Build to Last

Annual Report and Accounts 2017

Balfour Beatty

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The transformation of Balfour Beatty is well underway

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Front cover images (clockwise):

Dorenell wind farm: this £20 million overhead line will connect a key Scottish wind farm to the national grid.

Cooper's Hill retirement development: this luxury facility includes 78 retirement properties, a health club, swimming pool, restaurant and library.

The Dallas Horseshoe: following a distinctive U-shaped path, this design-build project upgraded 73 miles of road and 37 bridges to reduce congestion in Dallas, Texas.

2017 progress

Build to Last

"Today, Balfour Beatty is well placed to drive sustainable profitable growth, underpinned by a strong balance sheet. It has strength and depth in leadership, a new, positive culture is being embedded and the business is well positioned in each of its chosen markets."

Leo Quinn, Group Chief Executive

Lean

£335m

2016: £173m

Net cash excluding non-recourse borrowings*

Expert

60%

2016: 58%

Average employee engagement index score

Trusted

94%

2016: 91%

Average customer satisfaction rating

Safe

0.17

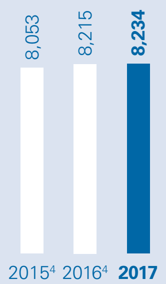
2016: 0.22

Lost Time Injury Rate, excluding international JVs

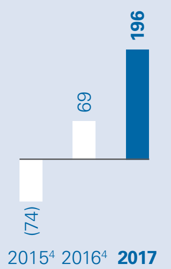
Highlights

The Group has presented financial performance measures which are considered most relevant to the Group and used to manage the Group's performance. An explanation of these measures and appropriate reconciliations to statutory measures are provided on pages 38 to 43.

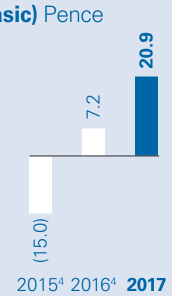
Continuing underlying revenue[1] £m



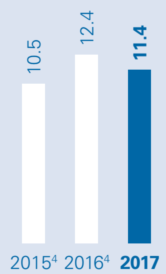
Continuing underlying (loss)/profit from operations (PFO) £m



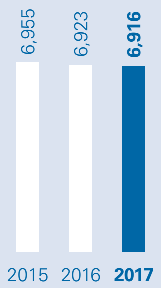
Continuing underlying (loss)/earnings per share (basic) Pence



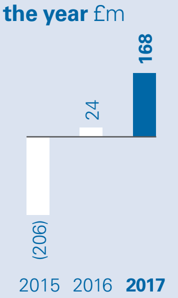
Order book[1] £bn



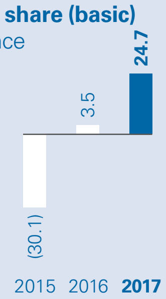
Statutory revenue £m



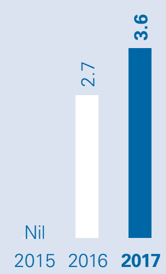
Statutory (loss)/profit for the year £m



Statutory (loss)/earnings per share (basic) Pence



Dividends per share Pence



1 Underlying revenue and order book include share of joint ventures and associates.
4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.
* A reconciliation of the Group's net cash measure to the statutory measure is provided on page 41. Non-recourse net borrowings are cash and debt that are ringfenced within certain infrastructure concession project companies.

See page 13 for our KPIs

Chairman's introduction

> Today Balfour Beatty is clearly focused on its chosen markets, winning new business on terms and conditions that balance risk and reward. Projects are monitored rigorously and regularly, with consistent processes and systems.
>
> **Philip Aiken AM**
> Chairman

This is the third occasion, as Chairman of your Board, that I have written to you at the start of our Annual Report. When we embarked on the Build to Last transformation programme our commitment was to make Balfour Beatty a strong and sustainable company and the sector's leading performer.

Today Balfour Beatty is clearly focused on its chosen markets, winning new business on terms and conditions that balance risk and reward. Projects are monitored rigorously and regularly, with consistent processes and systems. The legacy contracts, which did so much damage to your company, are largely completed.

This transformation has been achieved whilst maintaining one of the strongest balance sheets in the sector, maximising value in our Investments portfolio and paying a sustainable and progressive dividend.

It has been a long road, and we still have a distance to go; but returning the Group to industry-standard margins is now within sight. I am proud of the progress we have made so far. As we look forward with confidence to the rest of 2018 and beyond, we will continue to Build to Last and strengthen Balfour Beatty.

Performance

Underlying profit from operations more than doubled to £196 million in 2017; with all of our earnings-based businesses reporting improved profitability.

The Group's cash performance was strong. During the year we had average net cash of £42 million – compared to £46 million average net debt in the previous year and reported year end net cash excluding non-recourse borrowings of £335 million. Balfour Beatty has a number of outstanding debt instruments: as a result of our strong financial performance we were able to pay down some debt at the end of 2017 and we intend to reduce gross debt further in 2018.

The Investments portfolio maintained its Directors' valuation at £1.2 billion, post disposals. The partial sale of our holding in the M25, London's orbital motorway, demonstrates our commitment to maximise shareholder value, with the sale price considerably higher than a comparable market transaction from 2016.

We have continued our practice of only bidding for work on appropriate terms and for those projects best aligned to our capabilities. Our year end order book was £11.4 billion.

Markets

In the UK, US and the Far East, governments are taking action to renew and improve essential infrastructure – work which Balfour Beatty is well placed to deliver.

Notably, in the UK we were selected to deliver two Lots of the new high speed railway (HS2) and won orders to construct the marine tunnels at the Hinkley Point C nuclear power plant. In the US, we secured work to reconstruct and improve the Southern Gateway – an 11-mile stretch of road in Dallas, Texas – and the 4.7-mile Green Line rail extension in Boston, Massachusetts.

The business continues to work constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Whilst we have not seen an impact on our markets, any restrictions on the movement of workers would be likely to exacerbate the current shortages of skilled labour in our sector.

We continue to see opportunities for our Investments business to finance and deliver projects. In early 2018 we entered our first major public-private partnership (P3) in the US civil infrastructure market for the Los Angeles World Airports Automated People Mover.

The Board

Barbara Moorhouse and Michael Lucki joined your Board in the summer of 2017.

Barbara has over 30 years of business and management experience in the private, public and regulated sectors. Michael has worked with construction and infrastructure providers for 40 years and has extensive knowledge of the US market.

I consider a balanced spread of disciplines, diversity and experience essential to the Board's effectiveness and we will continue to take this into account when considering additional appointments.

Very sadly, during the year, Steve Marshall, my predecessor as Chairman, passed away. I would like to express our condolences to his family and recognise the leadership he gave Balfour Beatty at a very challenging time for the Company.

Our people

The transformation of Balfour Beatty to date could not have been achieved without the energy, dedication and enthusiasm of our employees. On behalf of the Board I would like to thank all of our employees for their commitment once again this year.

We are fortunate to work on some of the most impressive and exciting projects in the world and I am always delighted at the level of passion and pride I find every time I visit a site.

Safety is at the heart of the culture which the leadership team is creating at Balfour Beatty. Much of the work we undertake is inherently dangerous: taking measures which eradicate risk – or mitigate it where it cannot be completely removed – is vital if we are to ensure that everyone who comes into contact with Balfour Beatty is kept safe.

It is, therefore, with deep regret that I have to report that three people died during 2017 whilst working on our projects, two in the US and one in the Far East. As a Board, we review each serious accident in detail and seek actions to prevent a reoccurrence; however I realise that this is of little comfort to the families of those who lost their lives and I use this letter to send formal condolences to the bereaved on behalf of the Board and everyone in our business.

Every time someone is injured, it reinforces why we must always strive to do more to make our industry safer.

Dividend

The results for 2017 demonstrate further progress in restoring Balfour Beatty to sustainable financial strength and stability. As a result, your Board has felt able to recommend an increase in the final dividend to 2.4p per share, bringing the total dividend for the year to 3.6p per share.

Conclusion

As we have all been reminded, contracting is a business that demands constant focus and control. Risks must be managed and processes and governance must be fit for purpose and continuously applied. Delivering this requires quality leadership and a systematic approach to creating a culture which embeds this as our way of working.

As you read this report, you will see many examples of how Balfour Beatty has learnt from the past and is embracing these disciplines. Today we look to the future with confidence and excitement.

Balfour Beatty is ready for the challenges ahead. We Build to Last.

Philip Aiken AM
Chairman

Group Chief Executive's review

"Today, Balfour Beatty is well placed to drive sustainable profitable growth, underpinned by a strong balance sheet."

Leo Quinn
Group Chief Executive

These strong results demonstrate the transformation being delivered by the Build to Last programme. Today, Balfour Beatty is well placed to drive sustainable profitable growth, underpinned by a strong balance sheet. It has strength and depth in leadership, a new, positive culture is being embedded and the business is well positioned in each of its chosen markets.

The Group reported an underlying profit from operations (PFO) of £196 million (2016: £69 million) driven by material year-on-year improvements in all earnings-based businesses. Both Support Services and US Construction reported PFO margins in the range of industry-standard margins. UK Construction continues on its positive trend, with a profit from operations of £16 million (2016: £65 million loss).

The Group is on track to achieve industry-standard margins in all of its earnings-based businesses in the second half of 2018 as it continues to drive three key levers for improved financial performance: finalising the remaining historical contracts through to completion; reducing costs and raising productivity across its operations; and executing on the improved quality of the order book.

Cash remains the Group's focus and ultimately the most important barometer of financial performance. During the year, the Group had average net cash of £42 million (2016: £46 million net debt); at year end, the Group had net cash of £335 million (2016: £173 million). The year end figure includes £103 million received from the sale of a 12.5% stake in Connect Plus, the company which operates the M25 London orbital motorway. The Directors' valuation of the Investments portfolio has remained unchanged at £1.2 billion (2016: £1.2 billion), despite the Connect Plus M25 partial disposal, as a result of the continuing strong market for secondary infrastructure assets and the recent favourable changes in US tax regulations. The sale of a further 7.5% stake in the M25, for £62 million, was agreed on 29 December 2017, although the cash was not received until 2018.

Balfour Beatty's net cash position and the value of the Investments portfolio underline the ongoing strength of the Group's balance sheet and place it in a strong position to further pay down gross borrowings in 2018.

The order book decreased by 8% to £11.4 billion (2016: £12.4 billion), down 3% at CER compared to prior year, and is directly in line with the order book at 30 June 2017. The reduction is a result of the Group's stated policy of selective bidding at appropriate terms for those projects best aligned with its capabilities. The business increased bid margin thresholds and focused on projects where Balfour Beatty's capabilities can deliver value, coupled with a lower risk profile, so that the Group wins work at appropriate terms and conditions.

Additionally, the order book does not yet include work won in two-stage design and build contracts, such as work awarded to Balfour Beatty's 50:50 joint venture (Balfour Beatty VINCI) for two major civils packages, Lots N1 and N2, for the UK's new high speed railway (HS2) valued at £2.5 billion. This type of work is characteristic of the strong pipeline of infrastructure projects in the Group's chosen markets and aligns with its balanced attitude to risk and reward.

Consistent with the strategy to simplify the Group and focus on markets and geographies where it has a competitive advantage, Balfour Beatty exited the Middle East with the sale of its entire interests in Dutco Balfour Beatty and BK Gulf for £11 million. Both businesses were sold without future liabilities to the joint venture partner. Additionally, Heery International, a full-service US engineering and programme management, architecture and interior design firm, was sold for US$57 million, eliminating potential conflicts of interest with Balfour Beatty's US Construction business.

Since the start of 2015, Balfour Beatty has also exited Indonesia and Australia. In Canada, following the imminent completion of the BC Children's and BC Women's hospitals in Vancouver, it now only holds Investments assets.

With these moves, the Group is now able to maximise its strengths in its chosen markets in the UK & Ireland, US and Far East.

Balfour Beatty is increasingly building its business model on a foundation of deep capability underpinned by risk reduction. This means focusing on specific markets with inherent growth, where Balfour Beatty has the right expertise to command market leading margins, while ensuring it deploys the governance and transparency to price contractual risk appropriately and manage project execution closely.

Leo Quinn
Group Chief Executive

Group at a glance

Global infrastructure experts

Balfour Beatty is a leading international infrastructure group, providing the structures and services that underpin daily lives, support communities and enable economic growth. The Group finances, develops, builds and maintains complex infrastructure such as transportation, power, utilities, and social and commercial buildings. Its main geographies are the UK & Ireland, the US and the Far East.

Throughout this report, the Group has presented performance measures which are considered most relevant to Balfour Beatty and are used to manage the Group's performance. These measures are chosen to provide a balanced view of the Group's operations and are considered to provide relevant information on the Group's past or future performance, position or cash flows. These financial performance measures are also aligned to measures used internally to assess business performance in the Group's budgeting process and when determining compensation. An explanation of the Group's financial performance measures and appropriate reconciliations to statutory measures are provided on pages 38 to 43.

Readers of the Annual Report and Accounts are encouraged to review the financial statements in their entirety.

£11.4bn
Order book^

£8,234m
Underlying revenue^

£6,916m
Statutory revenue

£165m
Underlying profit before tax^

£117m
Statutory profit before tax

£1.24bn[5]
Directors' valuation

28,000
Employees

Balfour Beatty's power transmission and distribution team has helped to create the world's first floating wind farm, Hywind, off the coast of Peterhead, Scotland.

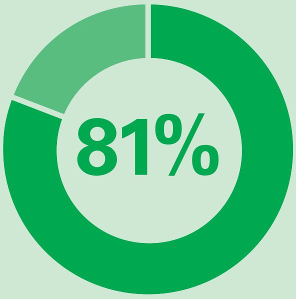
^ From continuing operations including share of joint ventures and associates, before non-underlying items.

4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

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

Construction Services

The Construction Services businesses in the UK & Ireland, the US, and in joint venture in the Far East, are top tier and all operate across the infrastructure and building sectors.



