Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2022

15 March 2023

Strong operational and financial performance across the Group

Highlights

- 42% increase in underlying profit from operations (PFO) at £279 million (2021: £197 million)
- Underlying PFO from earnings-based businesses at £232 million (2021: £181 million)
- 8% increase in order book at £17.4 billion (FY 2021: £16.1 billion); provides clear short- and medium-term visibility
- Directors' valuation of the Investments portfolio increased to £1.3 billion (FY 2021: £1.1 billion) and independently reviewed
- Strong cash performance, with average net cash at £804 million (FY 2021: £671 million)
- 60% increase in underlying basic EPS at 47.5 pence per share (2021: 29.7 pence per share)
- 17% increase in recommended full year dividend at 10.5 pence per share (2021: 9.0 pence per share)
- £150 million share buyback confirmed for third consecutive year
- 2023 PFO from earnings-based businesses expected to be broadly in line with 2022

(£ million unless otherwise specified)	2022		2021	
	Underlying[2]	Total	Underlying[2]	Total
Revenue[1]	8,931	8,931	8,280	8,263
Profit from operations	279	275	197	97
Pre-tax profit	291	287	187	87
Profit for the year	290	287	194	139
Basic earnings per share	47.5p	46.9p	29.7p	21.3p
Dividends per share		10.5p		9.0p

	2022	2021
Order book[1]	£17.4bn	£16.1bn
Directors' valuation of Investments portfolio	£1.3bn	£1.1bn
Net cash – recourse	815	790
Net cash – non-recourse[3]	(242)	(243)
Average net cash – recourse	804	671

Leo Quinn, Balfour Beatty Group Chief Executive, said: "The strong results in 2022 are a testament to Balfour Beatty's transformation into a well-balanced and lower risk group. The diversified portfolio, both geographically in the UK, US and Hong Kong, and operationally across Construction Services, Support Services and Infrastructure Investments, plus the strength of our balance sheet and cash management, have provided the resilience for the Group to deliver ahead of expectations and grow our order book through the global instability seen in 2022.

"The Board's confidence in both the short and longer term is reflected in its commitment to a multi-year programme of strong shareholder cash returns. We believe that Balfour Beatty's unique capabilities and the positive outlook in its chosen markets will enable it to deliver ongoing profitable managed growth."

Segment analysis	2022			2021		
	Revenue[1]	PFO[2]	PFO margin[2]	Revenue[1]	PFO[2]	PFO margin[2]
	£m	£m	%	£m	£m	%
UK Construction	2,763	59	2.1%	2,593	(2)	(0.1)%
US Construction	3,651	58	1.6%	3,344	51	1.5%
Gammon	1,068	32	3.0%	809	30	3.7%
Construction Services	7,482	149	2.0%	6,746	79	1.2%
Support Services	989	83	8.4%	1,066	102	9.6%
Earnings-based businesses	**8.471**	**232**	**2.7%**	**7,812**	**181**	**2.3%**
Infrastructure Investments	460	81		468	49	
Corporate activities	-	(34)		-	(33)	
Total	8,931	279		8,280	197	

Notes:

[1] Including share of joint ventures and associates

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

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

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

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Investor and analyst presentation:

A presentation to investors and analysts will be made at Numis, 45 Gresham Street, London, EC2V 7BF at 09:00 (GMT) on 15 March 2023. There will be a live webcast of this on: www.balfourbeatty.com/webcast. The webcast will be recorded and subsequently available at Results, reports and presentations - Investors - Balfour Beatty plc

2022 FULL YEAR RESULTS ANNOUNCEMENT

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- **MEASURING OUR FINANCIAL PERFORMANCE**

GROUP CHIEF EXECUTIVE'S OVERVIEW

2022 results significantly ahead of 2021

The Group's continued progress is highlighted by the increased profitability in 2022, with underlying profit from operations from the earnings-based businesses (Construction Services and Support Services) rising by 28% to £232 million (2021: £181 million). £208 million of cash was returned to shareholders during the year (2021: £179 million) through a combination of dividends and share buybacks, while average net cash increased to £804 million compared to £671 million in 2021.

Diversified portfolio delivering in challenging economic conditions

The strong results in 2022 are a testament to Balfour Beatty's transformation into a well-balanced and lower risk group. The diversified portfolio, both geographically in the UK, US and Hong Kong, and operationally across Construction Services, Support Services and Infrastructure Investments, plus the strength of its balance sheet and cash management, have provided the resilience for the Group to deliver results ahead of expectations through the global instability seen in 2022.

The Group continues to focus on higher quality and lower risk opportunities which utilise its end-to-end capabilities and large-infrastructure project experience. At Construction Services, UK Construction delivered profit within the 2-3% UK industry standard margin target range, and US Construction and Gammon have both produced strong results once again. Support Services delivered ahead of the 6-8% margin target range set in 2021, and the Investments portfolio valuation grew by 17% as the high levels of inflation and consequent increase in rental rates in the year benefitted the valuation of most assets.

Order book growth while maintaining lower risk profile

The Group's order book has grown by 8% in the year to £17.4 billion (2021: £16.1 billion). In the UK, the proportion of the order book signed on lower risk target-cost or cost-plus contracts compared to higher risk fixed-price contracts has significantly increased over the past four years and now represents 90%. These lower risk contract structures utilised in the UK are uncommon in the US, where the early issuing of subcontracts for buildings jobs and bonding of the supply chain protects the Group's US margin. These approaches are not only prudent to protect against job specific issues, but also mitigate against escalating labour and material costs in high inflationary conditions, such as those faced in 2022.

There is a significant level of work which the Group has been awarded but is not yet contracted (ABNC) and therefore was not recorded in the year end order book. This includes the £1.2 billion Lower Thames Crossing project awarded in January 2023, the seven-year £297 million contract for highways maintenance in East Sussex and the US$222 million Jacksonville International Airport terminal project in Florida.

Increased Directors' valuation independently reviewed

The Directors' valuation of the Infrastructure Investments portfolio has grown considerably in the year from £1.1 billion to £1.3 billion, resulting from an exchange rate benefit and a strong correlation with inflation, partially offset by the disposal of five assets as well as ongoing project distributions. The half-yearly review of the methodology and assumptions used in the Directors' valuation resulted in the discount rates used for the UK portfolio and US military housing being reduced. In addition, changes were made to the forecast growth rate, overhead and tax methodology used for valuing US military housing. The methodology and assumption changes resulted in a net £28 million increase in the value of the portfolio.

Following year end, a third-party valuation expert independently reviewed the portfolio and the Directors' valuation is consistent with their conclusions.

All disposals made in the year were sold at above the Directors' valuation and contributed to a gain on disposals of £70 million. The Group continues to invest in new opportunities (targeting a minimum 2x end to end multiple) whilst optimising value through the disposal of further operational assets.

Exciting opportunities in chosen infrastructure markets

Governments in the Group's three chosen markets have all committed to driving post-pandemic economic recovery by boosting spend on infrastructure and sustainability. In the 2022 Autumn Statement, the UK Government reaffirmed its commitment to the £650 billion National Infrastructure Strategy (NIS) set out in 2020, but recognised in March 2023 that the impact of inflation and supply chain disruption will result in some transport schemes, including the Road Investment Strategy and HS2, taking longer than expected.

This expansion of state-backed infrastructure provides a positive landscape for the Group. Given its proven track record of delivering world-class projects, Balfour Beatty is particularly well-placed to benefit from the growing focus on infrastructure which can enhance GDP, deliver energy security and mitigate climate change. These requirements dictate a significant transition in national energy infrastructure spanning renewable electricity generation and storage, electric vehicle charging, smart grids and carbon capture to hydrogen and nuclear. With its strong expertise, Balfour Beatty has already started exploring these opportunities.

Engagement of expert workforce continues to improve

Attracting and retaining an expert workforce remains vital to Balfour Beatty. The results of the annual employee engagement survey improved for the fifth consecutive year, to the highest level recorded since the survey started in 2015. The overall Group engagement score increased from 76% in 2021 to 80%, placing Balfour Beatty 6bps above the industry average and 13bps above companies of a similar size. Employee satisfaction remains of utmost importance and is one of the primary factors which the Group can influence to maintain its capability.

As part of this, Balfour Beatty always looks to pay its people fairly and at a competitive rate. 2022 was a particularly challenging time with the cost-of-living crisis and the Group has supported its people as appropriate. Additionally, improvements were made to the Group's family policies with enhanced maternity and paternity leave and a new set of UK diversity and inclusion targets were launched. The Group's commitment to train the next generation of employees continues to grow, with 6.5% of the UK workforce at year-end comprising apprentices, graduate and sponsored students in 'earn and learn' positions, exceeding The 5% Club target.

Zero Harm culture makes further progress

Health and safety continues to be the top priority for Balfour Beatty, and a reduction to 0.03 (2021: 0.05) in the Group's major injury rate across 94 million hours worked (excluding international joint ventures) represents a milestone on the Group's journey towards Zero Harm. A back-to-basics focus in 2022 has helped reduce the Group lost time injury rate to 0.15. The logging of health and safety observations is a key part of deepening the health and safety culture within the Group's workforce and helps to keep safety front of mind, so it is particularly encouraging that the total number of observations made rose significantly to 380,000 (2021: 297,000).

One of the most impactful health and safety initiatives in the year was the What3Things? campaign, which is a practical and accessible quick reference tool for colleagues to use on sites. What3Things? is focused on the fatal risks and what can be done to help eliminate them. The Group's focus on leveraging digital solutions is reducing health and safety risks while improving productivity. During 2022, a digital permit solution was rolled out to sites across the UK aimed at improving compliance, consistency and transparency of the thousands of permits submitted each year. This web-based system has not only enhanced efficiency, but has also reduced unnecessary pedestrian movement around sites, making them a safer place to work.

Focus on sustainability intensified

Balfour Beatty's sustainability strategy, Building New Futures, was launched in 2020 to improve the Group's approach to environment, materials and communities by setting firm 2030 targets and longer-term ambitions for 2040. The 2030 targets set were the achievement of a science-based carbon reduction target, a 40% reduction in waste generated and the delivery of £3 billion in social value. It also outlines the Group's 2040 ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People. In the year, the UK business delivered £816 million of social value and 96% of the Group's waste was diverted from landfill.

The Group's drive to reduce carbon emissions continues to deepen, with signs of progress evident in all business units. These range from project-wide approaches, such as the use of modular construction at a 2,000 bed student hostel project in Hong Kong, to innovations such as at the A63 road improvement scheme in Hull, where the diesel generator powering the offices has been replaced by a hydrogen fuel cell generator. Despite the significant and focused efforts of the Group, carbon emissions have increased in 2022, as the Group's mix of work in the year included more tunnelling and earthworks than in 2021, with these activities being particularly carbon intensive. Additionally, the impact of global supply chain issues and rising energy prices reduced opportunities to drive low carbon solutions as some customers have looked to implement cost efficiencies. This has highlighted that more progress is required to ensure sustainability is built into everyday operations and the right choices are being made to achieve the targets set out.

Continuing delivery of attractive shareholder returns

Since the introduction of the capital allocation framework in 2021, Balfour Beatty has delivered attractive total cash returns to shareholders while maintaining an appropriate balance between investment in the business, and a strong capital position. Given the favourable outlook, Balfour Beatty is confident of delivering significant future shareholder returns. As such, the Board is today recommending a final dividend of 7.0 pence per share (2021: 6.0 pence), giving a total recommended dividend for the year of 10.5 pence per share (2021: 9.0 pence). Additionally, the Company intends to repurchase £150 million of shares during the 2023 phase of its multi-year share buyback programme.

The share buyback programme and recommended final dividend announced today will bring the cumulative return to shareholders since the introduction in 2021 of the multi-year capital allocation framework to over £570 million.

Outlook

The Board expects 2023 PFO from its earnings-based businesses to be broadly in line with 2022. This includes incremental PFO improvement in UK Construction and US Construction, consistent performance in Gammon, and Support Services PFO towards the top of its targeted 6-8% margin range. Infrastructure Investments will continue to deliver attractive end-to-end returns from its recurring income, by divesting assets and making new investments in line with the Group capital allocation framework. For 2023, gains on disposal are expected in the range of £15 - £30 million.

The Board expects a small increase in net finance income for 2023 and for the effective tax rates in each of the three geographies to be close to statutory rates, albeit with cash tax payments in the UK remaining below statutory levels in the medium term as losses are utilised. The Group's average cash is expected to reduce in 2023, due to a working capital unwind forecast in the range of £75-£125 million for the year.

The longer-term outlook for the Group is also positive. The further growth and de-risking of the order book delivered in 2022, combined with the opportunities identified in the Group's chosen markets, give the Board confidence in Balfour Beatty's continued ability to deliver profitable managed growth and sustainable cash generation, and in turn significant ongoing shareholder returns.

RESULTS OVERVIEW

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

Throughout this report, the Group has presented financial performance measures which are considered most relevant to Balfour Beatty and are used to manage the Group's performance. These 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 financial performance measures are also aligned to measures used internally to assess business performance in the Group's budgeting process and when determining compensation. An explanation of the Group's financial performance measures and appropriate reconciliations to its statutory measures are provided in the Measuring Our Financial Performance section. Non-underlying items are the cause of the differences between underlying and statutory profitability. Additionally, underlying revenue includes the Group's share of revenue of joint ventures and associates.

Group financial summary

The underlying profit from operations for the year increased to £279 million (2021: £197 million), primarily due to the improved profitability in Construction Services. Within the Construction Services underlying profit of £149 million (2021: £79 million), the significant improvement arose from the return to profitability in UK Construction following write-downs on private sector property projects in central London in 2021, with the increases in US Construction and Gammon supported by exchange rate movements. Support Services underlying profit from operations was lower at £83 million (2021: £102 million), however its 8.4% PFO margin exceeded the 6-8% margin target range set by the Group in 2021. At Infrastructure Investments, underlying profit increased to £81 million (2021: £49 million) due to higher gains on investment disposals.

Statutory profit from operations was £275 million (2021: £97 million).

Underlying profit / (loss) from operations[2]	2022 £m	2021 £m
UK Construction	59	(2)
US Construction	58	51
Gammon	32	30
Construction Services	149	79
Support Services	83	102
Earnings-based businesses	232	181
Infrastructure Investments pre-disposals operating profit	11	14
Infrastructure Investments gain on disposals	70	35
Corporate activities	(34)	(33)
Total	279	197

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

The order book has increased by 8% to £17.4 billion (2021: £16.1 billion), up 2% at constant exchange rates (CER), largely due to an increase in the UK Construction order book.

