

## BALFOUR BEATTY PLC RESULTS FOR THE FULL-YEAR ENDED 31 DECEMBER 2015

15 March 2015

(£ million unless otherwise specified)	2015		2014	
	Underlying <sup>3</sup>	Total	Underlying <sup>3</sup>	Total
Revenue <sup>1,2</sup>	8,235	8,444	8,440	8,793
Loss from operations <sup>2</sup> (PFO)	(106)	(182)	(58)	(281)
Pre-tax loss <sup>2</sup>	(123)	(199)	(80)	(304)
Total loss	(135)	(206)	(54)	(59)
Loss per share <sup>2</sup>	(19.7p)	(30.2p)	(11.5p)	(43.9p)
Dividends per share		-		5.6p

  

	2015	2014
Order book <sup>1,2,3</sup>	£11.0bn	£11.4bn
Directors' valuation of Investments portfolio	1,244	1,300
Net cash – recourse	163	219
Net borrowings – non-recourse	(365)	(445)

### Strong progress in first year of transformation

#### Financial Summary

- Order book and revenues stabilising - favourable markets enabling more selective bidding
- Underlying pre-tax loss reflects historic projects – UK projects expected to be 90% complete in 2016
- Strong cash performance - £163m net cash
- Board expects to reinstate dividend, at an appropriate level, at the Interim results in August 2016

#### Build to Last

- New processes and controls providing transparency and improving execution
- Order book quality improving – strong pipeline of opportunities
- On course to deliver first 24-month targets of £200m cash in/£100m cost out - £357m cash improvement year-on-year, excluding net proceeds from Parsons Brinckerhoff

Leo Quinn, Group Chief Executive, commented, “In its first year, Build to Last has achieved significant progress in transforming Balfour Beatty.

“We have upgraded the leadership team and set out a clear direction. We are implementing consistent processes to integrate our businesses into a Group with greater transparency and control. Our main markets are providing a positive backdrop, so that with stronger governance we can both win and deliver business on the right terms. Looking to the future, we are investing to maintain Balfour Beatty’s expertise and assets.

“By the end of 2016 we will achieve our Phase One targets: our costs are coming down, our cash flow has improved substantially and we expect to reinstate our dividend later this year. Over the following 24 months, I am confident we can reach industry-standard margins. But above all, Build to Last is putting in place the foundations to build a Balfour Beatty with market leading strengths and performance over the longer term.”

**Notes:**

<sup>1</sup> including share of joint ventures and associates

<sup>2</sup> from continuing operations

<sup>3</sup> before non-underlying items (Note 8)

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**Analyst presentation:**

A presentation to analysts and investors will be made at Numis, The London Stock Exchange Building, London EC4M 7LT at 09:00 (UK time) on 15 March 2016. There will be a live webcast of this presentation on: [www.balfourbeatty.com/webcast](http://www.balfourbeatty.com/webcast)

## 2015 FULL-YEAR RESULTS ANNOUNCEMENT

- GROUP CHIEF EXECUTIVE'S REVIEW
- RESULTS OVERVIEW & OUTLOOK
- BUILD TO LAST TRANSFORMATION PROGRAMME
- DIVISIONAL OPERATING REVIEWS
- OTHER FINANCIAL ITEMS

### GROUP CHIEF EXECUTIVE'S REVIEW

This was a year of fundamental change at Balfour Beatty as the Build to Last transformation programme was implemented.

Coming into 2015, the business performance had deteriorated as a decade of forced growth culminated in an overly complex business, poor contract discipline and unaffordable overhead costs. Whilst the sale of Parsons Brinckerhoff in late 2014 provided liquidity to the balance sheet, the cash situation for the Group remained a challenge.

Decisive action was taken to arrest the decline. The Build to Last transformation programme was launched in early 2015, beginning with a 24-month "self-help" phase. Senior leadership was upgraded and immediate steps taken to strengthen governance, controls and processes. Cost reduction plans were agreed, the proposed share buy-back was cancelled, the dividend suspended and agreement reached to re-phase a deficit contribution to the pension fund.

The initial "self-help" phase of Build to Last targeted £200m cash in and £100m of cost out within 24 months. Half way through this period the Group is on course to deliver on these specific targets and the progress made in improving the cash performance in 2015 gives confidence that colleagues, at every level, are fully engaged in delivering change.

Build to Last is designed to address the Group's performance as it affects all stakeholders – customers and supply chain, employees and subcontractors, investors and communities – by driving continuous measurable improvement. The steps that are being taken are often, in themselves, simple and straightforward. However, taken together they are transforming Balfour Beatty against four goals: Lean, Expert, Trusted and Safe.

In 2016, Balfour Beatty will continue to work through the legacy contracts, increasingly able to look to a future as an organisation with lean ways of working, differentiated by its experts, trusted by clients and leading on safe working practices. Build to Last is putting in place the foundations to deliver value for clients, colleagues, shareholders and wider society.

### RESULTS OVERVIEW & OUTLOOK

Unless otherwise stated, all commentary in this section is on a continuing operations basis only. Non-underlying items within continuing operations continue to include the trading results of certain legacy Engineering Services (ES) contracts and Rail Germany. These ES contracts were classified as non-underlying items in 2014 as they relate to poor legacy management and in regions where ES withdrew from tendering for third-party work. Rail Germany was presented within non-underlying items as the Group remains committed to exiting all its Mainland European rail operations.

### GROUP FINANCIAL SUMMARY

As the business repositioned to focus on profitable opportunities, underlying revenue from continuing operations, including joint ventures and associates, declined by 2% to £8,235 million (2014: £8,440 million). Revenue at constant exchange rates (CER) fell by 6% as sterling fell against both of the Group's principal foreign currencies, the US dollar and Hong Kong dollar.

As a result of improved controls and disciplines on bidding, together with the decision to withdraw from certain types of work in non-core areas, the underlying order book declined by 4% in 2015 to £11.0 billion (2014: £11.4 billion), down 6% at CER. However the quality of the order book improved as the business increased bid margin thresholds and focused on jobs where the Group can deliver value. Construction Services remained stable at £7.9 billion (2014: £7.9 billion) as an 11% increase in the US offset a 17% decline in the UK; the improved bidding framework resulted in lower order intake in areas of the UK business that suffered from the greatest contract problems in the prior year. The Support Services order book declined by 11% to £3.1 billion (2014: £3.5 billion) caused largely as the business continued to execute on long-term contracts and by the decision to exit a poor performing local authority contract.

At the year-end there was a strong pipeline of projects across both Support Services and Construction Services that were awarded preferred bidder status during 2015. These are not yet included in the order book, but are expected to reach final award in 2016.

The underlying loss from continuing operations was £106 million (2014: £58 million). Infrastructure Investments continued to deliver excellent results with profit from operations of £132 million (2014: £127 million), including the benefit of £95 million of gains from investment disposals (2014: £93 million). Underlying losses in Construction Services of £229 million (2014: £209 million) were largely caused by historic issues in the UK, US and Middle East, whilst the Far East performed in line with expectations. Support Services profits of £24 million (2014: £50 million) were lower than the prior year reflecting, in part, the regulatory cycle of some of its major customers; profitability in 2015 was impacted by lower volumes in the power sector and lower lifecycle cost benefits being realised in the utilities sector, as well as tough comparatives from the prior year, which included positive contract settlements and a strong performance in the transportation business.

Total loss from continuing operations, including non-underlying items, was lower than the previous year at £182 million (2014: £281 million). This was largely due to an improved performance from the Engineering Services contracts reported within non-underlying items which contributed a loss from operations of £8 million (2014: £88 million). Rail Germany's trading losses were £2 million (2014: £23 million).

Net finance costs decreased by £6 million to £17 million (2014: £23 million) predominantly due to lower pension net interest expense of £3 million (2014: £16 million), partially offset by lower subordinated debt interest income of £24 million (2014: £29 million). Total reported loss before tax from continuing operations was £199 million (2014: £304 million). Including discontinued operations, the post-tax loss of £206 million (2014: £59 million) was greater than the prior year due to the £234 million gain on the sale of Parsons Brinckerhoff in 2014 that benefited the prior year comparative.

### **Earnings per share**

Underlying loss per share from continuing operations was 19.7 pence (2014: 11.5 pence), which along with non-underlying loss per share from continuing operations of 10.5 pence (2014: 32.4 pence) gave a total loss per share for continuing operations of 30.2 pence (2014: 43.9 pence). Total loss per share of 30.1 pence (2014: 8.6 pence) increased on the prior year due to the gain on the sale of Parsons Brinckerhoff that reduced the total loss per share in 2014.

### **Cash flow performance**

The total cash flow performance, including non-underlying items, improved on the prior year, as the Group focused on cash and working capital management throughout 2015. Working capital generated an inflow of £178 million (2014: outflow £31 million), offset by an operating cash outflow, before movements in working capital, of £247 million (2014: £272 million) and pension deficit payments of £66 million (2014: £49 million). Therefore, total cash used in operations was £135 million (2014: £352 million) – an improvement of £217 million compared to the prior year. In addition, tax refunds of £6 million were received (2014: £20 million paid).

The total cash movements in the period resulted in a £56 million reduction to the Group's net cash position, excluding non-recourse net borrowings, of £163 million. This compares to an increase in the Group's net cash position of £285 million in 2014, which was

boosted by £723 million of net cash consideration from the sale of Parsons Brinckerhoff. Excluding the impact of Parsons Brinckerhoff, the Group's cash performance improved by £357 million in 2015, compared to 2014.

<b>Cash flow performance</b>	<b>2015</b>	<b>2014</b>
Operating cash flows <sup>1</sup>	(247)	(272)
Working capital	178	(31)
Infrastructure Investments		
- Disposal proceeds	145	159
- New investments	(102)	(73)
Pension deficit payments	(66)	(49)
Parsons Brinckerhoff net proceeds	25	723
Other	11	(172)
Cash (outflow)/inflow	<b>(56)</b>	285
Cash outflow excl. PB net proceeds	<b>(81)</b>	(438)
Opening net cash/(debt) <sup>2</sup>	219	(66)
Movements in the year	(56)	285
<b>Closing net cash<sup>2</sup></b>	<b>163</b>	219

<sup>1</sup> before pension deficit payments

<sup>2</sup> excluding infrastructure concessions (non-recourse)

### Working capital

The focus on improving working capital management, as part of the Build to Last programme, resulted in favourable operating working capital increasing by £178 million. The increase is mainly driven by Construction Services, where an increase in favourable working capital of £182 million has occurred. Working capital for Support Services was broadly in line with December 2014's position.

The Group has been particularly focused on driving working capital inflows from improvements in its billing and WIP management; converting debtors and WIP into cash at a quicker rate. This is reflected in an improved working capital position held as trade and other receivables, which generated a £74 million working capital inflow (2014: £43 million outflow), and a reduction in inventories and non-construction work in progress, which generated a £27 million working capital inflow (2014: £30 million outflow).

Movements in the Group's due from / due to construction contract customers balances, which reflect the net unbilled contract position and traded profit and loss for each individual construction contract, generated a working capital inflow of £313 million (2014: £43 million outflow). A portion of this inflow is a result of risk contingencies recognised on specific construction contracts. Offsetting this is a working capital outflow in trade and other payables of £236 million (2014: £85 million inflow) as a result of the Group settling creditor invoices within a quicker timeframe compared to the previous year and cash outflows on historic loss-making contracts.

Including the impact of foreign exchange and disposals in the year, favourable working capital increased to £890 million at December 2015 (2014: £731 million).

<b>Working capital</b>	<b>2015</b>	<b>2014</b>
Inventory & WIP	27	(30)
Construction contract balances <sup>1</sup>	313	(43)
Trade & other payables	(236)	85
Trade & other receivables	74	(43)
Working capital movements	178	(31)

<sup>1</sup> including provisions

## Net borrowings

The Group's net cash position at 31 December 2015, excluding non-recourse net borrowings, was £163 million (2014: £219 million), representing a strong cash flow performance as working capital inflows mitigated the operating losses. Average net cash in 2015 was £3 million (2014: £371 million net borrowings). Non-recourse net borrowings held in wholly-owned infrastructure concessions reduced to £365 million (2014: £445 million). The balance sheet also includes £98 million for the liability component of the preference shares.

## Outlook and dividend

Build to Last is a long-term transformation programme designed to deliver superior returns for all stakeholders from a Group which is lean, expert, trusted and safe.

The first 24 months are focused on driving consistent processes across the Group to provide transparency and short interval control. At the same time, key investments are being maintained to enhance Balfour Beatty's core strengths.

The trading environment in the Group's core UK and US markets remains positive. In the UK, Government policy is helping to drive a strong pipeline of major infrastructure projects in transport and energy. In the US, the transportation bill signed in December 2015 gives visibility over a five-year period that will provide further growth opportunities. This positive market backdrop allows the Group to be more selective, targeting contracts with improved profitability and cash flow dynamics. Whilst in the short term this may lead to some revenue contraction in certain sectors, such as UK regional construction, it will have the corresponding effect of gradually improving Group margins as historic contracts reach completion, bidding disciplines tighten and overhead and procurement savings are delivered.

In its initial year, Build to Last has begun to deliver measurable improvements: costs are coming down and cash flow has improved substantially, such that the Board expects to reinstate the dividend, at an appropriate level, at the interim results in August 2016.

By the end of 2016, Balfour Beatty will have achieved its Phase One targets. Over the following 24 months, the Group expects each of its businesses to reach industry-standard margins, with the foundations in place to build a Balfour Beatty with market leading strengths and performance over the longer term.

## BUILD TO LAST

The Group launched the Build to Last transformation programme in early 2015 as a framework to drive continuous improvement for all stakeholders against four goals - Lean, Expert, Trusted and Safe – as measured by cash/EBIT, employee engagement, customer satisfaction and Zero Harm. Rapid action was taken to remove layers and upgrade leadership and governance through a simplified Group structure. As a result Balfour Beatty is stabilising and making significant progress on its four goals:

### Lean

- Deliver value to customers by improving operational efficiency and eliminating waste right through the supply chain.
- The Group metric is cash and EBIT – in the first phase, delivering £200 million of cash in and £100 million of cost out in the first 24 months.

The Group's underlying cash performance improved in 2015. Cash flow in 2015 was £357 million better than 2014, excluding the proceeds from the sale of Parsons Brinckerhoff. This was the result of:

- Strong discipline around cash and working capital;
- Enhanced financial processes – including more consistent reporting and driving down cash management into projects;
- Group-wide "Cash is our Compass" employee training; and
- Management incentives aligned to delivering better performance.

In 2015 good progress was made against the targeted £100 million of cost out. Actions were taken to simplify the business, including the reduction of 846 indirect employees, and standardise working practices which delivered £60 million of annualised savings in the year, comprising: £39 million of savings from centralising back office and support functions; £13 million from IT; and £8 million from indirect procurement.

- Business unit and support function costs have been reduced in the year. Balfour Beatty's back office structure was a legacy of a decade of forced growth. The Group was unnecessarily complicated with lack of integration, inefficiencies in processes, lack of accountability and control and significant additional cost. A federated structure had resulted in supporting functions such as HR and IT being run independently within each unit, causing duplication of services. During 2015, support functions were formed across all businesses to standardise working practices. This will allow significant savings as duplicate systems are removed and a more focused, value added approach is taken. For example, a review of Human Resource policies uncovered multiple different policies for each part of the business; a process is now underway to remove duplication and cut the number of HR policies from c.200 to around 50. Office costs were also reduced by rationalising a number of property locations, including relocating from the Group head office, a saving of £2 million.
- IT systems have seen significant change during the year. The Group is simultaneously focused on increasing the effectiveness of its software, whilst also driving out cost from an inefficient IT estate with poor levels of customer support and sub-optimal outsourcing agreements. In the UK construction business, where it was vital to increase transparency and migrate away from ageing systems to a single platform, the Oracle R12 system was rolled out in August. To reduce costs, a review of the architecture of the IT systems concluded with notice served on the external infrastructure support contract.
- The Group spends approximately £7 billion with suppliers. The existing procurement processes were fragmented with localised arrangements and a disjointed supply base. Therefore, improvements to procurement processes are a key focus to deliver value for customers and to drive out cost for the Group. An enhanced procurement capability for the business is now being put in place, with immediate savings being realised from indirect procurement in 2015. Whilst the latter is a smaller proportion of the overall spend, it provides the opportunity for immediate results. In 2016 the focus will move on to direct procurement costs, with the opportunity to reduce third-party spend across a range of categories. Here Balfour Beatty does not necessarily realise the full financial benefit directly, due to gain share agreements with some clients, but improves the Group's competitive advantage.