Total revenue^

£8.3bn
2016[4]: £9.3bn

Order book^

£6,649m
2016[4]: £6,537m

Underlying revenue^

£72m
2016[4]: £(21)m

Underlying profit/(loss) from operations^

£36m
2016[4]: £(55)m

Statutory profit/(loss) from operations

What we do

- Civil engineering
- Building
- Ground engineering
- Mechanical and electrical installation
- Refurbishment and fit-out
- Rail engineering

Construction Services p16

Support Services

Support Services upgrades, manages and maintains critical national infrastructure, and its capabilities complement both Construction Services and Infrastructure Investments.

Total revenue^

£3.1bn
2016: £3.1bn

Order book^

£1,061m
2016: £1,103m

Underlying revenue^

£41m
2016: £34m

Underlying profit from operations^

£39m
2016: £22m

Statutory profit from operations

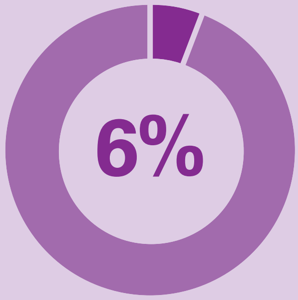
What we do

- Install, upgrade and maintain water, gas and electricity networks
- Highways network management, operation and maintenance
- Rail renewals
- Rail technology

Support Services p22

Infrastructure Investments

The Infrastructure Investments business is a recognised leader in public private partnerships (PPP) and other developments in the UK & Ireland, and the US. Its activities generate additional construction and service work for other parts of the Group.



Total revenue^

£1.24bn[5]
2016: £1.22bn

Directors' valuation

£524m
2016: £575m

Underlying revenue^

£140m
2016: £115m

Underlying profit before tax^

£134m
2016: £109m

Statutory profit before tax

What we do

- Develop and finance both public and private infrastructure projects
- Operate a portfolio of long-term infrastructure projects
- Develop and maintain a large network of military housing facilities across the US

Infrastructure Investments p24

Market review

Gathering momentum in key infrastructure markets

Backed by strong government support, UK and US infrastructure spend is accelerating.

Key

↗ Growth

→ Flat

↘ Contraction

Construction Services

Medium-term market outlook

	Infrastructure	Buildings
UK & Ireland	↗	→
US	↗	↗
Far East	↗	→

UK & Ireland

The infrastructure market is forecast to rise to double-digit percentage growth in 2019. This is backed by a government commitment to increase spending on infrastructure to over 1% of GDP by 2020-2021#.

The building market is expected to remain flat over the coming three years. However, there are regional variations, with growth in the South East and North of England, but weakness in London. Balfour Beatty will continue to react to market changes by bidding selectively.

US

Public spending and legislation continue to provide favourable tailwinds in the US civils market, with the FAST Act and Transportation Bonds driving a high level of state investment over the coming years.

In the building market, urbanisation is contributing to growth of the construction market in Balfour Beatty's chosen geographies. More broadly, the market is entering a mature phase of expansion, following rapid growth in recent years.

Far East

Hong Kong continues to deliver a strong pipeline of infrastructure and construction projects, benefiting from high public and private sector demand. Over the medium term, the Hong Kong and Singapore markets that the Group operates in will show continued good growth.

Construction Forecast (Feb 2018), Construction Products Association.

Construction Services p16

Support Services

Medium-term market outlook

	Power	Gas	Water	Highways	Rail
UK & Ireland	→	→	→	↗	→

Power
Regulated transmission networks and Offshore Transmission Owners (OFTOs) are expected to drive growth in the market.

Gas
The industry is currently in the middle of the RIIO GD1 regulatory period; there are unlikely to be any significant shifts in the market until 2020-2021.

Water
Stable market with incremental changes as AMP6 ramps down through 2018, and AMP7 ramps up from 2019.

Highways
Highways England is forecasting significant increases in expenditure, representing a significant opportunity in the coming years.

Rail
2018 is likely to see a reduction in spend as CP5 contracts draw to a close. However, 2019-2020 is likely to see an upswing in expenditure as CP6 ramps up.

Support Services p22

Infrastructure Investments

Medium-term opportunity levels

	PPP/PFI	Other
UK & Ireland	↘	→
US	↗	↗

UK
Balfour Beatty's investment opportunities in the years to 2020 are expected to arise principally in student accommodation and OFTOs.

US
Student accommodation and military housing continue to offer significant investment opportunities in the US market, and there are a number of attractive major infrastructure projects in the pipeline.

Infrastructure Investments p24

Business model

How we create value

The environment we operate in

External market

– Infrastructure markets in the UK & Ireland, US and Far East are buoyant with positive drivers.

See Market review p8-9

Internal performance

– The Build to Last transformation programme is designed to deliver market-leading returns over the medium term for all stakeholders, from a Group which is Lean, Expert, Trusted and Safe. As a result of the successful self-help actions taken in Phase One, Balfour Beatty has a strong foundation on which to deliver sustainable, profitable growth.

See Our priorities p12-15

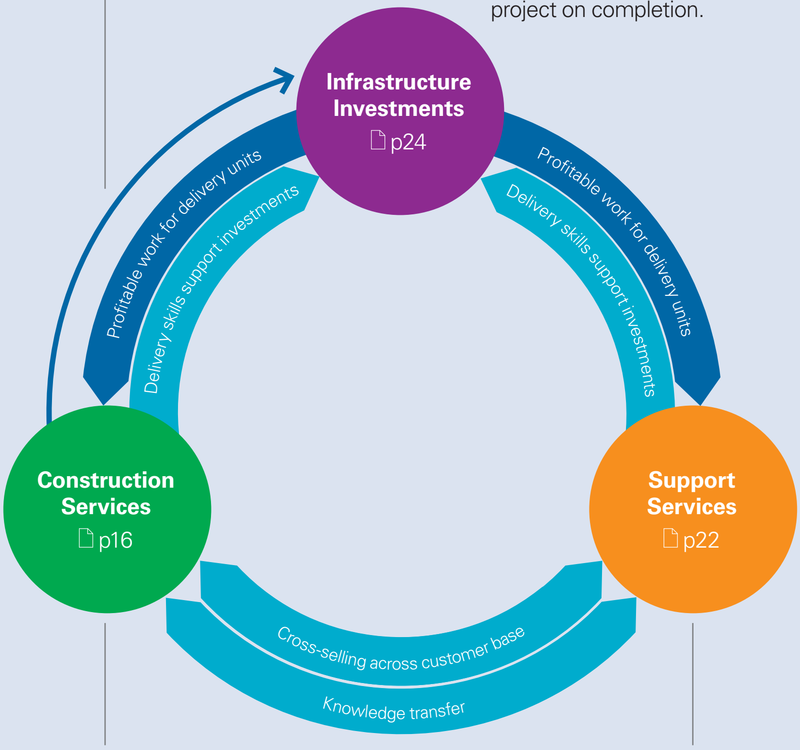
– The Group is on track to achieve industry-standard margins in the second half of 2018 as it continues to drive three key levers for improved financial performance: finalising the remaining historical contracts through to completion; reducing costs and raising productivity across its operations; and executing on the improved quality of the order book.

– The Group's current portfolio is well positioned in chosen markets, with real synergies between business units.

How our Group works together

Favourable working capital from construction business funds investment projects, which generate a return in their own right.

We develop and structure finance to enable our customers to achieve their infrastructure ambitions. We also invest directly in infrastructure assets, particularly when there are opportunities to manage the project on completion.



Represents c.81% of our revenue and is responsible for the design, engineering and construction across the most complex infrastructure and building projects.

Our services activities manage, upgrade and maintain critical infrastructure. They complement both Construction Services and Infrastructure Investments.

Why our customers choose us

World-class track record
Balfour Beatty is an industry-leading player with a long history of successfully delivering transformative infrastructure projects.

People and knowledge
Engineering expertise and project management capabilities enable us to deliver industry-leading infrastructure to customers.

Read more on p32-33

Financial strength
We have a strong balance sheet and sufficient cash to fund our operations and ensure our customers feel confident that we are here for the long term.

Read more on p44-47

Whole asset-life capabilities
Expertise across the full life of an asset (finance, design build, operate and maintain) enables the highest quality and best value infrastructure solutions.

Supply chain relationships
Fostering strong relationships with both suppliers and key subcontractors, and delivering value to customers through disciplined contracting processes.

Read more on p15

Innovation
Leveraging the latest developments in digital and technology to gain a competitive edge.

Read more on p29-30

Values
Safety, sustainability and ethics are the bedrock of our business and our licence to operate.

Read more on p31, p34-37

Output for stakeholders

Investors
Reliable return on investment through share price growth and dividends.

Customers
Value to customers by delivering industry-leading infrastructure and buildings, and providing high-quality support services.

Employees
A safe, rewarding and inspiring place to work for employees and subcontractors.

Supply chain
Partnership opportunities to contribute to and share in our success with suppliers and subcontractors.

Community
Improving the quality of lives by enhancing infrastructure, and providing local jobs, apprenticeships and other societal benefits from projects being delivered.

Leadership
Leadership in commitment to social and environmental sustainability; Balfour Beatty was the first company in the world to be assessed against ISO 20400, the international standard for sustainable procurement.

Our priorities

Build to Last

When we deliver buildings and infrastructure, we expect them to survive the test of time. For Balfour Beatty to remain at the forefront of our industry we need to continuously improve efficiency, lead innovation and always operate safely. These are the drivers of value for our customers.

Lean

Deliver value to our customers by improving operational efficiency and eliminating waste right through the supply chain.

Expert

Ensure we have the best engineering, design and project management capabilities.

Trusted

Be the construction partner of choice for our customers and supply chain by delivering on our promises.

Safe

We must ensure the health and safety of everyone who comes into contact with our activities.

Why is it important?

We want to make sure that our customers get the best value for their money; we need to be relentless in driving out unnecessary costs and work with our customers to ensure their money is spent in the best way possible. Providing customers with better value for their money drives our competitiveness and provides Balfour Beatty with the capital to invest back into developing our expertise. Lean is measured against our financial returns: cash flow performance and profit from operations.

Read more on p14

Our KPIs

£335m
2016: £173m
Net cash excluding non-recourse borrowings

£196m
2016[4]: £69m
Underlying profit from operations

Why is it important?

We deliver world-class buildings and infrastructure for our customers by constantly driving innovation. Our strongest differentiator is our engineering and project management capabilities. Having the best talent supported by the strongest supply chain creates a virtuous circle that ensures we win the best and most exciting projects to deliver. Expert is measured against employee satisfaction.

Read more on p14

Our KPI

60%
2016: 58%
Average employee engagement index score

Why is it important?

Customers must have confidence in our ability to deliver and to do what we say we will do. A robust risk framework ensures that challenges are mitigated and projects are delivered in the right way. Satisfied customers provide us with the opportunities and projects for the future. Trusted is measured against customer satisfaction.

Read more on p15

Our KPI

94%
2016: 91%
Average customer satisfaction rating

Why is it important?

Health and safety is at the heart of everything we do – we must protect our employees, our supply chain partners, our customers and the public. Construction is an inherently dangerous business and without the highest standards of safety we do not have a licence to operate. A safe and healthy workplace is also happier, more motivated and more efficient. Safe is measured against our commitment to Zero Harm.

Read more on p15

Our KPI

0.17
2016: 0.22
Lost Time Injury Rate, excluding international JVs

4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

Our priorities

Build to Last continued

Balfour Beatty launched its 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 flow and profit from operations, employee engagement, customer satisfaction and Zero Harm.

Phase One consisted of 24 months self-help. Rapid action was taken to remove management layers, upgrade leadership and strengthen governance within a simplified Group structure. In Phase Two (2017-2018) Balfour Beatty will return to industry-standard margins and in Phase Three deliver a Group with market-leading strengths and performance.

During 2017, Balfour Beatty made significant progress on its four goals:

Lean

The governance and processes introduced during Phase One of Build to Last have driven improved performance in all business segments and put Balfour Beatty on track to achieve industry-standard margins in the second half of 2018.

The Group continues to re-engineer processes to drive efficiencies, reducing cost whilst maintaining or improving effectiveness. As a result, costs were reduced by a further £30 million in 2017, in addition to the £123 million of annualised cost savings delivered by Phase One of Build to Last.

Balfour Beatty's UK operations continued to standardise systems with further upgrades to the Oracle R12 platform, including the introduction of an electronic payment platform for suppliers. In January 2018, the US businesses migrated onto a single JD Edwards platform. The successful completion of these moves and the investment made into these systems in the Group's two principal geographies over the last three years will be a significant driver of future value, as benefits continue to flow in terms of reduced cost, raising productivity and improved transparency and assurance.

Expert

Balfour Beatty's customers buy the Group's capabilities through its expert people to deliver their projects. Therefore a priority is to recruit, train and retain the highest calibre of workforce. A growing pipeline of major infrastructure projects, particularly in the UK and US markets, will see increasing competition for skilled workers. The Group's success in winning work on iconic and challenging engineering projects, such as HS2 and Hinkley Point C in the UK and Dallas' Southern Gateway and the Los Angeles World Airports Automated People Mover in the US, demonstrates the significant opportunities and unique potential for career development at Balfour Beatty.

The Group metric for Expert is employee satisfaction. In 2017 the Group engagement index score was 60% (2016: 58%) in a period of continuing change and challenge.

Bench strength in leadership is essential to driving the business forward on a sustainable basis and to motivating high-quality employees. Since the beginning of 2018 there have been further upgrades in this area with the promotion of three leaders.

- Balfour Beatty continues to evolve its US organisation building on the standardisation and leaning out already delivered. At the year end the decision was taken to promote two internal candidates, to lead the Buildings and Civils businesses respectively. These appointments will leverage the Group's market positions while maintaining the new contracting disciplines.
- In the UK, given the similar characteristics and requirements of key customers in the rail, power transmission and distribution and gas and water markets, the businesses serving these markets have been brought together under an experienced leader, to drive back-office standardisation while maintaining a strong market, operational and safety focus.

In looking always to add to its depth of capability, Balfour Beatty was recently pleased to recruit over 150 valuable staff members following the Carillion liquidation. These people had worked alongside Balfour Beatty staff on the Aberdeen Western Peripheral Route (AWPR), A14 or Manchester Smart Motorway joint ventures. Their significant experience will bolster Balfour Beatty's long-term capacity at a time of growing market demand.