Underlying revenue increased by 8% to £8,931 million (2021: £8,280 million), or 2% at CER. Within this, Construction Services revenue increased by 11% (4% at CER), while Support Services revenue reduced by 7% following the exit from the gas and water sector. Group statutory revenue, which excludes joint ventures and associates, was £7,629 million (2021: £7,185 million).

Net finance income increased to £12 million (2021: net finance costs of £10 million) as a result of higher cash balances, higher interest rates and a lower level of impairment to subordinated debt and accrued interest receivable from joint ventures and associates than in 2021. Underlying pre-tax profit was £291 million (2021: £187 million).

Tax on underlying profits was a charge of £1 million (2021: credit of £7 million), comprising a £57 million tax charge (2021: £27 million) on underlying profits and a £56 million tax credit (2021: £34 million) relating to the recognition of additional UK tax losses. Going forwards, however, the effective tax rates in each of the three geographies are expected to be close to statutory rates, albeit with cash tax payments in the UK remaining below statutory levels in the medium term as losses are utilised. Underlying profit after tax for the year was £290 million (2021: £194 million).

Total statutory profit after tax for the year was £287 million (2021: £139 million), after a net charge of £3 million from non-underlying items (2021: £55 million). The underlying basic earnings per share were 47.5 pence (2021: 29.7 pence), which, along with a non-underlying loss per share of 0.6 pence (2021: 8.4 pence), gave total basic earnings per share of 46.9 pence (2021: 21.3 pence).

Non-underlying items

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

Non-underlying items after taxation were a net charge of £3 million for the year (2021: £55 million) and included a £6 million charge relating to the amortisation of acquired intangible assets, a £2 million credit for the release of an indemnity provision which is no longer required and a net £1 million tax credit.

Cash flow performance

In 2022, the Group delivered a net cash inflow of £25 million (2021: £209 million), with a year-end net cash balance of £815 million (2021: £790 million) and average net cash of £804 million (2021: £671 million). Cash from operations of £185 million (2021: £354 million) was largely offset by, amongst other items, the second year of the Group's multi-year share buyback programme (2022: £151 million; 2021: £151 million).

Cash flow performance	2022 £m	2021 £m
Operating cash flows before working capital movements and pension deficit payments	282	127
Working capital (outflow)/inflow	(54)	269
Pension deficit payments+	(43)	(42)
Cash from operations	185	354
Lease payments (including interest paid)	(58)	(59)
Dividends from joint ventures and associates∞	89	60
Capital expenditure	(31)	(36)
Share buybacks	(151)	(151)
Dividends paid	(58)	(29)
Infrastructure Investments		
- disposal proceeds	93	81
- new investments	(30)	(19)
Other	(14)	8
Net cash movement	25	209
Opening net cash*	790	581
Closing net cash*	815	790

* Excluding infrastructure investments (non-recourse) net borrowings

∞ Excludes £59 million dividends received in 2022 in relation to Investments asset disposals within joint ventures and associates (2021: £8 million)

+ Including £2 million (2021: £3 million) of regular funding

Working capital

Changes in the Group's working capital position during the year resulted in a cash outflow of £54 million (2021: inflow of £269 million). This reduction in the negative working capital position was a net result of several movements including outflows relating to the private sector property projects in central London and the US military housing DoJ resolution and inflows relating to major infrastructure projects in the UK.

Working capital flows^	2022 £m	2021 £m
Inventories	(6)	11
Net contract assets	(137)	221
Trade and other receivables	34	(34)
Trade and other payables	57	43
Provisions	(2)	28
Working capital (outflow) / inflow^	(54)	269

^ Excluding impact of foreign exchange and disposals

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £1,167 million (2021: £1,118 million). In the medium term, the Group continues to expect negative working capital as a percentage of revenue to be in line with its historical long-term average of 11-13% (2022: 15.3%; 2021: 15.6%) with the range dependent on contract mix and the timing of project starts and completions.

Net cash / borrowings

The Group's average net cash in 2022 increased to £804 million (2021: £671 million). The Group's net cash position at 31 December 2022, excluding non-recourse net borrowings, was £815 million (2021: £790 million).

Non-recourse net borrowings, held in Infrastructure Investments entities consolidated by the Group, were £242 million (2021: £243 million). The balance sheet also included £132 million for lease liabilities (2021: £129 million). Statutory net cash at 31 December 2022 was £441 million (2021: £418 million).

Banking facilities

The Group's £375 million sustainability linked loan (SLL) facility extends to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score as determined by Sustainalytics, an ESG research, ratings and data provider for institutional investors and companies. Performance in these three areas will be monitored during the lifetime of the facility and depending on the outcomes achieved, a credit margin reduction or increase will be applicable. The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. The facility remained undrawn throughout the year.

In June, the Group raised US$158 million of debt in the form of new US Private Placement (USPP) notes on terms and conditions materially the same as the USPP notes issued in 2013. The new debt comprises US$35 million of notes maturing in 2027 at a fixed coupon of 6.31%, US$80 million of notes maturing in 2029 at a fixed coupon of 6.39% and US$43 million of notes maturing in 2032 at a fixed coupon of 6.45%. In December 2022, the Group secured a new £30 million bilateral committed bank facility which remained undrawn at 31 December 2022. This facility expires in December 2024, with an extension option for a further three years subject to certain specific conditions. Following the year end, the funds raised through the new USPP notes and the bilateral bank facility were utilised towards repayment of the US$209 million of USPP notes which matured in March 2023. The refinancing exercise has extended the debt maturity profile of the Group.

Going concern

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

Pensions

Balfour Beatty and the trustees of the Balfour Beatty Pension Fund (BBPF) have reconfirmed their commitment to a journey plan approach to managing the BBPF whereby the BBPF is aiming to reach self-sufficiency by 2027. The Company and the trustees have agreed the principles of the 31 March 2022 formal valuation. Under these principles, Balfour Beatty will pay deficit contributions to the BBPF of £24m in 2023, £24m in 2024 and £6m in 2025. The Company and the trustees expect to take further steps over the coming months to reduce the investment risk in the scheme and the Company has agreed that additional amounts will become payable at £2m per month from March 2025 if the BBPF's performance is materially different from that expected. The next formal triennial funding valuation is due with effect from 31 March 2025.

As a result of an acceleration mechanism agreed previously between the Group and the trustees, the Group made deficit contributions to the BBPF of £35 million in 2022.

During the year, the trustees of the BBPF entered into a longevity swap covering the majority of the existing pensioner members, which removes from the BBPF the risk of these people living longer than expected and represents a further substantial step in de-risking the BBPF.

During the Gilt yield crisis in Autumn 2022, the BBPF's Fiduciary Manager, together with the BBPF's Investment Committee, closely monitored the collateral being held within the scheme's liability hedging portfolio. As Gilt yields rose, action was proactively taken to ensure that throughout the crisis the BBPF held sufficient collateral to support its liability hedging programme.

Following the formal triennial funding valuation of the Railways Pension Scheme (RPS) as at 31 December 2019, the Group agreed to continue to make deficit contributions of £6 million per annum which should reduce the funding deficit to zero by 2025. The triennial valuation of the RPS as at 31 December 2022 is in progress and is expected to be finalised in the first half of 2024.

The Group's balance sheet includes net retirement benefit assets which are broadly unchanged at £223 million (2021: £231 million) as measured on an IAS 19 basis, with the surpluses on the BBPF (£225 million) and RPS (£37 million) partially offset by liabilities in relation to other schemes (£39 million). Whilst a sharp increase in the yields on corporate bonds has significantly reduced the present value of the schemes' pension obligations, the value of the schemes' assets has also fallen in a corresponding manner.

Dividend

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

Following the 3.5 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 7.0 pence per share, giving a total recommended dividend for the year of 10.5 pence per share (2021: 9.0 pence per share).

Going forward, the Board expects the interim dividend to be roughly one third of the prior year's full year dividend.

DIVISIONAL REVIEWS

CONSTRUCTION SERVICES

Financial review

Underlying revenue of £7,482 million represents an 11% increase (2021: £6,746 million), or 4% at CER. Underlying profit from operations increased to £149 million (2021: £79 million), driven by the return to profitability in UK Construction. Statutory profit for the year was £150 million (2021: £30 million). The order book increased by 10% to £15.0 billion (2021: £13.6 billion), a 3% increase at CER.

Construction Services	2022			2021		
	Revenue[1]	PFO	Order book[1]	Revenue[1]	PFO	Order book[1]
	£m	£m	£bn	£m	£m	£bn
UK Construction	2,763	59	6.1	2,593	(2)	5.6
US Construction	3,651	58	6.0	3,344	51	5.4
Gammon	1,068	32	2.9	809	30	2.6
Underlying[2]	7,482	149	15.0	6,746	79	13.6
Non-underlying	-	1	-	-	(49)	-
Total	7,482	150	15.0	6,746	30	13.6

[1] Including share of joint ventures and associates

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

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

<u>UK Construction</u>

Revenue in UK Construction increased by 7% to £2,763 million (2021: £2,593 million) due to increased volumes at HS2 and Hinkley Point C more than offsetting reduced regional volumes. In 2022, 91% of UK Construction revenue was from public sector and regulated industry clients (2021: 90%).

The return to profitability of UK Construction was the key driver of the improvement in the Group's results. Underlying profit from operations for UK Construction of £59 million (2021: loss of £2 million) represented a PFO margin of 2.1%, which is within the 2-3% UK industry standard range.

The UK Construction order book grew by 9% to £6.1 billion (2021: £5.6 billion) and, increasingly, consists predominantly of work for public sector and regulated industry clients (2022: 95%; 2021: 91%) and lower risk target-cost and cost-plus work (2022: 90%; 2021: 86%).

<u>US Construction</u>

Revenue in US Construction increased by 9% to £3,651 million (2021: £3,344 million), largely due to the strengthening of the US dollar during the year. Revenue decreased by 1% at CER. The business operates in the buildings and civils markets, with roughly 80% of revenue earned from buildings. Underlying profit from operations for US Construction increased by 14% to £58 million (2021: £51 million), resulting in a small PFO margin improvement to 1.6% (2021: 1.5%), which is within the 1-2% US industry standard range.

The US Construction order book increased by 11% to £6.0 billion (2021: £5.4 billion), flat at CER. The business currently has an unusually high amount of work which has been awarded but not contracted, as clients wait for some clarity in uncertain economic conditions. This work is not included in the order book until the client agrees to proceed.

Gammon

At Gammon in Hong Kong, the Group's 50% share of revenue from the joint venture increased by 32% to £1,068 million (2021: £809 million) or 20% at CER, driven by an increase in major civils volumes, including the Terminal 2 expansion at Hong Kong Airport. Underlying profit increased by 7% to £32 million (2021: £30 million), however profit margins reduced to 3.0% (2021: 3.7%) due to the phasing of contracts.

The Group's 50% share of Gammon's order book increased by 12% to £2.9 billion (2021: £2.6 billion) but reduced by 3% at CER.

Operational review

UK Construction

As part of the Autumn Statement announced in November, the UK Government reconfirmed its commitment to deliver major infrastructure projects, highlighting investment in infrastructure, alongside investment in people and innovation, as a key route to boosting growth and productivity. This included the pledge to deliver Sizewell C, HS2 to Manchester and core Northern Powerhouse rail links and is aligned to the £650 billion National Infrastructure Strategy (NIS) set out in 2020. On 9 March 2023, the UK transport secretary announced that £40 billion will be invested in transformational transport schemes over the next two financial years, however inflation and supply chain disruption have made it difficult to deliver some capital programmes. This has resulted in some schemes, including the Road Investment Strategy and HS2, taking longer than expected.

Balfour Beatty's market-leading position in the UK infrastructure market is built on its unmatched scale and vertically integrated capability for delivering major and regional projects. In 2022, 91% of UK Construction revenue was from public sector and regulated industry clients (2021: 90%). Balfour Beatty will continue to be selective in the work that it bids, through increased bid margin thresholds and utilisation of risk frameworks and contract governance.

The UK Construction business comprises:

- Major project work: focused on complex projects in key market sectors such as transportation (road and rail), heavy infrastructure and energy; and
- Regional work: 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.

On major project work, the HS2 works at Area North and Old Oak Common station continue to make good progress. In July, a 2,000-tonne tunnel boring machine completed its one-mile journey underneath an ancient Warwickshire wood. The machine, which started boring under Long Itchington Wood in December 2021, made the first tunnel breakthrough on the London to Birmingham route. The second tunnel at Long Itchington Wood is underway and expected to complete in the summer. Over the Christmas period, a 12,600-tonne bridge was guided 163 metres into place over the M42 in Warwickshire, which is believed to be the world's longest bridge box slide. The 86-metre structure, which will carry trains on the HS2 line over the motorway, was built on land next to the motorway over a six-month period. The box slide solution meant there was only a ten-day closure of the motorway required in the year, dramatically reducing disruption for road users. At Old Oak Common station, good progress is being made on the main box construction, with the successful installation of a conveyor to transport 800,000m^3 of London clay 1.7 miles to Willesden Euroterminal, where it is loaded onto freight trains.

At Hinkley Point C, six reinforced concrete heads were lowered onto the seabed of the Bristol Channel requiring tandem lifts using specialist marine plant. The heads are a vital part of the architecture at Hinkley, allowing sea water into the tunnels as part of the cooling water system for the new nuclear power station. Following these installations, the focus has turned to the offsite fabrication of the liners required for the 2023 offshore campaign, when the shafts to the six heads will be drilled and installed.

During November, the secondary lining works at Thames Tideway were completed on the 7km main tunnel from Acton in West London to Fulham in Southwest London ahead of the target date, bringing to an end 800 sequential concrete pours which had begun in March 2021.

During 2022, the Group took further steps in its commitment to address the growing demand for clean energy across the UK by signing memorandums of understanding with partners in wind and nuclear energy:

- In October, the Group signed an agreement with Aker Solutions to deliver end-to-end design and construction solutions for the concrete floating and gravity-based UK offshore wind industry,
- In December, the Group signed an agreement with Holtec Britain and Hyundai Engineering and Construction to support the planning advancement for the construction of Holtec's SMR-160 pressurised light-water nuclear reactors in the UK.