Progress continues to be made to simplify the business, with the sale of the signalling business SSL in May and agreement to sell the German rail electrification business, subject to regulatory approvals, reached in December. The UK Regional construction business is in the process of rationalising its management structure and offices. The Support Services and US Construction businesses have removed a layer of management.

## Expert

- Ensure that Balfour Beatty has the best engineering, design, project management and delivery capabilities.
- The Group metric is average employee satisfaction.

Both the Board and executive management were strengthened significantly during 2015. In addition, the management structure was simplified and rationalised, with layers removed in US Construction and Support Services. There were five additions to the Board, with a new Chairman, Group Chief Executive and Chief Financial Officer joining in the first half of 2015. In addition, Stephen Billingham and Stuart Doughty joined as non-executive Directors. Stephen has broad experience across multiple industries, including construction and support services, both from the supplier and the client side, as well as having a strong background in finance in several complex organisations. Stuart is the former chief executive of engineering company Costain plc, and has 45 years of highly relevant, in-depth experience in the construction industry.

- In addition to the roles of Group Chief Executive and Chief Financial Officer, executive management was upgraded during the year, with two-thirds of the executive committee comprising new appointments to Balfour Beatty or people new to post.

The business held its first Group Leadership Conference in January 2016, bringing together 300 leaders from across the business.

- The organisation structure of the UK businesses was simplified with the heads of Major Projects, Gas and Water, Power T&D and Rail all now reporting directly to the Group Chief Executive, as does the new role of managing director for the Regional and Engineering Services business.

At the end of 2015 Balfour Beatty relocated from its central London offices to new devolved offices which are modern and largely open plan, providing staff with a more productive and collaborative working environment.

The 'My Contribution' initiative is the mechanism to engage all staff directly in Build to Last. Since its launch in June, over 3,000 ideas have been submitted, which will drive both measurable savings and improvement to key processes.

Reward and recognition has been aligned across the Group. In 2015, a significant proportion of all bonuses were linked to cash performance. A new Group CEO share awards scheme has been introduced to align incentives for selected key staff who do not qualify for share-based bonuses.

For the first time, a single Group-wide employee opinion survey was carried out in November, which will provide a baseline to monitor employee engagement throughout the Build to Last programme.

In 2015, Balfour Beatty hired 156 apprentices and 216 graduates across the UK and the US. Balfour Beatty is a member of The 5% Club, committed to the aim of ensuring that, within two years, 5% of the UK workforce are apprentices, graduates or sponsored students on structured development programmes. The proportion of the UK workforce in these categories has increased from 3.1% to 4.6% in 2015.

## **Trusted**

- Be the construction partner of choice for customers and supply chain by delivering on promises.
- The Group metric is customer satisfaction.

During 2015, Balfour Beatty continued to win landmark contracts in all its key markets. Considerable progress was made to review, adapt and implement improved governance, processes and controls particularly with respect to the bidding and operation of contracts.

The 8-gated business lifecycle is now mandated for all new business with systems and controls in place to ensure compliance. The process reduces the risk of pursuing inappropriate opportunities, underbidding or accepting inappropriate levels of risk. It also reviews the cash profile of projects.

Prior to the introduction of the process, progress of bids could not be measured. Today across the UK and US approximately 14% of bids are known to be terminated before Gate 4, the final stage before bid submission.

Building on the investment in Oracle R12 and Hyperion, the Group is using data analytics through the pilot of a new, standardised, project reporting and risk-identification system. For the first time, this will provide a complete overview of all active projects to both local and senior management eliminating a large amount of manual work previously required and improving the speed and accessibility of the information required by decision makers.



Automated audit tests and business rules - which create a risk-weighted list of 'review required' projects – are being piloted in the UK. The system will be rolled out across the businesses in 2016, starting with UK Regional construction followed by US Construction. This will enable management for the first time to invasively monitor and review any project in the system.

The Group focused on significantly improving customer engagement in 2015. The number of customer reviews carried out increased by 70% to 1,057 (2014: 622). Customer satisfaction scores were higher in 2015 at 82% (2014: 77%).

## **Safe**

- Ensure the health and safety of everyone who comes into contact with Balfour Beatty's activities.
- The Group metric is Zero Harm.

Many of the activities carried out by Balfour Beatty can be, by their nature, potentially dangerous. It is therefore essential the health and safety of employees and those who come into contact with Balfour Beatty is a paramount consideration.

A new Group Safety and Sustainability Board Committee has been created to ensure that appropriate Board governance is maintained over the businesses in their identifying and remedy of potential risks. Safety matters are regularly reviewed by the Executive Committee and Business Unit leadership teams. A single UK Health and Safety function was created to strengthen leadership and ensure that best practice is shared across the business.

The reinvigorated focus on safety has seen an increase in safety 'observations' of 100%. These observations can be identifying positive activities and behaviours, as well as potential issues. These observations are an indicator of staff engagement.

The Lost Time Injury Rate (LTIR) for the Group, excluding international joint ventures, improved from 0.31 to 0.24. The recent Group employee opinion survey demonstrated that staff have confidence in the Group's attitude to safety.

New sentencing guidelines published by the Ministry of Justice came into effect in early 2016 which have the potential to lead to significantly higher penalties for Health and Safety breaches. The impact on the industry is yet to be fully understood.

## **DIVISIONAL OPERATING REVIEWS**

### **CONSTRUCTION SERVICES**

The construction business continued to be more selective in the work that it bid, through increased bid margin thresholds, improved risk frameworks and better contract governance. As a result of these actions there was a small decline of 3% (7% decline at CER) in underlying revenue from continuing operations to £6,388 million (2014: £6,597 million). Revenues in the UK fell by 14% due to the lower levels of order intake in the prior year and as the improved bidding disciplines resulted in lower levels of contracts in previous problem areas. This was partially offset by a revenue increase of 3% in the US (4% decline at CER) and a 16% increase in Hong Kong (8% at CER).

Underlying loss from continuing operations was £229 million (2014: £209 million). This was largely due to historic issues in the UK, US and Middle East that resulted in profit write-downs and contract provisions. Total loss from continuing operations reduced by £111 million to £280 million (2014: £391 million), reflecting lower losses arising from Rail Germany and the legacy Engineering Services contracts, as they largely performed to expectations in 2015.

The improved bidding disciplines also resulted in the order book remaining broadly stable during the year (4% decline at CER), as strong growth in the US and the Middle East offset declines in the UK and elsewhere. At the same time, the quality of the UK order book improved as bid margin thresholds and the focus on larger jobs rose. At the year end there was a strong pipeline of projects

that were awarded preferred bidder status during 2015. These are not yet included in the order book, but are expected to reach final award in 2016.

Across the construction portfolio there remain a small number of long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes could result in a materially positive or negative swing to underlying profitability and cash flow. In the UK, the majority of these contracts are within Major Projects. Outside of the UK this primarily relates to a small number of contracts in Hong Kong, which have been recorded at break-even. Several of these claims are expected to reach commercial settlement in 2016.

The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts and Rail Germany as non-underlying in the year. These ES contracts were classified as non-underlying items in 2014 as they relate to poor legacy management and in regions where ES withdrew from tendering for third-party work.

Construction Services	2015			2014		
	Rev <sup>1,2</sup>	PFO <sup>2</sup>	Order book <sup>1,2</sup>	Rev <sup>1,2</sup>	PFO <sup>2</sup>	Order book <sup>1,2</sup>
	(£m)	(£m)	(£bn)	(£m)	(£m)	(£bn)
US	3,097	(22)	4.1	2,996	29	3.7
UK	2,024	(187)	1.9	2,350	(229)	2.3
Rail UK & International	274	(5)	0.2	368	(6)	0.3
Overseas JVs						
- Middle East <sup>4</sup>	197	(34)	0.5	197	(15)	0.3
- Far East	796	19	1.2	686	12	1.3
Underlying <sup>3</sup>	6,388	(229)	7.9	6,597	(209)	7.9
Non-underlying – ES	30	(8)	0.0	62	(88)	0.0
Non-underlying – other	179	(43)	0.2	291	(94)	0.3
Total	6,597	(280)	8.1	6,950	(391)	8.2

<sup>1</sup> including share of joint ventures and associates

<sup>2</sup> from continuing operations

<sup>3</sup> before non-underlying items (Note 8)

<sup>4</sup> includes Balfour Beatty Sakti which operates in Indonesia

## UK

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

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

Underlying revenue in the UK fell by 14% to £2,024 million, predominantly due to a decline in the Regional construction business. The UK business continued to be more selective in the work that it bid, through increased bid margin thresholds, improved risk frameworks and better contract governance. Revenues were lower due to the lower levels of order intake in 2014 and as the improved bidding disciplines resulted in lower levels of contracts in previous problem areas. The business areas that saw the greatest revenue decline were those that suffered from the greatest contract problems, such as Engineering Services, London and the South West. As the UK business focused on improving the quality of new orders, the UK order book declined by 17%.

The underlying loss from the UK construction business was £187 million (2014: £229 million), after provisions were taken to maintain an adequate level of cover against the likely end contract positions on a number of historic contracts that suffered schedule slippages and operational deterioration. The total loss from the UK construction business after including the results of the non-underlying Engineering Services contracts was £195 million (2014: £317 million).

The business is continuing to manage the historic problem contracts through to completion. At the 2015 half-year 89 historic contracts were identified that have had a material negative impact on profitability and cash. The Group continued to make good progress in completing on these contracts. As at the end of December 2015, 60% of these projects were already at practical or financial completion, up from 31% as at June 2015. By the end of 2016, the number of these projects at practical or financial completion is still expected to be greater than 90%.

A number of significant changes were made during the year to improve the operational and financial performance of the business. The senior leadership within the UK Regional and Engineering Services business has been strengthened by the appointment of a new managing director who, along with the managing director of Major Projects, now reports directly to the Group Chief Executive. The regional business was also further streamlined, to focus on profitable markets, with a reduction in delivery units from 19 to 11. The gated risk management framework has been introduced to ensure rigour and control during both the sale and delivery phases of the contract lifecycle. Financial reporting is undergoing a radical overhaul with the introduction of Oracle R12, and new, uniform reporting dashboards have been introduced across the business which are already starting to provide clear, regular reporting to senior management.

The Major Projects business had a number of landmark successes in 2015, including a £416 million contract for the construction of the six-kilometre 'West' section of London's new 'super sewer', the Thames Tideway Tunnel, as part of a joint venture with BAM and Morgan Sindall. Construction is expected to last until 2022 and is worth approximately £139 million to Balfour Beatty. The highways business was awarded a £104 million road scheme for Norfolk County Council to complete works on the Norwich Northern Distributor Road, including the construction of 19.6 kilometres of new dual carriageway, nine new roundabouts and seven new bridges. The London Olympic Stadium transformation successfully reached its planned phase completion in time for the stadium to host the Diamond League athletics and the Rugby World Cup events.

Included within the projects 'awarded but not contracted' in Major Projects, the Highways business was selected to deliver a smart motorway package worth up to £607 million to upgrade sections of the M5, M6 and M4, in joint venture with VINCI - representing the largest of Highways England's three packages across its £1.5 billion smart motorway programme. Highways England also appointed a Balfour Beatty Carillion joint venture as preferred bidder on the £292 million construction package to widen a critical and complex 10-mile stretch of the existing A14, as part of the wider A14 Cambridge to Huntingdon improvement scheme. Within nuclear, the business was appointed preferred bidder for the £460 million Hinckley Point C power station electrical package for EDF Energy, in joint venture with NG Bailey. The work will deliver the critical infrastructure to power the station, including cabling totalling over 3,000 kilometres in length, fire and environmental sealing and specialist packages associated with data acquisition and plant control.

The Major Projects business is also continuing to pursue a number of major infrastructure opportunities across the core transportation and energy markets, with the largest being High Speed 2 (HS2). The proposed rail route will connect London, Birmingham, Leeds and Manchester; construction is scheduled to start in 2018 and will last 17 years, with total estimated costs of over £50 billion. Balfour Beatty and VINCI are in joint venture pursuing work on HS2, utilising the expertise acquired by both companies on High Speed 1, VINCI's involvement on the €8bn Tours-Bordeaux high-speed rail project in France, and Balfour Beatty's extensive work on transport networks across the UK and overseas. In December 2015 the Balfour Beatty joint venture was successfully shortlisted for the first stage of this iconic project, for £900m of preparatory work, and is actively pursuing a number of civil engineering and station packages that will be awarded under long-term, collaborative contracts. In addition the highways market continues to provide good growth opportunities following Highways England's commitment to spend £11.4 billion on capital projects over the five-year period to 2020.

The Regional business works on a large number of smaller projects, located throughout the UK. Notable new contract awards in the period included an £80 million contract to construct the National Automotive Innovation Centre (NAIC) in Coventry for the University of Warwick, a £32 million contract to build Baltic Triangle, a three-tower residential development in Liverpool city centre and a £28 million contract for the redevelopment of Dundee rail station in Scotland. The business enjoyed continued success in the defence sector with the award of a £35 million contract at RAF Brize Norton, for the construction of a new aircraft maintenance facility, in addition to the ongoing construction of the Defence College of Technical Training at the former RAF Lyneham airbase.

Included within the projects 'awarded but not contracted', the Regional business was appointed by the University of Manchester to deliver the bulk of its £1 billion capital programme through a partnership framework agreement along with two other contractors. As part of the framework Balfour Beatty has been selected as construction partner on the University's flagship project, the £350 million Manchester Engineering Campus Development, with a full construction contract award expected in spring 2016. In London, the business was selected to deliver pre-construction services for The Madison; a £150 million scheme for the construction of a 187 metre, 53-storey residential tower, adjacent to Canary Wharf in London Docklands, with full construction award expected in mid-2016. The business was also selected to deliver the pre-construction services contract for a £130 million renovation and new-build scheme at No. 1 Palace Street, in St James'. Construction of the 72 apartments is due to start in early 2016. The Regional business also secured a number of significant framework positions, including: sole contractor for a £1.5 billion framework operated by Scape Group, which is open to all public sector bodies in the UK and covers projects ranging from road repairs, new bridges and coastal defence works to light rail schemes and major road projects; and the £800 million southern construction framework for public sector work in the South West.

## US

Revenues in the US grew by 3% in the period (4% decline at CER), whilst the order book increased by 11% (6% at CER). The business reported a loss from operations for the year of £22 million (2014: £29 million profit), as losses in the first half outweighed a return to profitability in the second half.

Profitability was impacted by write-downs and provisions relating to historic issues. A number of multi-family housing unit projects, bid primarily in 2012 and 2013 by a now discontinued business unit in the South East, suffered subcontractor failures. Two projects in the federal healthcare sector, which had been bid pre 2011, suffered programme overruns and subcontractor performance issues. In addition, provisions were included against a small number of other contracts, primarily awarded in 2013 or earlier.

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

In the building business, revenues were relatively stable with only a 3% decline at CER. The order book increased by 8% at CER, as the business continued to see strong order intake despite improved bidding disciplines. The business remains focused on working with repeat customers and where it can deliver value. The organisational structure of the US building business was simplified to create a leaner structure, as part of the Build to Last programme, with the removal of the top layer of regional management.