The Group has developed competency frameworks for key operational job families in the UK such as Project Management, Engineering and Commercial. This enables employees' experience and competencies to be matched to contract risk and complexity, providing them with a clear career path and targeted development, whilst identifying recruitment priorities. These assessments now cover essentially all of the Project Management and Commercial workforce.

Balfour Beatty continues its sponsorship of The 5% Club, which encourages employers to provide 'earn and learn' training opportunities to address the UK's skills gap and widen economic prosperity. During 2017 Balfour Beatty recruited 124 apprentices, 93 graduates and 35 trainees. The percentage of the UK workforce in 'earn and learn' positions at year end stood at 5.3%. Membership of The 5% Club now includes key clients and supply chain partners of Balfour Beatty all working to build the future capability to support the growing infrastructure market.

Trusted

Trusted is Balfour Beatty doing "what it says it will do" and is measured by customer satisfaction.

During the year, 3,375 customer satisfaction reviews were carried out (2016: 2,107), primarily in the UK. The Group customer satisfaction average increased to 94% (2016: 91%).

The governance and controls introduced under Build to Last, including the Gated Lifecycle, the Digital Briefcase and Project on a Page, create a disciplined, business-like contracting framework. This provides management with a clear, consistent line of sight on all stages of work which is being bid and delivered, together with key tools for managing commercial risk and project execution.

The Gated Lifecycle, introduced in 2015, takes a project from the initial enquiry through to completion. The process reduces the risk of pursuing inappropriate opportunities and underbidding or accepting inappropriate levels of risk, including in respect of the cash profile of projects. As the open debate around risk and reward created by the Gated Lifecycle becomes a perceived enabler to future success, so the process becomes an inherent driver of the Group's culture.

All new UK sales opportunities and projects are now using the Digital Briefcase, a secure web-based platform which digitises governance and document control through all stages of the Gated Lifecycle. Selected active projects were also installed retrospectively. The Digital Briefcase helps to ensure that correct procedure is being followed and that documentation is more easily accessible in the event of claims or other issues. In excess of 1,000 current or potential projects are now active on the system.

Over the last three years, the Group has derived more value-added business information through the use of business analytics. Project on a Page allows projects to be monitored in a timely and consistent manner, enabling early intervention where signs of adverse trends are detected, thus reducing risk to the business and strengthening customer relationships.

The governance and controls now in place enable Balfour Beatty to: selectively bid business to match capability; assess and price risk appropriately; track (and thus intervene on) execution all the way through the lifecycle of a project, including the defect period; and ultimately drive higher margins for the Construction Services and Support Services businesses.

In May, Balfour Beatty was the first company in the world to complete the ISO 20400 assessment, the 2017 international standard for sustainable procurement. The standard ensures that key issues are considered in developing: a sustainable procurement policy and strategy; guidance in creating organisational conditions necessary to procure sustainably; guidance in setting priorities in sustainable procurement; and suggestions on how to improve the procurement process as a whole. Clients, particularly in the UK public sector, are increasingly taking into account social value and other environmental factors when making procurement decisions.

Safe

Balfour Beatty intends that everyone who comes into contact with its work activities should not be harmed.

Safety is actively managed and monitored through strong governance, a combination of leading and lagging performance indicators, training and competence and visible leadership working to establish a Zero Harm culture throughout the business.

Each week senior management report and consider any accident, ill health or near misses that have occurred and a weekly report, available to all employees, shares safety best practice as well as reporting on significant incidents and learning which can be drawn from Balfour Beatty or elsewhere in the industry. Notwithstanding this, it is with deep regret that three people died during the year whilst working on the Group's construction projects.

In 2017, the indicators continued to trend positively, with the Group Lost Time Incident Rate (excluding international joint ventures) falling for the third successive year to 0.17 (2016: 0.22).

What we have been doing in 2017

Construction Services

81%

Total revenue^

£8.3bn
2016[4]: £9.3bn

Order book^

£6,649m
2016[4]: £6,537m

Underlying revenue^

£5,597m
2016[4]: £5,612m

Statutory revenue

£72m
2016[4]: £(21)m

Underlying profit/(loss) from operations^

£36m
2016[4]: £(55)m

Statutory profit/(loss) from operations

^ From continuing operations including share of joint ventures and associates, before non-underlying items.

4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

The A21 Tonbridge to Pembury project provides drivers with a new dual carriageway to speed up journeys and boost the local economy.

Financial review

Construction Services continued to make significant progress during the course of the year. The segment improved from an underlying loss of £21 million in 2016, to an underlying profit from operations of £72 million in 2017 primarily due to the improvements at UK Construction.

Underlying revenue increased by 2% to £6,649 million (2016: £6,537 million), a 2% decrease at CER. As expected, underlying revenues in the UK fell by 7%, as improved bidding disciplines and selectivity adopted under Build to Last resulted in lower levels of activity in previous problem areas. This was more than offset by an underlying revenue increase of 6% in the US (1% increase at CER) and a 5% increase at Gammon (1% increase at CER).

The turnaround of underlying profit from operations at £72 million (2016: £21 million loss) is primarily a result of the UK which returned to underlying profit of £16 million (2016: £65 million loss). Underlying profit in the US at £41 million and Gammon at £15 million both improved year on year.

The order book decreased by 11% (5% at CER) due to declines in the US and Gammon. The 22% (14% at CER) decrease in the US order book, although greater than anticipated, is consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities. Gammon's order book decreased by 13% (7% at CER) as the timing of orders is more variable. The overall reduction was, in part, offset by the UK order book increasing by 17% to £2.7 billion, within the more disciplined and selective approach to bidding. The £2.5 billion (Balfour Beatty 50% joint venture) HS2 contracts won in July 2017 will not be included in the order book until the conclusion of the Early Contractor Involvement (ECI) at the end of 2018 or in early 2019.

The Group is continuing to manage problem contracts through to completion. Each requires a high level of leadership involvement to ensure the best achievable outcome and a positive effect on customer relations. In most cases, the positions taken are proving adequate, reflecting, as expected, a mix of projects successfully closed out ahead of expectation, as well as others where the outcome, although disappointing, is being managed to its best conclusion. A very limited number of contracts have disappointed outside of this expectation. The largest of these is Aberdeen Western Peripheral Route (AWPR) which has experienced ongoing schedule and cost issues. These contracts have impacted the underlying results of Construction Services.

As these challenges reduce, new contracts are coming on stream which were bid, won and are being executed and monitored within the Group's framework of contracting disciplines. This means that the strong foundation created in the first 36 months of Build to Last will be reflected increasingly in improved project delivery. As this feeds through the business, management time can increasingly be refocused onto the many opportunities in the pipeline which play to Balfour Beatty's capabilities.

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

Operational review

UK

£1,998m underlying revenue^

£2.7bn order book^

Underlying revenue in the UK fell by 7% to £1,998 million (2016: £2,143 million) but profit from operations remained positive following the return to underlying profit during the second half of 2016. The underlying profit from operations at £16 million equates to a PFO margin of 0.8%, with the business targeting an industry-standard margin of 2%-3% in the second half of 2018. The UK order book increased by 17% to £2.7 billion as the business won a number of material projects including Hinkley Point C and MECD (the University of Manchester's engineering campus development).

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, ground engineering, mechanical and electrical engineering, and building, providing customers with locally delivered flexible and fully integrated civil and building services
- Rail: civil engineering, track, power and electrification projects.

UK Construction is continuing to manage historical problem contracts through to completion. At the start of 2015, 89 historical contracts were identified that had a material negative impact on profitability and cash. As at the end of December 2017 93% of these projects were at practical completion (90% at end December 2016) with over 80% at financial completion (70% at end December 2016).

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. At this stage Balfour Beatty has not seen an impact on the building market; however the Group remains vigilant to respond to any changes in market conditions.

During the year, Balfour Beatty continued to focus on alignment of the Group's world-leading expertise to its key customers' requirements and providing them with a single primary point of contact accountable for the work which is delivered for them, across the organisation. In July, Balfour Beatty created an engineering consultancy collaboration in the UK with Atkins (now SNC-Lavalin), Mott McDonald and WSP. This partnership will focus Balfour Beatty's procurement of design consultants for its projects towards Atkins, Mott MacDonald and WSP with standard terms and conditions. A community of practice will bring designers and engineers from the four companies together to find solutions in key areas such as health and safety through design, value engineering and the use of more cost-effective design resources.

The Major Projects business continues to pursue a number of major infrastructure opportunities across core transportation and energy markets. Over the next few years HS2, new nuclear power stations (Hinkley, Wylfa) and airport expansion (Heathrow) will all contribute to the UK Government's investment in infrastructure, which is forecast to rise from 0.8% of GDP in 2015-16 to over 1% of GDP by 2020-21. In addition, the highways market continues to provide good growth opportunities following the UK Government's proposed £35 billion funding for Highways England's first and second Roads Investment Strategies.

In June 2017, the Major Projects business successfully completed work on the M3 four-lane smart motorway between junction 4a for Farnborough and junction 2 for the M25. The project added an extra lane in both directions by converting the hard shoulder into a traffic lane – increasing capacity and adding technology that will make the road more resilient for users. In September 2017, work was completed on the A21 upgrade project between Tonbridge and Pembury which now provides drivers with a new dual carriageway.

During the year significant progress has been made on flagship projects. The UK's biggest road construction project at present, the A14 in Cambridgeshire, had successfully completed more than a quarter of the project's main construction work as it marked its first year of construction in November. Following the liquidation of Carillion plc, Balfour Beatty has assumed Carillion's share of this project with the revised three-way joint venture working well together on the project. At the Norwich Northern Distributor Road (NNDR) project, all bridge beams have now been installed along the new 20-kilometre road.

At the Aberdeen Western Peripheral Route (AWPR) project Balfour Beatty and Galliford Try continue to move ahead with the complex 58-kilometre project. As a result of the liquidation of previous joint venture partner Carillion, Balfour Beatty has recognised a one-off non-underlying loss provision of £44 million which reflects the Group's additional loss on the contract. Completion is now expected in the summer of 2018.

	2017				2016[4]			
Construction Services	Rev[1,2] £m	PFO[2] £m	PFO[2] %	Order book[1,2] £bn	Rev[1,2] £m	PFO[2] £m	PFO[2] %	Order book[1,2] £bn
US	**3,634**	**41**	**1.1**	**4.3**	3,427	33	1.0	5.5
UK	**1,998**	**16**	**0.8**	**2.7**	2,143	(65)	(3.0)	2.3
Gammon	**1,017**	**15**	**1.5**	**1.3**	967	11	1.1	1.5
Underlying[3]	**6,649**	**72**	**1.1**	**8.3**	6,537	(21)	(0.3)	9.3
Non-underlying	**30**	**(36)**		**–**	153	(34)		–
Total	**6,679**	**36**	**0.5**	**8.3**	6,690	(55)	(0.8)	9.3

1 Underlying revenue and order book include share of joint ventures and associates.
2 From continuing operations.
3 Before non-underlying items (Note 10).
4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

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

What we have been doing in 2017

Construction Services continued

On Crossrail, Balfour Beatty's three major projects: C510 (Liverpool Street and Whitechapel Station tunnels); C512 (Whitechapel Station); and C530 (Woolwich Station) all made significant progress during the year. C510 is effectively complete with the other two projects on schedule for the December 2018 opening of the Elizabeth Line.

At the Thames Tideway Tunnel work continues on the 6-kilometre West section which runs from Acton to Wandsworth. The first tunnel boring machines (TBMs) have been delivered in preparation for the start of tunnelling later this year. The TBMs were transported along the Thames, in line with Tideway's commitment to transport over 90% of materials by river, thereby reducing the number of road vehicle journeys needed.

During the year Major Projects won the tunnelling and marine works package for Hinkley Point C nuclear power station. The four-year package will include the construction of three marine tunnels – both onshore and offshore – totalling over 9.5 kilometres in length and 7 metres in diameter to form part of the vital cooling system. This is the second major package Balfour Beatty will deliver at Hinkley Point C, following its appointment in 2015 to the power station's electrical works package in joint venture with NG Bailey.

In July, Balfour Beatty's 50:50 joint venture with VINCI was awarded two major civil engineering lots (Lots N1 and N2) for the two northern stretches of HS2 Phase 1, closest to Birmingham. Balfour Beatty VINCI will deliver Lot N1, valued at c.£1.32 billion, and Lot N2, valued at c.£1.15 billion, between the Long Itchington Wood Green tunnel to the Delta Junction/Birmingham Spur and from the Delta Junction to the West Coast mainline tie-in respectively, in two-stage design and build contracts. The contracts are included in awarded but not contracted (ABNC) as the first stage, a 16-month Early Contract Involvement (ECI) period, commenced on 28 July 2017.

Also included in ABNC, the highways business has been selected to deliver two Smart Motorway packages to upgrade sections of the M6 (J2 – J4) and M4 (J3 – J12). Additionally, a contract from Highways England for the construction of a proposed lorry area near the M20 has been awarded and is currently under consultation. In February 2018, the M6 (J2 – J4) contract was formally awarded to Balfour Beatty.

The Regional business comprises:

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

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

Within Regional, in line with the Group's strategy, the number of live projects has now fallen from over 400 at December 2015 to around 225 by December 2017. The business is now focused on fewer, larger contracts and continues to reduce its exposure to contracts under £5 million. This allows the business to focus on projects with better pricing and risk dynamics, but also improves the span of control as it operates fewer sites. There has also been a shift towards a lower risk contract portfolio, with a reduction in the number of fixed price contracts offset by an increase in target cost contracts and framework agreements. Both target cost contracts and framework agreements require early contractor involvement (ECI) with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties.

HS2
Balfour Beatty's 50:50 joint venture with VINCI will deliver the two northern stretches of HS2 Phase 1, closest to Birmingham.