Major highways achievements in the year include the completion of the 32-mile upgrade of the M4 from Junction 3 at Hayes to Junction 12 at Theale. The four-and-a-half-year motorway upgrade project included permanent conversion of the hard shoulder, new variable message signs, lower noise surfacing, upgraded environmental noise barriers and new gantries. The A63 project, which will reduce traffic congestion in Hull city centre and improve access to the port of Hull, continued to progress well and work has begun on the major improvement scheme at Junction 10 of the M25.

In January 2023, Balfour Beatty was awarded a £1.2 billion contract by National Highways to deliver the 'Roads North of the Thames' package of works for the proposed Lower Thames Crossing. The Group will utilise modular construction techniques to build the structures offsite in a controlled factory environment, significantly reducing carbon emissions by minimising the number of lorry movements and material deliveries to and from site. Following the announcement by the UK transport secretary on 9 March 2023 regarding the impact of budgetary constraints on public infrastructure spend, the notice to proceed from the Department for Transport is not expected prior to 2026.

For regional work, Balfour Beatty was once again appointed as the sole contractor to both the SCAPE Civil Engineering framework covering England, Wales and Northern Ireland, and the SCAPE Scotland Civil Engineering framework covering the entirety of Scotland. The frameworks are worth up to £3.25 billion and £750 million respectively. Both frameworks – which enable local authorities and other public sector bodies to commission works through a procurement process that provides a quick route to market – cover a period of four years, with two one-year extension options.

One of the hundreds of projects which the Group has procured under the SCAPE frameworks since first being appointed in 2015 is the major highways programme at Wokingham in Berkshire. The four-year package of works awarded in 2018 included the planning, design and construction of nine vital road schemes to alleviate congestion and enhance accessibility in the market town and was completed in 2022.

In February 2022, Balfour Beatty, in a 50:50 joint venture with Welsh infrastructure company Jones Bros, completed the 10km Caernarfon to Bontnewydd bypass in North Wales. The project has since been recognised for outstanding design and construction by the Institution of Civil Engineers Wales Cymru. In August, work was completed on the East Leeds Orbital Route, a new 7km dual carriageway which acts as the new outer ring road to ease congestion and is the biggest infrastructure project delivered by Leeds City Council since the completion of the inner ring road half a century ago.

US Construction

In the US, the diversification of geographies and market segments in which Balfour Beatty operates has provided resilience against the challenge of the economic instability to date. Following the passing of the US$1.2 trillion Infrastructure Investment and Jobs Act (IIJA) in 2021 and the Inflation Reduction Act in 2022, the opportunities in the US civils market are expanding, allowing Balfour Beatty to be more selective in the work it bids for.

Unlike in the UK, most of the projects undertaken by US Construction remain on fixed price contract terms. The Group continues to focus on controlling the range of outcomes from these projects with the early issuing of subcontracts and bonding of the supply chain, which helps to reduce the loss-making portion of the project portfolio.

The Group continues to have a larger presence in US buildings than US civils, where their chosen markets are still performing strongly, particularly education in California, hospitality and aviation in the Southeast and Federal work in the Mid-Atlantic states. The level of inflation however and higher interest rates are having an impact on the release of work in Texas and generally in the Technology sector in the Northwest.

In the year, Buildings completed several notable projects including:

- The Wharf: Two ten-storey office buildings and two below ground parking garages, in Washington DC;
- JP Morgan Chase: A 540,000 square foot build-to-suit office with parking garage in Plano, Texas;
- Justin Tower Hospital: A 160-patient bed tower in Fort Worth, Texas;
- San Diego Unified School District: Three schools in San Diego, California.

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

- Washingtonian North Senior Living: A seven-storey senior living complex in Gaithersburg, Maryland that includes 302 units;
- Ilani Hotel: A 14-storey, 300-key luxury hotel development on a half block with house suites and traditional rooms, a bar, a café, a full-service spa, and a restaurant on the 14th floor located on Tribal Land in Ridgefield, Washington;
- Midtown Atlanta: A 36-storey multifamily tower project with 376 apartment units and a 34-storey student housing project with 239 housing units, together with a shared nine-level parking structure in Atlanta Georgia;
- Del Sol High School: A high school in Oxnard, California which will feature classroom buildings and a library, gymnasium and multipurpose building.

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

- Fort Meade: A US$700 million design-build contract for a federal building in Maryland, including the construction of a multi-storey 858,000 square foot facility plus a 1.2 million square foot parking garage;
- Broward County Convention Center Phase 5: A US$400 million project to build an 800-room hotel;
- Knox Street: A multi-use development project in Texas in joint venture with Andres, of which Balfour Beatty's share is 55% and US$300m of revenue;
- Data centres: US$300 million of data centres for a technology customer in Oregon.

Included in ABNC at year end, US Buildings has been made preferred bidder for a number of material projects including: five residence halls and one dining facility at The College of William and Mary in Williamsburg, Virginia; Jacksonville International Airport terminal in Florida; and two projects for the Naval Facilities Engineering Systems Command located at Point Mugu to construct an aircraft maintenance hangar and a recruit mess hall.

The US Civils business focuses on highway projects in Texas and the Southeast and mass transit rail in major US cities. During the year:

- Balfour Beatty, as part of the Green Line Extension Constructors joint venture, completed the two light-rail lines along the new 4.7-mile Green Line Extension for the Massachusetts Bay Transportation Authority;
- As part of the LINXS Constructors joint venture at Los Angeles International Airport, the Group completed the 2.25-mile Automated People Mover train guideway superstructure stage of the project;
- Balfour Beatty, as part of the Colorado River Constructors joint venture, set the first bridge beams that support widening activities east of the US 290 and SH 71 interchange in Austin on the Texas Department of Transportation's Oak Hill Parkway project;
- The Southern Gateway reconstruction and improvement project in Texas was completed by the joint venture between Balfour Beatty and Fluor;
- On the Caltrain contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, Balfour Beatty completed the last of the 3,092 foundations required for the overhead catenary system.

In February 2023, Balfour Beatty was awarded a US$242 million design-build contract to deliver improvements to Interstate US 70 between the Havelock Bypass and east of Thurman Road in Craven County, North Carolina. Construction is expected to take five years, commencing in late 2023.

Gammon

Gammon, Balfour Beatty's 50:50 joint venture with Jardine Matheson based in Hong Kong, continues to perform consistently, with a strong share of both the buildings and civils markets. Despite the challenge of COVID-19 restrictions in 2022, project execution and work winning remained strong and the further relaxation of those restrictions is expected to have positive repercussions in 2023. Furthermore, the new Chief Executive of Hong Kong, John Lee, announced a broader programme of major infrastructure projects as part of his inaugural policy address in October and the Mass Transit Railway (MTR), for which Gammon has a strong track record of delivering work, is also bringing to market a programme to expand the rail network. Although inflation in Hong Kong remains lower than in the UK and US, the high level of construction activity in the region has increased the demand for labour, resulting in higher salaries. Consequently, voluntary attrition remains a challenge. However, Gammon's employee satisfaction has increased from 76% in 2021 to 82% in 2022 and retention remains a priority.

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

During the year, Gammon's completed work included the Fullerton Ocean Park Hotel Hong Kong, which involved the construction of two 10-storey blocks on a three-level podium, and a 9-storey building block with a 2-storey basement, for which 75% of the prefabrication of the structural steel works and 70% of the modularisation of the Mechanical, Electrical and Plumbing works were completed offsite.

Progress has been made at Hong Kong Airport where Gammon is delivering the structures for the Automatic People Mover and Baggage Handling System in addition to working on the Terminal 2 expansion. As part of the Central Kowloon Route project, a 4.7km-long dual three-lane trunk road that will enhance connectivity between the east and west Kowloon districts, Gammon continues to deliver the Kai Tak West tunnelling contract and the route wide buildings, electrical and mechanical works contract. In December, Gammon began work on the world's largest student hostel, in terms of bed places, to be constructed using modular integrated construction. The entire student hostel consists of six buildings ranging from 13 to 18 storeys and will provide over 2,000 residential units.

Having been awarded the student hostel contract in February 2022, Gammon won a number of further notable new contracts in the year, including:

- Causeway Bay office building: A HK$2.6 billion contract for Mandarin Oriental Hotel Group to construct an A-grade office building, with a podium for retail and food and beverage shops;
- Yau Tong Ko Chiu Road residential development: A HK$1.3 billion contract to construct a 33-storey residential tower and podium, providing 792 new flats;
- Kwun Tong Composite Development: A HK$2.7 billion contract to design and build a 25-storey building for a new college and a 9-storey community and welfare amenities building, with the scope of works also including basement carparks, elevated walkways and roads;
- Ho Man Tin Station Package One Property Development: A HK$3.4 billion building contract located atop MTR Ho Man Tin station to develop five residential towers, providing 990 new flats.

SUPPORT SERVICES

Financial review

Support Services is focused on power, plant, road and rail maintenance and is characterised by profitable recurring revenues underpinned by long-term contracts.

Revenue in Support Services reduced by 7% to £989 million (2021: £1,066 million), due to a reduction in gas and water following the Group's decision to withdraw from this sector. In conjunction with the exit from gas and water announced in 2021, the Group upgraded the margin target range for Support Services to 6-8%. A strong performance from Support Services in 2022 resulted in underlying profit from operations of £83 million (2021: £102 million), which represents a PFO margin of 8.4% and outperformance of expectations for the year.

The order book for Support Services decreased by 4% to £2.4 billion (2021: £2.5 billion).

Support Services	2022	2021
Order book[1] (£bn)	2.4	2.5
Revenue[1] (£m)	989	1,066
Profit from operations[2] (£m)	83	102
Non-underlying items (£m)	-	(5)
Statutory profit from operations (£m)	83	97

[1] Including share of joint ventures and associates

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

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

Operational review

The UK markets for power, road and rail maintenance are all positive. In power, the RIIO-T2 spend period (2021-2026) includes £30 billion for investment in energy networks and potential for a further £10 billion on green energy projects, while the focus on improving energy security through growth in domestic generation has increased further following the Russian invasion of Ukraine. The highways maintenance market is part way through a five-year £2.7 billion scheme for road patching, which has increased local council budgets by around 50% over the period. There are also a number of Local Authorities contracts, similar to those won by Balfour Beatty for Buckinghamshire and East Sussex in 2022, coming to market in the coming years for which the Group is well positioned. The rail maintenance market also has a positive trajectory with an additional £10 billion of funding for maintenance and renewals as part of Network Rail's current CP6 control period (2019-2024).

During the year, the following key milestones were achieved:

- The power and rail maintenance businesses together completed the Eleclink project, providing a 1GW electricity interconnector between France and England through the Channel Tunnel;
- The power business made significant progress on the Hinkley Connection project, a 57km route of 400kV overhead lines in Somerset to connect six million homes and businesses in the surrounding area with low-carbon electricity that will be generated from the Hinkley Point C nuclear power station;
- The power business laid the final piece of UK land cable for National Grid's Viking Link project, which once complete, will be the world's largest land and subsea interconnector and will be able to import enough green power for up to 1.4 million UK homes;
- The new Littlebrook substation was energised by the power business. This will enable 2GW of low carbon and renewable energy, enough to power around 1.5 million homes, to be transmitted through the substation from cross-channel interconnectors and wind farms off the Kent coast.

The year also included notable contract awards for Support Services. The road maintenance business was awarded two new contracts, with a £176 million eight-year contract to deliver highways services for Buckinghamshire County Council and a £297 million seven-year contract for the maintenance of highways assets and the delivery of infrastructure services across East Sussex. The East Sussex contract will go into the order book in 2023 and includes an option to extend the term by a further seven years based on the successful delivery of the initial term. The rail maintenance business agreed the year four work programme with Network Rail at around £120 million as part of the 10-year Central Rail Systems Alliance (CRSA) track renewals programme, together with £87 million of further work under the CRSA, and won a £50 million contract to deliver essential upgrade works to London Underground's Piccadilly line.

INFRASTRUCTURE INVESTMENTS

Financial review

Underlying pre-disposals operating profit of £11 million (2021: £14 million) and gain on disposals of £70 million (2021: £35 million) resulted in underlying profit from operations of £81 million (2021: £49 million) for Infrastructure Investments.

Balfour Beatty continues to invest in attractive new opportunities, each expected to meet its investment hurdle rates. In the year, the Group invested £30 million in new and existing projects with one new multifamily housing project added to the portfolio. Balfour Beatty also continues to sell assets, timed to maximise benefit to shareholders. Five assets were disposed of in the year, with the student accommodation at Purdue University contributing £40 million gain on disposal and four multifamily housing projects contributing a total of £30 million gain on disposals.

All transactions were above the Directors' valuation, demonstrating the strength of the secondary market for infrastructure assets during the year. Despite the economic uncertainty, demand for infrastructure assets has remained strong and Balfour Beatty will maximise shareholder value through selective disposal of assets from its portfolio.

Net investment income of £24 million was higher than 2021 (£12 million), with the prior year including £14 million of impairments to subordinated debt and accrued interest receivable from joint ventures and associates (2022: £2 million), contributing to an underlying profit before tax of £105 million (2021: £61 million). Statutory profit before tax for the year was £100 million (2021: £15 million).

Infrastructure Investments	2022 £m	2021 £m
Pre-disposals operating profit[2]	11	14
Gain on disposals[2]	70	35
Profit from operations[2]	81	49
Net investment income[~]	24	12
Profit before tax[2]	105	61
Non-underlying items	(5)	(46)
Statutory profit before tax	100	15

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

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

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

Operational review

Balfour Beatty's competitive expertise to finance, develop, build and maintain infrastructure puts the Group in a strong position to capitalise on new investment opportunities, with the Group's current focus on US P3 projects, US private rental and student accommodation in the UK and the US. The Infrastructure Investment and Jobs Act is expected to stimulate P3 activity in the US as it has expanded the scope of projects eligible for funding under the Transportation Infrastructure Finance and Innovation Act (TIFIA) and doubled the limit of Private Activity Bonds available to the Department of Transportation. Infrastructure Investments is well positioned in the student accommodation market where future cash flows are supported by a growing number of students, strong rental growth and partnerships with universities in both the UK and the US. The Group is currently preferred bidder on two student accommodation projects in the UK and one in the US.