Notable awards included a US\$268 million contract for the construction of a million-square-foot office campus in Plano, Texas. The 9.3 acre campus will include two 19-storey twin towers connected by a 4,600-car parking garage, an on-site medical centre and retail space on the lower levels. In Texas, a US\$175 million contract was awarded for a high-rise residential tower in Austin. In Seattle, a US\$154 million design and build contract was awarded for the King County justice facility. In San Francisco, a US\$176 million contract was awarded for a mixed-use development. In Florida, contract wins for a 50-storey luxury residential tower in Miami and a new resort hotel featuring 1,000 guest rooms, totalled approximately US\$300 million.

In the infrastructure business, revenues were flat on the prior year but profitability was lower due to provisions being taken against ongoing contract disputes and favourable contract resolutions that benefited the prior year. The order book grew due to a number of awards, including a US\$582 million design-build contract for the Bergstrom Expressway in Austin, Texas, awarded in joint venture with Fluor Corporation, a US\$179 million contract for the modernisation of the Rinconada water treatment plant in California and a US\$140 million contract in Denver for the extension of Regional Transport District's light-rail line across Denver's south-east suburbs. The business continued to pursue design-build and alternative delivery projects in its key rail, highway and water markets to reflect ongoing changes in procurement trends in the marketplace. As expected, in 2015 the market showed a considerable increase in design-build procurement opportunities and a decrease in hard-bid project opportunities.

A new US\$305 billion transportation bill was signed in December 2015, providing guaranteed funding for a five-year period. Whilst funding levels were broadly held flat it is the first transportation funding bill lasting longer than two years since 2005. This will permit longer-term project planning horizons in the public market and, in due course, lead to improved visibility for public funded projects that have been slow to come to market. There are good medium-term opportunities for the business, but there remain risks that a number of new contract awards continue to slip into later years.

### **International**

The Group also operates in South East Asia and the Middle East, through joint ventures. Revenue in the Group's Hong Kong and Singapore joint venture, Gammon, increased by 16% (8% at CER), due in particular to growth in major building projects which overtook civils to become the largest division in 2015. Revenue benefited from new projects awarded in 2014, such as the Tuen Mun Area 54 housing development and the Hong Kong Science Park phase 3C. Profits in the region increased to £19 million (2014: £12 million). The order book was 13% lower at CER as the business continued to execute on long-term major infrastructure projects, with a number reaching completion during the period. At the end of December, the new Midfield Concourse at Hong Kong International Airport, under construction since 2011, opened to commercial flights, providing capacity for an additional 10 million passengers every year. New awards during the year included: the TW5 Cityside residential property development which includes the construction of seven residential towers, worth HK\$3.2 billion (£270 million); the development of 33 Tong Yin Street, including residential towers and retail areas; and the conversion of the ex-government Murray building into a hotel.

In the Middle East, the order book grew in 2015 with significant growth in the construction joint venture in Dubai. Wins included a contract with Meeras for a mixed-use development on the Dubai Creek waterfront and work on phase 1 of the Container Terminal 4 project at Jebel Ali Port. Reviews of the Middle East historic contracts resulted in an increase in project-specific provisions, predominantly in the mechanical and electrical engineering business, for additional cost overruns and claim recovery shortfalls. As a result losses from operations in the region were £34 million (2014: £15 million).

### **Rail**

Revenue and the order book declined, as expected, following the disposal of the Group's 50% stake in Signalling Solutions Ltd, the exit from the North-West electrification project and a reduction in operations outside the UK. Underlying losses in the period were £5 million (2014: £6 million) due to lower volumes and as the business continued to be impacted by poor contract performance on a small number of rail projects.

In the first half, phase 2 of the North-West electrification project reached practical completion. However, following a review of future schemes in the North-West, it was concluded that the proposed alliance was unlikely to meet its stated objectives of delivering the scope of the work on time and to budget. In July, it was agreed with Network Rail that Balfour Beatty would not continue with the alliance framework for phases 3-7.

In December, agreement was reached to sell parts of the German Rail business to Tianjin Keyvia Electric Co Ltd, and this remains subject to various approvals. The results of Rail Germany have been presented as non-underlying items within continuing operations, as the Group remains committed to exiting the remaining parts of the German rail business.

## SUPPORT SERVICES

Revenue for the division fell by 1% to £1,259 million (2014: £1,273 million), as growth in utilities was offset by a decline in transport. Revenues in utilities grew by 2% as growth in Gas & Water more than offset an expected decline in Power. Revenues from transport declined by 4%, as a decline from local authority work more than offset growth in highways. Underlying profit from operations declined to £24 million (2014: £50 million). Profits for the year were impacted by a weak first half partially offset by an improved performance in the second half. Profitability in 2015 was lower than the prior year due to lower volumes in the power sector, lower lifecycle cost benefits being realised and due to tough comparatives from the prior year, which included positive contract settlements and a strong performance in the transportation business.

The Support Services order book decreased by 11% to £3.1 billion (2014: £3.5 billion) due to an expected decline in transportation whilst utilities remained broadly stable. The transportation order book fell largely due to the active decision to exit from a poor performing local authority contract and as the business continued to execute on long-term contracts. The utilities order book remained flat as growth in water offset expected declines in gas and power.

<b>Support Services</b>	<b>2015</b>	<b>2014</b>
Order book <sup>1</sup> (£bn)	3.1	3.5
Revenue <sup>1</sup> (£m)	1,259	1,273
(Loss)/profit from operations <sup>2</sup> (£m)	24	50
Margin <sup>1,2</sup> (%)	1.9%	3.9%

<sup>1</sup> including share of joint ventures and associates

<sup>2</sup> before non-underlying items (Note 8)

As part of the Build to Last transformation programme, the organisational structure of Support Services was simplified during the first half; the top management layer was disbanded, with the managing directors of each business now reporting directly to the Group Chief Executive. This brings the Group's expertise closer to strategically important customers, whilst also eliminating waste. The leaner structure enables the Group to more efficiently identify and focus on growth opportunities and deliver value in complex projects, in what are increasingly challenging regulated markets.

The utilities business operates across power transmission and distribution and the gas and water sectors. Revenues in utilities fell due to an expected decline in Power revenues whilst revenues in Gas & Water remained stable. Profitability fell as a result of lower volumes in Power, particularly in overhead lines, and due to timing differences as the utilities business realised lower lifecycle cost savings in the period that are now expected to be realised in future years. This was partially offset by positive contract performance on completion of AMP5 water contracts and following mobilisation of the new AMP6 contracts. The order book remained stable as new contract awards in Water were offset by declines elsewhere as the business continued to execute on long-term contracts.

Within Power, revenues and profitability declined following the completion of the Beaulieu Denny project in Scotland, lower volumes coming from the National Grid Alliance projects and the completion of other overhead lines projects in Scotland. This was partially offset by growth in the offshore transmission (OFTO) market, following emergency cable repairs successfully completed on both the Thanet and Gwynt y Môr sub-sea cables. As a result of this work the business was awarded a new 20-year operate and maintain (O&M) contract for the Gwynt y Môr sub-sea cables, in addition to 20-year contracts already secured for Thanet and Greater Gabbard. The business continues to see medium-term opportunities within the cabling market, as demonstrated by the award of the Nemo sub-sea cable interconnector between the UK and Belgium, the Group's first win in an expanding market, and preferred bidder status for the construction and maintenance of the cable systems for Eleclink, the Channel Tunnel interconnector project.

Gas & Water revenues remained stable. Volumes in the gas distribution strategic partnership contracts with National Grid returned to more normalised levels from the lower comparatives in 2014. However, this was largely offset by the expected decline in

revenues within the Water business as it completed work under the AMP5 regulatory cycle and transitioned to the new AMP6 regulatory cycle, which controls capital expenditure across the network from April 2015 through to 2020. The Water business was awarded a further contract under the AMP6 regulatory period, as a one-third partner in a joint venture, which includes Skanska and MWH Treatment, providing water asset solutions as part of Thames Water's 'super-alliance'. This contract has a value to Balfour Beatty of approximately £265 million over the initial five years and follows on from a two-year Early Contractor Involvement phase that started in March 2013.

The Transportation business operates across rail, highways and managed road schemes for local authorities. Revenues decreased by 4% due to a decline in local authority work whilst revenues in highways and rail remained stable. Profitability fell slightly as an improved performance in the rail sector was offset by an expected decline in highways, whose performance was boosted by contract settlements in 2014. The order book declined as the business continued to execute on long-term contracts and due to the exit from a poor performing local authority contract.

Highways revenues remained stable as the business continued to deliver on long-term contracts for Highways England. New contract awards during the period included a 10-year extension to its existing contract to deliver O&M activities on a 64-mile section of the A30/A35 trunk road across Devon and Dorset. Profitability was lower than in 2014, but this was due to positive contract settlements recognised in 2014.

Local Authority revenues declined due to reduced volumes on highways contracts and following the decision to exit one contract which had suffered operational and commercial issues. Whilst profitability remained relatively stable, the order book declined. At the start of 2016, the business was awarded a £245 million highways maintenance contract over seven years for Coventry City Council, Solihull Metropolitan Borough Council and Warwickshire County Council. This unique collaborative arrangement enables the business to work in partnership with the three councils as a single source service provider, and will result in better value for money, improved service resilience and flexibility in service provision.

The rail business remained stable in the period as rail renewal work for London Underground largely offset the loss of revenue from exiting the Network Rail 'rail renewals' contract in 2014, and the completion of a rail grinding contract. Profitability improved in the year due to higher volumes on the London Underground contract.

## **INFRASTRUCTURE INVESTMENTS**

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

Underlying profit from operations increased to £132 million (2014: £127 million). The pre-disposals operating profit increased by £3 million to £37 million (2014: £34 million). A strong underlying operational performance, as well as lower bidding and overhead costs, more than offset lower income from movements in the fair value of PPP financial assets and recognition of bid costs deferred income. Gains on disposal were £95 million (2014 £93 million) as the business completed four disposals in the year, one of which was a partial disposal; total disposal proceeds were £145 million. Net interest income declined to £29 million (2014: £35 million) due to the loss of interest income from disposed assets. Profit before tax remained stable at £161 million (2014: £162 million).

The Directors' valuation of the Investments portfolio decreased to £1,244 million as at December 2015 (2014: £1,300 million), after realising £145 million of disposal proceeds and £82 million of distributions, which were partially offset by £102 million of new investments. The number of investments within the portfolio increased to 71 (2014: 66) as the business continued to invest in new opportunities.

<b>Infrastructure Investments</b>	<b>2015</b>	<b>2014</b>
Pre-disposals operating profit <sup>1</sup> (£m)	<b>37</b>	34
Gain on disposals (£m)	<b>95</b>	93
Profit from operations <sup>1</sup> (£m)	<b>132</b>	<b>127</b>
Net interest income from PPP concessions <sup>2</sup> (£m)	<b>29</b>	35
Pre-tax result from operations <sup>1</sup> (£m)	<b>161</b>	<b>162</b>
Directors' valuation of PPP concessions (£m)	<b>1,244</b>	1,300

<sup>1</sup> before non-underlying items (Note 8)

<sup>2</sup> subordinated debt interest receivable and net interest receivable on PPP financial assets and non-recourse borrowings

### **Operational review**

The Investments business continued to grow with its appointment as preferred bidder on eight new projects where equity will be invested, comprising: two university student accommodation projects, three private rental housing projects, one OFTO, one healthcare project and one energy project. The business had reached financial close on four of these projects as at 31 December 2015, as well as reaching financial close on three of the projects which were already preferred bidder at the start of 2015. Seven projects currently remain at preferred bidder, with investment already made into one of these projects, located in Glasgow, in order to begin construction.

The Investments business was also appointed as third-party manager on three fee-based portfolios in the residential sector, consisting of seven locations in Florida, where no equity will be invested, as well as one fee-based student accommodation project that reached preferred bidder stage in 2014.

### **UK new contract wins and financial closes**

The business continued to grow its presence within the student accommodation sector, with the appointment as preferred bidder on two new projects in 2015; this brings the total number of student accommodation projects in the UK and the US to nine. In January 2015, the business was appointed preferred bidder for the University of Sussex's East Slope Residences project, for the development of 2,000 new bedrooms and other innovative student amenities. Balfour Beatty will design, build, finance and operate the project under a 50-year contract, in partnership with the university. In Glasgow, the business is designing, building and financing a 520-bed facility on Kennedy Street, which will also include ground floor retail spaces and a student hub.

The Group has built a strong market position within the specialised, but sizeable, offshore transmission (OFTO) market for the provision of sub-sea cabling and substations that connect offshore wind farms to the mainland electricity grid. In February 2015, a Balfour Beatty consortium with Equitix completed the asset purchase of the £352 million Gwynt y Môr offshore transmission project connecting the 576MW offshore wind farm to the onshore transmission grid in North Wales. In September, the same Balfour Beatty consortium was appointed preferred bidder to own and operate the offshore transmission link for the 220MW Humber Gateway wind project over a 20-year period. This wind farm, located in the North Sea off the coast of East Yorkshire, features 73 wind turbines that can meet the energy requirements of around 170,000 homes.

In March 2015, the business, in partnership with Places for People, signed a development agreement with the London Legacy Development Corporation to invest and construct the new East Wick and Sweetwater housing development project. The project at Queen Elizabeth Olympic Park in East London will create two new neighbourhoods with up to 1,500 homes, including 450 affordable homes, 530 homes for private sale and 500 private rented sector homes.



In the energy sector, the £52 million Welland Waste Wood power station project reached financial close in March 2015. Once complete, the project will convert 60,000 tonnes of dry waste wood feedstock into 9MW of electricity – powering over 17,000 households a year.

Within healthcare, the Investments business, in consortium with Prime and InfraRed Capital Partners was selected as preferred tenderer for the €140 million Irish Primary Care PPP project to deliver 14 primary care centres across Ireland, in the first programme of its kind in the Republic of Ireland's primary care market.

#### **North America new contract wins and financial closes**

In North America, the Investments business reached financial close on the acquisition of stakes in three private rental housing developments and reached financial close on two student accommodation projects, one of which is an expansion of an existing student accommodation project. Balfour Beatty Communities will perform property management services for each development, leveraging the existing capabilities of the business. These include: a 398-unit garden style apartment community in Coppell, Texas; a portfolio of five apartment communities in Dallas-Fort Worth, Texas; a 392-unit multifamily community in Rogers, Arkansas; a 595-bed student accommodation project in Dallas, Texas; and a 420-bed student accommodation expansion project in Iowa. In addition, the Investments business reached financial close on one fee-based student accommodation project located in Texas.

The Investments business continues to pursue opportunities to leverage its existing property management, customer services and related real estate capabilities from the multifamily, military, and student housing markets. This has resulted in winning a number of fee-based residential projects, where no equity will be invested and the business acts as a third-party manager; three further portfolios were awarded in 2015, consisting of seven locations in Florida. The Investments business continues to see significant opportunities for future investment in the sector as well as third-party management opportunities.

#### **Asset sales and new investment**

The business continued its stated strategy of selling assets at the optimum time to maximise value for the Group. Interests in four assets were sold in 2015, one of which was a partial disposal, generating total book gains on disposal of £95 million (2014: £93 million from three assets). The business sold its 50% interest in the Edinburgh Royal Infirmary project, 80% of its interest in the Thanet OFTO project (where the Group retains a 20% interest), its 20% interest in the Aura BSF schools project in Newcastle and its 33.3% interest in the Greater Gabbard OFTO project. All of these sales realised values consistent with the revised methodology and Directors' valuation published in January 2015.

The Investments business continued to make substantial equity investments in the portfolio, with £102 million invested in 2015 (2014: £53 million). The bulk of this investment was in eight projects: Gwynt y Môr OFTO; Welland Waste Wood biomass; student accommodation in Edinburgh, Glasgow and the University of Texas Dallas; and the three private rental housing developments in North America that reached preferred bidder and financial close in the year. A further £15 million was invested into the fund managed by Balfour Beatty Infrastructure Partners.