In 2017, the Regional business successfully completed the Anchorsholme flood prevention scheme in Blackpool to reduce flood risk to around 5,000 properties. The new defences will help protect Blackpool's tourism and recreational income for the next 100 years, in addition to safeguarding Blackpool's iconic seafront tramway, vital infrastructure and a major pumping station. Other projects completed during the year included: Foundry Courtyard, a £32 million student accommodation complex in Glasgow, which completed in the summer ahead of the start of the academic year; the Clyde and Pen y Cymoedd windfarm projects in Scotland and Wales, respectively; the Barons Quay town centre retail and leisure development in Northwich, Cheshire; Gatwick level 10, which involved improvements to check-in and bag-drop facilities, utilising newer technology, in a better layout, to provide efficiency gains and reduced queues; Lewisham and Southwark College, comprising an extension to the college campus in central London; and Project Zeppelin, the construction of a cryogenic storage tank, forming part of a new ethane import terminal facility on Teesside.

Work commenced on the £150 million Madison Tower, a 53-storey residential building in Canary Wharf, London, with piling completed in May. Other material ongoing projects include: upgrading baggage screening and handling systems for Heathrow airport; Redwood luxury retirement village for Audley; the renovation and new-build scheme at No.1 Palace Street in St James', London; Forth Valley College, Scotland, and DRET secondary school in London.

The Regional business had a number of successes in 2017. Notable new contract awards in the period included:

- £287 million contract for The University of Manchester to construct the Manchester Engineering Campus Development (MECD)
- £179 million contract for the University of Sussex, to construct new student accommodation on campus which will provide bedrooms for 2,117 students, together with new student amenities and a Students' Union building
- £124 million Wokingham Public Road project, awarded through Scape
- £63 million contract for Network Rail for the redevelopment of Glasgow Queen Street station
- £53 million contract for a retirement village at Runneymede for Audley Villages.

Included in ABNC, at year end the Group had been selected as preferred bidder for: the East Wick and Sweetwater residential development project; the Vine Street student accommodation project, London; and the Caernarfon bypass. The Regional business also continues to secure a number of significant engineering projects 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.

In the Rail construction business, underlying revenues were lower as track and overhead line equipment projects between Slough and Maidenhead for Crossrail substantially completed. These projects contributed to a profit improvement in this delivery unit.

During the year, the Group was selected by Network Rail to electrify a 40-mile train route as part of the Great Western mainline upgrade. Balfour Beatty will be responsible for the remainder of the electrification between Cardiff and Bristol Parkway and will utilise the latest technology and innovations in design, construction and rail plant to drive efficiencies and improve safety.

In February 2017, Balfour Beatty published its Staying on Track paper. This lays out the Group's view that new funding models are essential to provide the UK's rail industry with continuity of project flow in order to support growth in innovation and skills. Further, in October, the Group published its Fast Track to Digital Railway: Delivering the Vision paper. This sets out the Group's views on the Digital Railway, a rail industry-wide programme encompassing a range of digitally enabled interventions to improve the passenger experience by unlocking much needed capacity in the network and delivering a railway system fit for the future, which will stimulate and strengthen the UK economy.

US

£3,634m underlying revenue^

£4.3bn order book^

Underlying revenue in the US grew by 6% in the period (1% increase at CER) to £3,634 million. The business reported an underlying profit from operations for the year of £41 million (2016: £33 million). The underlying PFO margin at 1.1% is at the low end of the Group's Build to Last Phase Two target of 1%-2% for US Construction. The trajectory is positive and market conditions are considered favourable. The 22% (14% at CER) decrease in the US order book, although greater than anticipated, is consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities. In January 2018, the US business was awarded, in joint venture, the US$1.95 billion Los Angeles airport (LAX) Automated People Mover project.

Balfour Beatty continues to evolve its US organisation building on the standardisation and leaning out already delivered. At the year end the decision was taken to promote two internal candidates, to lead the Buildings and Civils businesses respectively. These appointments will leverage the Group's market positions while maintaining the new contracting disciplines.

Even before the 2016 presidential election, there was a strong market outlook for construction in the US. In December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill was signed, providing funding for a five-year period. This bill permits longer term project planning horizons in the public market and is leading to improved visibility for publicly funded projects that had been slow to come to market. There are further opportunities being created with the number of state backed infrastructure bonds (US$35 billion of education bonds in California, over US$200 billion of multi-state transportation bonds), and an increase in US public-private partnership schemes.

What we have been doing in 2017

Construction Services continued

Since 2014, over half of the 50 US states have increased state gasoline tax. In 2017 alone, eight states passed legislation to increase their respective state gasoline tax, which will raise around US$5 billion in new funding for infrastructure. Additionally, many counties in various states have raised their sales tax from 0.5% to 1%, which will increase infrastructure funding by over US$2 billion per year.

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

The Buildings business remains focused on working with repeat customers, in known geographies where it can deliver value. In 2017, the Group closed its Houston office and continued to withdraw from bidding on most stick frame multi-family housing.

The Buildings business is focused on specific geographies, known as The Southern Smile. This starts in the Pacific North West, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington DC. The core markets remain as commercial offices, education, hospitality, residential and healthcare.

In 2017, Buildings completed a number of notable projects including: the redevelopment of Microsoft Buildings 30, 31 and 32 in Redmond; the 300 South Tryon 25-storey office tower in Charlottesville; the Alta Midtown, a mid- and high-rise residential facility in Atlanta; the 500 East Morehead office building in Charlotte; and the JM Alexander Middle School in Huntersville, North Carolina.

During the year significant progress has been made on flagship projects. In California, Balfour Beatty has started construction on a new US$38 million performing arts and recreation centre for Heart of Los Angeles (HOLA) and completed its largest concrete pour, involving 888 trucks, at a new US$276 million 42-storey residential tower at 500 Folsom in San Francisco. In the North West, Balfour Beatty is constructing Portland's newest high-rise which will reach 19 stories and includes a hotel and 175,000 square feet of office space. In North Carolina the US$101 million Hotel Bennett in downtown Charlestown is due to open in 2018.

The Buildings business had a number of successes in 2017. Notable new contract awards in the period included:

- Matthews Southwest River Landing project, a US$260 million contract to build the River Landing Shops and Residences in Miami. The mixed-use project will offer over 2 million square feet of retail and residences in Miami's Civic Centre, including two residential buildings which will feature 475 rental apartments and a five-storey shopping centre
- US$100 million contract for Cleburne Independent School District to deliver a 500,000 square feet update and expansion of Cleburne High School
- US$130 million contract named Portals V, a 4-storey residential building with 292 apartments, 76 condominiums, and 12,400 square feet of amenity space in Washington DC
- US$95 million contract named Paseo De La Riviera, a mixed-use development that will include a hotel, residences and retail in Coral Gables, Florida.

Included in ABNC, the business has been awarded: the US$260 million Harrison Medical Centre project in Seattle; a US$150 million contract for an Atlanta airport hotel; and a US$70 million contract for Disney in Orlando.

The Civils business continues to create value, operating in the largely regulated markets of rail, water and road. In 2017, Civils completed two notable road projects – the Dallas Horseshoe and Wilmington Bypass. The Dallas Horseshoe, which follows a distinctive U-shaped path, was a design-build project upgrading 73 miles of roadway and 37 bridges to reduce congestion. The completion of the I-140 transportation loop around Wilmington, North Carolina, involved driving 184 36-inch concrete piles into the Cape Fear River to complete the three-mile bridge and roadway project.

Additionally during the year, significant progress has been made on key contracts. At Caltrain, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, the Group started to place the foundations for the conversion of the line from diesel trains to electric trains. In Denver, Balfour Beatty is currently adding 2.3 miles and three stations to the light rail line as part of a design-build contract. In California, the Group is currently on-site modernising the Rinconada water treatment plant by replacing and upgrading ageing facilities and overhauling the treatment process.

The Civils business had a number of successes in 2017. Notable new contract awards in the period included:

- US$1.08 billion (25% equal four-way joint venture between Balfour Beatty, Flour Corporation, The Middlesex Corp. and Herzog Contracting Corp.) Green Line Extension design and build contract for the Massachusetts Bay Transportation Authority (MBTA) to design and build the new 4.7-mile commuter rail extension, associated infrastructure and seven new rail stations
- US$625 million (45% Balfour Beatty, 55% Fluor Corporation joint venture) contract to reconstruct and improve the Southern Gateway, an 11-mile stretch of road in Dallas, Texas. This contract followed the joint venture's successful delivery of the adjacent Horseshoe project.

In January 2018, Balfour Beatty was awarded the US$1.95 billion design, build, finance, operate and maintain contract for the Automated People Mover at Los Angeles International Airport (LAX) for Los Angeles World Airports (LAWA). This project will use expertise from each of the Buildings, Civils and Investments businesses. The design and build element of the contract has been awarded to the LAX Integrated Express Solutions (LINXS) joint venture comprising Balfour Beatty (30%), Fluor Corporation (30%), Flatiron West (20%) and Dragados USA (20%). The design and build works will include a 2.25-mile, above ground airport transport system connecting the LAX central terminal area to the to-be-constructed consolidated rental car facility as well as six stations and a vehicle maintenance facility.

Gammon

£1,017m underlying revenue^

£1.3bn order book^

At Gammon, the Group's 50:50 joint venture based in Hong Kong and Singapore, both revenue and profit were up, but the order book declined as the timing of orders is more variable. During the year, two material contracts moved towards satisfactory conclusion. The Midfield Terminal project reached an amicable settlement, without the need for arbitration, and the West Kowloon Terminus North project is now close to completion.

The Group's share of underlying revenue increased by 5% (1% at CER) to £1,017 million. Underlying profit from operations increased to £15 million (2016: £11 million). During the year, the joint venture made a dividend distribution to Balfour Beatty of £37 million (2016: £nil). The order book declined by 13% (7% at CER) to £1.3 billion, as timing of orders is more variable around a small number of large building and civils contracts. The order book is spread across a number of public and private customers. In Buildings the focus is on productivity, efficiency and expanding the customer base on a selective basis. In Civils the strategy is to lever competitive advantage with a key area of future work likely to be from expansion of the airport in Hong Kong and other significant infrastructure programmes such as the Central Kowloon Route in Hong Kong and the Rail Circle Line in Singapore.

In 2017, the Buildings business completed the construction of: 33 Tong Yin Street (residential towers and retail areas); and the conversion of the ex-government Murray building into a hotel.

During the year work continued on major Buildings projects including: the redevelopment of Somerset House into a 48-storey office building; the construction of the Lee Garden Three Project, which will include 20 floors of office space atop a five-level retail complex; and the construction of a 71,000 square metre data centre for Global Switch in Hong Kong. Work has also continued in 2017 on a number of Civils projects in Hong Kong, including the West Kowloon Terminus North for the express rail link to Shenzhen, China, and the complex Tuen Mun-Chek Lap Kok (TMCLK) Viaduct project, which includes the design and construction of a dual two-lane sea viaduct.

Gammon had a number of successes in 2017. Notable new contract awards in the period included:

- HK$6.2 billion contract for the Highways Department of the Government of the Hong Kong Special Administrative Region to construct the Kai Tak West section of the Central Kowloon Route in Hong Kong
- HK$3 billion residential scheme for Great Eagle involving the development of eight medium-rise residential blocks overlooking Tai Po's Tolo Harbour in Northern Hong Kong
- HK$2 billion contract to create Hong Kong's first year round, all-weather water park at Tai Shue Wan for Ocean Park Corporation. Covering an area of over 693,000 square feet, the Ocean Park Water World project includes construction of the main building structure and fit-out and installation of various indoor and outdoor attractions
- S$230 million contract to construct a data centre for Global Switch in Singapore. This contract follows the construction of a data centre for Global Switch in Hong Kong
- HK$1 billion contract to construct The Fullerton Ocean Park Hotel near the Ocean Park water park at Tai Shue Wan, Hong Kong.

In January 2018, Gammon was awarded a HK$1.5 billion contract for the West Kowloon Cultural District Authority (WKCDA) in Hong Kong to deliver the extended basement and infrastructure works called the L1 Contract.

Since the start of 2015, Balfour Beatty has exited the Middle East, Indonesia and Australia. In Canada, following the imminent completion of the BC Children's and BC Women's hospitals in Vancouver, it now only holds Investments assets.

What we have been doing in 2017

Support Services

13%

Total revenue^

£3.1bn
2016: £3.1bn

Order book^

£1,061m
2016: £1,103m

Underlying revenue^

£1,031m
2016: £1,076m

Statutory revenue

£41m
2016: £34m

Underlying profit from operations^

£39m
2016: £22m

Statutory profit from operations

^ From continuing operations including share of joint ventures and associates, before non-underlying items.

Gateshead Energy Centre
Balfour Beatty delivered this innovative energy centre, generating and supplying power and heat for public buildings, homes, a college and businesses across the local area.

Financial review

The Support Services segment comprises utilities and transportation businesses. Utilities operates across power transmission and distribution and the gas and water sectors. Transportation operates across rail, highways and managed road schemes for local authorities.

Underlying revenue for the segment reduced by 4% to £1,061 million (2016: £1,103 million), as an increase in utilities was more than offset by lower transportation revenues. Underlying profit from operations increased to £41 million (2016: £34 million), with the 3.9% (2016: 3.1%) underlying PFO margin in the middle of the Build to Last Phase Two industry-standard margin target of 3%-5%. The order book was stable at £3.1 billion (2016: £3.1 billion) as growth in transportation was offset by an expected decline in utilities.

Operational review

Underlying utilities revenue increased by 3% to £608 million (2016: £590 million), driven by a 10% increase at gas and water which is in the middle of the regulatory period. The utilities order book fell 13% due primarily to the expected decline in gas and water.

The power transmission and distribution business had a disappointing 2017 as it underwent significant restructure and cost removal. The business is eliminating low-value works and areas which do not align to its risk profile, including significantly reducing its reliance on volume-based and second-tier subcontracting projects. The actions taken will ensure that the business is focused on the most profitable areas of its market.

In the period, power transmission and distribution successfully completed the Bhlaraidh-Bennuien windfarm connections project (a combined overhead line, cabling and substations contract) near Fort Augustus in Scotland for SSE as well as the London Power Tunnels project for National Grid.