Following the significant disposal gains achieved in 2022, Balfour Beatty intends to sell further selected assets to maximise value in its portfolio, with recent auction experience indicating that strong demand in the secondary market continues to exceed supply.

Since Balfour Beatty Communities' (Communities) settlement with the US Department of Justice (DoJ) in December 2021, an independent compliance monitor, which formed part of the agreed resolution, has been appointed by the DoJ and commenced work.

Following the US Permanent Subcommittee on Investigations (PSI) hearing in April 2022, the subsequent US Army investigation into Communities' operations at Fort Gordon, Georgia, has now concluded. No presence of fraud, gross negligence or data manipulation was found. Communities continues to work with the US Army, Navy and Air Force to further enhance its maintenance provision to military services members and their families.

Communities is continuing to pursue opportunities for further infrastructure investment in its military housing portfolio in conjunction with its service branch partners. In July, the US Army and Communities announced the start of demolition at Fort Carson as part of a proposed multi-phased project that would see the construction of new townhomes at the base. Elsewhere, other initiatives include an energy modernisation project which resulted in 1,000 homes receiving efficiency upgrades to reduce consumption and carbon emissions, a rooftop solar programme bringing more than 10MW of photovoltaic systems to five US Navy housing communities and an exterior renovation project to upgrade ten US Army apartment buildings.

Directors' valuation

The Directors' valuation increased by 17% to £1,291 million (2021: £1,106 million). The portfolio is 58% weighted towards the US (2021: 57%). The number of projects in the portfolio decreased to 59 (2021: 64).

The half-yearly review of the Directors' valuation methodology and assumptions has resulted in changes to the methodology and the discount rates for the UK and US. The table below shows the movement in the Directors' valuation on a like-for-like basis with the prior year, and then shows the effect of the methodology and assumption changes. Following the year end, a third-party valuation expert independently reviewed the portfolio and the Directors' valuation is consistent with their conclusions.

Movement in value 2021 to 2022

									Methodology and assumption changes		
£m	**2021**	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Operational performance	FX	**2022**	Discount rate	Other	**Revised 2022**
UK	**474**	8	(27)	-	36	43	-	**534**	14	-	**548**
US	**632**	22	(62)	(93)	49	96	85	**729**	40	(26)	**743**
Total	**1,106**	30	(89)	(93)	85	139	85	**1,263**	54	(26)	**1,291**

Balfour Beatty invested £30 million (2021: £19 million) in new and existing projects. During the year, the Group added one new project, a US multifamily housing project in San Antonio, Texas.

Cash yield from distributions amounted to £89 million (2021: £62 million) as the portfolio continued to generate cash flow to the Group, net of investment. This included £22m of yield from refinancing a student accommodation project in the US.

Balfour Beatty continued disposals in the year with proceeds of £93 million (2021: £81m). This included: £50 million from the sale of its stake in Purdue student accommodation and £43m from the disposal of its stake in four US multifamily housing assets. Additionally, a residential accommodation project in the UK received its final cashflow and is therefore no longer in the portfolio.

Unwind of discount at £85 million (2021: £83 million) is a function of moving the valuation date forward by one year with the result that future cash flows are discounted by twelve months less.

Operational performance movements resulted in a £139 million increase (2021: £27 million). The operational performance movements in the UK were primarily due to high actual and 12-month forecast inflation. In the US, operational performance movements were mainly the impact of higher military housing rents agreed for 2023 and £47m of gain on the disposals noted above.

Foreign exchange movement contributed an £85m increase to the valuation of the US portfolio due to sterling weakening against the US dollar.

Methodology and assumption changes

The methodology used for the Directors' valuation for valuing most investments in the portfolio remains the discounted cash flow (DCF) method. Under this methodology cash flows for each project are forecast based on historical and present performance, future risks and macroeconomic forecasts. They also factor in secondary market assumptions. These cash flows are then discounted using different discount rates, which are based on the risk and maturity of individual projects and reflect secondary market transaction experience and the Group's current assessment of the impact of recent rises in long-term interest rates. The main exception to the use of DCF is for US multifamily housing projects which, due to the perpetual nature of the assets and the depth and liquidity of the rental housing market, are now valued based on periodic broker reports for each property. Both forms of valuation methodology reflect market values and therefore change with movements in the market.

The only change made to the UK portfolio was a reduction of 0.25% in the base reference discount rate applied to each project. This change has increased the valuation by £14 million. The approach to the project specific risk premia that are added to the reference discount rate remains unchanged. The resulting UK discount rates range from 6.75% to 8.75% depending on the maturity and risk of each project. The implied weighted average discount rate for the UK portfolio is 7.9% (2021: 8.1%). A 1% change in the discount rate would change the value of the UK portfolio by approximately £59 million.

The changes to the US portfolio comprise discount rates and methodology changes for the military housing portfolio. Discount rate changes increased the valuation by £40 million. Following these changes, discount rates applied to the US portfolio now range between 6.0% and 10.5% and the implied US weighted average discount rate is 7.9% (2021: 8.3%). A 1% change in the discount rate would change the value of the US portfolio by approximately £86 million**.**

For the military housing portfolio, specific changes have been made to rental growth rates, overheads and tax. Rental growth rates on each project are now based on the average growth rate over the last ten years. The overheads and tax changes are based on an assessment of the minimum amount that a purchaser of the portfolio would factor in when arriving at an acquisition valuation. The rental growth, overhead and tax changes reduced the valuation by £26 million.

As demonstrated through the operational performance gain in the year, the portfolio remains positively correlated to inflation. A 1% change in the long-term inflation rate in the UK portfolio would change the valuation by approximately £28 million and a 1% change in the long-term rental growth rate in the US portfolio would change the valuation by approximately £80 million.

As in previous periods, the Directors' valuation may differ significantly from the accounting book value of investments shown in the financial statements, which are produced in accordance with International Financial Reporting Standards (IFRS) rather than using a discounted cash flow approach. A full reconciliation is provided in section i) of the Measuring Our Financial Performance section.

Portfolio valuation December 2022

Value by sector

Sector	**2022**	2021	**2022**	2021
	No. projects	No. projects	**£m**	£m
Roads	**12**	12	**171**	158
Healthcare	**2**	2	**126**	108
Student accommodation	**5**	5	**128**	95
OFTOs	**3**	3	**50**	44
Waste & Biomass	**2**	2	**51**	46

Other	**2**	3	**22**	23
UK total	**26**	27	**548**	474
US military housing	**21**	21	**615**	491
Student accommodation and other PPP	**3**	4	**59**	72
Residential housing	**9**	12	**69**	69
US total	**33**	37	**743**	632
Total	**59**	64	**1,291**	1,106

Value by phase

Phase	**2022**	2021	**2022**	2021
	No. projects	No. projects	**£m**	£m
Operations	**55**	60	**1,239**	1,070
Construction	**3**	3	**47**	34
Preferred bidder	**1**	1	**5**	2
Total	**59**	64	**1,291**	1,106

Value by income type

Income type	**2022**	2021	**2022**	2021
	No. projects	No. projects	**£m**	£m
Availability based	**17**	17	**353**	311
Demand – operationally proven (2+ years)	**36**	39	**761**	580
Demand – early stage (less than 2 years)	**6**	8	**177**	215
Total	**59**	64	**1,291**	1,106

MEASURING OUR FINANCIAL PERFORMANCE

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

Readers are encouraged to review this announcement in its entirety.

Performance measures used to assess the Group's operations

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Operating cash flow (OCF)

The Group uses an internally defined measure of OCF to measure the performance of its earnings-based businesses and subsequently to determine the amount of incentive awarded to employees in these businesses under the Group's Annual Incentive Plan (AIP). This measure also aligns to one of the vesting conditions attributable to the Group's 2020, 2021 and 2022 PSP awards.

Measuring the Group's performance

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

Statutory measures

Statutory measures are derived from the Group's reported financial statements, which have been prepared in accordance with International Accounting Standards and in accordance with UK-adopted International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006.

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 188 to 194 of the Annual Report and Accounts 2022.

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

Performance measures

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

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

a) Order book

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

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

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

In accordance with IFRS 15 Revenue from Contracts with Customers, the Group is required to disclose the remaining transaction price allocated to performance obligations not yet delivered. This can be found in Note 4.3 in the Annual Report and Accounts 2022. This is similar to the Group's order book disclosure however it differs for the following reasons:

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

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

		2022 £m	2021 £m
Order book (performance measure)		**17,390**	16,057
Less:	Share of orders included within the Group's joint ventures and associates	**(3,275)**	(2,974)
Less:	Estimated orders under framework agreements included in the order book disclosure	**(25)**	(60)
Add:	Transaction price allocated to remaining performance obligations in Infrastructure Investments+	**2,009**	1,664
Transaction price allocated to remaining performance obligations for the Group+ (statutory measure)		**16,099**	14,687

+ Refer to Note 4.3 in the Annual Report and Accounts 2022.

b) Underlying performance

The Group adjusts for certain non-underlying items which the Board believes assists in understanding the performance achieved by the Group. These items include:

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions;
- costs of major restructuring and reorganisation of existing businesses;
- costs of integrating newly acquired businesses;
- acquisition and similar costs related to business combinations such as transaction costs;
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets); and
- impairment of goodwill.

These are non-underlying costs as they do not relate to the underlying performance of the Group.

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

Further details of non-underlying items are provided in Note 9.

A reconciliation has been provided below to show how the Group's statutory results are adjusted to exclude non-underlying items and their impact on its statutory financial information, both as a whole and in respect of specific line items.

Reconciliation of 2022 statutory results to performance measures

	2022 statutory results £m	Non-underlying items: Intangible amortisation £m	Non-underlying items: Release of Heery provision £m	Non-underlying items: UK deferred tax assets revaluation £m	2022 performance measures £m
Revenue including share of joint ventures and associates (performance)	**8,931**	**–**	**–**	**–**	**8,931**
Share of revenue of joint ventures and associates	**(1,302)**	**–**	**–**	**–**	**(1,302)**
Group revenue (statutory)	**7,629**	**–**	**–**	**–**	**7,629**
Cost of sales	**(7,202)**	**–**	**–**	**–**	**(7,202)**
Gross profit	**427**	**–**	**–**	**–**	**427**
Amortisation of acquired intangible assets	**(6)**	**6**	**–**	**–**	**–**
Other net operating expenses	**(251)**	**–**	**(2)**	**–**	**(253)**
Group operating profit	**170**	**6**	**(2)**	**–**	**174**
Share of results of joint ventures and associates	**105**	**–**	**–**	**–**	**105**
Profit from operations	**275**	**6**	**(2)**	**–**	**279**
Investment income	**50**	**–**	**–**	**–**	**50**
Finance costs	**(38)**	**–**	**–**	**–**	**(38)**
Profit before taxation	**287**	**6**	**(2)**	**–**	**291**
Taxation	**–**	**1**	**–**	**(2)**	**(1)**
Profit for the year	**287**	**7**	**(2)**	**(2)**	**290**

Reconciliation of 2022 statutory results to performance measures by segment

Profit/(loss) from operations	2022 statutory results £m	Non-underlying items: Intangible amortisation £m	Non-underlying items: Release of Heery provision £m	2022 performance measures £m
Segment				
Construction Services	**150**	**1**	**(2)**	**149**
Support Services	**83**	**–**	**–**	**83**
Infrastructure Investments	**76**	**5**	**–**	**81**
Corporate activities	**(34)**	**–**	**–**	**(34)**
Total	**275**	**6**	**(2)**	**279**

Reconciliation of 2021 statutory results to performance measures

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

Reconciliation of 2021 statutory results to performance measures by segment

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

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:

		2022 £m	2021 £m
Underlying profit from operations (section (b) and Note 5)		**81**	49
Add:	Subordinated debt interest receivable+	**27**	23
Add:	Interest receivable on PPP financial assets+	**2**	5
Add:	Fair value gain on investment asset+	**6**	9
Less:	Non-recourse borrowings finance cost+	**(9)**	(11)
Less:	Impairment of subordinated debt receivable+	**–**	(4)
Less:	Impairment of accrued interest receivable+	**(2)**	(10)
Underlying profit before tax (performance)		**105**	61
Non-underlying items (section (b) and Note 5)		**(5)**	(46)
Statutory profit before tax		**100**	15

+ Refer to Note 7 and Note 8.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2022 pence	2021 pence
Statutory basic earnings per ordinary share	**46.9**	21.3
Amortisation of acquired intangible assets after tax	**1.2**	0.6
Other non-underlying items after tax	**(0.6)**	7.8
Underlying basic earnings per ordinary share (performance)	**47.5**	29.7

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

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

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

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

f) Operating cash flow (OCF)

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

Reconciliation from statutory cash generated from operations to OCF

	2022 £m	2021 £m
Cash generated from operating activities (statutory)	**168**	353
Add back: Pension payments including deficit funding (Note 21)	**43**	42
Less: Repayment of lease liabilities (including lease interest payments)	**(58)**	(59)
Add: Operational dividends received from joint ventures and associates	**89**	60
Add back: Cash flow movements relating to non-operating items	**(12)**	1
Less: Operating cash flows relating to non-recourse activities	**(11)**	(5)
Operating cash flow (OCF) (performance)	**219**	392

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

Pension payments including deficit funding (£43 million): the Group has excluded pension payments which are included in the Group's statutory measure of cash flows from operating activities from its internal OCF measure as these primarily relate to deficit funding of the Group's main pension fund, Balfour Beatty Pension Fund (BBPF). The payments made for the deficit funding are in accordance with an agreed journey plan with the trustees of the BBPF and are not directly linked to the operational performance of the Group.

Repayment of lease liabilities (including lease interest payments) (£58 million outflow): the payments made for the Group's leasing arrangements are included in the Group's OCF measure as these payments are made to third-party suppliers for the lease of assets that are used to deliver services to the Group's customers, and hence to generate revenue. Under IFRS, these payments are excluded from the Group's statutory measure of cash flows from operating activities as these are considered debt in nature under accounting standards.

Operational dividends received from joint ventures and associates (£89 million inflow): dividends received from joint ventures and associates which are generated from non-disposal activities are included in the Group's OCF measure as these are cash returns to the Group from cash flows generated from operating activities within joint ventures and associates. Under IFRS, these returns are classified as investing activities.