The Investments business continues to see significant opportunities for future investment in its core geographic markets in the UK and North America, across both its existing market sectors and as it continues to grow into new adjacent sectors.

#### **DIRECTORS' VALUATION OF THE INVESTMENTS PORTFOLIO**

The Group continued to make substantial investments into the portfolio with £102 million of cash invested into projects in 2015. This reflected continued success in targeted sectors with nine new projects being included in the Directors' valuation for the first time, as well as further investment in existing projects. The nine new projects include a project which achieved preferred bidder in 2014 but wasn't included in the Directors' valuation until financial close was achieved in 2015.

The Group continued its strategy of realising value through selling mature investments generating £145 million in aggregate at pricing consistent with the Directors' valuation. Cash yield from distributions amounted to £82m. For the tenth year in succession the portfolio generated cash flow to the Group net of investment.

In overall terms, the Directors' valuation fell slightly to £1,244 million at 31 December 2015 with the number of projects in the portfolio increasing from 66 to 71.

The Directors' valuation has been undertaken using the revised methodology introduced in 2014. This produces a valuation that more closely reflects market value and which consequently changes with movements in the market. For each project, cash flows are forecast based on progress to date and market expectations of future performance. These cash flows have then been discounted using different discount rates depending on project risk and maturity, and reflecting secondary market transaction experience. As in previous years, the Directors' valuation may differ significantly from the accounting book value of investments shown in the accounts, which are produced in accordance with International Financial Reporting Standards rather than using a discounted cash flow approach.

### **UK portfolio**

In 2015 five new projects in the health, OFTO, student accommodation and biomass sectors were included in the Directors' valuation for the first time, increasing the value by £28 million. These included preferred bidder status on a student accommodation project at Sussex University, the Humber Gateway OFTO and a Primary Care PPP project in Ireland, the start of construction on an open market student accommodation project in Glasgow and financial close on a waste wood biomass project in Welland. Significant investment was made in the Gwynt y Mor OFTO, the Welland biomass project, the student accommodation projects in Edinburgh and Glasgow and into the fund managed by Balfour Beatty Infrastructure Partners (BBIP). Total investment amounted to £88 million.

The secondary market remains strong and the Group continued its strategy of realising value from mature investments. The business sold 80% of its interest in the Thanet OFTO as well as its entire interest in the Edinburgh Royal Infirmary, Newcastle BSF schools and Greater Gabbard OFTO projects for an aggregate £145 million. The proceeds received from these sales were consistent with the Directors' valuation. The business continues to preserve interests in projects with strategic clients and those that offer further value to the wider Group through the provision of future lifecycle and maintenance work. Strong demand for infrastructure investment allied to a shortage of supply in the secondary market is expected to underpin pricing for the foreseeable future. With the largest primary infrastructure portfolio held by any contractor in the UK, the Group remains well placed to benefit from these market dynamics.

Operational performance movements resulted in a £100 million reduction in value. The most significant components of this were lower inflation (in the year, as well as forecast), lower forecast deposit interest rates, higher actual and forecast lifecycle and management costs and an increase in the assumed tax burden for potential purchasers. The changes to inflation reflect a lowering of forecast inflation which now steps up through 2016 and 2017 before reverting to a long-term assumption of 3% thereafter. The long-term interest rate assumption has been lowered from 3.5% to 2.75% in response to the continuing policy of near zero interest rates adopted by the Bank of England and the resulting impact on long-term rates forecast by the financial markets. In line with government announcements the corporation tax rate has been reduced from 20% currently to 19% in April 2017 and to 18% from April 2020.

The Group's investment in the fund managed by BBIP is included in the UK portfolio and amounted to £38 million at December 2015.

Discount rates applied to the UK portfolio range between 7% and 14% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio (excluding BBIP) is 8.3% (2014: 7.8%). The increase during 2015 reflects the

impact of selling mature operational projects with lower discount rates whilst investing in new projects where construction has yet to be completed and which are valued using higher discount rates. A 1% change in the discount rate would change the value of the UK portfolio (excluding BBIP) by approximately £95 million.

In 2015, the OECD BEPS project delivered its recommendations in relation to the tax deductibility of interest expense, including the potential for a 'public benefit' exemption. A number of governments are currently considering their response to these recommendations. The UK Government has consulted extensively in order to understand the views of the infrastructure industry. At this stage any impact on the Directors' valuation remains uncertain as is the timing of any changes to legislation. Balfour Beatty will continue to actively engage with the UK Government and to monitor developments in this area.

### **North American portfolio**

In North America, the business acquired investments in three residential housing developments at Coppell and Dallas-Fort Worth (both in Texas) and at Rogers in Arkansas, achieved financial close on a student accommodation project for the University of Texas at Dallas and commenced a further phase of accommodation at the University of Iowa. These projects increased the value of the portfolio by £17 million. Overall investment in existing and new projects in the portfolio totalled £14 million during the year. Operational performance movements increased the valuation by £13 million. This increase arose predominantly from the annual budget settlement for the military housing portfolio, particularly the inflation adjustment for housing rental allowances which feeds through to the fee income and equity returns from individual projects. The Indianapolis justice facility which was at preferred bidder stage was cancelled by the procuring authority just prior to financial close and has therefore been removed from the valuation.

Discount rates applied to the North American portfolio range between 7.5% and 10%. The implied weighted average discount rate for the North American portfolio is 8.2% (2014: 8.1%). A 1% change in the discount rate would change the value of the North American portfolio by approximately £58 million.

## **OTHER FINANCIAL ITEMS**

### **Non-underlying items**

Pre-tax losses from non-underlying items for continuing operations reduced by £148 million to £76 million (2014: £224 million). The improvement was largely due to lower trading losses on certain legacy ES contracts of £8 million (2014: £88 million) and lower trading losses in Rail Germany of £2 million (2014: £23 million). Non-underlying items also include amortisation of acquired intangible assets of £10 million (2014: £11 million).

Significant other non-underlying items included £23 million of costs incurred relating to the Group's Build to Last transformation programme which was launched in early 2015. At the same time, the Group incurred other restructuring costs of £9 million, relating to restructuring costs incurred in Rail Germany and Heery. Rail Germany also recognised further impairment in its underlying assets of £11 million, including £4 million relating to joint ventures and associates. This is as a result of an impairment assessment following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. This agreement remains subject to various approvals at the year end.

The Group continued its plan to transition other business units to its UK shared service centre in Newcastle-upon-Tyne, incurring further cost in the year of £8 million. In addition, the Group impaired £17 million of cost capitalised in relation to the transformation of its UK IT estate from a federated to a more centralised model due to curtailments in scope and termination of the agreement with its implementation partner.

The non-underlying charges recognised in 2015 were partially offset by a £16 million gain recognised on the disposal of Signalling Solutions Ltd in May 2015.

### **Taxation**

The Group's underlying loss before tax from continuing operations for subsidiaries of £170 million (2014: £135 million) resulted in an underlying tax charge of £11 million (2014: credit £2 million). The tax charge principally arises due to significant non-recognition of deferred tax assets on losses incurred in the year.

### **Discontinued operations**

The underlying post-tax loss from discontinued operations was £1 million (2014: £24 million profit). Total post-tax profit from discontinued operations was £nil (2014: £242 million).

Profit from discontinued operations reflects an additional gain on disposal of £5 million from the sale of Parsons Brinckerhoff, which completed in 2014. Profit from discontinued operations also included an underlying post-tax loss of £1 million relating to Rail Italy which was disposed in March 2015 resulting in a loss on disposal of £4 million.

### **Goodwill and intangible assets**

The goodwill on the Group's balance sheet at 31 December 2015 increased by £18 million to £844 million (2014: £826 million), primarily relating to movements in foreign currency being partially offset by a £4 million charge in respect of Blackpool airport. Impairment reviews have been carried out, and none of the carrying values have been impaired.

In light of the significant losses incurred within the UK construction business in 2015, the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in the related cash-generating units and concluded that it is not the case. The stabilisation and recovery of the Group's UK construction business to more normal levels of performance is, however, a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

Other intangible assets increased to £222 million (2014: £216 million), which is primarily driven by additions in the period, including £23 million in Infrastructure Investments from the continuing construction of Edinburgh student accommodation and £20 million spend on software, partially offset by a £17 million impairment charge against the Group's UK software assets due to curtailments in the scope of the implementation and termination of the agreement with its implementation partner.

### **Pensions**

The Group's balance sheet includes aggregate deficits of £146 million (2014: £128 million) for pension schemes. The Group recorded net actuarial losses on those schemes of £86 million (2014: £237 million gains). The small increase in the deficit in the year is largely as a result of poor performance of the return-seeking assets in the Group's largest scheme.

In July 2015, following the establishment of a Scottish Limited Partnership (SLP) into which the Group transferred its 40% interest in the Birmingham Hospital PFI concession, agreement was reached to defer the payment of £85 million, which had been due to be paid to the BBPF in 2015, over the period to 2023 with the first payment of £4 million due in 2016.

The next formal triennial valuation of the Group's largest pension scheme, the Balfour Beatty Pension Fund, will be as at 31 March 2016. The Company remains committed to proactively working with the trustees to agree an appropriate level of funding which is consistent with the Build to Last programme and allows the Company and the trustees to meet their obligations.

### **Banking facilities**

In December 2015, the Group agreed a new £400 million syndicated revolving credit facility, refinancing the facilities that had been due to expire in 2016. The size of the credit facility was reduced, consistent with the Group's ongoing capital requirements and the underlying strength of the balance sheet. The new facility extends through to 2018, with the option for two additional one-year extensions through to 2020, subject to bank approval. At 31 December 2015, these bank facilities were undrawn.

### **Financial risk factors and going concern**

The key financial risk factors for the Group remain largely unchanged. Some elements of the Group's markets are recovering, and this can lead to increased risk of subcontractor failures, due to their cash requirements for increased working capital, and also the potential for inflationary pressures in some areas. On the other hand, this should also reduce pressure on bidding margins.

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2015, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective, so the Group's poor trading performance and consequent low level of EBIT had no impact on these tests.

The Group is forecasting to remain within its banking covenants during 2016. The losses incurred in the second half of 2015 will be included in the 12-month EBIT for the purpose of the covenant tests at June 2016, which will reduce headroom against these tests. In considering that forecast, account was taken of the range of mitigating actions to conserve and generate cash and EBIT. While recognising that there can be no absolute certainty, the Directors believe that these covenant tests will be met.

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

- the Group has a strong order backlog
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had net cash balances of £163 million at 31 December 2015 and has committed bank facilities of £400 million lasting until December 2018, which were undrawn at 31 December 2015.

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

To appreciate the prospects for the Group as a whole, the complete Annual Report and Accounts 2015 needs to be read.

### **Responsibility statement**

The responsibility statement below has been prepared in connection with the Company's Annual Report and Accounts 2015. Certain parts thereof are not included within this announcement.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Article 4 of the IAS Regulation, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the

information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 14 March 2016 and is signed on its behalf by:

**Leo Quinn**

Group Chief Executive

**Philip Harrison**

Chief Financial Officer

ENDS

**Forward-looking statements**

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this announcement and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, and failure in Balfour Beatty's health, safety or environmental policies.

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. Forward-looking statements speak only as at the date of this announcement and Balfour Beatty plc 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 the announcement is intended to be, or intended to be construed as, a profit forecast or profit estimate or to be interpreted to mean that earnings per Balfour Beatty plc share for the current or future financial years will necessarily match or exceed the historical earnings per Balfour Beatty plc share. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

# Group Income Statement

For the year ended 31 December 2015

		2015			2014		
	Notes	Underlying Items <sup>1</sup> £m	Non- underlying items (Note 8) £m	Total £m	Underlying items <sup>1</sup> £m	Non- underlying items (Note 8) £m	Total £m
<b>Continuing operations</b>							
<b>Revenue including share of joint ventures and associates</b>		<b>8,235</b>	<b>209</b>	<b>8,444</b>	8,440	353	8,793
Share of revenue of joint ventures and associates	15	(1,471)	(18)	(1,489)	(1,490)	(39)	(1,529)
<b>Group revenue</b>		<b>6,764</b>	<b>191</b>	<b>6,955</b>	6,950	314	7,264
Cost of sales		(6,609)	(189)	(6,798)	(6,723)	(410)	(7,133)
<b>Gross profit/(loss)</b>		<b>155</b>	<b>2</b>	<b>157</b>	227	(96)	131
Gain on disposals of interests in investments	21.2	95	–	95	93	–	93
Amortisation of acquired intangible assets		–	(10)	(10)	–	(11)	(11)
Other net operating expenses		(403)	(65)	(468)	(433)	(114)	(547)
<b>Group operating loss</b>		<b>(153)</b>	<b>(73)</b>	<b>(226)</b>	(113)	(221)	(334)
Share of results of joint ventures and associates	15	47	(3)	44	55	(2)	53
<b>Loss from operations</b>		<b>(106)</b>	<b>(76)</b>	<b>(182)</b>	(58)	(223)	(281)
Investment income	6	52	–	52	64	–	64
Finance costs	7	(69)	–	(69)	(86)	(1)	(87)
<b>Loss before taxation</b>		<b>(123)</b>	<b>(76)</b>	<b>(199)</b>	(80)	(224)	(304)
Taxation	9	(11)	4	(7)	2	1	3
<b>Loss for the year from continuing operations</b>		<b>(134)</b>	<b>(72)</b>	<b>(206)</b>	(78)	(223)	(301)
(Loss)/profit for the year from discontinued operations	10	(1)	1	–	24	218	242
<b>Loss for the year</b>		<b>(135)</b>	<b>(71)</b>	<b>(206)</b>	(54)	(5)	(59)
<b>Attributable to</b>							
Equity holders		(135)	(71)	(206)	(55)	(5)	(60)
Non-controlling interests		–	–	–	1	–	1
<b>Loss for the year</b>		<b>(135)</b>	<b>(71)</b>	<b>(206)</b>	(54)	(5)	(59)

<sup>1</sup> Before non-underlying items (Note 8).

	Notes	2015 pence	2014 pence
<b>Basic (loss)/earnings per ordinary share</b>			
- continuing operations	11	(30.2)	(43.9)
- discontinued operations	11	0.1	35.3
	11	(30.1)	(8.6)
<b>Diluted (loss)/earnings per ordinary share</b>			
- continuing operations	11	(30.2)	(43.9)
- discontinued operations	11	0.1	35.3
	11	(30.1)	(8.6)
<b>Dividends per ordinary share proposed for the year</b>	12	–	5.6

# Group Statement of Comprehensive Income

For the year ended 31 December 2015

	2015			2014 <sup>+</sup>		
	Group £m	Share of joint ventures and associates £m	Total £m	Group £m	Share of joint ventures and associates £m	Total £m
<b>(Loss)/profit for the year</b>	<b>(250)</b>	<b>44</b>	<b>(206)</b>	<b>(112)</b>	<b>53</b>	<b>(59)</b>
<b>Other comprehensive (loss)/income for the year</b>						
Items which will not subsequently be reclassified to the income statement						
Actuarial (losses)/gains on retirement benefit liabilities	(86)	(4)	(90)	237	(5)	232
Tax on above	15	–	15	(48)	–	(48)
	<b>(71)</b>	<b>(4)</b>	<b>(75)</b>	<b>189</b>	<b>(5)</b>	<b>184</b>
Items which will subsequently be reclassified to the income statement						
Currency translation differences	29	3	32	30	2	32
Fair value revaluations – PPP financial assets	(13)	(170)	(183)	79	224	303
– cash flow hedges	8	21	29	(54)	(102)	(156)
– available-for-sale investments in mutual funds	–	–	–	2	–	2
Recycling of revaluation reserves to the income statement on disposal <sup>^</sup>	(15)	(5)	(20)	18	(7)	11
Tax on above	1	33	34	(6)	(23)	(29)
	<b>10</b>	<b>(118)</b>	<b>(108)</b>	<b>69</b>	<b>94</b>	<b>163</b>
<b>Total other comprehensive (loss)/income for the year</b>	<b>(61)</b>	<b>(122)</b>	<b>(183)</b>	<b>258</b>	<b>89</b>	<b>347</b>
<b>Total comprehensive (loss)/income for the year</b>	<b>(311)</b>	<b>(78)</b>	<b>(389)</b>	<b>146</b>	<b>142</b>	<b>288</b>
<b>Attributable to</b>						
Equity holders			<b>(389)</b>			287
Non-controlling interests			–			1
<b>Total comprehensive (loss)/income for the year</b>			<b>(389)</b>			<b>288</b>

<sup>+</sup> Re-presented to show the share of comprehensive (loss)/income relating to the Group's joint ventures and associates separately from the rest of the Group.

