood Holdings Ltd for a cash consideration of £24m. The disposal resulted in a gain of £22m being recognised in underlying operating profit which includes a fair value uplift of £5m relating to the remaining 20% interest which the Group retained. The disposal included cash disposed of £3m.

21.2 Current year disposals continued

21.2.4 On 28 December 2018, the Group disposed of an 81% interest in Northside Campus Partners LP (Texas Dallas) for a cash consideration of £13m. The infrastructure concession disposal resulted in a £13m gain being recognised in underlying operating profit, comprising a gain of £12m in respect of the Group's investment in the joint venture and a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal. The Group retained a 10% interest in Northside Campus Partners LP.

22 Contingent liabilities

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

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

23 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £269m (2017: £279m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 16 and 17 respectively.

Transactions with non-Group members

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

	2018 £m	2017 £m
Anglian Water Group Ltd		
Sale of goods and services	**26**	18
Amounts owed by related parties	**–**	3
URENCO Ltd		
Sale of goods and services	**19**	72
Amounts owed by related parties	**2**	–

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

24 Principal risks and uncertainties

The nature of the principal risks and uncertainties which could adversely impact the Group's profitability and ability to achieve its strategic objectives include: external risks arising from the effects of national or market trends and political change and the complex and evolving legal and regulatory environments in which the Group operates; strategic risks which may arise as the Group moves into new territories and expands through acquisitions; organisation and management risks including business conduct and people related risks; and operational risks arising from work winning, project delivery, joint ventures, supply chain, 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 2017.

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

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Balfour Beatty recognises the inherent uncertainty arising from this and has been planning for all outcomes. The Group has contingency plans in place to ensure it can continue to deliver on current and future work commitments.

25 Events after the reporting date

As at 12 March 2019, there were no material post balance sheet events arising after the reporting date.

26 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers

26.1 Impact areas

Except for the adoption of IFRS 15, the Group has consistently applied the accounting policies to all periods presented in its consolidated financial statements.

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition and the new policy can be found in Notes 2.4 and 2.5 which can be found on pages 122 to 123 of the Annual Report and Accounts 2018.

The Group has applied IFRS 15 using the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. The details of the significant changes and the quantitative impact of the changes are set out below:

Adjustment 1: Relates to the recognition of the impact on transition to IFRS 15 at 1 January 2018 of a £3m credit to equity. The adjustment relates to the unbundling of certain contracts according to the Group's assessment of each contract's performance obligations to be delivered to its customers.

Adjustment 2: In addition to the impact on equity following transition to IFRS 15 at 1 January 2018, the Group's consolidated balance sheet is impacted as a result of moving away from IAS 11 balance sheet captions to those prescribed by IFRS 15. The main reclassification adjustment is in relation to reclassifying amounts due to/from construction contract customers to contract assets or contract liabilities. In addition to this, provision balances which were previously presented within amounts due to/from construction contract customers for contracts that were ongoing at that time in line with the requirements of IAS 11 have now been presented within provisions as appropriate.

26 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers continued

26.2 Impact on the financial statements on transition at 1 January 2018

The cumulative effect of the changes made to the Group's consolidated balance sheet at 1 January 2018 for the adoption of IFRS 15 is as follows:

	31 December 2017 £m	Adjustment (1) £m	Adjustment (2) £m	1 January 2018 £m
Non-current assets				
Investments in joint ventures and associates	531	–	–	531
PPP financial assets	163	–	–	163
Trade and other receivables	216	–	–	216
Deferred tax assets	52	–	–	52
Other non-current assets	1,554	–	–	1,554
	2,516	–	–	2,516
Current assets				
Inventories and non-construction work in progress	107	–	(53)	54
Contract assets	–	2	412	414
Due from construction contract customers	377	–	(377)	–
Trade and other receivables	899	–	31	930
Other current assets	978	–	–	978
	2,361	2	13	2,376
Total assets	4,877	2	13	4,892
Current liabilities				
Due to construction contract customers	(535)	–	535	–
Contract liabilities	–	5	(481)	(476)
Trade and other payables	(1,542)	(4)	30	(1,516)
Provisions	(194)	–	(90)	(284)
Current tax payable	(15)	–	–	(15)
Other current liabilities	(281)	–	–	(281)
	(2,567)	1	(6)	(2,572)
Non-current liabilities				
Trade and other payables	(157)	–	1	(156)
Provisions	(98)	–	(8)	(106)
Deferred tax liabilities	(70)	–	–	(70)
Other non-current liabilities	(919)	–	–	(919)
	(1,244)	–	(7)	(1,251)
Total liabilities	(3,811)	1	(13)	(3,823)
Net assets	1,066	3	–	1,069
Equity				
Retained profits	336	3	–	339
Other reserves not affected by IFRS 15	720	–	–	720
Equity attributable to equity holders of the parent	1,056	3	–	1,059
Non-controlling interests	10	–	–	10
Total equity	1,066	3	–	1,069

26.3 Impact of adopting IFRS 15 on the Group's 2018 results

Impact on the Group's consolidated income statement for the year ended 31 December 2018

The Group's consolidated income statement for the year ended 31 December 2018 is impacted by Adjustment (1). At 31 December 2018, the Group would have recognised an additional loss of £1m if it had continued to apply IAS 11 and IAS 18 in 2018. There is no other impact on the Group's consolidated income statement for the year as a result of applying previous revenue accounting standards.

26 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers continued

26.3 Impact of adopting IFRS 15 on the Group's 2018 results continued

Impact on the Group's consolidated balance sheet at 31 December 2018

In addition to the impact arising from Adjustment 1, the Group's consolidated balance sheet is also impacted by balance sheet reclassifications as a result of adopting balance sheet captions prescribed by IFRS 15 in place of IAS11 requirements. The reclassification adjustments to convert the Group's consolidated balance sheet at 31 December 2018 back to what it would have been if the Group had continued to apply previous revenue accounting standards is set out below.

Consolidated balance sheet	31 December 2018 as reported under IFRS 15 £m	Adjustment (1) £m	Adjustment (2) £m	31 December 2018 reported under IAS 11/ IAS18 £m
Non-current assets				
Investments in joint ventures and associates	524	–	–	524
PPP financial assets	156	–	–	156
Trade and other receivables	212	–	–	212
Deferred tax assets	80	–	–	80
Other non-current assets	1,563	–	–	1,563
	2,535	–	–	2,535
Current assets				
Inventories and non-construction work in progress	84	–	7	91
Contract assets	363	–	(363)	–
Due from construction contract customers	–	2	395	397
Trade and other receivables	902	–	(75)	827
Other current assets	667	–	–	667
	2,016	2	(36)	1,982
Assets held for sale	16	–	–	16
	2,032	2	(36)	1,998
Total assets	4,567	2	(36)	4,533
Current liabilities				
Due to construction contract customers	–	(5)	(461)	(466)
Contract liabilities	(489)	–	489	–
Trade and other payables	(1,373)	(1)	(12)	(1,386)
Provisions	(167)	–	12	(155)
Current tax payable	(17)	–	–	(17)
Other current liabilities	(67)	–	–	(67)
	(2,113)	(6)	28	(2,091)
Liabilities held for sale	(11)	–	–	(11)
	(2,124)	(6)	28	(2,102)
Non-current liabilities				
Contract liabilities	(2)	–	–	(2)
Trade and other payables	(143)	–	–	(143)
Provisions	(149)	–	8	(141)
Deferred tax liabilities	(90)	–	–	(90)
Other non-current liabilities	(818)	–	–	(818)
	(1,202)	–	8	(1,194)
Total liabilities	(3,326)	(6)	36	(3,296)
Net assets	1,241	(4)	–	1,237
Equity				
Retained profits	574	(4)	–	570
Other reserves not affected by IFRS 15	657	–	–	657
Equity attributable to equity holders of the parent	1,231	(4)	–	1,227
Non-controlling interests	10	–	–	10
Total equity	1,241	(4)	–	1,237