Cash flow movements relating to non-operating items (£12 million): the Group's OCF measure excludes certain working capital movements that are not directly attributable to the Group's operating activities.

Operating cash flows relating to non-recourse activities (£11 million): the Group's OCF measure is specifically targeted to drive performance improvement in the Group's earnings-based businesses and therefore any operating cash flows relating to non-recourse activities are removed from this measure. Under IFRS, there is no distinction between recourse and non-recourse cash flows.

g) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the year end. This is analysed by excluding elements that are non-recourse to the Group as well as lease liabilities.

Non-recourse elements are cash and debt that are ring-fenced within certain infrastructure concession project companies and are excluded from the definition of net debt set out in the Group's borrowing facilities. In addition, lease liabilities which are deemed to be debt in nature under statutory measures are also excluded from the Group's definition of net cash/borrowings as these are viewed to be operational in nature reflecting payments made in exchange for use of assets.

Net cash/borrowings reconciliation

	2022 statutory £m	**Adjustment £m**	**2022 performance £m**	2021 statutory £m	Adjustment £m	2021 performance £m
Total cash within the Group	**1,179**	**(19)**	**1,160**	1,033	(17)	1,016
Cash and cash equivalents – infrastructure concessions	**19**	**(19)**	**–**	17	(17)	–
– other	**1,160**	**–**	**1,160**	1,016	–	1,016
Total debt within the Group	**(738)**	**393**	**(345)**	(615)	389	(226)
Borrowings – non-recourse loans	**(261)**	**261**	**–**	(260)	260	–
– other	**(345)**	**–**	**(345)**	(226)	–	(226)
Lease liabilities	**(132)**	**132**	**–**	(129)	129	–
Net cash	**441**	**374**	**815**	418	372	790

h) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and lease liabilities, and this performance measure shows average net cash of £804 million for 2022 (2021: £671 million).

Using a statutory measure (inclusive of non-recourse elements and the lease liabilities recognised) gives average net cash of £430 million for 2022 (2021: £279 million).

i) Directors' valuation of the Investments portfolio

The Group uses a different methodology to assess the value of its Investments portfolio. As described in the Directors' valuation section, the Directors' valuation has been undertaken using forecast cash flows for most investments on an asset by asset basis, based on progress to date and market expectations of future performance. These cash flows have been discounted using different discount rates depending on project risk and maturity, reflecting secondary market transaction experience. As such, the Board believes that this measure better reflects the potential returns to the Group from those investments. The Directors have valued the Investments portfolio at £1.29 billion at year end (2021: £1.11 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

	2022 £m	2021 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**593**	599
Less: Net assets not included within the Directors' valuation – Housing division	**(30)**	(24)
Comparable statutory measure of the Investments portfolio under IFRS	**563**	575

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

	2022 £m	2021 £m
Statutory measure of the Investments portfolio (as above)	**563**	575
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: • historical cost • amortised cost • fair value	**728**	531
Directors' valuation (performance measure)	**1,291**	1,106

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 for most investments 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.

j) Constant exchange rates (CER)

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

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

2022 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2022 statutory	2,763	3,646	–	6,409	988	232	7,629
2021 statutory	2,593	3,327	–	5,920	1,046	219	7,185
Statutory growth	**7%**	**10%**	**–**	**8%**	**(6)%**	**6%**	**6%**
2022 performance^	2,763	3,651	1,068	7,482	989	460	8,931
2021 performance retranslated^	2,593	3,702	890	7,185	1,066	500	8,751
Performance CER growth	**7%**	**(1)%**	**20%**	**4%**	**(7)%**	**(8)%**	**2%**
Order book (£bn)							
2022	6.1	6.0	2.9	15.0	2.4	–	17.4
2021	5.6	5.4	2.6	13.6	2.5	–	16.1
Growth	**9%**	**11%**	**12%**	**10%**	**(4)%**	**–**	**8%**
2022	6.1	6.0	2.9	15.0	2.4	–	17.4
2021 retranslated	5.6	6.0	3.0	14.6	2.5	–	17.1
CER growth	**9%**	**–**	**(3)%**	**3%**	**(4)%**	**–**	**2%**

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

Forward-looking statements

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

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

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, changes to spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 89 to 96 of the Annual Report and Accounts 2022.

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

Group Income Statement

For the year ended 31 December 2022

	Notes	2022 Underlying items[1] £m	2022 Non-underlying items (Note 9) £m	2022 Total £m	2021 Underlying items[1] £m	2021 Non-underlying items (Note 9) £m	2021 Total £m
Revenue including share of joint ventures and associates		**8,931**	**–**	**8,931**	8,280	(17)	8,263
Share of revenue of joint ventures and associates	15	**(1,302)**	**–**	**(1,302)**	(1,078)	–	(1,078)
Group revenue		**7,629**	**–**	**7,629**	7,202	(17)	7,185
Cost of sales		**(7,202)**	**–**	**(7,202)**	(6,862)	(42)	(6,904)
Gross profit/(loss)		**427**	**–**	**427**	340	(59)	281
Gain on disposals of interests in investments		**–**	**–**	**–**	26	–	26
Amortisation of acquired intangible assets	14	**–**	**(6)**	**(6)**	–	(5)	(5)
Other net operating (expenses)/income		**(253)**	**2**	**(251)**	(226)	(36)	(262)
Group operating profit/(loss)		**174**	**(4)**	**170**	140	(100)	40
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**35**	**–**	**35**	48	–	48
Gain on disposals of interests in investments		**70**	**–**	**70**	9	–	9
Share of results of joint ventures and associates	15	**105**	**–**	**105**	57	–	57
Profit/(loss) from operations		**279**	**(4)**	**275**	197	(100)	97
Investment income	7	**50**	**–**	**50**	39	–	39
Finance costs	8	**(38)**	**–**	**(38)**	(49)	–	(49)
Profit/(loss) before taxation		**291**	**(4)**	**287**	187	(100)	87
Taxation	10	**(1)**	**1**	**–**	7	45	52
Profit/(loss) for the year		**290**	**(3)**	**287**	194	(55)	139
Attributable to							
Equity holders		**291**	**(3)**	**288**	195	(55)	140
Non-controlling interests		**(1)**	**–**	**(1)**	(1)	–	(1)
Profit/(loss) for the year		**290**	**(3)**	**287**	194	(55)	139

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

	Notes	2022 pence	2021 pence
Earnings per share			
- basic	11	**46.9**	21.3
- diluted	11	**46.3**	21.1
Dividends per share proposed for the year	12	**10.5**	9.0

Group Statement of Comprehensive Income

For the year ended 31 December 2022

	2022 Group £m	2022 Share of joint ventures and associates £m	2022 Total £m	2021 Group £m	2021 Share of joint ventures and associates £m	2021 Total £m
Profit for the year	**182**	**105**	**287**	82	57	139
Other comprehensive income/(loss) for the year						
Items which will not subsequently be reclassified to the income statement						
Actuarial (losses)/gains on retirement benefit assets/liabilities	**(52)**	**1**	**(51)**	98	7	105
Tax on above	**20**	**–**	**20**	(22)	(1)	(23)
	(32)	**1**	**(31)**	76	6	82
Items which will subsequently be reclassified to the income statement						
Currency translation differences	**32**	**23**	**55**	2	(1)	1
Fair value revaluations – PPP financial assets	**(3)**	**(124)**	**(127)**	(3)	(6)	(9)
– cash flow hedges	**3**	**29**	**32**	8	(6)	2
– investments in mutual funds measured at fair value through OCI	**(5)**	**–**	**(5)**	3	–	3
Recycling of revaluation reserves to the income statement on disposal^	**–**	**(3)**	**(3)**	(3)	(7)	(10)
Tax on above	**(1)**	**25**	**24**	(2)	(2)	(4)
	26	**(50)**	**(24)**	5	(22)	(17)
Total other comprehensive (loss)/income for the year	**(6)**	**(49)**	**(55)**	81	(16)	65
Total comprehensive income for the year	**176**	**56**	**232**	163	41	204
Attributable to						
Equity holders			**233**			205
Non-controlling interests			**(1)**			(1)
Total comprehensive income for the year			**232**			204

^ 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 2022

	Called-up share capital £m	Share premium account £m	Capital redemption reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves [µ] £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2021	345	176	1	65	137	612	9	1,345
Total comprehensive income/(loss) for the year	–	–	–	41	5	159	(1)	204
Ordinary dividends	–	–	–	–	–	(29)	–	(29)
Joint ventures' and associates' dividends	–	–	–	(68)	–	68	–	–
Non-controlling interests' dividends	–	–	–	–	–	–	(1)	(1)
Purchase of treasury shares	–	–	–	–	–	(151)	–	(151)
Movements relating to share-based payments	–	–	–	–	2	6	–	8
Reserve transfers relating to joint ventures and associates	–	–	–	34	–	(34)	–	–
At 31 December 2021	345	176	1	72	144	631	7	1,376
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**56**	**25**	**152**	**(1)**	**232**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(58)**	**–**	**(58)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(148)**	**–**	**148**	**–**	**–**
Non-controlling interests' dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Purchase of treasury shares	**–**	**–**	**–**	**–**	**–**	**(151)**	**–**	**(151)**
Cancellation of ordinary shares	**(51)**	**–**	**51**	**–**	**–**	**–**	**–**	**–**
Movements relating to share-based payments[+]	**–**	**–**	**–**	**–**	**1**	**(16)**	**–**	**(15)**
At 31 December 2022	**294**	**176**	**52**	**(20)**	**170**	**706**	**5**	**1,383**

[µ] Other reserves include £22m of special reserve (2021: £22m).

[+] Movements relating to share-based payments include £2m tax credit (2021: £nil) recognised directly within retained profits.

Group Balance Sheet

At 31 December 2022

		Notes	2022 £m	2021 £m
Non-current assets				
Intangible assets	– goodwill	13	**876**	817
	– other	14	**292**	296
Property, plant and equipment			**104**	98
Right-of-use assets			**127**	125
Investment properties			**27**	29
Investments in joint ventures and associates		15	**426**	503
Investments			**40**	35
PPP financial assets			**26**	30
Trade and other receivables		17	**286**	249
Retirement benefit assets		21	**262**	321
Deferred tax assets			**176**	120
			2,642	2,623
Current assets				
Inventories			**114**	104
Contract assets		16.1	**300**	214
Trade and other receivables		17	**881**	865
Cash and cash equivalents	– infrastructure investments	20.3	**19**	17
	– other	20.3	**1,160**	1,016
Current tax receivable			**6**	7
Derivative financial instruments			**1**	–
			2,481	2,223
Total assets			**5,123**	4,846
Current liabilities				
Contract liabilities		16.2	**(663)**	(669)
Trade and other payables		18	**(1,595)**	(1,458)
Provisions		19	**(204)**	(174)
Borrowings	– non-recourse loans	20.3	**(30)**	(5)
	– other	20.3	**(173)**	(34)
Lease liabilities			**(49)**	(44)
Current tax payable			**(8)**	(14)
Derivative financial instruments			**–**	(1)
			(2,722)	(2,399)
Non-current liabilities				
Contract liabilities		16.2	**(2)**	(9)
Trade and other payables		18	**(141)**	(117)
Provisions		19	**(197)**	(205)
Borrowings	– non-recourse loans	20.3	**(231)**	(255)
	– other	20.3	**(172)**	(192)
Lease liabilities			**(83)**	(85)
Retirement benefit liabilities		21	**(39)**	(90)
Deferred tax liabilities			**(152)**	(115)
Derivative financial instruments			**(1)**	(3)
			(1,018)	(1,071)
Total liabilities			**(3,740)**	(3,470)
Net assets			**1,383**	1,376
Equity				
Called-up share capital			**294**	345
Share premium account			**176**	176
Capital redemption reserve			**52**	1
Share of joint ventures' and associates' reserves			**(20)**	72
Other reserves			**170**	144
Retained profits			**706**	631
Equity attributable to equity holders of the parent			**1,378**	1,369
Non-controlling interests			**5**	7
Total equity			**1,383**	1,376

Group Statement of Cash Flows

For the year ended 31 December 2022

		Notes	2022 £m	2021 £m
Cash flows from operating activities				
Cash from operations			**185**	354
Income taxes paid			**(17)**	(1)
Net cash from operating activities			**168**	353
Cash flows from investing activities				
Dividends received from:				
	- joint ventures and associates – infrastructure investments		**114**	30
	- joint ventures and associates – other		**34**	38
	- other investments		**4**	–
Interest received – infrastructure investments – joint ventures			**10**	8
Interest received – infrastructure investments – subsidiaries			**7**	2
Acquisition of businesses		23.1	**(3)**	(3)
Purchases of:	- intangible assets – infrastructure investments		**(1)**	(1)
	- intangible assets – other		**–**	(1)
	- property, plant and equipment		**(31)**	(35)
	- other investments		**(7)**	–
Investments in and long-term loans to joint ventures and associates			**(29)**	(15)
Return of equity from joint ventures and associates			**34**	4
PPP financial assets cash expenditure			**(2)**	(3)
PPP financial assets cash receipts			**5**	10
Disposals of:	- investments in joint ventures – infrastructure investments		**–**	50
	- investments in joint ventures – other		**1**	1
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments		**–**	16
	- property, plant and equipment – other		**8**	10
	- other investments		**2**	5
Net cash from investing activities			**146**	116
Cash flows used in financing activities				
Purchase of ordinary shares			**(25)**	–
Purchase of treasury shares			**(151)**	(151)
Proceeds from new loans relating to:	- infrastructure investments assets	20.4	**8**	8
	- other	20.4	**130**	–
Repayments of loans relating to infrastructure investments assets		20.4	**(7)**	(6)
Repayment of lease liabilities			**(52)**	(53)
Ordinary dividends paid		12	**(58)**	(29)
Other dividends paid – non-controlling interest			**(1)**	(1)
Interest paid – infrastructure investments			**(9)**	(11)
Interest paid – other			**(24)**	(23)
Net cash used in financing activities			**(189)**	(266)
Net increase in cash and cash equivalents			**125**	203
Effects of exchange rate changes			**55**	4
Cash and cash equivalents at beginning of year			**999**	792
Cash and cash equivalents at end of year		20.2	**1,179**	999

Notes to the financial statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis in accordance with UK-adopted International Accounting Standards and in conformity with the requirements of the Companies Act 2006 (the Act). The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 15 March 2023, does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2021, but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2022 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 2023.