<sup>^</sup> 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 2015

	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves £m	Retained profits £m	Non- controlling interests £m	Total £m
At 1 January 2014	344	64	24	278	323	—	2	1,035
Total comprehensive income for the year	—	—	—	142	69	76	1	288
Ordinary dividends	—	—	—	—	—	(96)	—	(96)
Joint ventures' and associates' dividends	—	—	—	(56)	—	56	—	—
Issue of ordinary shares	1	—	—	—	—	—	—	1
Movements relating to share-based payments	—	—	—	—	(3)	5	—	2
Reserve transfers relating to joint venture and associate disposals	—	—	—	(24)	—	24	—	—
Other transfers	—	—	(1)	—	(249)	250	—	—
At 31 December 2014	345	64	23	340	140	315	3	1,230
Total comprehensive (loss)/income for the year	—	—	—	(78)	5	(316)	—	(389)
Joint ventures' and associates' dividends	—	—	—	(69)	—	69	—	—
Issue of ordinary shares	—	1	—	—	—	—	—	1
Movements relating to share-based payments	—	—	—	—	(1)	(12)	—	(13)
Minority interest	—	—	—	—	—	—	1	1
Reserve transfers relating to joint venture and associate disposals	—	—	—	(13)	—	13	—	—
Other transfers	—	—	(1)	16	—	(15)	—	—
At 31 December 2015	345	65	22	196	144	54	4	830

# Group Balance Sheet

At 31 December 2015

	Notes	2015 £m	2014 £m
<b>Non-current assets</b>			
Intangible assets – goodwill	13	844	826
– other	14	222	216
Property, plant and equipment		167	171
Investments in joint ventures and associates	15	671	759
Investments		44	51
PPP financial assets		402	559
Trade and other receivables	16	114	111
Deferred tax assets		58	52
		<b>2,522</b>	<b>2,745</b>
<b>Current assets</b>			
Inventories and non-construction work in progress		144	170
Due from construction contract customers		379	562
Trade and other receivables	16	885	966
Cash and cash equivalents – infrastructure concessions	20.2	20	40
– other	20.2	646	691
Current tax assets		4	8
Derivative financial instruments		1	2
		<b>2,079</b>	<b>2,439</b>
Assets held for sale	10	–	60
		<b>2,079</b>	<b>2,499</b>
<b>Total assets</b>		<b>4,601</b>	<b>5,244</b>
<b>Current liabilities</b>			
Due to construction contract customers		(472)	(350)
Trade and other payables	17	(1,700)	(1,959)
Provisions		(126)	(120)
Borrowings – non-recourse loans	20.3	(22)	(14)
– other	20.3	(13)	(4)
Current tax liabilities		(20)	(5)
Derivative financial instruments		(11)	(14)
		<b>(2,364)</b>	<b>(2,466)</b>
Liabilities held for sale	10	–	(47)
		<b>(2,364)</b>	<b>(2,513)</b>
<b>Non-current liabilities</b>			
Trade and other payables	17	(130)	(134)
Provisions		(80)	(77)
Borrowings – non-recourse loans	20.3	(363)	(471)
– other	20.3	(470)	(468)
Liability component of preference shares		(98)	(96)
Retirement benefit liabilities	18	(146)	(128)
Deferred tax liabilities		(53)	(49)
Derivative financial instruments		(67)	(78)
		<b>(1,407)</b>	<b>(1,501)</b>
<b>Total liabilities</b>		<b>(3,771)</b>	<b>(4,014)</b>
<b>Net assets</b>		<b>830</b>	<b>1,230</b>
<b>Equity</b>			
Called-up share capital		345	345
Share premium account		65	64
Special reserve		22	23
Share of joint ventures' and associates' reserves		196	340
Other reserves		144	140
Retained profits		54	315
<b>Equity attributable to equity holders of the parent</b>		<b>826</b>	<b>1,227</b>
Non-controlling interests		4	3
<b>Total equity</b>		<b>830</b>	<b>1,230</b>

# Group Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
<b>Cash flows used in operating activities</b>			
Cash used in:			
- continuing operations – underlying <sup>1</sup>	20.1	(84)	(192)
– non-underlying	20.1	(54)	(114)
- discontinued operations	20.1	3	(46)
Income taxes received/(paid)		6	(20)
<b>Net cash used in operating activities</b>		<b>(129)</b>	<b>(372)</b>
<b>Cash flows from investing activities</b>			
Dividends received from:- joint ventures and associates – infrastructure concessions <sup>2</sup>		45	28
– joint ventures and associates – other <sup>2</sup>		24	28
Interest received – infrastructure concessions		16	23
Interest received – other		5	5
Acquisition of businesses, net of cash and cash equivalents acquired	21.1	(3)	(3)
Purchases of:			
- intangible assets – infrastructure concessions		(23)	(28)
- intangible assets – other		(20)	(35)
- property, plant and equipment – infrastructure concessions		(13)	(23)
- property, plant and equipment – other		(27)	(43)
- other investments		(2)	(8)
Investments in and long-term loans to joint ventures and associates		(79)	(40)
Capital repayment from infrastructure concession joint venture		7	–
Short-term loans to joint ventures and associates		(11)	(4)
Loans repaid from joint ventures and associates		2	2
PPP financial assets cash expenditure		(75)	(232)
PPP financial assets cash receipts		30	37
Disposals of:	21.2	104	117
- investments in joint ventures – infrastructure concessions <sup>2</sup>		21	–
- investments in joint ventures – other <sup>2</sup>		–	–
- subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions <sup>2</sup>		23	34
- subsidiaries net of cash disposed, separation and transaction costs – other <sup>2</sup>		16	701
- property, plant and equipment		7	16
- other investments		10	12
<b>Net cash from investing activities</b>		<b>57</b>	<b>587</b>
<b>Cash flows from financing activities</b>			
Purchase of ordinary shares		(17)	(2)
Proceeds from:		1	1
- issue of ordinary shares		–	–
- other new loans – infrastructure concessions	20.4	79	236
- other new loans – other	20.4	–	11
- finance leases	20.4	–	1
Repayments of:			
- loans – infrastructure concessions	20.4	(11)	(7)
- loans – other	20.4	(1)	(83)
- finance leases	20.4	–	(3)
Ordinary dividends paid	12	–	(96)
Interest paid – infrastructure concessions		(19)	(21)
Interest paid – other		(32)	(29)
Preference dividends paid		(11)	(11)
<b>Net cash used in financing activities</b>		<b>(11)</b>	<b>(3)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	20.4	<b>(83)</b>	<b>212</b>
Effects of exchange rate changes		1	(12)
Cash and cash equivalents at beginning of year		727	526
Net decrease in cash within assets held for sale		18	1
<b>Cash and cash equivalents at end of year</b>	20.2	<b>663</b>	<b>727</b>

<sup>1</sup> Before non-underlying items (Note 8).

<sup>2</sup> Re-presented to separately identify cash flows from infrastructure concessions and other.

# Notes to the financial statements

## 1 Basis of accounting

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2015. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 14 March 2016, does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 2014, but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2015 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 and the Company that comply with IFRS in April 2016.

## 2 Going concern

The Directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009 and consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements. Further information is provided within Other Financial Items on pages 19 to 22.

## 3 Accounting policies

### 3.1 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of uncertainty are set out in Note 2.26 of the Annual Report and Accounts 2015. In respect of the available-for-sale financial assets, in addition to judgement on discount rates, judgement is also required when assessing the non-market related cash flows within the infrastructure concessions.

Following the construction business contract reviews carried out in the year, risk-based provisions were recognised on specific contracts. The risk-based provisions are recognised to reflect an increased level of prudence in estimating specific contract completion costs. In 2014, the risk-based provisions were recognised across the broader UK construction portfolio, and generally covered the smaller contracts.

Across Construction Services there are several long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes could result in a materially positive or negative change to underlying profitability and cash flow. In the UK, the majority of these contracts are within Major Projects. Outside the UK, this primarily relates to a small number of contracts in Hong Kong which have been recorded at break-even. Several of these claims are expected to reach commercial settlement in 2016.

### 3.2 Adoption of new and revised standards

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

- Amendments to the following standards:
  - IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions
  - Improvements to IFRSs (2010 – 2012)
  - Improvements to IFRSs (2011 – 2013).

The above new and amended standards do not have a material effect on the Group.

### 3.3 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2015:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendments to the following standards:
  - IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  - IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
  - IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
  - IAS 1 Disclosure Initiative
  - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
  - IAS 16 and IAS 41: Agricultural: Bearer Plants
  - IAS 27 Equity Method in Separate Financial Statements
  - Improvements to IFRSs (2012 – 2014).

The Directors continue to assess the impact of IFRS 9, IFRS 15 and IFRS 16 but do not expect the other standards above to have a material quantitative effect.

## 4 Exchange rates

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

### Average rates

£1 buys	2015	2014	Change
US\$	<b>1.53</b>	1.65	(7.3)%
HK\$	<b>11.84</b>	12.76	(7.2)%
Euro	<b>1.37</b>	1.24	10.5%

### Closing rates

£1 buys	2015	2014	Change
US\$	<b>1.48</b>	1.56	(5.1)%
HK\$	<b>11.43</b>	12.09	(5.5)%
Euro	<b>1.36</b>	1.28	6.3%

## 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, schools, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment now also includes the Group's housing development division which has moved from Construction Services.

### 5.1 Total Group

#### Income statement – performance by activity from continuing operations

	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total	Rail Germany	Certain legacy ES contracts	Total
	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m
Revenue including share of joint ventures and associates	6,388	1,259	588	–	8,235	179	30	8,444
Share of revenue of joint ventures and associates	(1,168)	(25)	(278)	–	(1,471)	(18)	–	(1,489)
Group revenue	5,220	1,234	310	–	6,764	161	30	6,955
Group operating (loss)/profit <sup>^</sup>	(234)	23	91	(33)	(153)	(3)	(8)	
Share of results of joint ventures and associates	5	1	41	–	47	1	–	
(Loss)/profit from operations <sup>^</sup>	(229)	24	132	(33)	(106)	(2)	(8)	
Non-underlying items								
- include results from certain legacy ES contracts within Construction Services	(8)	–	–	–	(8)			
- include results from Rail Germany within Construction Services	(2)	–	–	–	(2)			
- amortisation of acquired intangible assets	(4)	–	(6)	–	(10)			
- other non-underlying items	(37)	(13)	(4)	(2)	(56)			
	(51)	(13)	(10)	(2)	(76)			
(Loss)/profit from operations	(280)	11	122	(35)	(182)			
Investment income					52			
Finance costs					(69)			
Loss before taxation					(199)			

<sup>^</sup> Presented before non-underlying items for underlying operations (Note 8).

## 5 Segment analysis continued

### 5.1 Total Group continued

#### Income statement – performance by activity from continuing operations

	Construction Services <sup>†</sup>	Support Services	Infrastructure Investments <sup>†</sup>	Corporate activities	Total	Rail Germany	Certain legacy ES contracts	Total
	2014 £m	2014 £m	2014 £m	2014 £m	2014 £m	2014 £m	2014 £m	2014 £m
Revenue including share of joint ventures and associates	6,597	1,273	570	–	8,440	291	62	8,793
Share of revenue of joint ventures and associates	(1,168)	(26)	(296)	–	(1,490)	(39)	–	(1,529)
Group revenue	5,429	1,247	274	–	6,950	252	62	7,264
Group operating (loss)/profit <sup>^</sup>	(217)	49	81	(26)	(113)	(22)	(88)	
Share of results of joint ventures and associates	8	1	46	–	55	(1)	–	
(Loss)/profit from operations <sup>^</sup>	(209)	50	127	(26)	(58)	(23)	(88)	
Non-underlying items								
- include results from certain legacy ES contracts within Construction Services	(88)	–	–	–	(88)			
- include results from Rail Germany within Construction Services	(23)	–	–	–	(23)			
- amortisation of acquired intangible assets	(5)	–	(6)	–	(11)			
- other non-underlying items	(66)	(27)	(3)	(5)	(101)			
	(182)	(27)	(9)	(5)	(223)			
(Loss)/profit from operations	(391)	23	118	(31)	(281)			
Investment income					64			
Finance costs					(87)			
Loss before taxation					(304)			

<sup>^</sup> Presented before non-underlying items for underlying operations (Note 8).

<sup>†</sup> £10m of costs relating to the acceleration of the completion of construction works were included within Infrastructure Investments.

#### Assets and liabilities by activity

	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total
	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m
Due from construction contract customers	234	145	–	–	379
Due to construction contract customers	(426)	(46)	–	–	(472)
Inventories and non-construction work in progress <sup>+</sup>	51	67	26	–	144
Trade and other receivables – current	687	104	59	35	885
Trade and other payables – current	(1,343)	(240)	(59)	(58)	(1,700)
Provisions – current	(92)	(7)	(7)	(20)	(126)
Working capital from continuing operations <sup>*</sup>	(889)	23	19	(43)	(890)
Total assets <sup>+</sup>	1,983	524	1,339	755	4,601
Total liabilities	(2,141)	(326)	(586)	(718)	(3,771)
Net (liabilities)/assets	(158)	198	753	37	830

<sup>\*</sup> Includes non-operating items and current working capital.

<sup>+</sup> Inventory relating to development and housing land and work in progress amounting to £26m (2014: £37m) was previously included in Construction Services. This is now presented within Infrastructure Investments.

## 5 Segment analysis continued

### 5.1 Total Group

#### Assets and liabilities by activity

	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total
	2014 <sup>^</sup> £m	2014 £m	2014 £m	2014 £m	2014 £m
Due from construction contract customers	406	156	–	–	562
Due to construction contract customers	(317)	(33)	–	–	(350)
Inventories and non-construction work in progress	82	84	–	4	170
Trade and other receivables – current	807	104	55	–	966
Trade and other payables – current	(1,596)	(278)	(75)	(10)	(1,959)
Provisions – current	(89)	(15)	–	(16)	(120)
Working capital from continuing operations*	(707)	18	(20)	(22)	(731)
Classified as net assets held for sale	(2)	–	–	–	(2)
Adjusted working capital*	(709)	18	(20)	(22)	(733)
Total assets	2,419	491	1,530	804	5,244
Total liabilities	(2,274)	(365)	(701)	(674)	(4,014)
Net assets	145	126	829	130	1,230

\* Includes non-operating items and current working capital.

<sup>^</sup> Includes net assets held for sale of £13m relating to the Rail disposal group.