The business has commenced work on the Eleclink project in conjunction with the Rail business. The installation of the HVDC interconnector will involve laying two 50-kilometre cables through the Channel Tunnel and connecting them to converter stations in Northern France and Kent.

Balfour Beatty's work, valued at c. €140 million, has drawn on its extensive experience in power transmission and distribution, construction and rail to lead the innovative design and installation of this project.

The power and transmission distribution business had a number of successes in 2017. Notable new contract awards in the period included:

– £43 million contract for a major overhead line refurbishment scheme for National Grid in South Wales
– installation of a new £20 million overhead line to connect the Dorenell wind farm for SSE Networks using a new composite tower design, in addition to the award of a 10-kilometre cabling scheme for SSE
– contract awarded by SSE Power Distribution for the initial works of the design and refurbishment of five 132kV overhead lines across Southern England. This refurbishment will replace parts of the network that are coming to the end of their working life, making it more robust and resilient and minimising the risk of power cuts for customers in the area.

The power and transmission distribution business has a stable underlying market with increased National Grid spend for new nuclear offsetting a decline across the distribution market.

In gas and water, the revenue increase in 2017 was due to the UK water regulatory cycle, as new contracts continue to mature under AMP6 (2015-2020). Many water contracts are extended over multiple AMP periods and the Group has already started to engage on the AMP7 planning cycle. The gas market is in the middle of the RIIO-GD1 period, with no changes likely before early 2021.

In the period, the business commenced utility work on Heat Networks in Gateshead, as part of a Government funded initiative, and continued to construct the new Mayflower water treatment facility for South West Water. The Mayflower facility is under construction at a site near Roborough, north of Plymouth, and will replace the existing Crownhill facility, which dates from the 1950s and has reached the end of its natural life.

The gas and water business expects a peak volume year in 2018, as it represents the middle of the current AMP/RIIO cycles.

Support Services	**2017**	2016
Order book[1] (£bn)	**3.1**	3.1
Revenue[1] (£m)	**1,061**	1,103
Profit from operations[3] (£m)	**41**	34
Non-underlying items (£m)	**(2)**	(12)
Statutory profit from operations (£m)	**39**	22
Underlying profit margin[3] (%)	**3.9%**	3.1%

1 Underlying revenue and order book include share of joint ventures and associates.
3 Before non-underlying items (Note 10).
A reconciliation of the Group's performance measures to its statutory results is provided in the Measuring our performance section.

Track Partnership
Balfour Beatty delivers essential track renewal work across the London Underground network.

Underlying transportation revenues reduced by 12% to £453 million (2016: £513 million), due to expected volume declines from rail and highways. Highways revenues declined due to the end of a maintenance contract and lower capital spend on a number of contracts. The transportation order book grew by 12%, due to increased order intake in highways and from local authorities.

In highways, the business was awarded the following contract extensions during the year:

– £115 million, 17-month extension for Balfour Beatty Mott MacDonald, a 70:30 joint venture, from Highways England to continue its service delivery for Area 10 in the Northwest of England
– £80 million five-year Highways Services Partnership contract extension by Southampton City Council following a history of good performance and collaborative working with the local authority. The extension builds on the current 10-year contract which commenced in October 2010, extending it until the end of September 2025
– £36 million nine-year contract extension for the M1-A1 Link Road (Lofthouse to Bramham) on behalf of Connect Roads, for ultimate customer Highways England.

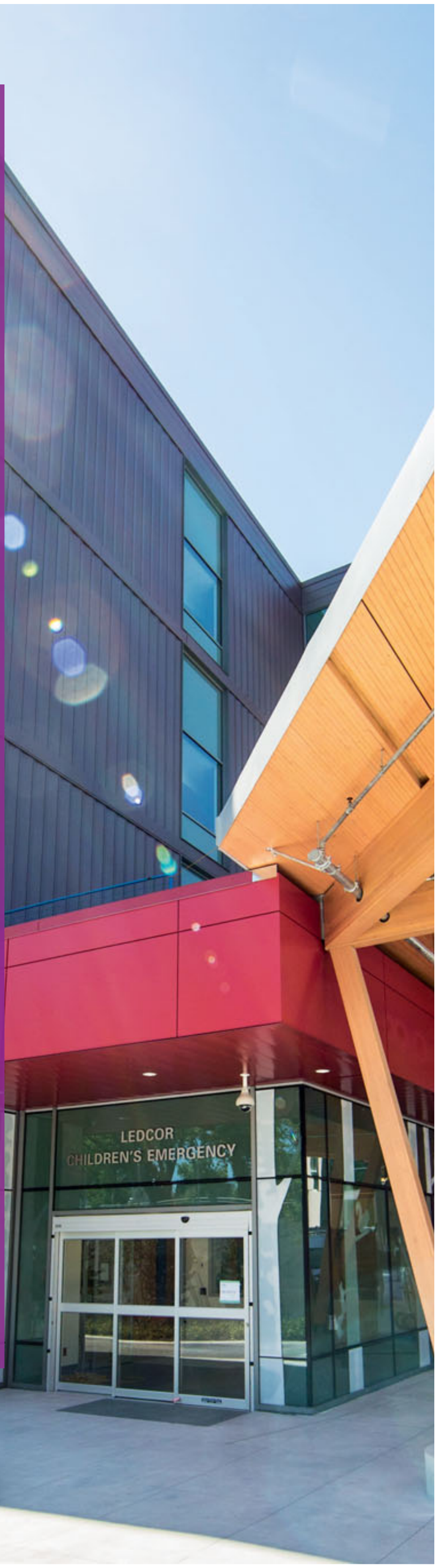
The underlying highways market is positive with a continued Government focus on highways, with its proposed £35 billion funding for Highways England's first and second Roads Investment Strategies.

In the rail business's year end ABNC, rail was the preferred bidder for a four-year contract worth more than £40 million for the operation and maintenance of Network Rail's fleet of track maintenance Stoneblowers, and a seven-year contract worth in excess of £115 million for the supply, operation and maintenance of 13 track maintenance Tampers, also to Network Rail. Post year end the Stoneblowers contract has subsequently been awarded to Balfour Beatty.

Balfour Beatty's Track Partnership contract with London Underground, to deliver essential track renewal work across the network, is due for re-tender in 2018.

What we have been doing in 2017

Infrastructure Investments



Total revenue^

£1.24bn[5]
2016: £1.22bn

Directors' valuation

£524m
2016: £575m

Underlying revenue^

£288m
2016: £235m

Statutory revenue

£140m
2016: £115m

Underlying profit before tax^

£134m
2016: £109m

Statutory profit before tax

^ From continuing operations including share of joint ventures and associates, before non-underlying items.

5 Includes £62 million at 31 December 2017 relating to the 7.5% second partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. The proceeds were subsequently received on 23 February 2018.

BC Children's Hospital

Balfour Beatty Investments-led project, the BC Children's and BC Women's Hospitals redevelopment scheme, officially began welcoming patients in October 2017.

Financial review

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

Underlying profit from operations at £116 million (2016: £89 million) was higher than the prior year, predominantly due to an increase in profit on disposals. Pre-disposals underlying operating profit increased to £30 million (2016: £24 million) due to higher profit from the US, primarily due to growth in new projects and a non-recurring fee associated with military housing. Net interest income remained broadly consistent year on year at £24 million (2016: £26 million) with underlying profit before tax at £140 million (2016: £115 million).

Operational review

In 2017, the Infrastructure Investments business added three new projects, made one full disposal and partially disposed of one asset.

In the student accommodation sector the Group won a project for Purdue University in Indiana which will provide a 835-bed apartment complex on the campus. In the private rented and regeneration sector, the business acquired a 15% stake in a private rental housing portfolio covering three assets in Atlanta, Georgia, totalling 882 units and encompassing 91 acres, and a 50% stake in a 228-unit community serving students enrolled at the University of North Carolina at Wilmington.

In June, the business disposed of its interests in one residential housing project at Carmendy, Florida for £2 million. In December, the Group made a 12.5% partial sale in Connect Plus, the company which operates the M25 orbital motorway, for £103 million (profit on disposal of £54 million). In the last week of the year the Group subsequently sold an additional 7.5% stake in Connect Plus for £62 million (profit on disposal of £32 million). Only the initial £103 million of cash was received before year end, with the further £62 million received in February 2018. Additionally, in February 2018, the Group made a third partial disposal, selling 5% of Connect Plus for £42 million (profit on disposal of £21 million). In total, across the 2017 and 2018 financial years Balfour Beatty received £207 million for a 25% stake in Connect Plus. The Group retains a 15% holding in the Connect Plus M25 asset.

Financial close was reached on three new projects where the Group invests equity: the two private rented and regeneration projects acquired in 2017; and at Sussex University for new student accommodation on campus which will provide bedrooms for 2,117 students, together with new student amenities and a Students' Union building. At year end five projects had not yet reached financial close. In January 2018, financial close was reached at Purdue University.

The business also closed on the second phase of a mixed-use project for The University of Texas in Dallas. In the second phase, the development team will expand the Northside first phase development, delivering an additional 900 beds and more than 6,600 square feet of retail space.

In addition, the Investments business reached financial close on one fee-based student accommodation development project in Oklahoma. In fee-based projects, no equity will be invested. In January 2018, the business was named preferred bidder on the Automated People Mover project at Los Angeles airport. Balfour Beatty will own a 27% equity stake.

The Infrastructure Investments business continues to see significant opportunities for future investment in its chosen geographic markets in the UK and North America, including the US administration's proposed PPP infrastructure investment programme.

Infrastructure Investments	**2017 £m**	2016 £m
Pre-disposals operating profit[3]	**30**	24
Profit on disposals[3]	**86**	65
Profit from operations[3]	**116**	89
Net interest income from PPP concessions[+]	**24**	26
Profit before tax[3]	**140**	115
Non-underlying items	**(6)**	(6)
Statutory profit before tax	**134**	109

3 Before non-underlying items (Note 10).

+ Subordinated debt interest receivable and net interest receivable on PPP financial assets and non-recourse borrowings.

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

Los Angeles International Airport (LAX)

Working in joint venture, Balfour Beatty has been awarded the design, build, finance, operate and maintain contract for the Automated People Mover at Los Angeles International Airport (LAX).

Directors' valuation of the Investments portfolio

Continued success in targeted sectors

Overview

The Directors' valuation remained stable at £1,244 million (2016: £1,220 million) despite £105 million being realised from divestments in the period. The number of projects in the portfolio increased from 69 to 71.

The Group invested £35 million (2016: £65 million) in new and existing projects. This reflected continued success in targeted sectors with three new projects included in the Directors' valuation for the first time. Cash yield from distributions amounted to £53 million (2016: £64 million) as the portfolio continued to generate cash flow to the Group net of investment.

The business continued its strategy of maximising value through recycling equity from operationally proven projects, whilst preserving interests in strategic projects that offer opportunities to the wider Group. Two investments were sold or part sold during the year for £105 million. In June, the business disposed of its interests in one residential housing project at Carmendy, Florida for a cash consideration of £2 million. In December the Group made a 12.5% partial sale in Connect Plus, the company which operates the M25 orbital motorway, for a cash consideration of £103 million.

Unwind of discount at £97 million (2016: £90 million) is a function of moving the valuation date by a year with the result that future cash flows are discounted by one year less. Operational performance movements resulted in a £33 million increase in the value of the portfolio (2016: £61 million), consisting mainly of an increase of £106 million due to the change in Federal corporate income tax rates enacted in the US and a £56 million reduction due to the rise in the value of sterling. The remainder was due to a number of changes in cash flow forecasts, discount rates and economic assumptions.

The methodology used for the Directors' valuation is unchanged, producing a valuation that reflects market value and which therefore changes with movements in the market. Cash flows for each project are forecast based on historical and present performance, future risks and macroeconomic forecasts and which factor in current market assumptions. These cash flows are then discounted using different discount rates based on the risk and maturity of individual projects and reflecting secondary market transaction experience.

As in previous years, the Directors' valuation may differ significantly from the accounting book value of investments shown in the financial statements, which are produced in accordance with International Financial Reporting Standards rather than using a discounted cash flow approach.

Demand for high-quality infrastructure investments in the secondary market continues to exceed supply and the Group will continue to sell investment assets timed to maximise value to shareholders. With the low interest rate environment likely to continue, the secondary market is expected to remain strong for the foreseeable future.

The Investments portfolio is split relatively evenly across the UK and North America (UK 51%, North America 49%). Within the UK portfolio roads is still the largest sector, despite the 12.5% partial sale of the Connect Plus M25 asset completed in 2017, whilst in North America US military housing dominates the portfolio. The Investments portfolio includes over £1 billion of projects that have completed the construction phase and are now operational.

Portfolio valuation December 2017

Value by sector

Sector	2017 No. projects	(2016) No. projects	**2017 £m**	2016 £m
Roads	13	(13)	**290**	366
Healthcare	4	(4)	**136**	140
Student accommodation	4	(4)	**64**	63
OFTOs	3	(3)	**51**	46
Waste & biomass	4	(4)	**57**	57
Other	5	(5)	**38**	35
UK total	33	(33)	**636**	707
US military housing	21	(21)	**497**	438
Healthcare & other PPP	3	(3)	**28**	9
Student accommodation	7	(6)	**49**	38
Residential housing	7	(6)	**34**	28
North America total	38	(36)	**608**	513
Total[5]	71	(69)	**1,244**	1,220

Portfolio valuation December 2017

Value by phase

Phase	2017 No. projects	(2016) No. projects	**2017 £m**	2016 £m
Operations	56	(49)	**1,089**	1,059
Construction	10	(15)	**130**	134
Preferred bidder	5	(5)	**25**	27
Total[5]	71	(69)	**1,244**	1,220

Portfolio valuation December 2017

Value by income type

Income type	2017 No. projects	(2016) No. projects	**2017 £m**	2016 £m
Availability	25	(25)	**518**	572
Demand – operationally proven (2+ years)	33	(32)	**559**	498
Demand – early stage (less than 2 years)	13	(12)	**167**	150
Total[5]	71	(69)	**1,244**	1,220

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

Movement in value 2016–2017 £m

	2016	Equity invested	Distributions received	Sales proceeds	Unwind of discount	New project wins	Gain on sales	Operational performance gains (inc. FX movements)	**2017**
UK[5]	707	6	(21)	(103)	56	–	3	(12)	**636**
North America	513	29	(32)	(2)	41	14	–	45	**608**
Total[5]	1,220	35	(53)	(105)	97	14	3	33	**1,244**

UK portfolio

In 2017 £6 million of equity was invested across four projects in the portfolio: the student accommodation project at Foundry Court in Glasgow; the regeneration development at East Wick & Sweetwater; and the biomass projects Birmingham Bio Power and Welland Bio Power.