2 Going concern

The Directors consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements.

The key financial risk factors for the Group remain largely unchanged. The Group's principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 89 to 96 of the Annual Report and Accounts 2022.

The Group's US private placement and committed bank facility contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2022, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

The Directors have carried out an assessment of the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts of each of the Group's operations. The Directors have also considered the strength of the Group's order book which amounted to £17.4bn at 31 December 2022 and will provide a pipeline of secured work over the going concern assessment period. These base case projections indicate that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the going concern assessment period.

At 31 December 2022, the Group's only debt, other than non-recourse borrowings ring-fenced within certain concession companies, comprised US private placement (USPP) notes. Of the USPP notes issued in 2013, US$209m matured in March 2023 and the remaining US$50m will mature in March 2025. The Group raised US$158m in June 2022 through the issue of new USPP notes which will mature in tranches in 2027, 2029 and 2032. In December 2022, the Group secured a new £30m bilateral committed bank facility which remained undrawn at 31 December 2022 and expires in December 2024 with an extension option for a further three years subject to certain specific conditions. In March 2023, the funds raised through the new PPP notes and the new bilateral bank facility were utilised towards repayment of the US$209m USPP notes.

2 Going concern continued

The Group's £375m committed sustainability-linked bank facility, which was undrawn throughout the year ended 31 December 2022, remains fully available to the Group until October 2024.

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

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

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

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

3 Accounting policies

3.1 Adoption of new and revised standards

The following accounting standards, interpretations and amendments have been adopted by the Group in the year ended 31 December 2022:

- Amendments to the following standards:
  - IAS 16 Property, Plant and Equipment
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
  - IFRS 3 Business Combinations
  - Annual Improvements 2018 – 2020.

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

3.2 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the UK or were not yet effective in the UK at 31 December 2022:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
  - IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
  - IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
  - IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
  - IFRS 16 Leases: Lease Liability in a Sale and Leaseback
  - IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

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

3.3 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty are set out in Note 2.27 of the Annual Report and Accounts 2022.

4 Exchange rates

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

Average rates

£1 buys	**2022**	2021	Change
US$	**1.24**	1.37	(9.5)%
HK$	**9.72**	10.69	(9.1)%

Closing rates

£1 buys	**2022**	2021	Change
US$	**1.20**	1.35	(11.1)%
HK$	**9.39**	10.52	(10.7)%

5 Segment analysis

Reportable segments of the Group:

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

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

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

5.1 Total Group

Income statement – performance by activity

	Construction Services 2022 £m	Support Services 2022 £m	Infrastructure Investments 2022 £m	Corporate activities 2022 £m	Total 2022 £m
Revenue including share of joint ventures and associates	**7,482**	**989**	**460**	**–**	**8,931**
Share of revenue of joint ventures and associates	**(1,073)**	**(1)**	**(228)**	**–**	**(1,302)**
Group revenue	**6,409**	**988**	**232**	**–**	**7,629**
Group operating profit/(loss)[1]	**129**	**83**	**(4)**	**(34)**	**174**
Share of results of joint ventures and associates	**20**	**–**	**85**	**–**	**105**
Profit/(loss) from operations[1]	**149**	**83**	**81**	**(34)**	**279**
Non-underlying items:					
- amortisation of acquired intangible assets	**(1)**	**–**	**(5)**	**–**	**(6)**
- other non-underlying items	**2**	**–**	–	**–**	**2**
	1	**–**	**(5)**	**–**	**(4)**
Profit/(loss) from operations	**150**	**83**	**76**	**(34)**	**275**
Investment income					**50**
Finance costs					**(38)**
Profit before taxation					**287**

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

Income statement – performance by activity

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

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

5 Segment analysis continued

5.1 Total Group continued

Assets and liabilities by activity	Construction Services 2022 £m	Support Services 2022 £m	Infrastructure Investments 2022 £m	Corporate activities 2022 £m	Total 2022 £m
Contract assets	**209**	**62**	**29**	**–**	**300**
Contract liabilities – current	**(550)**	**(112)**	**(1)**	**–**	**(663)**
Inventories	**50**	**32**	**32**	**–**	**114**
Trade and other receivables – current	**730**	**91**	**37**	**23**	**881**
Trade and other payables – current	**(1,374)**	**(171)**	**(44)**	**(6)**	**(1,595)**
Provisions – current	**(179)**	**(3)**	**(8)**	**(14)**	**(204)**
Working capital*	**(1,114)**	**(101)**	**45**	**3**	**(1,167)**
Total assets	**2,342**	**443**	**940**	**1,398**	**5,123**
Total liabilities	**(2,421)**	**(378)**	**(347)**	**(594)**	**(3,740)**
Net assets	**(79)**	**65**	**593**	**804**	**1,383**

* Includes non-operating items and current working capital.

Assets and liabilities by activity	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Contract assets	132	60	22	–	214
Contract liabilities – current	(565)	(102)	(2)	–	(669)
Inventories	49	27	28	–	104
Trade and other receivables – current	706	109	31	19	865
Trade and other payables – current	(1,172)	(190)	(87)	(9)	(1,458)
Provisions – current	(149)	(4)	(7)	(14)	(174)
Working capital*	(999)	(100)	(15)	(4)	(1,118)
Total assets	2,158	497	997	1,194	4,846
Total liabilities	(2,237)	(390)	(399)	(444)	(3,470)
Net assets	(79)	107	598	750	1,376

* Includes non-operating items and current working capital.

5 Segment analysis continued

5.1 Total Group continued

Other information	Construction Services 2022 £m	Support Services 2022 £m	Infrastructure Investments 2022 £m	Corporate activities 2022 £m	Total 2022 £m
Capital expenditure on property, plant and equipment	**13**	**15**	**–**	**3**	**31**
Capital expenditure on intangible assets (Note 14)	**–**	**–**	**1**	**–**	**1**
Depreciation	**30**	**41**	**2**	**10**	**83**
Gain on disposals of interests in investments within joint ventures and associates (Note 23.2)	**–**	**–**	**70**	**–**	**70**

	2021 £m	2021 £m	2021 £m	2021 £m	2021 £m
Capital expenditure on property, plant and equipment	21	12	–	2	35
Capital expenditure on intangible assets (Note 14)	–	–	1	1	2
Depreciation	30	37	2	10	79
Gain on disposals of interests in investments	–	–	26	–	26
Gain on disposals of interests in investments within joint ventures and associates	–	–	9	–	9

Performance by geographic destination	United Kingdom 2022 £m	United States 2022 £m	Rest of world 2022 £m	Total 2022 £m
Revenue including share of joint ventures and associates	**3,894**	**3,954**	**1,083**	**8,931**
Share of revenue of joint ventures and associates	**(98)**	**(130)**	**(1,074)**	**(1,302)**
Group revenue	**3,796**	**3,824**	**9**	**7,629**

	2021 £m	2021 £m	2021 £m	2021 £m
Revenue including share of joint ventures and associates[1]	3,793	3,636	851	8,280
Share of revenue of joint ventures and associates	(110)	(131)	(837)	(1,078)
Group revenue[1]	3,683	3,505	14	7,202

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

5.2 Infrastructure Investments

Underlying profit/(loss) from operations[1]	Group 2022 £m	Share of joint ventures and associates (Note 15)[+] 2022 £m	Total 2022 £m	Group 2021 £m	Share of joint ventures and associates (Note 15)[+] 2021 £m	Total 2021 £m
UK^	**3**	**1**	**4**	6	1	7
North America	**18**	**14**	**32**	15	14	29
Gain on disposals of interests in investments	**–**	**70**	**70**	26	9	35
	21	**85**	**106**	47	24	71
Bidding costs and overheads	**(25)**	**–**	**(25)**	(22)	–	(22)
	(4)	**85**	**81**	25	24	49

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

^ Including Ireland

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

6. Revenue

6.1 Nature of services provided

6.1.1 Construction Services

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

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction services, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit-out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However, for certain types of contracts, services relating to fit-out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small-scale infrastructure works 24 to 60 months for large-scale complex construction	The Group provides construction services for three main types of infrastructure assets: highways, railways and other large-scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK, US and Hong Kong. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway construction services include design and managing the construction of railway systems delivering major multi-disciplinary projects, track work, electrification and power supply. The Group serves both public and private railways including high-speed passenger railways, freight and mixed traffic routes, dense commuter networks, metros and light rail. Other infrastructure assets include construction, design and build services on large-scale complex assets predominantly servicing the waste, water and energy sectors. Contracts entered into relating to these infrastructure assets can take the form of fixed-price, cost-plus or target-cost contracts with shared pain/gain mechanisms. Contract lengths vary according to the size and complexity of the asset build and can range from a few months for small-scale infrastructure works to four to five years for large-scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses the maintenance element as a separate PO and revenue from this PO is recognised in the Support Services segment. Refer to Note 6.1.2.

6 Revenue continued

6.1 Nature of services provided continued

6.1.2 Support Services

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

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

6 Revenue continued

6.1 Nature of services provided continued

6.1.3 Infrastructure Investments

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

Types of services	Nature, timing of satisfaction of performance obligations and significant payment terms
Service concessions	The Group operates a UK and US portfolio of service concession assets comprising assets in the roads, healthcare, student accommodation, biomass and waste and offshore transmission sectors. The Group accounts for these assets under IFRIC 12 Service Concession Arrangements. Where the Group constructs and maintains these assets, the two services are deemed to be separate performance obligations and accounted for separately. If the maintenance phase includes a lifecycle element, this is considered to be a separate PO. Contract terms can be up to 40 years. The Group recognises revenue over time using the input method. Consideration is paid through a fixed unitary payment charge spread over the life of the contract. *Revenue from this service is presented across Buildings, Infrastructure or Utilities in Note 6.2.*
Management services	The Group provides real estate management services such as property development and asset management services. Contract terms can be up to 50 years. The Group recognises revenue over time as and when service is delivered to the customer. *Revenue from this service is presented within Buildings in Note 6.2.*
Housing development	The Group also develops housing units on land that is owned by the Group. Revenue is recognised on the sale of individual units at the point in time when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. *Revenue from this service is presented within Buildings in Note 6.2.*

6 Revenue continued

6.2 Disaggregation of revenue

The Group presents a disaggregation of its underlying revenue according to the primary geographical markets in which the Group operates as well as the types of assets serviced by the Group. The nature of the various services provided by the Group is explained in Note 6.1. This disaggregation of underlying revenue is also presented according to the Group's reportable segments as described in Note 5.

For the year ended 31 December 2022

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	**2,761**	**3,650**	**1,071**	**7,482**
	Group revenue	**2,761**	**3,645**	**3**	**6,409**
Support Services	Revenue including share of joint ventures and associates	**982**	**–**	**7**	**989**
	Group revenue	**982**	**–**	**6**	**988**
Infrastructure Investments	Revenue including share of joint ventures and associates	**151**	**304**	**5**	**460**
	Group revenue	**53**	**179**	**–**	**232**
Total revenue	**Revenue including share of joint ventures and associates**	**3,894**	**3,954**	**1,083**	**8,931**
	Group revenue	**3,796**	**3,824**	**9**	**7,629**

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	**3,878**	**2,960**	**639**	**5**	**7,482**
	Group revenue	**3,387**	**2,401**	**616**	**5**	**6,409**
Support Services	Revenue including share of joint ventures and associates	**5**	**625**	**349**	**10**	**989**
	Group revenue	**5**	**625**	**348**	**10**	**988**
Infrastructure Investments	Revenue including share of joint ventures and associates	**291+**	**154**	**15**	**–**	**460**
	Group revenue	**229+**	**3**	**–**	**–**	**232**
Total revenue	**Revenue including share of joint ventures and associates**	**4,174**	**3,739**	**1,003**	**15**	**8,931**
	Group revenue	**3,621**	**3,029**	**964**	**15**	**7,629**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	**7,475**	**984**	**430**	**8,889**
At a point in time	**7**	**5**	**30**	**42**
Revenue including share of joint ventures and associates	**7,482**	**989**	**460**	**8,931**
Over time	**6,402**	**983**	**202**	**7,587**
At a point in time	**7**	**5**	**30**	**42**
Group revenue	**6,409**	**988**	**232**	**7,629**

+ Includes rental income of £49m including share of joint ventures and associates or £16m excluding share of joint ventures and associates.

6 Revenue continued

6.2 Disaggregation of revenue continued

For the year ended 31 December 2021

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

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

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

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

7 Investment income

	2022 £m	2021 £m
Subordinated debt interest receivable	**27**	23
Interest receivable on PPP financial assets	**2**	5
Fair value gain on investment asset	**6**	9
Interest received on bank deposits	**8**	–
Other interest receivable and similar income	**2**	1
Net finance income on pension scheme assets and obligations (Note 21)	**5**	1
	50	39

8 Finance costs

		2022 £m	2021 £m
Non-recourse borrowings	– bank loans and overdrafts	**9**	11
US private placement	– finance cost	**15**	10
Interest on lease liabilities		**6**	6
Other interest payable	– committed facilities	**2**	2
	– letter of credit fees	**2**	2
	– other finance charges	**2**	4
Impairment of joint ventures and associates	– loans	**–**	4
	– accrued interest	**2**	10
		38	49

The impairment of loans to joint ventures and associates of £nil (2021: £4m) and accrued interest receivable of £2m (2021: £10m) relate to expected credit loss assessments performed. All of these impairments relate to subordinated debt and accrued interest receivable from joint ventures and associates held within the Infrastructure Investments segment.