#### Other information – continuing operations

	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total
	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m
Capital expenditure on property, plant and equipment	14	12	14	–	40
Depreciation	16	16	2	1	35
Gain on disposals of interests in investments (Note 21.2)	–	–	95	–	95
	2014 £m	2014 £m	2014 £m	2014 £m	2014 £m
Capital expenditure on property, plant and equipment	15	11	23	–	49
Depreciation	25	15	2	1	43
Gain on disposals of interests in investments	–	–	93	–	93

#### Performance by geographic destination – continuing operations

	United Kingdom	United States	Rest of World	Total
	2015 £m	2015 £m	2015 £m	2015 £m
Revenue including share of joint ventures and associates	3,843	3,238	1,363	8,444
Share of revenue of joint ventures and associates	(185)	(170)	(1,134)	(1,489)
Group revenue	3,658	3,068	229	6,955
Non-current assets excluding financial assets and deferred tax assets	1,051	764	80	1,895
	2014 £m	2014 £m	2014 £m	2014 £m
Revenue including share of joint ventures and associates	4,271	3,123	1,399	8,793
Share of revenue of joint ventures and associates	(329)	(180)	(1,020)	(1,529)
Group revenue	3,942	2,943	379	7,264
Non-current assets excluding financial assets and deferred tax assets	1,135	709	128	1,972



## 5 Segment analysis continued

### 5.2 Infrastructure Investments

	Group 2015 £m	Share of joint ventures and associates <sup>+</sup> (Note 15) 2015 £m	Total 2015 £m	Group 2014 £m	Share of joint ventures and associates <sup>+</sup> (Note 15) 2014 £m	Total 2014 £m
<b>Underlying profit from operations<sup>1</sup></b>						
UK <sup>^</sup>	3	30	33	2	40	42
North America	17	8	25	15	6	21
Infrastructure Fund	–	3	3	–	–	–
Infrastructure	–	–	–	(2)	–	(2)
Gain on disposals of interests in investments	95	–	95	93	–	93
	115	41	156	108	46	154
Bidding costs and overheads	(24)	–	(24)	(27)	–	(27)
	91	41	132	81	46	127

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

<sup>^</sup> Including Singapore and Australia.

<sup>1</sup> Before non-underlying items (Note 8).

## 6 Investment income

	2015 £m	2014 £m
<b>Continuing operations</b>		
Subordinated debt interest receivable	24	29
Interest receivable on PPP financial assets	24	26
Other interest receivable and similar income	4	9
	52	64

## 7 Finance costs

	2015 £m	2014 £m
<b>Continuing operations</b>		
Non-recourse borrowings – bank loans and overdrafts	19	20
Preference shares – finance cost	11	11
– accretion	2	2
Convertible bonds – finance cost	5	5
– accretion	6	6
US private placement – finance cost	11	10
Other interest payable – loans under committed facilities	–	6
– other bank loans and overdrafts	1	–
– commitment fees	6	5
– other finance charges	5	6
Net finance cost on pension scheme assets and liabilities (Note 18)	3	16
	69	87

## 8 Non-underlying items

	2015 £m	2014 £m
<b>Items (charged against)/credited to profit</b>		
<b>8.1 Continuing operations</b>		
<b>8.1.1</b> Trading results of Rail Germany (including £13m (2014: £15m) of other net operating expenses and £nil (2014: £1m) of finance cost)	(3)	(23)
<b>8.1.2</b> Results of certain legacy ES contracts	(8)	(88)
<b>8.1.3</b> Amortisation of acquired intangible assets	(10)	(11)
<b>8.1.4</b> Other non-underlying items:		
– Build to Last transformation costs (2014: restructuring and reorganisation costs)	(23)	(23)
– restructuring costs relating to Heery and Rail Germany	(9)	–
– cost of implementing the shared service centre in the UK	(8)	(14)
– impairment of assets within Rail Germany	(7)	(30)
– gain on disposal of Signalling Solutions Ltd	16	–
– impairment of IT intangible asset (2014: Oracle R12 intangible asset)	(17)	(21)
– loss on disposal of parts of Rail Germany	(3)	–
– pension fund settlement gain	3	2
– impairment of goodwill and other costs relating to Blackpool Airport	(4)	(1)
– Rail Germany regulatory matters	–	(6)
– cost incurred in relation to the aborted merger discussions with Carillion plc	–	(7)
<b>Total other non-underlying items from continuing operations</b>	<b>(52)</b>	<b>(100)</b>
	<b>(73)</b>	<b>(222)</b>
<b>8.1.5</b> Share of results of joint ventures and associates – trading gain of £1m and impairment of assets of £4m in respect of Rail Germany	(3)	(1)
<b>8.1.6</b> Share of results of joint ventures and associates – goodwill impairment in respect of Middle East	–	(1)
<b>Charged against loss before taxation from continuing operations</b>	<b>(76)</b>	<b>(224)</b>
<b>8.1.7</b> Tax on items above	<b>4</b>	<b>1</b>
<b>Non-underlying items credited against loss for the year from continuing operations</b>	<b>(72)</b>	<b>(223)</b>
<b>8.2 Discontinued operations</b>		
<b>8.2.1</b> Amortisation of acquired intangible assets	–	(8)
<b>8.2.2</b> Other non-underlying items:		
– gain on disposal of Parsons Brinckerhoff	5	234
– loss on disposal of Rail Italy	(4)	–
– goodwill impairment in respect of Rail Italy	–	(24)
– other	–	(3)
<b>Total other non-underlying items from discontinued operations</b>	<b>1</b>	<b>207</b>
<b>Credited to (loss)/profit before taxation from discontinued operations</b>	<b>1</b>	<b>199</b>
<b>8.2.3</b> Tax on items above	–	19
<b>Non-underlying items credited to (loss)/profit for the year from discontinued operations</b>	<b>1</b>	<b>218</b>
<b>Charged against (loss)/profit for the year</b>	<b>(71)</b>	<b>(5)</b>

## 8 Non-underlying items continued

### Continuing operations

**8.1.1** Rail Germany was reclassified from discontinued operations in 2014 and has continued to be presented as part of the Group's non-underlying items within continuing operations. Refer to Note 10. In 2015, Rail Germany generated a loss before tax excluding share of joint ventures and associates of £3m (2014: £23m).

**8.1.2** The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts in non-underlying items. These contracts were classified as non-underlying items in 2014 as the performance of these contracts was linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work. These contracts resulted in a loss before tax for the Group of £8m in 2015 (2014: £88m). No tax credit has been recognised on this loss.

**8.1.3** The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £6m (2014: £6m); customer relationships £3m (2014: £4m); and brand names £1m (2014: £1m).

**8.1.4.1** The Group launched its Build to Last transformation programme in February 2015. The transformation programme is aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies. As a result of this programme, restructuring costs of £23m were incurred in 2015 relating to: Construction Services UK £11m; Support Services UK £6m; other UK entities £3m; and other non-UK entities £3m. These restructuring costs comprise: redundancy costs £12m; external advisers £4m; property-related costs £5m; and other restructuring costs £2m.

In 2014, the Group incurred restructuring costs relating to legacy transformation programmes of £23m relating to: Construction Services UK £11m; other UK entities £3m; and other non-UK entities £9m. These restructuring costs comprise: redundancy costs £13m; external advisers £5m; property-related costs £1m; and other restructuring costs £4m.

**8.1.4.2** In 2015, following the disposal of Parsons Brinckerhoff (PB) on 31 October 2014, the Group incurred £4m of costs relating to restructuring the continuing operations of Heery Inc. which was previously reliant on PB for its back office functions.

In 2015, additional restructuring costs of £5m were incurred in Rail Germany relating to the restructuring of overheads post completion of disposal of parts of the business. These restructuring costs comprise redundancy costs of £1m and other restructuring costs of £4m.

Both Heery and Rail Germany are included within the Construction Services segment.

**8.1.4.3** In 2015, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £8m (2014: £14m).

**8.1.4.4** An assessment of the carrying value of assets within Rail Germany was carried out in 2015 following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. This agreement remains subject to various approvals at the year end. The assessment resulted in an impairment charge of £11m, of which £4m was recognised at the joint venture level. In 2014, an impairment charge of £30m was recognised on the parts of Rail Germany which were sold to Rhomberg Sersa Rail Group in January 2015.

## 8 Non-underlying items continued

### Continuing operations continued

**8.1.4.5** On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Ltd for a cash consideration of £18m, resulting in a £16m gain in 2015. Refer to Note 21.2.6.

**8.1.4.6** In 2015, an impairment charge of £17m was recorded to write-down intangible assets in relation to costs capitalised in the transformation of the Group's UK IT estate from a federated to a more centralised model. Refer to Note 14. In 2014, an impairment charge of £27m was recorded to write-down the cost capitalised in relation to the Oracle R12 software within intangible assets, £21m of which was recorded within continuing operations.

The charge was recognised in the following segments: Construction Services £9m; Support Services £7m; and Corporate £1m.

**8.1.4.7** On 31 January 2015, the Group disposed of parts of its Rail Germany business for a cash consideration of £5m resulting in a £5m loss in 2015. Refer to Note 21.2.1.

On 12 March 2015, the Group also disposed of its 25% interest in Baoji BaoDeLi Electrification Equipment Ltd for a cash consideration of £4m resulting in a £2m gain in 2015. Refer to Note 21.2.4.

**8.1.4.8** A settlement gain of £3m (2014: £2m) was recognised in relation to the Balfour Beatty Pension Fund following a commutation exercise commenced in 2014. Refer to Note 18.

**8.1.4.9** In 2015, an impairment charge of £4m was recorded to write-down the entire goodwill relating to Blackpool Airport. Blackpool Airport Ltd went into creditors' voluntary liquidation on 16 October 2014 which resulted in costs of £1m in 2014. Blackpool Airport is reported within Infrastructure Investments. Refer to Note 13.

**8.1.4.10** During 2014, Rail Germany booked costs of £6m in relation to allegations of historical anti-competitive behaviour occurring in Schreck-Mieves GmbH, a company acquired by Balfour Beatty in 2008.

**8.1.4.11** In 2014, costs of £7m were incurred in relation to the aborted merger discussions with Carillion plc.

**8.1.5** In 2015, the joint venture within Rail Germany generated a trading gain of £1m for the Group (2014: loss of £1m). In addition to this, a £4m impairment charge was recognised on the joint venture following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. Refer to Note 8.1.4.4.

**8.1.6** In 2014, a goodwill impairment charge of £1m was recognised in relation to the Group's investment in one of its joint ventures in the Middle East.

**8.1.7** The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £4m comprising: £2m charge on the results of Rail Germany and £nil on certain legacy Engineering Services contracts; £4m credit on amortisation of acquired intangible assets; and £2m credit on other non-underlying items (2014: £1m credit comprising: £4m charge on the results of Rail Germany; £4m credit on amortisation of acquired intangible assets; and £1m credit on other non-underlying items).

## 8 Non-underlying items continued

### Discontinued operations

**8.2.1** There were no amortisation charges on acquired intangible assets from discontinued operations in 2015. In 2014, £8m of amortisation was charged comprising of: customer contracts £1m; customer relationships £2m; and brand names £5m.

**8.2.2.1** On 31 October 2014, the Group disposed of its 100% interest in its professional services business, PB, resulting in a gain on disposal of £234m. In 2015, the Group finalised the cash consideration due on this disposal amounting to additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. In accordance with the stock purchase agreement, the Group received cash of £20m relating to historic tax matters (£16m of which was recognised as a current tax receivable in the prior period) and the Group also released an indemnity provision relating to an historic legal claim of £3m which was successfully settled during the period. Offsetting this additional non-underlying gain on disposal are separation costs incurred during the period of £4m, of which £2m were paid during the period, and the write-off of a deferred tax asset of £7m resulting in an overall net gain of £5m. Transaction costs of £9m, which were accrued in the prior period, were paid in the year. Refer to Note 21.2.9.

**8.2.2.2** On 11 March 2015, as part of the ongoing process to exit the Mainland European rail businesses, the Group disposed of Rail Italy for a cash consideration of £5m, resulting in a £4m loss being recognised in the year. Refer to Note 21.2.3.

**8.2.2.3** Rail Italy met the criteria to be classified as held for sale at 27 June 2014. Rail Italy was carried at the lower of cost and net realisable value which resulted in a goodwill impairment of £24m in 2014, of which £4m arose after its transfer to assets held for sale.

**8.2.3** The non-underlying items charged against profit from discontinued operations gave rise to a tax credit of £nil comprising: £nil on amortisation of acquired intangible assets; and £nil on other non-underlying items (2014: £19m comprising: £2m on amortisation of acquired intangible assets; and £17m on other non-underlying items).

## 9 Taxation

	Underlying Items <sup>1</sup> 2015 £m	Non- underlying items (Note 8) 2015 £m	Total 2015 £m	Total 2014 £m
<b>Continuing operations</b>				
Total UK tax	15	–	15	(15)
Total non-UK tax	(4)	(4)	(8)	12
<b>Total tax charge/(credit)</b>	<b>11</b>	<b>(4)</b>	<b>7</b>	<b>(3)</b>
<b>Continuing operations<sup>x</sup></b>				
<b>UK current tax</b>				
– corporation tax for the year at 20.25% (2014: 21.5%)	3	–	3	1
– adjustments in respect of previous periods	(5)	–	(5)	(14)
	(2)	–	(2)	(13)
<b>Non-UK current tax</b>				
– non-UK tax on profits for the year	3	1	4	6
– adjustments in respect of previous periods	(5)	–	(5)	(20)
	(2)	1	(1)	(14)
<b>Total current tax</b>	<b>(4)</b>	<b>1</b>	<b>(3)</b>	<b>(27)</b>
<b>UK deferred tax</b>				
– current year charge/(credit)	8	–	8	(7)
– adjustments in respect of previous periods	4	–	4	3
– UK corporation tax rate change	5	–	5	2
	17	–	17	(2)
<b>Non-UK deferred tax</b>				
– current year (credit)/charge	(7)	(5)	(12)	9
– adjustments in respect of previous periods	5	–	5	17
	(2)	(5)	(7)	26
<b>Total deferred tax</b>	<b>15</b>	<b>(5)</b>	<b>10</b>	<b>24</b>
<b>Total tax charge/(credit) from continuing operations</b>	<b>11</b>	<b>(4)</b>	<b>7</b>	<b>(3)</b>

<sup>x</sup> Excluding joint ventures and associates.

<sup>1</sup> Before non-underlying items (Note 8).

The Group tax charge 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, tax of £49m is credited (2014: £77m charged) directly to other comprehensive income, comprising: a deferred tax credit of £16m (2014: £54m charge); and a deferred tax credit in respect of joint ventures and associates of £33m (2014: £23m charge).

## 10 Discontinued operations and assets held for sale

### Rail disposal group

In 2013, following a strategic review in light of low activity levels and the commoditisation of work, the Group decided to divest all of its Mainland European rail businesses over time. The Group had been actively marketing its Mainland European rail businesses and accordingly, when it was probable that these businesses would be sold within a year, or were sold or abandoned, they met the criteria to be classified as an asset held for sale.

To also be classified as discontinued, an operation must represent a separate major line of business. Other than the Mainland European rail businesses there were no significant Group operations in Mainland Europe and therefore by exiting these businesses, the Group was exiting from a separate major geographical operation and they met the criteria to be classified as discontinued operations.

On 8 January 2014 the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m. The disposal resulted in a £nil gain being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed, including cash disposed of £9m, a £1m gain on recycling currency translation reserves to the income statement, and costs incurred and indemnity provisions of £1m.

On 27 June 2014, following progression of talks with potential purchasers, it became highly probable that Rail Italy would be disposed within a year and met the criteria to be classified as an asset held for sale. Accordingly a £24m goodwill impairment charge was recognised in the year as a non-underlying item. Refer to Note 8.2.2.3. On 11 March 2015, the Group completed the sale of Rail Italy for a net consideration of £3m. Refer to Note 21.2.3.

In 2014, Rail Germany was reclassified from discontinued operations and its performance was included within non-underlying items as part of continuing operations. The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit.

Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014. As a result, Rail Germany did not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation in 2014. However, the parts of Rail Germany which were subject to sale to Rhomberg Sersa Rail Group at December 2014 were classified as assets and liabilities held for sale at 31 December 2014. The sale subsequently completed in January 2015. Refer to Note 21.2.1.

There are no remaining operations within the Rail disposal group classified as discontinued operations or held for sale at 31 December 2015 following the completion of the sales of parts of Rail Germany on 31 January 2015 and of Rail Italy on 11 March 2015.

The Rail disposal group was part of the Construction Services segment.