During the year, there was a partial sale of 12.5% of the Connect Plus M25 project which generated proceeds of £103 million, above the Directors' valuation of the asset. The Group agreed the sale of a further 7.5% on 29 December 2017 for £62 million, reducing its interest in the asset to 20% at the year end. The proceeds from this sale were received in February 2018 and so are included in the Directors' valuation at year end.

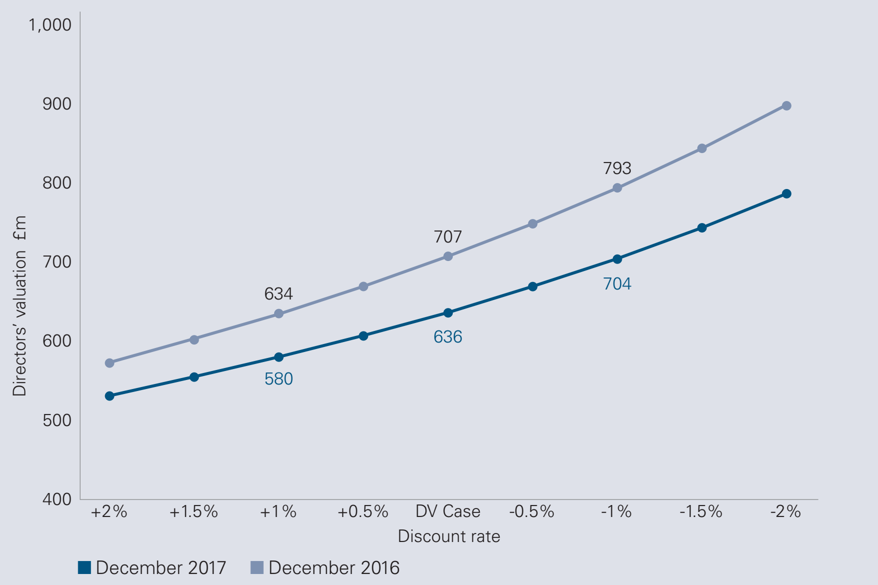
In aggregate operational performance movements resulted in a £12 million reduction in value arising from the net effect of a number of changes to assumptions including higher short-term inflation rates, lower short-term interest rates, higher discount rates on projects where the risk is assumed to have increased and revised cash flow forecasts for certain projects.

Discount rates applied to the UK portfolio range between 7% and 12% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.5% (2016: 8.3%). A 1% change in discount rate would change the value of the UK portfolio by approximately £62 million.

Consistent with other infrastructure funds, Balfour Beatty's experience is that there is limited correlation between the discount rates used to value PPP (and similar infrastructure investments) and long-term interest rates. In the event that interest rates increase in response to rising inflation, the impact of any increase in discount rates would be mitigated by the positive correlation between the value of the UK portfolio and changes in inflation.

Following on from the OECD BEPS project's recommendations, the UK Government passed legislation in 2017 restricting the tax deductibility of interest expense. The legislation is complex and its application in certain areas will require further clarification, but the current assessment is that the impact on the Directors' valuation is not material.

Valuation – The portfolio value at a range of discount rates
UK portfolio



Directors' valuation of the Investments portfolio

Continued success in targeted sectors continued

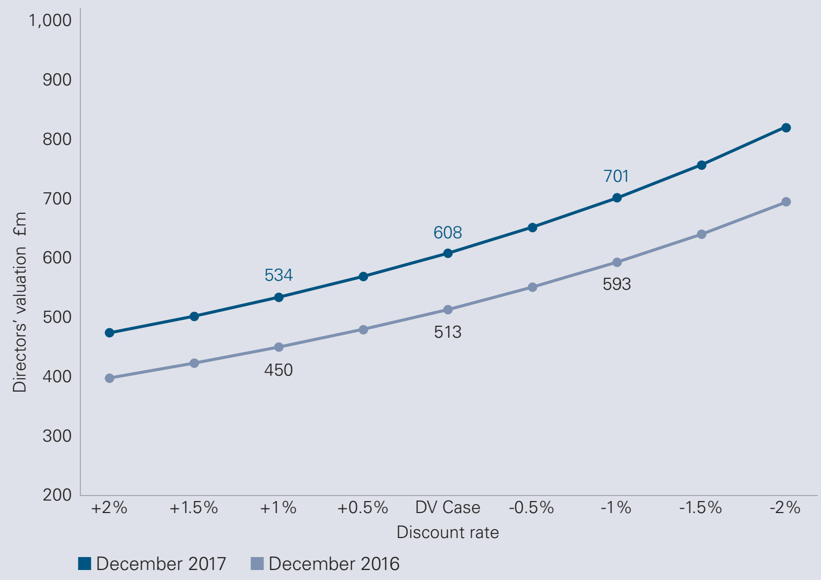
North American portfolio

In 2017, the business won three projects: two investments in private rental housing portfolios at Wilmington in North Carolina and Atlanta in Georgia; and a student accommodation project for Purdue University in Indiana.

Investment of £29 million was made during the period in three existing and two new projects: two hospital projects in Canada and a student accommodation project at the University of Texas; and the two stakes acquired in private rental housing portfolios in Atlanta and Wilmington. Carmendy Square, Florida, was sold in the period, generating a net £2 million in proceeds.

Operational performance movements resulted in a £45 million increase in the value of the portfolio, consisting of an increase of £106 million due to the change in Federal corporate income tax rates enacted in the US, a £56 million reduction due to the strengthening of sterling against the US dollar and a £5 million reduction due to revised cash flow forecasts for certain projects.

Valuation – The portfolio value at a range of discount rates
North American portfolio

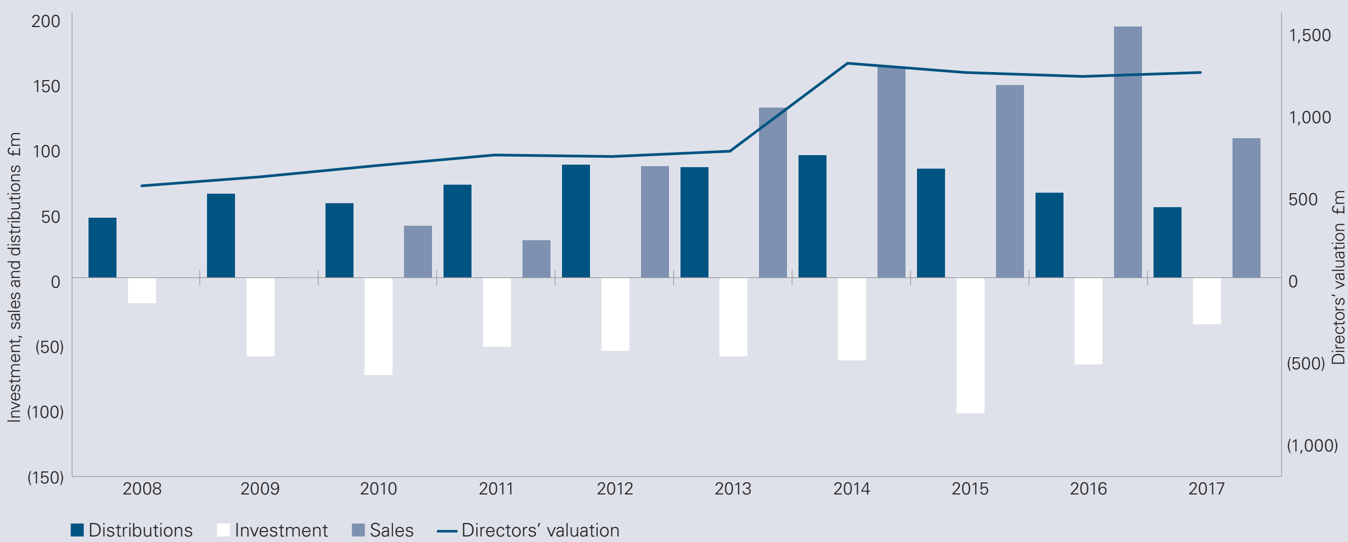


Discount rates applied to the North American portfolio range between 7.5% and 10%. The implied weighted average discount rate is 8.2% (2016: 8.2%) and a 1% change in the discount rate would change the value of the North American portfolio by approximately £84 million.

Under the Tax Cuts and Jobs Act passed by the US Government in December 2017 there are provisions to restrict the tax deductibility of interest expense.

The provisions are complex and their application requires clarification in a number of areas, but the initial assessment is that the restriction will not have a material effect on the Directors' valuation. The Group will monitor the application of the rules and any forthcoming guidance.

Portfolio investment, sales and distributions since 2008
£m



Building a sustainable business

Group-wide innovations driving success

As a value-led business that operates safely and ethically, Balfour Beatty acts responsibly to protect and enhance the physical and social environment.

Innovation, research and development

Balfour Beatty harnesses innovation that delivers value and efficiencies, improves safety, develops engineering capability and increases the pace of delivery.

Balfour Beatty captures the best ideas and invests in research and development. Innovations are embedded across the Group to become business as usual.

Innovation is essential for future success. At the end of 2017, Balfour Beatty launched an initiative to reduce activity on site by 25% by 2025.

The challenge is to remove complex and repetitive activities from sites by rethinking design, production and installation.

My Contribution

As a specific stream of the Build to Last programme, the Group-wide My Contribution initiative was launched in 2015 and is now embedded in the business. My Contribution encourages staff to share ideas and solutions that could benefit the business. In 2017, business leaders and Balfour Beatty's My Contribution champions considered 2,000 ideas, which have the potential to save £2.8 million.

Business leaders and My Contribution champions were asked to shine the spotlight on the individuals and teams whose innovative ideas and suggestions have delivered proven benefits during 2017.

The winning idea was the digital tool, Autodesk BIM 360™ Field, now embedded across UK Construction Services. This innovation drives defect-free delivery and has identified £1 million of savings. It takes site documentation and inspection requirements online, providing instantly accessible, up-to-date evidence, allowing customers to check progress and quality in 'real time' and giving them a tool to support snagging and asset management.

Digital Balfour Beatty

Integrating and combining digital technologies delivers better outcomes throughout the project lifecycle.

- Problem-solving challenges, technical and digital hackathons carried out in 2017 include a collaborative partnership between Balfour Beatty, Google and Flux, which resulted in the creation of the Asset Tracker mobile application. The app enables site-based users to easily manage, monitor and track plant. The mobile application also has potential for tracking other types of assets such as mobile and IT equipment.
- Balfour Beatty's power transmission and distribution business has developed an animated core site safety induction. This ensures a consistent message is delivered across all sites. The voiceover is provided by real people working on site.
- Balfour Beatty's Unmanned Aerial Vehicles produce high-quality images, which are invaluable for inspections of bridges, major plant, pylons, site compounds and earthworks, and for surveying inaccessible areas.

In 2017 Balfour Beatty piloted trailblazing technologies to bring the virtual world to construction.

- Utilising Mixed Reality the Microsoft HoloLens overlays 3D and 4D (3D + time) graphics onto the real world. In 2017 HoloLens combined with Synchro 4D software and Trimble SketchUp to create a 'hybrid' environment, mapping interactive virtual objects to the physical world. This enables Balfour Beatty to build a virtual project in the real world before construction begins.
- The 3D Augmented Reality app/viewer provides 3D modelling viewable on site, which Balfour Beatty uses to demonstrate the impact of works to site teams, customers and stakeholders.
- Balfour Beatty trialled the latest hand-held mobile scanning device on a project in Hull, where pipework, ducting and services were easily and clearly mapped for inclusion into a 3D as-built model. A daily 'walkthrough' of the continually updated model accurately pinpoints potential safety and temporary works issues.

Worldwide innovation

Innovation occurs across the business and in collaboration with customers, joint ventures and the supply chain.

- In 2017 Balfour Beatty introduced consistent 4D planning software across the worldwide business. The tools enable the engagement of people at all levels across the Group's projects, including stakeholders and clients, design and construction teams.
- Balfour Beatty's India design team has grown to a 60+ strong technical team of experts in civil engineering, mechanical & electrical works and animation. Specific expertise includes the production of detailed 3D and 4D visualisations for many different areas of the business worldwide to maintain programmes, delivery and customer satisfaction and engage the whole team.
- Omnicom Balfour Beatty is part of Balfour Beatty's Rail Engineering Technology Services team based in York and Derby. It provides a range of innovative products and services to the rail industry that are improving safety performance and protecting the workforce. OmniVision® uses machine vision to automate track inspection; OmniSurveyor3D® maps environments using light detection and ranging (LiDAR) and cameras.
- Balfour Beatty's Channel Tunnel ElecLink project uses a range of automated machinery which removes labour-intensive activities, maximises productivity and enhances safety with animations to brief the methodology to the team.
- Balfour Beatty's power transmission and distribution business supplied the electrical interface for the world's first floating wind farm. The innovative Hywind Scotland, off the coast of Peterhead, features five turbines which are 253 metres tall with 78 metres submerged under the sea and anchored to the seabed by cables. This unique pilot project will eventually power 20,000 homes.
- At Forth Valley College's new Falkirk campus, Balfour Beatty Ground Engineering has worked with design partners GI Energy to develop the UK's first ever large-scale driven pre-cast energy pile arrangement. More than 800 thermal loops are integrated into the concrete foundations, creating exceptionally low carbon energy for the customer.

Building a sustainable business

Group-wide innovations driving success continued

Collaborating with supply chain, industry and academia

The Group is involved with a large number of industry bodies sharing knowledge and learning within the industry.