9 Non-underlying items

	2022 £m	2021 £m
Items (charged against)/credited to profit		
9.1 Amortisation of acquired intangible assets	**(6)**	(5)
9.2 Other non-underlying items:		
– release of indemnity provisions relating to sale of Heery International Inc.	**2**	6
– grant income repaid in relation to UK Job Retention Scheme	**–**	(19)
– settlement charge following resolution with DoJ in relation to handling of work orders within Balfour Beatty Communities	**–**	(41)
– provision recognised for rectification works to be carried out on a development in London	**–**	(42)
– release of accrual relating to sale of Parsons Brinckerhoff	**–**	1
Total other non-underlying items	**2**	(95)
Charged against profit before taxation	**(4)**	(100)
9.3 Tax credit/(charge):		
– impact of tax rate change on deferred tax assets previously recognised through non-underlying	**2**	18
– tax on other items above	**(1)**	–
– recognition of deferred tax assets in the UK	**–**	11
– tax on grant income repaid/received in relation to UK Job Retention Scheme	**–**	4
– tax on DoJ settlement charge	**–**	4
– tax on rectification works provision	**–**	8
Total tax credit	**1**	45
Charged against profit for the year	**(3)**	(55)

9.1 The amortisation of acquired intangible assets comprises: customer contracts £5m (2021: £4m); and customer relationships £1m (2021: £1m).

The charge was recognised in the following segments: Construction Services £1m (2021: £nil); and Infrastructure Investments £5m (2021: £5m).

9.2 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc (Heery). As part of the gain on disposal recorded, the Group recognised indemnity provisions relating to several projects which were indemnified by the Group as part of the sale. This estimate was subject to final ongoing negotiations with various clients. Following completion of these projects, a final reassessment of this provision was conducted resulting in a £2m release (2021: £6m).

The credit has been recognised in the Construction Services segment

9.3.1 There is an additional deferred tax credit of £2m to revalue previous deferred tax assets recognised through non-underlying items due to a corporation tax rate change enacted in the UK (2021: £18m).

9.3.2 The remaining non-underlying items recognised in the Group's operating profit gave rise to a tax charge of £1m which was recognised mainly on the amortisation of acquired intangible assets (2021: £nil).

10 Income taxes

	Underlying Items[1] 2022 £m	Non-underlying items (Note 9) 2022 £m	Total 2022 £m	Total 2021 £m
Total UK tax	**(33)**	**(2)**	**(35)**	(67)
Total non-UK tax	**34**	**1**	**35**	15
Total tax charge/(credit)[x]	**1**	**(1)**	**–**	(52)
UK current tax				
– current tax	**2**	**–**	**2**	–
– adjustments in respect of previous periods	**–**	**–**	**–**	(5)
	2	**–**	**2**	(5)
Non-UK current tax				
– current tax	**32**	**(14)**	**18**	6
– adjustments in respect of previous periods	**(3)**	**–**	**(3)**	(1)
	29	**(14)**	**15**	5
Total current tax	**31**	**(14)**	**17**	–
UK deferred tax				
– origination and reversal of temporary differences	**(20)**	**(2)**	**(22)**	(27)
– UK corporation tax rate change	**(13)**	**–**	**(13)**	(35)
– adjustments in respect of previous periods	**(2)**	**–**	**(2)**	–
	(35)	**(2)**	**(37)**	(62)
Non-UK deferred tax				
– origination and reversal of temporary differences	**4**	**13**	**17**	10
– adjustments in respect of previous periods	**1**	**2**	**3**	–
	5	**15**	**20**	10
Total deferred tax	**(30)**	**13**	**(17)**	(52)
Total tax charge/(credit)[x]	**1**	**(1)**	**–**	(52)

[x] Excluding joint ventures and associates.

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

The Group has recognised a £1m tax credit (2021: £45m) within non-underlying items in the year. Refer to Notes 9.3.1 and 9.3.2.

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

In addition to the Group tax charge/(credit), tax of £44m has been credited (2021: £27m charged) directly to other comprehensive income, comprising: a tax credit of £19m for subsidiaries (2021: £24m charge); and a tax credit in respect of joint ventures and associates of £25m (2021: £3m charge). Tax credit of £2m (2021: £nil) has been recognised directly in equity relating to share-based payments.

11 Earnings per share

Earnings	2022 Basic £m	2022 Diluted £m	2021 Basic £m	2021 Diluted £m
Earnings	**288**	**288**	140	140
Amortisation of acquired intangible assets – including tax charge of £1m (2021: £1m credit)	**7**	**7**	4	4
Other non-underlying items – including tax credit of £2m (2021: £44m credit)	**(4)**	**(4)**	51	51
Underlying earnings	**291**	**291**	195	195

	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**612**	**620**	657	664

The basic earnings per ordinary share is calculated by dividing the profit for the year attributable to equity holders by the weighted average number of ordinary shares outstanding during the year, which excludes treasury shares and shares held in the Employee Share Ownership Trust.

The diluted earnings per ordinary share uses an adjusted weighted average number of shares and includes shares that are potentially outstanding in relation to equity-settled share-based payment arrangements.

Potential dilutive effect of ordinary shares issuable under equity-settled share-based payment arrangements is 8m (2021: 7m).

Earnings per share	Basic pence	Diluted pence	Basic pence	Diluted Pence
Earnings per ordinary share	**46.9**	**46.3**	21.3	21.1
Amortisation of acquired intangible assets net of tax	**1.2**	**1.1**	0.6	0.6
Other non-underlying items net of tax	**(0.6)**	**(0.6)**	7.8	7.7
Underlying earnings per ordinary share	**47.5**	**46.8**	29.7	29.4

12 Dividends

	2022 Per share pence	2022 Amount £m	2021 Per share pence	2021 Amount £m
Proposed dividends for the year				
Interim – current year	**3.5**	**21**	3.0	19
Final – current year	**7.0**	**40**	6.0	37
	10.5	**61**	9.0	56
Recognised dividends for the year				
Final – prior year		**37**		10
Interim – current year		**21**		19
		58		29

Subject to approval at the Annual General Meeting on 12 May 2023, the final 2022 dividend will be paid on 5 July 2023 to holders on the register on 19 May 2023 by direct credit or, where no mandate has been given, by cheque posted by 5 July 2023. The ordinary shares will be quoted ex-dividend on 18 May 2023. The last date for Dividend Reinvestment Plan (DRIP) elections will be 14 June 2023.

13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2022	1,035	(218)	817
Currency translation differences	**71**	**(12)**	**59**
At 31 December 2022	**1,106**	**(230)**	**876**

Carrying amounts of goodwill by cash-generating unit	**2022** £m	**2022** Pre-tax discount rate %	2021 £m	2021 Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**9.1**	248	9.2
Balfour Beatty Construction Group Inc	**464**	**9.3**	414	9.3
Rail UK	**68**	**9.3**	68	9.3
Balfour Beatty Investments US	**55**	**11.1**	49	9.4
Other	**41**	**9.3**	38	10.2
Group total	**876**		817	

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected future revenues and margins of each CGU, giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three-Year Plan, which covers the period from 2023 to 2025. The cash flow forecasts for each CGU were compiled from each of its constituent business units as part of the Group's annual financial planning process.

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

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

13 Intangible assets – goodwill continued

	2022			2021		
	Inflation rate %	**Real growth rate %**	**Nominal long-term growth rate applied %**	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	**2.3**	**0.8**	**3.1**	2.3	0.5	2.8
Balfour Beatty Construction Group Inc	**2.2**	**0.7**	**2.9**	2.0	0.8	2.8
Rail UK	**2.3**	**0.8**	**3.1**	2.3	0.5	2.8
Balfour Beatty Investments US	**2.2**	**0.7**	**2.9**	2.0	0.8	2.8
Other	**2.3**	**0.8**	**3.1**	2.2	0.6	2.8

Sensitivities

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

A reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs.

14 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2022	633	(337)	296
Currency translation differences	**34**	**(26)**	**8**
Additions	**1**	**–**	**1**
Charge for the year	**–**	**(13)**	**(13)**
At 31 December 2022	**668**	**(376)**	**292**

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

15 Investments in joint ventures and associates

	2022					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Total £m	Total £m
Income statement						
Revenue	**1,073**	**1**	**99**	**129**	**228**	**1,302**
Operating profit excluding gain on disposals of interests in investments	24	–	(3)	21	18	42
Gain on disposals of interests in investments	–	–	–	70	70	70
Operating profit	24	–	(3)	91	88	112
Investment income	3	–	72	13	85	88
Finance costs	(1)	–	(66)	(20)	(86)	(87)
Profit before taxation	26	–	3	84	87	113
Taxation	(6)	–	(2)	–	(2)	(8)
Profit after taxation	20	–	1	84	85	105
Balance sheet						
Non-current assets						
Intangible assets:						
- goodwill	33	–	–	–	–	33
- Infrastructure Investments intangible	–	–	40	–	40	40
- other	–	–	13	–	13	13
Property, plant and equipment	33	–	–	–	–	33
Investment properties	–	–	–	257	257	257
Investments in joint ventures and associates	5	–	–	–	–	5
Money market funds	–	–	–	26	26	26
PPP financial assets	–	–	984	260	1,244	1,244
Military housing projects	–	–	–	119	119	119
Other non-current assets	106	–	27	13	40	146
Current assets						
Cash and cash equivalents	385	–	150	26	176	561
Other current assets	275	–	46	5	51	326
Total assets	837	–	1,260	706	1,966	2,803
Current liabilities						
Borrowings – non-recourse	(89)	–	(37)	–	(37)	(126)
Other current liabilities	(579)	–	(124)	(12)	(136)	(715)
Non-current liabilities						
Borrowings – non-recourse	–	–	(885)	(502)	(1,387)	(1,387)
Other non-current liabilities	(80)	–	(180)	(5)	(185)	(265)
Total liabilities	(748)	–	(1,226)	(519)	(1,745)	(2,493)
Net assets	89	–	34	187	221	310
Reclassify negative investment to provisions (Note 19)	10	–	–	–	–	10
Loans to joint ventures and associates	–	–	106	–	106	106
Total investment in joint ventures and associates	99	–	140	187	327	426

^ Including Ireland.

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

15 Investments in joint ventures and associates continued

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

^ Including Ireland.

16 Contract balances

16.1 Contract assets

	£m
At 1 January 2021	288
Transfers from contract assets recognised at the beginning of the year to receivables	(257)
Increase related to services provided in the year	200
Reclassified from contract provisions (Note 19)	(7)
Impairments on contract assets recognised at the beginning of the year	(10)
At 31 December 2021	214
Currency translation differences	**6**
Transfers from contract assets recognised at the beginning of the year to receivables	**(196)**
Increase related to services provided in the year	**304**
Reclass from contract provisions (Note 19)	**(1)**
Reclassified from contract liabilities (Note 16.2)	**(21)**
Impairments on contract assets recognised at the beginning of the year	**(6)**
At 31 December 2022	**300**

16.2 Contract liabilities

	£m
At 1 January 2021	(526)
Currency translation differences	(4)
Revenue recognised against contract liabilities at the beginning of the year	477
Increase due to cash received, excluding amounts recognised as revenue during the year	(625)
At 31 December 2021	(678)
Currency translation differences	**(39)**
Revenue recognised against contract liabilities at the beginning of the year	**578**
Increase due to cash received, excluding amounts recognised as revenue during the year	**(547)**
Reclassified to contract assets (Note 16.1)	**21**
At 31 December 2022	**(665)**

17 Trade and other receivables

	2022 £m	2021 £m
Current		
Trade receivables	**526**	518
Less: provision for impairment of trade receivables	**(3)**	(3)
	523	515
Due from joint ventures and associates	**16**	15
Due from joint operation partners	**6**	12
Contract fulfilment assets	**13**	12
Contract retentions receivable	**194**	215
Accrued income	**15**	13
Prepayments	**56**	42
Due on disposals	**–**	1
Other receivables	**58**	40
	881	865
Non-current		
Due from joint ventures and associates	**86**	73
Contract fulfilment assets	**31**	32
Contract retentions receivable	**166**	142
Other receivables	**3**	2
	286	249
Total trade and other receivables	**1,167**	1,114

18 Trade and other payables

	2022 £m	2021 £m
Current		
Trade and other payables+∞	**605**	546
Accruals	**741**	611
Contract retentions payable∞	**175**	202
VAT, payroll taxes and social security	**74**	96
Due on acquisitions	**–**	3
	1,595	1,458
Non-current		
Trade and other payables∞	**–**	5
Accruals	**10**	10
Contract retentions payable∞	**122**	92
Due to joint ventures and associates	**9**	10
	141	117
Total trade and other payables	**1,736**	1,575

+ 2021 figure includes the cost of settlement relating to the DOJ resolution. This was settled in full in January 2022.

∞ Re-presented to show contract retentions payable separately from trade and other payables.

19 Provisions

	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m
At 1 January 2021	279	46	25	350
Currency translation differences	(1)	–	–	(1)
Reclassified from accruals	3	–	–	3
Charged/(credited) to the income statement:				
– additional provisions	158	11	4	173
– unused amounts reversed	(35)	(8)	(4)	(47)
Utilised during the year	(76)	(13)	(3)	(92)
Reclassified to contract assets (Note 16.1)	(7)	–	–	(7)
At 31 December 2021	321	36	22	379
Currency translation differences	**9**	**–**	**1**	**10**
Reclassified from accruals	**–**	**–**	**1**	**1**
Charged/(credited) to the income statement:				
– additional provisions	**134**	**6**	**2**	**142**
– unused amounts reversed	**(48)**	**(2)**	**–**	**(50)**
Utilised during the year	**(80)**	**(7)**	**(3)**	**(90)**
Reclassified to contract assets (Note 16.1)	**(1)**	**–**	**–**	**(1)**
Reclassified negative investment in Group's investments in joint ventures and associates (Note 15)	**–**	**–**	**10**	**10**
At 31 December 2022	**335**	**33**	**33**	**401**

20 Notes to the statement of cash flows

20.1 Cash from/(used in) operations

20.1 Cash from/(used in) operations	Underlying items[1] 2022 £m	Non-underlying items 2022 £m	Total 2022 £m	Total 2021 £m
Profit from operations	**279**	**(4)**	**275**	97
Share of results of joint ventures and associates	**(105)**	**–**	**(105)**	(57)
Depreciation of property, plant and equipment	**27**	**–**	**27**	24
Depreciation of right-of-use-assets	**54**	**–**	**54**	54
Depreciation of investment properties	**2**	**–**	**2**	1
Amortisation of other intangible assets	**7**	**6**	**13**	18
Amortisation of contract fulfilment assets	**15**	**–**	**15**	12
Pension deficit payments, including regular funding	**(43)**	**–**	**(43)**	(42)
Movements relating to equity-settled share-based payments	**9**	**–**	**9**	7
Gain on disposal of interests in investments	**–**	**–**	**–**	(26)
Profit on disposal of property, plant and equipment	**(4)**	**–**	**(4)**	(4)
Other non-cash items	**(4)**	**–**	**(4)**	1
Operating cash flows before movements in working capital	**237**	**2**	**239**	85
(Increase)/decrease in operating working capital			**(54)**	269
Inventories			**(6)**	11
Contract assets			**(78)**	74
Trade and other receivables			**34**	(34)
Contract liabilities			**(59)**	147
Trade and other payables			**57**	43
Provisions			**(2)**	28
Cash from operations			**185**	354

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

20.2 Cash and cash equivalents

	2022 £m	2021 £m
Cash and deposits	**828**	766
Term deposits	**332**	250
Cash balances within infrastructure concessions	**19**	17
Bank overdrafts	**–**	(34)
	1,179	999

20.3 Analysis of net cash/(borrowings)

	2022 £m	2021 £m
Cash and cash equivalents (excluding infrastructure concessions)	**1,160**	1,016
Bank overdrafts	**–**	(34)
US private placement	**(345)**	(192)
Net cash excluding infrastructure concessions	**815**	790
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2023 and 2072	**(261)**	(260)
Infrastructure concessions cash and cash equivalents	**19**	17
	(242)	(243)
Net cash	**573**	547

Included in cash and cash equivalents is restricted cash of £3m (2021: £10m) held by the Group's self-insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations.