## 10 Discontinued operations and assets held for sale continued

### Parsons Brinckerhoff

On 28 October 2014, shareholder approval was granted for the disposal of the Group's 100% interest in Parsons Brinckerhoff. The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m. The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations in 2014.

In 2015, the Group finalised the cash consideration due on this disposal amounting to additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. In accordance with the stock purchase agreement, the Group received cash of £20m relating to historic tax matters (£16m of which was recognised as a current tax receivable in the prior period) and the Group also released an indemnity provision relating to an historic legal claim of £3m which was successfully settled during the period. Offsetting this additional non-underlying gain on disposal are separation costs incurred during the period of £4m, of which £2m were paid during the period, and the write-off of a deferred tax asset of £7m resulting in an overall net gain of £5m. Transaction costs of £9m, which were accrued in the prior period, were paid in the year. Refer to Note 21.2.9.

### Results of the discontinued operations included within the Group Income Statement

	Rail disposal group 2015 £m	Parsons Brinckerhoff 2014 £m	Rail disposal group 2014 £m	Total discontinued operations 2014 £m
<b>Revenue including share of joint ventures and associates</b>	<b>1</b>	<b>1,266</b>	<b>23</b>	<b>1,289</b>
Share of revenue of joint ventures and associates	—	(13)	—	(13)
<b>Group revenue</b>	<b>1</b>	<b>1,253</b>	<b>23</b>	<b>1,276</b>
<b>Underlying group operating (loss)/profit</b>	<b>(1)</b>	<b>38</b>	<b>1</b>	<b>39</b>
Share of results of joint ventures and associates	—	—	—	—
<b>Underlying (loss)/profit from operations and before tax</b>	<b>(1)</b>	<b>38</b>	<b>1</b>	<b>39</b>
Taxation on underlying loss	—	(14)	(1)	(15)
<b>Underlying (loss)/profit after tax</b>	<b>(1)</b>	<b>24</b>	<b>—</b>	<b>24</b>
Non-underlying items:				
– gain on disposal*	1	234	—	234
– amortisation of acquired intangible assets	—	(8)	—	(8)
– other non-underlying items	—	—	(27)	(27)
	1	226	(27)	199
Taxation on non-underlying items	—	13	6	19
<b>Non-underlying profit/(loss) after tax</b>	<b>1</b>	<b>239</b>	<b>(21)</b>	<b>218</b>
<b>Profit/(loss) for the year from discontinued operations</b>	<b>—</b>	<b>263</b>	<b>(21)</b>	<b>242</b>

\* Includes £5m gain in 2015 relating to Parsons Brinckerhoff. Refer to Note 21.2.9.



## 10 Discontinued operations and assets held for sale continued

### Major classes of assets and liabilities included within net assets held for sale

There are no remaining assets or liabilities held for sale within the Rail disposal group as at 31 December 2015. At 31 December 2014, assets and liabilities held for sale include Rail Italy and parts of Rail Germany which were sold in January 2015. Refer to Note 21.

	Rail disposal group 2015 £m
At 1 January 2015	13
Movements in the year within net assets held for sale	(2)
Net assets disposed – Rail Italy (Note 21.2.3)	(6)
– parts of Rail Germany (Note 21.2.1)	(5)
At 31 December 2015	–

Included within the Group's cash flows for the year ended 31 December 2015 are: net £nil operating cash outflows (2014: £1m); and net £1m investing cash inflows (2014: £9m outflows) relating to the Rail disposal group.

Included within the Group's cash flows for the year ended 31 December 2015 are: net £3m operating cash inflows (2014: £43m outflows); net £25m investing cash inflows (2014: £703m); and net £nil financing cash outflows (2014: £1m) relating to Parsons Brinckerhoff.

## 11 Earnings per ordinary share

	2015		2014	
	Basic £m	Diluted £m	Basic £m	Diluted £m
<b>Earnings</b>				
<b>Continuing operations</b>				
Loss	(206)	(206)	(302)	(302)
Amortisation of acquired intangible assets – net of tax credit of £4m (2014: £4m)	6	6	7	7
Other non-underlying items – net of tax charge of £nil (2014: £3m)	66	66	216	216
Underlying loss	(134)	(134)	(79)	(79)
<b>Discontinued operations</b>				
Earnings	–	–	242	242
Amortisation of acquired intangible assets – net of tax credit of £nil (2014: £2m)	–	–	6	6
Other non-underlying items – net of tax credit of £nil (2014: £17m)	(1)	(1)	(224)	(224)
Underlying (loss)/earnings	(1)	(1)	24	24
<b>Total operations</b>				
Loss	(206)	(206)	(60)	(60)
Amortisation of acquired intangible assets – net of tax credit of £4m (2014: £6m)	6	6	13	13
Other non-underlying items – net of tax credit of £nil (2014: £14m)	65	65	(8)	(8)
Underlying loss	(135)	(135)	(55)	(55)
	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	685	685	686	686
<b>Earnings per share</b>	Basic pence	Diluted pence	Basic pence	Diluted pence
<b>Continuing operations</b>				
Loss per ordinary share	(30.2)	(30.2)	(43.9)	(43.9)
Amortisation of acquired intangible assets	0.8	0.8	1.1	1.1
Other non-underlying items	9.7	9.7	31.3	31.3
Underlying loss per ordinary share	(19.7)	(19.7)	(11.5)	(11.5)
<b>Discontinued operations</b>				
Earnings per ordinary share	0.1	0.1	35.3	35.3
Amortisation of acquired intangible assets	–	–	0.8	0.8
Other non-underlying items	(0.2)	(0.2)	(32.6)	(32.6)
Underlying (loss)/earnings per ordinary share	(0.1)	(0.1)	3.5	3.5
<b>Total operations</b>				
Loss per ordinary share	(30.1)	(30.1)	(8.6)	(8.6)
Amortisation of acquired intangible assets	0.8	0.8	1.9	1.9
Other non-underlying items	9.5	9.5	(1.3)	(1.3)
Underlying loss per ordinary share	(19.8)	(19.8)	(8.0)	(8.0)

## 12 Dividends on ordinary shares

	2015		2014	
	Per share pence	Amount £m	Per share pence	Amount £m
<b>Proposed dividends for the year</b>				
Interim – current year	–	–	5.6	38
Final – current year	–	–	–	–
	–	–	5.6	38
<b>Recognised dividends for the year</b>				
Final – prior year		–		58
Interim – current year		–		38
		–		96

Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending a final dividend payable for 2015. The Board expects to reinstate the dividend payments, at an appropriate level at the interim results in August 2016.

## 13 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2015	977	(151)	826
Currency translation differences	20	2	22
Impairment charges in respect of Blackpool Airport (Note 8.1.4.9)	–	(4)	(4)
At 31 December 2015	997	(153)	844

### Carrying amounts of goodwill by cash-generating unit

	2015		2014 <sup>+</sup>	
	£m	Pre-tax discount rate %	£m	Pre-tax discount rate %
UK Regional and Engineering Services	248	10.2	248	10.4
Balfour Beatty Construction Group Inc.	377	12.6	356	12.6
Rail UK	66	10.4	66	8.7
Gas & Water	58	10.3	58	8.7
Balfour Beatty Communities US	45	12.6	43	8.7
Other	50	10.3–12.7	55	8.7–12.8
Group total	844		826	

<sup>+</sup> Re-presented to align 2014's carrying amount of goodwill to 2015's CGU allocation as a result of changes in management reporting structure within Construction Services UK and Support Services. Construction Services UK has now been split into UK Regional and Engineering Services and Major Projects, the latter being included in Other. Support Services has also been split into Rail UK, Gas & Water and Power, the latter being included in Other. Balfour Beatty Communities US is now being shown separately from Other.

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected workload of each cash-generating unit (CGU), giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three Year Plan, which covers the period from 2016 to 2018 and includes a stabilisation of performance in the Construction Services UK business. 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.

### 13 Intangible assets – goodwill continued

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

In the derivation of each CGU's value-in-use, a terminal value is assumed based on a multiple of earnings before interest and tax. The multiple is applied to a terminal cash flow, which is the normalised cash flow in the last year of the forecast period. The EBIT multiple is calculated using the Gordon Growth Model and is a factor of the discount rate and growth rate for each CGU. The nominal terminal value is discounted to present value.

	2015			2014 <sup>+</sup>		
	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	1.6	1.2	2.8	1.9	1.3	3.2
Balfour Beatty Construction Group Inc.	1.6	1.7	3.3	1.9	1.7	3.6
Rail UK	1.6	1.2	2.8	1.9	1.3	3.2
Gas & Water	1.6	1.2	2.8	1.9	1.3	3.2
Balfour Beatty Communities US	1.6	1.7	3.3	1.9	1.7	3.6
Other	1.6	1.7	3.3	1.9	1.7	3.6

<sup>+</sup> Re-presented to align 2014's carrying amount of goodwill to 2015's CGU allocation as a result of changes in management reporting structure within Construction Services UK and Support Services. Construction Services UK has now been split into UK Regional and Engineering Services and Major Projects, the latter being included in Other. Support Services has also been split into Rail UK, Gas & Water and Power, the latter being included in Other. Balfour Beatty Communities US is now being shown separately from Other.

### 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.

In light of the significant losses incurred within the UK construction business in 2015 the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in the related CGUs and concluded that it is not the case. The stabilisation and recovery of the Group's UK construction business to more normal levels of performance is however a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

Except as noted below, a reasonable possible change in a single assumption will not give rise to an impairment in any of the Group's CGUs.

Using a pre-tax discount rate of 10.3% and nominal long-term growth rate of 2.8% the recoverable amount of the remaining goodwill in Gas and Water is £67m based on value-in-use, with consequent headroom of £9m. A 1.0% increase in the discount rate and a 1.0% reduction in the growth rate would lead to an impairment of £22m.

## 14 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying Amount £m
At 1 January 2015	440	(224)	216
Currency translation differences	12	(7)	5
Additions	43	–	43
Disposals	(6)	6	–
Charge for the year	–	(25)	(25)
Impairment charge	–	(17)	(17)
At 31 December 2015	489	(267)	222

Other intangible assets comprise: acquired intangible assets of customer contracts, customer relationships, and brand names; Infrastructure Investments' intangible assets on a student accommodation project in which the Group has demand risk; software and other, including internally generated software.

In 2015, an impairment charge of £17m was recognised against software intangible assets relating to costs capitalised in the transformation of the Group's UK IT estate from a federated to a more centralised model. Due to curtailments in the scope of the implementation and the Group's termination of its agreement with its implementation partner, future benefits expected to be generated from this asset are reduced. The impairment was recognised as a non-underlying charge. Refer to Note 8.1.4.6.

## 15 Joint ventures and associates

	2015					
	Infrastructure Investments					Total £m
	Construction Services £m	Support Services £m	UK <sup>^</sup> £m	North America £m	Infrastructure Fund £m	
<b>Continuing operations</b>						
Revenue <sup>1</sup>	1,168	25	187	91	–	1,471
Underlying operating profit <sup>1</sup>	8	1	8	11	3	31
Investment income	2	–	160	4	–	166
Finance costs	(2)	–	(129)	(7)	–	(138)
Profit before taxation <sup>1</sup>	8	1	39	8	3	59
Taxation	(3)	–	(9)	–	–	(12)
Profit after taxation before non-underlying items	5	1	30	8	3	47
Share of results within non-underlying items	(3)	–	–	–	–	(3)
Profit after taxation	2	1	30	8	3	44
Intangible assets:						
- goodwill	30	–	–	–	–	30
- Infrastructure Investments intangible	–	–	25	–	–	25
- other	–	–	11	–	–	11
Property, plant and equipment	38	–	26	39	–	103
Investments in joint ventures and associates	5	–	–	–	–	5
PPP financial assets	–	–	2,159	77	–	2,236
Military housing projects	–	–	–	101	–	101
Infrastructure Fund Investment	–	–	–	–	38	38
Net cash/(borrowings)	234	–	(1,525)	(82)	–	(1,373)
Other net (liabilities)/assets	(204)	4	(291)	(23)	–	(514)
Net assets	103	4	405	112	38	662
Reclassify net liabilities relating to Dutco <sup>+</sup> to provisions	9	–	–	–	–	9
Adjusted net assets	112	4	405	112	38	671

<sup>^</sup> Including Singapore and Australia.

<sup>1</sup> Before non-underlying items (Note 8).

<sup>+</sup> Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.

## 15 Joint ventures and associates continued

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.

	2014					
				Infrastructure Investments		
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Infrastructure Fund £m	Total £m
<b>Continuing operations</b>						
Revenue <sup>1</sup>	1,168	26	249	47	—	1,490
Underlying operating profit <sup>1</sup>	10	1	11	8	—	30
Investment income	1	—	176	2	—	179
Finance costs	—	—	(135)	(4)	—	(139)
Profit before taxation <sup>1</sup>	11	1	52	6	—	70
Taxation	(3)	—	(12)	—	—	(15)
Profit after taxation before non-underlying items	8	1	40	6	—	55
Share of results within non-underlying items	(2)	—	—	—	—	(2)
Profit after taxation	6	1	40	6	—	53
Intangible assets:						
- goodwill	29	—	—	—	—	29
- Infrastructure Investments intangible	—	—	24	—	—	24
- other	—	—	6	—	—	6
Property, plant and equipment	41	—	16	4	—	61
Investments in joint ventures and associates	5	—	—	—	—	5
PPP financial assets	—	—	2,326	33	—	2,359
Military housing projects	—	—	—	91	—	91
Infrastructure Fund investment	—	—	—	—	20	20
Net cash/(borrowings)	208	2	(1,456)	(24)	—	(1,270)
Other net liabilities	(160)	—	(394)	(12)	—	(566)
Net assets	123	2	522	92	20	759

<sup>^</sup> Including Singapore and Australia.

<sup>1</sup> Before non-underlying items (Note 8).

## 16 Trade and other receivables

	2015 £m	2014 £m
<b>Current</b>		
Trade receivables	506	583
Less: provision for impairment of trade receivables	(11)	(26)
	495	557
Other receivables	45	56
Due from joint ventures and associates	55	33
Due from joint operations	10	29
Contract retentions receivable <sup>+</sup>	202	210
Accrued income	24	39
Prepayments	54	42
	885	966
<b>Non-current</b>		
Other receivables	2	7
Due from joint ventures and associates	12	16
Due from joint operations	–	4
Contract retentions receivable <sup>+</sup>	100	84
	114	111
<b>Total trade and other receivables</b>	<b>999</b>	<b>1,077</b>

<sup>+</sup> Including £298m (2014: £291m) construction contract retentions receivable.

## 17 Trade and other payables

	2015 £m	2014 £m
<b>Current</b>		
Trade and other payables	838	905
Accruals	755	961
Deferred income	7	5
Advance payments on contracts	–	1
VAT, payroll taxes and social security	67	79
Due to joint ventures and associates	25	–
Dividends on preference shares	5	5
Due on acquisitions	3	3
	1,700	1,959
<b>Non-current</b>		
Trade and other payables	86	65
Accruals	18	24
Deferred income	1	3
Due to joint ventures and associates	11	27
Due on acquisitions	14	15
	130	134
<b>Total trade and other payables</b>	<b>1,830</b>	<b>2,093</b>

## 18 Retirement benefit liabilities

IAS 19 Employee Benefits 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 cost arising from the expected interest income on plan assets and interest cost on scheme obligations is included in finance costs. 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 swaps in order to match the duration and inflation exposure of the obligations and enhance the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2013. As a result the Group agreed with effect from April 2013 to make ongoing deficit payments of £50m per annum, increasing to: £55m per annum from April 2016; £60m per annum from April 2017; and £65m per annum from April 2018 to May 2020, increasing each year by CPI (minimum 0% and capped at 5%) plus (in the period before the next actuarial valuation is agreed) 200% of any increase in the Company's dividend in excess of capped CPI. If the Company makes any one-off return of value to shareholders in excess of £200m such as a special dividend, share buy-back, capital payment or similar before the next actuarial valuation is agreed, there will be an additional increase in the deficit payment for the following year only, calculated as the regular deficit payment for that year multiplied by 75%, multiplied by the value of the one-off return of value, divided by the total of the regular dividends for the year prior to the year in which the one-off return was made. This agreement constitutes a minimum funding requirement under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Under the terms of the trust deed and subject to the agreement of the trustees (who would need to balance their responsibility to set contribution rates in accordance with the trust rules together with the interests of the beneficiaries at the time), the Group has the ability to use surplus funds, should they arise, in the defined benefit section of the BBPF to pay its contributions towards further service benefits in the defined benefit and defined contribution sections of the scheme. The Directors consider that, as the Group is permitted to assume that it would not be required to make contributions to maintain a surplus, should one arise, these further service benefits will exceed the minimum funding requirement.