Continued active involvement with industry groups, such as the newly formed client-led Infrastructure Industry Innovation Platform (i3P), provides a platform for Balfour Beatty to influence the industry and share knowledge with peers.

The Group has led the delivery of over £2 million of Innovate UK research grants, and is working with various industry groups delivering cutting edge technology that builds a competitive advantage and potential step change in productivity in design and construction.

Along with its supply chain, Balfour Beatty has developed an app, accessible via website or smartphone, that is used by Dangerous Goods vehicle operators and allows self-registration and notification prior to entering into the Dartford tunnel. This eliminates 600 daily Dangerous Goods vehicle movements to and from the holding area, removing congestion from the heavily congested orbital motorway around London. Other developments include harnessing the Internet of Things, through which the deployment of sensors and Smart Water will enable remote monitoring of drainage systems and analytics to better assess the risk of flooding and enable timely maintenance.

Balfour Beatty has been assessing buried utilities, building on the highly successful Mapping the Underworld (MTU) project funded by the Engineering and Physical Sciences Research Council since April 2013. It has supported this project as an industrial partner throughout and has developed close links with the University of Birmingham.

Innovation through value engineering continues to be a key focus: Balfour Beatty has launched a collaborative UK Strategic Design Consultants partnership with Atkins, Mott MacDonald and WSP. This will be a different way of doing business and will deliver more value and enable the partners to win more quality business by working together with common goals.

Using digital tools to deliver better outcomes

Balfour Beatty is using innovative 3D and 4D modelling techniques to improve efficiency on site. This includes laser scanning, which takes site surveying to the next level by building full 3D models to enhance our processes and increase safety on site.

Awards

Balfour Beatty's range of innovation is recognised by diverse industry awards:

- Balfour Beatty's joint venture company, Gammon Construction, was recognised for its long-term contribution to innovation at the Construction Industry Council Awards in Hong Kong: the Bio-Inspired Anti-Vibration Exoskeleton (BIAVE), developed in partnership with the Hong Kong Polytechnic University, won first prize for construction safety. Inspired by the X-shaped limb structure of birds and insects, it reduces hand-arm vibration by up to 90%
- the Gammon-invented K-Frame machine used on the Tuen Mun – Chek Lap Kok Southern Connection Viaduct Link erects spans up to 200 metres long with segments weighing up to 240 tonnes without the need for launching gantries. It secured a top prize for Construction Productivity
- Balfour Beatty's Rail division won the workforce safety award at the National Rail awards with the Close Call mobile application
- the Beauly-Denny overhead transmission line scooped the prestigious Saltire Greatest Contribution to Scotland Award. The interconnector will enable the country to meet nearly half its target of 50% renewable energy supply by 2020.

Two Balfour Beatty innovations won Techfest awards at the New Civil Engineers Festival of Technology:

- Balfour Beatty's Crossrail C510/C512 contracts were joint winners of the Best Use of Technology for the Readiband technology to monitor fatigue levels in workers
- TEAM2100 (a collaboration between Balfour Beatty, CH2M and the Environment Agency) won Project of the Year and Innovation of the Year for Big Data for its work on optimising returns on the Thames Estuary Asset Management framework.

Building a sustainable business

Committed to creating a safe and ethical workplace

Health and safety

'Safe' is one of the four Build to Last goals and all the Group's operations must ensure the health and safety of everyone who comes into contact with their activities. Zero Harm is Balfour Beatty's vision, which means no injury, ill health or incident caused by its work activities. All operations are charged with constantly improving performance, sharing learning and best practice.

The Zero Harm objective is supported by the Group's Health Safety Environment and Sustainability (HSES) strategy and risk-based prioritised action plans. These are formed around 12 key areas: communicating the vision; leadership; learning and sharing; co-ordinated governance; supply chain engagement; health and safety by design; improving management systems and processes; training and competence; behavioural safety; innovation, recognition and reward; performance indicators; and local initiatives.

Group initiatives linked to the Zero Harm calendar are proactive and evidence-based. These include focused quarterly campaigns and Group-wide stand downs on key topics. In 2017 these included: interfaces between people and plant; excavations and underground services; winter working; working at height; environment interfaces with water and spills; treating health like safety; mental health; and dust.

Many parts of Balfour Beatty's business reached millions of hours incident free, demonstrating that Zero Harm is achievable. Group-wide leading and lagging key performance indicators trended positively, with continued strong performance in the UK. The Group's Lost Time Injury Rate (LTIR) increased from 0.31 to 0.39, but improved from 0.22 to 0.17 excluding the Group's international joint ventures.

Central to sustainable delivery of Zero Harm is Balfour Beatty's Making Safety Personal (MSP) programme, based around four simple golden rules. In 2016 the focus was engagement through workforce observations, which achieved a dramatic increase and this trend has continued into 2017. 2017 saw the roll-out of the MSP 1 foundation programme for everyone on making safe choices and the MSP 4 leadership programme. Further modules (MSP 2 and MSP 3) were successfully piloted.

Balfour Beatty's industry-leading commitment to treating health like safety continues to focus on eliminating occupational disease and ill health.

In the UK, Balfour Beatty was a founding member and remains actively engaged in the Health in Construction Leadership Group (HCLG). In 2017 the HCLG brought industry leaders, clients and contractors together in the follow-up to 2016's ground-breaking summit 'Committing Construction to a Healthier Future'. The equally successful 2017 summit focused on how the 2016 commitment had been turned to action and the next steps for the future. One of these steps was the formation of the Mates in Mind charity to support UK construction workers. Balfour Beatty actively supports the charity and was one of five piloting organisations. Balfour Beatty has committed to rolling out the Mates in Mind programme to over 75% of its workforce by 2020. In 2017 Balfour Beatty trained 980 of its UK workforce and supply chain in mental health first aid, supervisor training and starting the conversation around mental health.

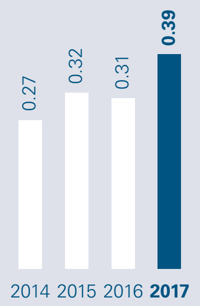
The business continued to win awards for its health and safety performance. In the UK, the Area 10 highways maintenance contract won Safety Project of the Year at the Chartered Institution of Highways & Transportation North West Awards. Balfour Beatty also won several national awards, including a RoSPA Gold award for outstanding safety performance by the Sellafield Box Encapsulation Plant Delivery Team (BEPDT). Balfour Beatty Kilpatrick was presented with the Engineering Construction Industry Association Safe Working Award. In the US, Balfour Beatty Rail was awarded its fifth Platinum National Safe Railroad Contractor of the Year for its commitment to Zero Harm.

Employee survey results across the Group rated consistently highly on health and safety questions, a strong indicator of engagement. An independent review of the supply chain indicated that 81% believe Balfour Beatty is leading on health and safety.

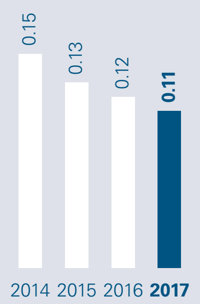
Sadly, despite these positive improvements, three workers lost their lives across the Group in 2017, two in the US and one in the Gammon joint venture in Hong Kong. All three workers were subcontractors. Each fatal accident was subject to a thorough investigation and a detailed review by the Group Chief Executive and further review by the Safety and Sustainability Committee to ensure lessons are promulgated across the business and wider industry.

In 2018 the Group will continue its relentless focus on health and safety within the business and working with the wider industry.

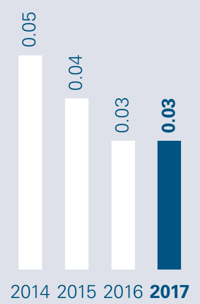
The Group's Lost Time Incident Rate (LTIR)



Accident Frequency Rate (AFR)



Major injury rate



Building a sustainable business

Investing in talent across the Group

People and leadership

The Build to Last transformation programme continues to be the foundation of the Group people plan. The central focus in 2017 has been on enhancing the Leadership development offering, improving employee engagement and supporting training and capability development through the Balfour Beatty Academy. Steps have also been taken to develop systems and further improve efficiency, including the launch of a UK self-service portal for administration, payroll and employee requests and queries.

Continued strong investment and focus on people and capability development resulted in the delivery of training to nearly 3,000 delegates in the UK (an increase of 148% on 2016). Expectations around leadership and behaviours for high performance have been clarified through the expansion of Balfour Beatty's Behaviours and design of a comprehensive development offer to support leadership and management capability. In the US, the Propel Leadership Program is designed to gather high-performers on a regular basis to collaborate and learn new leadership talents.

The developmental programmes operate within the context of a Group-wide talent review process, ensuring consistent methodology and visibility of talent so that succession planning, leadership training and development interventions are applied in the most effective way.

The Group's development offer spans all roles, job families and levels. Key areas of focus were the Leading 4 Success leadership development programme in UK Construction, building line manager capability via Brilliant Basics and investing in development programmes for Project Leaders in Major Projects and Contract Leaders in Power. The Future Leaders programme was launched, bringing together talent from across the UK business, with the core objectives of investing in future leadership capability and potential, retaining talent and developing the leadership pipeline. In addition to formal programmes, bespoke development has been delivered through individual coaching, mentoring and structured feedback processes.

Employee engagement remains a key focus to support and enhance business performance. Since 2015, Group-wide engagement surveys have taken place annually, followed by key actions in response to survey results. In the survey held in November 2017, the Group employee engagement index score increased to 60% from 58% in 2016. More employees see better opportunities now and there are much improved responses around people feeling part of a team and believing that Balfour Beatty has a positive impact on the environment and local communities.

Emerging talent

The 5% Club works with UK employers and key influencers to inspire, educate and retain a growing number of apprentices, sponsored students and graduates through 'earn and learn' placements. The goal of The 5% Club is to increase the employment and career prospects of today's youth and equip the UK with the skilled workforce it needs to safeguard Britain's economy. Members pledge to work towards having a minimum of 5% of their employees in 'earn and learn' positions – apprentices, sponsored students and graduate trainees – within five years of joining.

In 2017, the Group recruited 93 graduates, 124 apprentices and 35 trainees across the UK. The proportion of the UK workforce in 'earn and learn' positions has increased from 3.1% in 2014, to 5.3% at the end of 2017. At 31 December 2017 the Group's UK businesses were supporting 293 graduates, 292 apprentices, 163 trainees and 19 year out industrial placement students on a range of schemes.

The 5% Club has recently revised its definition of sponsored students so that it now includes those studying for part-time further and higher education qualifications where supported by the Company.

Balfour Beatty has always had a large number of employees – known as trainees – in these positions and so this has enabled the Group to reflect the proportion of early career employees in whom it is investing.

In the US, Balfour Beatty is committed to hiring and developing interns and in 2017 employed 126 summer interns, providing training and on-the-job learning. The commitment is further demonstrated with the well-established High School Mentoring programme in Texas which provides educational and professional development experience and since its inception has hosted numerous high school interns and awarded several scholarships to students pursuing careers in construction management.

Balfour Beatty continues to support UK Government reforms on apprenticeships for the construction industry, participating in the development of a number of new Trailblazer standards.

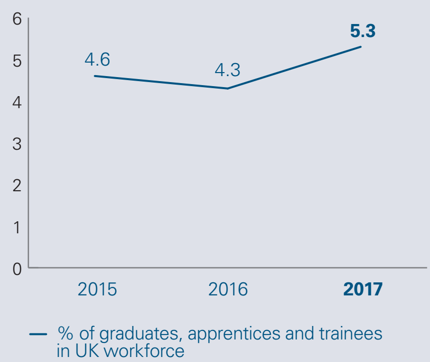
Upskilling the UK's infrastructure workforce

The Balfour Beatty Academy, along with the Communities of Practice, continues to blend in-house expertise with external knowledge to develop the professional and technical core of the business.

Competency frameworks have been developed across the core job families to identify and support the development of key knowledge, skills and expertise.

2017 has seen the continued investment in key strategic training initiatives. As part of the Build to Last focus, over 1,000 employees have undergone training in commercial management, business development, negotiation skills and project management.

% of workforce qualifying as part of The 5% Club



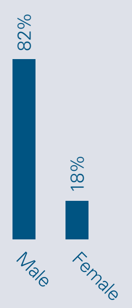
Diversity and inclusion

Attracting and retaining the most capable talent from all backgrounds is key to building a high-performance culture. Leo Quinn, Group Chief Executive, is the Board-level sponsor for diversity and inclusion (D&I), supported by a steering committee that leads, advocates and co-ordinates diversity initiatives.

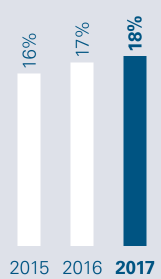
There has been positive action to build strong foundations for Balfour Beatty's work in D&I during 2017. The three-year UK D&I action plan has been updated and is closely aligned to the Group's values of Talk Positively, Collaborate Relentlessly and Encourage Constantly, helping to build a strong culture of fairness, inclusion and respect. Affinity networks, each sponsored by a member of the executive team, enable employee groups to network, share information, drive action and support each other.

In 2017, 257 UK leaders and employees attended a programme specifically linked to the objectives of the Group's D&I agenda. To support the creation of an inclusive environment, Unconscious Bias workshops have been rolled out to employees with direct reports. As part of Balfour Beatty's drive to retain female talent, a three-day Women in Business career development programme has been launched to support women in accelerating their careers.

Group gender balance



Female employees across the workforce



In February 2017 Balfour Beatty joined the Apprentice Diversity Champions Network, working with other UK employers to increase the diversity of future apprentice intakes. A Returners' programme was launched in 2017, to provide career placements to people who have been on a career break of two years or more.

The Company's efforts have been recognised externally – being shortlisted for a number of awards celebrating the Group's commitment to D&I – along with Balfour Beatty employees who have featured in the Financial Times Top 100 LGBT+ Executives and Top 50 Future Leaders. Award wins include CECA Inspiring Change, Women in Construction and Engineering, and Northern Power Women.