Cash and cash equivalents also include: £194m (2021: £249m) within construction project bank accounts which is used for project specific expenditure; £253m (2021: £261m) in relation to the Group's share of cash held by joint operations which is used for expenditure within the joint operation projects; and £19m (2021: £17m) relating to maintenance and other reserve accounts in the Infrastructure Investments subsidiaries.

20.4 Analysis of movements in borrowings

	Infrastructure concessions non-recourse project finance £m	**US private placement £m**	**Bank overdrafts £m**	**Total £m**
At 1 January 2022	(260)	(192)	(34)	(486)
Currency translation differences	**–**	**(23)**	**–**	**(23)**
Proceeds of loans	**(8)**	**(130)**	**–**	**(138)**
Repayments of loans	**7**	**–**	**34**	**41**
At 31 December 2022	**(261)**	**(345)**	**–**	**(606)**

In June 2022 the Group raised US$158m (£130m) of debt in the form of new US private placement (USPP) notes on terms and conditions materially the same as the existing USPP notes. The new debt comprises US$35m of notes maturing in June 2027 at a fixed coupon of 6.31%, US$80m of notes maturing in June 2029 at a fixed coupon of 6.39% and US$43m of notes maturing in June 2032 at a fixed coupon of 6.45%. Following the year end, the new funding was used towards the repayment of the US$209m of USPP notes which matured in March 2023.

In December 2022 the Group entered into a new £30m bilateral revolving credit facility on terms similar to the Group's core £375m sustainability linked loan (SLL). This new facility expires in December 2024 with an extension option for a further three years subject to specific provisions. The SLL and the new facility were undrawn at 31 December 2022.

21 Retirement benefit assets and liabilities

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

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

On 23 November 2022, the BBPF entered into a £1.7bn longevity swap to hedge the liabilities of the majority of its pensioner population against unexpected increases in life expectancy. The swap will form part of the BBPF's investment portfolio and provide income in the event that pensions are paid out for longer than expected. The BBPF trustees chose Zurich Assurance Ltd to act as an insurance intermediary between the BBPF and SCOR SE as the reinsurer. The fair value of the swap has been included as part of the BBPF's fair value of plan assets. At 31 December 2022, the swap was valued at £nil fair value as it was considered to remain at fair market value for both parties over the limited period from 23 November 2022 to 31 December 2022.

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

Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension surplus presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. In 2022, the BBPF received distributions of £2m from the SLP (2021: £2m).

Balfour Beatty and the trustees of the Balfour Beatty Pension Fund (BBPF) have reconfirmed their commitment to a journey plan approach to managing the BBPF whereby the BBPF is aiming to reach self-sufficiency by 2027. The Company and the trustees have agreed the principles of the 31 March 2022 formal valuation. Under these principles, Balfour Beatty will pay deficit contributions to the BBPF of £24m in 2023, £24m in 2024 and £6m in 2025. The Company and the trustees expect to take further steps over the coming months to reduce the investment risk in the scheme and the Company has agreed that additional amounts will become payable at £2m per month from March 2025 if the BBPF's performance is materially different from that expected. The next formal triennial funding valuation is due with effect from 31 March 2025.

As a result of an acceleration mechanism agreed previously between the Group and the trustees, the Group made deficit contributions to the BBPF of £35m in 2022.

21 Retirement benefit assets and liabilities continued

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

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

		2022		2021
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Discount rate	**4.95**	**4.95**	1.90	1.90
Inflation rate - RPI	**3.35**	**3.35**	3.40	3.40
- CPI	**2.75**	**2.90**	2.80	3.00
Future increases in pensionable salary	**2.75**	**2.90**	2.80	3.00
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**3.10**	**2.95**	3.10	3.05

	Number	**Number**	Number	Number
Total number of defined benefit members	**26,208**	**2,972**	26,938	3,010

The mortality assumptions adopted for the BBPF and RPS for 2022 are unchanged from 2021, with the Group continuing to set future improvements in line with the Continuous Mortality Investigation (CMI) 2019 core projection model due to the uncertainty presented with COVID-19. The Group will update these assumptions following the completion of the BBPF's 31 March 2022 triennial valuation.

BBPF life expectancies

		2022		2021
	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**	**23.4**	21.6	23.3
Members not yet in receipt of a pension (current age 50)	**22.6**	**24.3**	22.5	24.3

RPS life expectancies

		2022		2021
	Average life expectancy at 65 years of age		Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**20.7**	**22.7**	20.6	22.6
Members not yet in receipt of a pension (current age 50)	**21.6**	**23.7**	21.6	23.6

21 Retirement benefit assets and liabilities continued

Amounts recognised in the Balance Sheet

	2022				2021			
	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	**(2,464)**	**(300)**	**(39)**	**(2,803)**	(3,718)	(437)	(46)	(4,201)
Fair value of plan assets	**2,689**	**337**	**–**	**3,026**	4,039	393	–	4,432
Assets/(liabilities) in the balance sheet	**225**	**37**	**(39)**	**223**	321	(44)	(46)	231

^ Investments in mutual funds of £20m (2021: £24m) are held to satisfy the Group's deferred compensation obligations.

The defined benefit obligations comprise £39m (2021: £46m) arising from wholly unfunded plans and £2,764m (2021: £4,155m) arising from plans that are wholly or partly funded.

Movements in the retirement benefit assets and obligations for the year		**£m**
At 1 January 2022		231
Currency translation differences		**(3)**
Current service cost		**(5)**
Net finance income		**5**
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**2**
	– on obligations from changes to other financial assumptions	**1,293**
	– on obligations from experience gains	**21**
	– on assets	**(1,368)**
Contributions from employer	– regular funding	**2**
	– ongoing deficit funding	**41**
Benefits paid		**4**
At 31 December 2022		**223**

There was an extremely significant increase in corporate bond yields in 2022 that led to a corresponding increase in the IAS19 discount rate (an increase from 1.9% as at 31 December 2021 to 4.95% as at 31 December 2022). The increase in discount rate led to a reduction in the present value of obligations of approximately 35%, when compared to those implied by the discount rate as at 31 December 2021, and was the primary driver of the financial actuarial movements in 2022. This movement was slightly offset by changes due to inflation.

The changes in market conditions over the year have also led to a significant reduction in assets in 2022, with this change primarily being driven by the hedging strategy in place.

Sensitivity of the Group's retirement benefit obligations at 31 December 2022 to different actuarial assumptions

	Sensitivity to increase in assumption			Sensitivity to decrease in assumption		
Assumption	**Percentage points/years**	**(Decrease)/ increase in obligations %**	**(Decrease)/ increase in obligations £m**	**Percentage points/years**	**Increase/ (decrease) in obligations %**	**Increase/ (decrease) in obligations £m**
Discount rate	**0.1%**	**(1.2)%**	**(32.6)**	**(0.1)%**	**1.2%**	**33.3**
Market expectation of RPI inflation	**0.1%**	**0.8%**	**20.8**	**(0.1)%**	**(0.9)%**	**(23.5)**
Salary growth	**0.1%**	**0.0%**	**0.1**	**(0.1)%**	**0.0%**	**(0.1)**
Discount rate	**1.0%**	**(10.8)%**	**(299.4)**	**(1.0)%**	**13.3%**	**367.2**
Market expectation of RPI inflation	**1.0%**	**7.7%**	**213.6**	**(1.0)%**	**(7.5)%**	**(206.6)**
Salary growth	**1.0%**	**0.0%**	**0.8**	**(1.0)%**	**0.0%**	**(0.8)**
Life expectancy	**1 year**	**3.9%**	**108**	**(1 year)**	**(4.0)%**	**(110)**

21 Retirement benefit assets and liabilities continued

Sensitivity of the Group's retirement benefit assets at 31 December 2022 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.1%**	**(5.3)%**	**(32.1)**
Increase in market expectation of RPI inflation	**0.1%**	**3.5%**	**21.0**
Increase in interest rates	**1.0%**	**(10.5)%**	**(317.9)**
Increase in market expectation of RPI inflation	**1.0%**	**7.1%**	**213.7**

The asset sensitivities only take into account the impact of the changes in market conditions on bond type assets. The value of the schemes' return-seeking assets is not directly correlated with movements in interest rates or RPI inflation. Whilst the BBPF has entered into the longevity hedge, the operational setup of the swap is still ongoing, therefore a sensitivity of the impact of changes in life expectancy on the value of the swap cannot be provided at this time.

The BBPF includes a defined contribution section with 15,382 members at 31 December 2022 (2021: 14,670 members) with £52m (2021: £49m) of contributions paid and charged in the income statement in respect of this section. The total pension cost recognised in the income statement in respect of employee service for defined benefit and defined contribution schemes was £63m (2021: £60m).

22 Share capital

During the year ended 31 December 2022, 9.8m (2021: nil) shares were purchased for £25m (2021: nil) by the Group's employee discretionary trust to satisfy awards under the Performance Share Plan, the Deferred Bonus Plan and the Restricted Share Plan.

In 2022 the Company commenced the second phase of its share buyback programme, which completed on 15 December 2022. The Company purchased 52.0m (2021: 50.3m) shares for a total consideration of £150m (2021: £150m) and held these shares in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m (2021: £1m), utilised £151m (2021: £151m) of the Company's distributable profits.

On 7 June 2022 and 20 December 2022, the Company cancelled the 50.3m treasury shares and 52.0m treasury shares purchased through the 2021 and 2022 phases of its share buyback programme respectively. These cancellations resulted in decreases in called-up share capital in issue totalling £51m (2021: £nil) and corresponding increases in the capital redemption reserve.

23 Acquisitions and disposals

23.1 Current and prior year acquisitions

There were no material acquisitions in 2022.

Deferred consideration paid during 2022 in respect of acquisitions completed in earlier years was £3m (2021: £3m). This related to the Group's acquisition of Centex Construction in 2007.

23.2 Current year disposals

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

Notes	Disposal date	Entity/asset	Structure of sale	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Underlying gain £m
23.2.1	30 June 2022	Regard at Med Center (formerly City Lake)^	Asset sale	n/a	12	(5)	1	8
23.2.2	11 August 2022	Aspire at Discovery Park^	Asset sale	n/a	50	(12)	2	40
23.2.3	23 August 2022	Preserve at Southwind^	Asset sale	n/a	4	(1)	–	3
23.2.4	23 August 2022	Preserve at Bartlett^	Asset sale	n/a	13	(4)	–	9
23.2.5	2 November 2022	Waterchase Apartments^	Asset sale	n/a	14	(4)	–	10
					93	**(26)**	**3**	**70**

^ Disposal of asset within a joint venture entity.

23.2.1 On 30 June 2022, the Group disposed of its Regard at Med Center multifamily property asset located in Houston, Texas, and received total cash consideration of £12m. The asset disposal resulted in an underlying gain of £8m being recognised in the Group's share of joint ventures and associates, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal.

23.2.2 On 11 August 2022, the Group disposed of its Aspire at Discovery Park on-campus accommodation at Purdue University in West Lafayette, Indiana, and received total cash consideration of £50m. The asset disposal resulted in an underlying gain of £40m being recognised in the Group's share of joint ventures and associates, including a gain of £2m in respect of foreign currency translation reserves recycled to the income statement on disposal.

23.2.3 On 23 August 2022, the Group disposed of its Preserve at Southwind multifamily property asset located in Memphis, Tennessee, and received total cash consideration of £4m. The asset disposal resulted in an underlying gain of £3m being recognised in the Group's share of joint ventures and associates.

23.2.4 On 23 August 2022, the Group disposed of its Preserve at Bartlett multifamily property asset located in Bartlett, Tennessee, and received total cash consideration of £13m. The asset disposal resulted in an underlying gain of £9m being recognised in the Group's share of joint ventures and associates.

23.2.5 On 2 November 2022, the Group disposed of its Waterchase Apartments multifamily property asset located in Largo, Florida, and received total cash consideration of £14m. The asset disposal resulted in an underlying gain of £10m being recognised in the Group's share of joint ventures and associates.

In addition to the disposals above, the Group received a further £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

24 Contingent liabilities

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

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

25 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £447m (2021: £325m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 17 and 18 respectively.

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, jointly controlled or under significant influence by a director of Balfour Beatty plc.

	2022 £m	2021 £m
HMC Architects		
Purchase of services	**3**	2
Amount owed to related parties	**1**	–
Severfield PLC		
Purchase of goods and services	**1**	–
Site Assist Software Limited		
Purchase of services	**1**	–

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

26 Principal risks and uncertainties

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

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Annual Report and Accounts 2021.

27 Events after the reporting date

On 3 March 2023, the Group repaid the third tranche of its 2013 US private placement notes amounting to US$209m (£173m). US$50m of these notes remain outstanding and will mature in March 2025.

In the period from 1 January 2023 to 13 March 2023 (the latest practicable date prior to the date of this annual report and accounts), the Company purchased 12.7m shares, which are held in treasury with no voting rights, for a total consideration of £46m (including stamp duty and fees).

There were no other material post balance sheet events arising after the reporting date.