In 2014, the Group commenced a commutation exercise for pensioner members and dependants with benefits with a value of less than £30,000 and £18,000, respectively. This gave those members the option to extinguish their benefits within the BBPF in exchange for a cash lump sum. The acceptance of this offer by certain members and dependants gave rise to a settlement event resulting in a decrease in liabilities of £3m (2014: £2m), which was recognised in other non-underlying items. Refer to Note 8.1.4.8.

In anticipation of the disposal of Parsons Brinckerhoff and the then proposed £200m return of capital to shareholders, and following the scheme apportionment arrangement made in relation to the disposal of Balfour Beatty WorkPlace, agreement was reached on 24 September 2014 with the trustees of the BBPF for additional deficit payments of £100m in 2015, of which £15m was in respect of Balfour Beatty WorkPlace and £85m was in respect of Parsons Brinckerhoff. The £15m was paid to the BBPF in 2015 in agreed monthly instalments.



## 18 Retirement benefit liabilities continued

On 1 July 2015, the Group established a Scottish Limited Partnership (SLP) structure into which its investment in Consort Healthcare (Birmingham) Holdings Ltd (Consort Birmingham), which owns the Group's 40% interest in the Birmingham Hospital PFI investment, was transferred. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in Consort Birmingham for other investments from time to time. Alongside the establishment of the SLP, agreement was reached to defer the payment of £85m which had been due to be paid to the BBPF in 2015 over the period to 2023, with the first payment of £4m due in 2016. Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension deficit 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. The first distribution was received in December 2015 and amounted to £1m.

The next formal triennial valuation of the BBPF will be as at 31 March 2016. The Company and the trustees are in the early stages of preparing for this valuation.

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

	2015		2014	
	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Discount rate	3.70	3.70	3.60	3.60
Inflation rate – RPI	3.00	3.00	2.95	2.95
– CPI	1.60	1.60	1.55	1.55
Future increases in pensionable salary	1.60	1.60	1.55	1.55
Rate of increase in pensions in payment (or such other rate as is guaranteed)	2.85	1.80	2.80	1.80

  

	Number	Number	Number	Number
Total number of defined benefit members	31,956	3,078	34,264	3,123

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (45,119 members at 31 December 2015) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes.

The mortality assumptions as at 31 December 2015 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2004 to 31 March 2015. The mortality tables adopted for the 2015 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2014: SAPS S2 tables) with a multiplier of 102% for all male and female members (2014: 102%) and 109% for female widows and dependants (2014: 109%); all with future improvements in line with the CMI 2015 core projection model (2014: CMI 2014 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2014: 1.25% per annum and 1.00% per annum).

	2015		2014	
	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	22.1	23.9	22.2	24.0
Members not yet in receipt of a pension (current age 50)	23.4	25.0	23.5	25.1

## 18 Retirement benefit liabilities continued

### Amounts recognised in the Balance Sheet

	2015				2014			
	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Other schemes^ £m	Total £m	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Other schemes^ £m	Total £m
Present value of obligations	(3,031)	(314)	(52)	(3,397)	(3,140)	(319)	(59)	(3,518)
Fair value of plan assets	2,988	263	–	3,251	3,128	261	1	3,390
Liabilities in the balance sheet	(43)	(51)	(52)	(146)	(12)	(58)	(58)	(128)

^ Available-for-sale investments in mutual funds of £20m (2014: £20m) are held to satisfy the Group's deferred compensation obligations.

The defined benefit obligation comprises £52m (2014: £58m) arising from wholly unfunded plans and £3,345m (2014: £3,460m) arising from plans that are wholly or partly funded.

Movements in the retirement benefit liabilities for the year		2015 £m
At 1 January 2015		(128)
Currency translation differences		(1)
Current service cost		(7)
Interest cost		(123)
Interest income		120
Actuarial movements	– on obligations from changes to other financial assumptions	51
	– on obligations from changes in demographic assumptions	16
	– on obligations from experience gains	1
	– on assets	(154)
Contributions from employer	– regular funding	4
	– ongoing deficit funding	66
Benefits paid		6
Settlements		3
At 31 December 2015		(146)

The BBPF includes a defined contribution section with 13,163 members at 31 December 2015 (2014: 12,809 members) with £45m (2014: £49m) of contributions paid from continuing operations and charged in the income statement in respect of this section. Costs relating to discontinued operations in respect of this section were £nil (2014: £4m). The total net pension cost recognised in the income statement in respect of employee service for defined benefit and defined contribution schemes was £53m (2014: £94m), of which £nil (2014: £21m) relates to discontinued operations.

### Sensitivity of the Group's retirement benefit obligations at 31 December 2015 to different actuarial assumptions

Obligations	Percentage points/years	(Decrease)/increase in obligations %	(Decrease)/increase in obligations £m
Increase in discount rate	0.5%	(7.8)	(262)
Increase in market expectation of RPI inflation	0.5%	5.3	178
Increase in salary growth	0.5%	0.1	3
Increase in life expectancy	1 year	4.0	135

### Sensitivity of the Group's retirement benefit assets at 31 December 2015 to changes in market conditions

Assets	Percentage points	(Decrease)/increase in assets %	(Decrease)/increase in assets £m
Increase in interest rates	0.5%	(8.3)	(270)
Increase in market expectation of RPI inflation	0.5%	4.9	159

## 19 Share capital

During the year ended 31 December 2015, 210,214 (2014: 101,540) ordinary shares were issued following the exercise of savings-related share options and nil (2014: 318,840) ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £1m (2014: £1m).

## 20 Notes to the statement of cash flows

	Continuing operations			Total 2015 £m	Total 2014 £m
	Underlying items <sup>1</sup> 2015 £m	Non- underlying items (Note 8) 2015 £m	Discontinued operations and assets held for sale 2015 £m		
<b>20.1 Cash (used in)/generated from operations</b>					
(Loss)/profit from operations	(106)	(76)	–	(182)	(43)
Share of results of joint ventures and associates	(47)	3	–	(44)	(53)
Depreciation of property, plant and equipment	33	2	–	35	54
Amortisation of other intangible assets	15	10	–	25	25
Impairment of IT intangible assets	–	17	–	17	21
Pension deficit payments	(66)	–	–	(66)	(49)
Pension fund settlement gain	–	(3)	–	(3)	(2)
Movements relating to share-based payments	5	–	–	5	5
Profit on disposal of investments in infrastructure concessions	(95)	–	–	(95)	(93)
Profit on disposal of property, plant and equipment	(1)	–	–	(1)	(7)
Net gain on disposal of other businesses	–	(13)	(1)	(14)	(234)
Goodwill impairment	–	4	–	4	24
Impairment of assets within Rail Germany	–	7	–	7	30
Other non-cash items	(1)	–	–	(1)	1
Operating cash flows before movements in working capital	(263)	(49)	(1)	(313)	(321)
Decrease/(increase) in operating working capital	179	(5)	4	178	(31)
Inventories and non-construction work in progress	21	5	1	27	(30)
Due from construction contract customers	160	22	–	182	(92)
Trade and other receivables	52	18	4	74	(43)
Due to construction contract customers	137	(11)	–	126	50
Trade and other payables	(181)	(51)	(4)	(236)	85
Provisions	(10)	12	3	5	(1)
Cash (used in)/generated from operations	(84)	(54)	3	(135)	(352)

<sup>1</sup> Before non-underlying items (Note 8).

## 20.2 Cash and cash equivalents

	2015 £m	2014 £m
Cash and deposits	562	653
Term deposits	84	38
	646	691
Bank overdrafts	(3)	(4)
	643	687
Cash balances within infrastructure concessions	20	40
	663	727

## 20 Notes to the statement of cash flows continued

### 20.3 Analysis of net borrowings

	2015 £m	2014 £m
Cash and cash equivalents, excluding overdrafts and cash balances within infrastructure concessions	646	691
Bank overdrafts	(3)	(4)
US private placement	(236)	(224)
Liability component of convertible bonds	(233)	(227)
Other loans	(10)	(16)
Finance leases	(1)	(1)
	163	219
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2027 and 2037	(385)	(485)
Infrastructure concessions cash and cash equivalents	20	40
	(365)	(445)
Net borrowings	(202)	(226)

	Infrastructure concessions non-recourse project finance 2015 £m	Other 2015 £m	Total 2015 £m	Total 2014 £m
<b>20.4 Analysis of movement in net (borrowings)/cash</b>				
Opening net borrowings	(445)	219	(226)	(420)
Currency translation differences	(3)	(12)	(15)	(21)
Net (decrease)/increase in cash and cash equivalents	(20)	(63)	(83)	212
Accretion on convertible bonds	–	(6)	(6)	(6)
Proceeds from new loans	(79)	–	(79)	(247)
Proceeds from new finance leases	–	–	–	(1)
Repayments of loans	11	1	12	90
Repayments of finance leases	–	–	–	3
Transfer of borrowings in the period	(6)	6	–	–
Disposal of non-recourse borrowings	177	–	177	163
Net decrease in cash within assets held for sale	–	18	18	1
Closing net (borrowings)/cash	(365)	163	(202)	(226)

### 20.5 Borrowings

During the year ended 31 December 2015 the significant movements in borrowings were: a net decrease in cash and cash equivalents (excluding cash held in infrastructure concession projects) of £63m (2014: £237m net increase); a net repayment of short-term loans of £1m (2014: £83m); an increase of £79m (2014: £236m) in non-recourse loans funding the development of financial assets in infrastructure concession subsidiaries; disposal of non-recourse borrowings in Thanet OFTO HoldCo Ltd £177m (2014: £163m on disposal of Transform Schools (Knowsley) Holdings Ltd); and repayment of £11m (2014: £7m) of non-recourse loans.

## 21 Acquisitions and disposals

### 21.1 Current and prior year acquisitions

There were no material acquisitions during the years ended 31 December 2015 and 2014.

Deferred consideration paid during 2015 in respect of acquisitions completed in earlier years was £3m (2014: £3m). This related to the Group's acquisition of Centex Construction in 2007.

### 21.2 Current year disposals

Notes	Disposal date	Entity/business		Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain £m	Non-underlying gain/(loss) £m
21.2.1	31 January 2015	Parts of Rail Germany	*	100	5	(5)	(1)	(4)	—	(5)
21.2.2	16 February 2015	Thanet OFTO HoldCo Ltd	*	80	40	(35)	18	6	29	—
21.2.3	11 March 2015	Rail Italy	*	100	5	(6)	(2)	(1)	—	(4)
21.2.4	12 March 2015	Baoji BaoDeLi Electrification Ltd	^	25	4	(2)	—	—	—	2
21.2.5	28 April 2015	Edinburgh Royal Infirmary	^	50	72	(15)	(1)	(1)	55	—
21.2.6	27 May 2015	Signalling Solutions Ltd	^	50	18	(1)	—	(1)	—	16
21.2.7	30 November 2015	Aura Holdings (Newcastle) Ltd	^	25	7	(3)	—	—	4	—
21.2.8	2 December 2015	Greater Gabbard OFTO Holdings Ltd	^	33	26	(25)	6	—	7	—
					<b>177</b>	<b>(92)</b>	<b>20</b>	<b>(1)</b>	<b>95</b>	<b>9</b>

\* Subsidiary.

^ Joint venture.

**21.2.1** On 31 January 2015, as part of the ongoing process to exit the Mainland European rail business, the Group disposed of part of its Rail business in Germany and its Rail business in Austria for a cash consideration of £5m. The disposal resulted in a £5m loss being recognised as a non-underlying item within continuing operations, comprising a £1m loss on recycling currency translation reserves to the income statement and costs of disposal of £4m, of which £1m remains unpaid. The disposal included cash disposed of £12m.

**21.2.2** On 16 February 2015, the Group disposed of an 80% interest in Thanet OFTO HoldCo Ltd (Thanet) for a cash consideration of £40m. This infrastructure concession disposal resulted in a net gain of £29m being recognised within underlying operating profit, comprising: a gain of £5m in respect of the investment in the subsidiary, an £18m gain in respect of revaluation reserves recycled to the income statement and £6m representing the fair value uplift of the interest retained. The Group retains a 20% interest in Thanet which will be accounted for as a joint venture using the equity method. The disposal included cash disposed of £17m.

**21.2.3** On 11 March 2015, as part of the ongoing process to exit the mainland European Rail business, the Group disposed of its Rail business in Italy for a cash consideration of £5m. The disposal resulted in a £4m loss being recognised as a non-underlying item within discontinued operations, comprising a £1m loss in respect of the fair value of net assets disposed, a £2m loss on recycling currency translation reserves to the income statement and costs of disposal of £1m. The disposal included cash disposed of £3m.

## 21 Acquisitions and disposals continued

**21.2.4** On 12 March 2015, as part of the ongoing process to exit the mainland European Rail business, the Group disposed of its 25% interest in Baoji BaoDeLi Electrification Equipment Ltd for a cash consideration of £4m. The disposal resulted in a £2m gain being recognised as a non-underlying item within continuing operations in respect of the investment in the joint venture.

**21.2.5** On 28 April 2015, the Group disposed of its 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd (Edinburgh Royal Infirmary) for a cash consideration of £72m. This infrastructure concession disposal resulted in a net gain of £55m being recognised within underlying operating profit, comprising: a gain of £57m in respect of the investment in the joint venture, a £1m loss in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

**21.2.6** On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Ltd for an initial cash consideration of £17m. An additional cash consideration of £1m was subsequently received in the second-half of the year. The disposal resulted in a £16m gain being recognised in non-underlying items within continuing operations in respect of the disposal of the investment in the joint venture, after deducting disposal costs of £1m.

**21.2.7** On 30 November 2015, the Group disposed of its 25% interest in Aura Holdings (Newcastle) Ltd for a cash consideration of £7m. This infrastructure concession disposal resulted in a net gain of £4m being recognised within underlying operating profit in respect of the investment in the joint venture.

**21.2.8** On 2 December 2015, the Group disposed of its 33% interest in Greater Gabbard OFTO Holdings Ltd for a cash consideration of £26m. This infrastructure concession disposal resulted in a net gain of £7m being recognised within underlying operating profit, comprising a gain of £1m in respect of the investment in the joint venture and a £6m gain in respect of revaluation reserves recycled to the income statement.

**21.2.9** In 2015, the Group finalised the cash consideration due on the disposal of its professional services business, Parsons Brinckerhoff (PB), amounting to additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. In accordance with the stock purchase agreement, the Group received cash of £20m relating to historic tax matters (£16m of which was recognised as a current tax receivable in the prior period) and the Group also released an indemnity provision relating to an historic legal claim of £3m which was successfully settled during the period. Offsetting this additional non-underlying gain on disposal are separation costs incurred during the period of £4m, of which £2m were paid during the period, and the write-off of a deferred tax asset of £7m resulting in an overall net gain of £5m. Transaction costs of £9m, which were accrued in the prior period, were paid in the year.

## 22 Contingent liabilities

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

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

## **23 Related party transactions**

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £414m (2014: £673m). 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 within Notes 16 and 17 respectively.

## **24 Principal risks and uncertainties**

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

## **25 Events after the reporting date**

As at 14 March 2016, there were no material post balance sheet events arising after the reporting date.