The Company's efforts across D&I have also been recognised outside the UK with awards including the Contractor of the Year Award by the National Association of Minority Contractors – Southern California Chapter (NAMC), the Company of the Year Award at the Women-In-Non-Traditional-Employment-Roles (WINTER) Annual Awards Gala in Los Angeles, as well as individual awards to employees including the National Advocate of the Year award by the Women Construction Owners and Executives USA (WCOE) and a Women of the Year (Mujeres Del Año) Diversity Award by the Regional Hispanic Chamber of Commerce.

Balfour Beatty is improving competitiveness within its supply chain by increasing its diversity and has spent more than 40% of total spend with SMEs over each of the last four years. The percentage spent with social enterprises and female-owned businesses has increased significantly since 2014. The Group is also collaborating across the sector on the CITB funded Fairness Inclusion and Respect programme to develop a range of free resources for use in the supply chain to improve Equality, Diversity & Inclusion practice at all tiers.

Strategic partnerships are in place with WISE, Business in the Community and Stonewall. In 2017 the Group supported the Leonard Cheshire Disability Society by providing two placements and in 2018 is sponsoring students through the Amos Bursary which supports young men of African and Caribbean descent, providing work experience placements, site tours, career days and mentors. In addition, Balfour Beatty recently joined companies across the industry to roll out Mates in Mind to help tackle the stigma of mental health.

In October 2017, Balfour Beatty's advocacy for the Armed Forces and support for employing veterans, encouraging reservists and engaging with military charities and cadet units saw the Company awarded Gold status, with the award being presented by His Royal Highness Prince Henry of Wales.

The Group remains committed to building a workforce of industry-leading people that represents the communities it works in. It is this commitment and the continued engagement of employees that will provide the foundations for Balfour Beatty's future growth.

At 31 December 2017	Male	Female	Total	% Male	% Female
Board	7	1	8	87.5%	12.5%
Senior management[1]	93	24	117	79.5%	20.5%
Directors of subsidiaries	216	30	246	87.8%	12.2%
Group	16,676	3,562	20,238	82.4%	17.6%

1 Members of Group Head Office and divisional senior leadership teams.

Building a sustainable business

Continuing to embed integrity across the business

Business Integrity

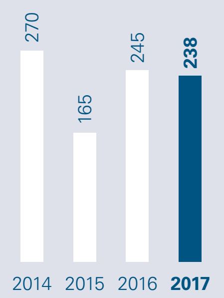
Balfour Beatty has a well-developed Business Integrity programme which adopts a behaviours-based approach to ensure that the Group's culture enables people to make the right choices and empowers them to speak up where others have not. The programme was originally launched in 2009 and underwent an effectiveness review in 2016. As a result of this review, a number of changes were made to the programme and the Business Integrity team's approach in 2017.

The core of the programme remains the Balfour Beatty Code of Conduct, which is now web-based and can be accessed from any device with an internet connection (www.balfourbeattycodeofconduct.com). This enables site-based personnel to access the Code, along with clients and partners.

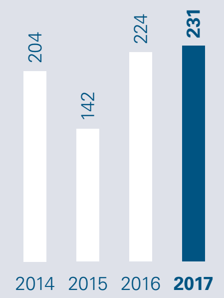
The changes identified in response to the 2016 review are designed to continue the process of embedding the programme within the Group in a consistent manner and changing behaviour:

- as the programme is relatively mature, a completely new approach to training on the Code of Conduct was launched during 2017. The Code of Conduct assessment tests knowledge in 12 risk areas and training is provided only on the areas failed. This has proven to be more effective and engaging than the previous training
- all those who complete the assessment are also required to provide a declaration about their own knowledge and behaviour in respect of the Code of Conduct and associated processes. This reinforces individual responsibility for displaying the right behaviour and complying with the Code
- the Group's approach to due diligence has also been updated by taking advantage of the services provided by third parties who specialise in collating data on individuals and organisations. This has made processes more efficient and effective
- a greater connection with the businesses was identified as being a requirement for the UK programme. This has been addressed by launching Business Integrity advisers during 2017. These 22 individuals work within the UK businesses in a variety of roles and assist the Business Integrity team by communicating Business Integrity messages and initiatives, assisting with investigations and being a local point of contact for Business Integrity issues.

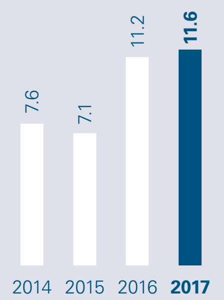
Speak Up Helpline cases Number



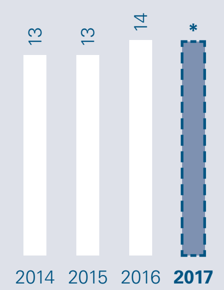
Speak Up Helpline cases (excluding HR grievances) Number



Cases per 1,000 employees (Balfour Beatty) Number



Cases per 1,000 employees (global benchmark) Number



* At the time of print, the global benchmark statistic for 2017 was not available. The full chart including the 2017 statistic can be found at: www.balfourbeatty.com/businessintegrity

Speak up

Balfour Beatty encourages its staff and the wider community to report any concerns about unethical conduct. Trends and, where appropriate, details of cases raised are reported to the Audit and Risk Committee and each business unit. Whilst action is taken in respect of the immediate issues raised, this data also informs the longer term strategic direction of the programme.

Ensuring all in-scope cases are investigated continues to be extremely important to encourage a change in behaviour and support those who raise concerns. This continued in 2017 with 100% of in-scope cases investigated.

Areas of focus in 2018

The implementation of the changes to the Business Integrity programme will continue in 2018 with a particular focus on learning, technology, data and developing the network of Business Integrity advisers.

Modern slavery

Modern slavery is a brutal form of organised crime in which people are treated as commodities and exploited for criminal gain. The International Labour Organisation estimates that at any one time over 40 million men, women and children are working in conditions of modern slavery, including trafficked persons. The vast majority of these people are in the supply chains of legitimate industries. Balfour Beatty is committed to working within the business and its supply chain to ensure a proactive approach is taken to tackling hidden labour exploitation and eliminating these practices. Further details of the Company's approach to modern slavery and its updated Modern Slavery Act transparency statement for 2017 can be accessed at:

www.balfourbeatty.com/services/modern-slavery

The EU General Data Protection Regulation (GDPR)

GDPR replaces the Data Protection Act 1998 in the UK and has been designed to harmonise data privacy laws across Europe, to protect all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy. Balfour Beatty takes GDPR seriously and its Data Protection Officers are working with the business and its supply chain to ensure individuals' personal information is handled in compliance with the legislation.

Building a sustainable business

Using Our Blueprint to support communities and enable growth

Environmental performance

The Group's sustainability strategy, Our Blueprint, sets out how Balfour Beatty will deliver long-term economic, social and environmental outcomes for its employees, customers, society and shareholders. It seeks to further embed sustainability throughout Balfour Beatty's operations by providing a robust framework. For details on Our Blueprint and the Group's wider sustainability performance, please visit:

www.balfourbeatty.com/sustainability/sustainability-dashboard/

Optimising environmental performance forms a key component of Our Blueprint and is essential for driving efficiencies and winning work. Balfour Beatty has been taking steps to reduce its carbon emissions and mitigate against the business risks of climate change.

The Group has continued to automate the collection of sustainability data by investing in software and developing in-house solutions to benchmark and monitor its environmental performance data at project level such as its Scope 1 and 2 Greenhouse Gas (GHG) emissions.

Standards

Sustainability is an integral part of modern infrastructure projects: public sector customers require conformance to standards such as BREEAM, LEED®, BEAM, Green Mark, and CEEQUAL and these are important to planning authorities. Meeting these standards has resulted in £879 million revenue on green infrastructure projects in 2017. The Group's certifications in this area and its technical knowledge improve the whole-life performance of customers' built assets.

Scope 1 and 2 GHG emissions

The Group has seen a decrease in carbon emissions intensity in 2017 compared to 2016 from 29.5 tonnes of CO_2 equivalent (CO_2e)/£m revenue to 22.3 tonnes of CO_2e/£m revenue. This has been largely driven by concerted efforts to manage energy and fuel and reduce associated GHG emissions. Since establishing the baseline in 2010, tonnes of CO_2e/£m revenue have dropped by 46.3% from 41.5 tonnes of CO_2e/£m revenue to 22.3 tonnes of CO_2e/£m revenue. The Group's total CO_2e figure for Scope 1 and 2 emissions, has dropped by 113,745 tonnes of CO_2e (31.8%) from 357,983 tonnes of CO_2e to 244,238 tonnes of CO_2e over the same period. As evidenced, the Group has made significant progress in reducing energy and fuel consumption and associated Scope 1 and 2 emissions, which is leading to reduced operating costs and therefore improved value to customers and shareholders. Initiatives have included: improving the fuel efficiency of the Group's fleet; optimising the sizing of generators and the power profile of projects; improving the energy efficiency of site cabins; and undertaking energy efficiency improvements to properties. In addition, a number of customers have expressed an intention to prequalify contractors on the basis of their carbon performance in the future which is driving performance in this area.

Balfour Beatty's 2020 goal is to achieve a 50% reduction per £ million revenue of its Scope 1 and 2 emissions (against a 2010 baseline). The Group's performance to date illustrates it is on track to meet this target.

Gammon Construction, the Group's joint venture in Hong Kong/Singapore, accounts for approximately 41% of the Group's Scope 1 and 2 emissions. It is certified to ISO 14064-1 international standard for quantifying and reporting greenhouse gas (GHG) emissions. Its Scope 1 and 2 GHG emissions are independently verified by SGS.

GHG reporting and assurance

Balfour Beatty's GHG emissions are reported in accordance with the UK Government's GHG reporting requirements covering all six Kyoto gases. The Group uses the operational control approach under the GHG Protocol Corporate Accounting and Reporting Standard as at 31 December 2017 to report emissions from its operations around the world. However, Balfour Beatty has chosen to report only using the location-based approach and not the market-based approach. Even though Balfour Beatty does procure significant amounts of renewable electricity, the average DEFRA and IEA location-based conversion factors have been used for carbon reporting purposes in order not to detract from reducing energy intensive operations. Balfour Beatty's energy consumption in MWh is shown on page 36 to allow readers to make more informed comparisons of its energy use.

Although Balfour Beatty's Scope 1 and 2 CO_2e emissions dropped by 18.5% (55,260 tonnes) over the period from 2016 to 2017, the number of MWh of energy dropped by 17.0% (175,345 MWh). This difference can be explained by the fact that different fuels have different carbon conversion factors, with some fuels attracting greater carbon conversion factors than others. Furthermore, the MWh table does not include fugitive emissions. The Energy Use table illustrates that there has been a greater switch towards 5% biofuel petrol blend and biodiesel different blend (other than 5%) accompanied by a reduction in both mineral petrol and mineral diesel. There has been a 23% reduction in 5% biodiesel blend use. Balfour Beatty's Scope 1 and 2 CO_2e emissions include emissions from assets that are otherwise not referred to across the rest of the financial statements such as energy provided by landlords or clients that Balfour Beatty does not pay for.

The Group has determined and reported the emissions it is responsible for within this boundary and does not believe there are any material omissions. The Group uses the UK Government's carbon conversion factors that were updated in 2017 to calculate its emissions into equivalent tonnes of carbon dioxide (CO_2e) and the IEA's October 2017 set of international conversion factors for electricity (Scope 2) except for the UK where the UK Government's conversion factors were used as they are more up to date. The Group has only reported on Heery's Scope 1 and 2 data until the point of sale in October 2017.

					Absolute tonnes of CO_2e	
	Base year 2010	2013	2014	2015	2016	**2017**
Scope 1	283,821	249,021	221,679	238,685	220,530	**172,270**Δ
Scope 2 (location-based)	74,162	73,155	71,208	72,183	78,968	**71,968**Δ
Total Scope 1 and 2 carbon emissions	357,983	322,176	292,887	310,868	299,498	**244,238**
Total Scope 1 and 2 carbon emissions per £m revenue	41.5	30.3	30.2	35.2	29.5	**22.3**

Scope 1 emissions include those resulting from the combustion of fuel and operation of facilities.

Scope 2 emissions result from the purchase of electricity, heat, steam and cooling for own use. The full description of Balfour Beatty's definitions can be found in its reporting guidance at www.balfourbeatty.com/enablon.

Δ Included within KPMG's limited assurance scope.

Building a sustainable business

Using Our Blueprint to support communities and enable growth

KPMG was engaged to undertake an independent limited assurance engagement, reporting to Balfour Beatty plc, using the assurance standards ISAE 3000 and ISAE 3410 over the GHG data that have been highlighted in this report with the symbol Δ. Their full statement is available at:

www.balfourbeatty.com/IIA

The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance engagement. In order to reach their opinion, KPMG performed a range of procedures over the GHG data.

A summary of the work they performed is included within their assurance opinion.

Non-financial performance information, GHG quantification in particular, is subject to more inherent limitations than financial information. It is important to read the GHG data in the context of the full limited assurance statement and the reporting criteria as set out in the Balfour Beatty reporting guidelines available at:

www.balfourbeatty.com/GHSS

CDP

The Group is committed to addressing climate risk and reducing the lifetime emissions of the assets it builds, as evidenced by its performance in the global evaluation standard, the Climate Disclosure Project (CDP), where a B rating was achieved in 2017, compared to the industry average rating of C.

The annual rating is based on CDP's evaluation of the Group's strategy, goals and actual emissions reductions, as well as transparency and verification of reported data. It assesses the completeness and quality of Balfour Beatty's measurement and management of carbon footprint, climate change strategy, risk management processes and outcomes. The score's purpose is to provide a summary of the extent to which companies have answered these questions in a structured format. Balfour Beatty's B rating indicates that its team has provided comprehensive information in a transparent and open manner.

Energy use

Fuel	2014	2015	2016	MWh **2017**
Electricity	130,597	169,678	142,477	**132,437**
Heat and steam	1,476	2,603	4,561	**28,796**
Natural gas	11,620	18,169	22,085	**17,367**
Industrial gases	7,014	2,828	6,193	**3,866**
5% biodiesel blend	376,807	476,488	477,401	**367,036**
5% biofuel petrol blend	32,786	11,933	53,096	**70,949**
Biodiesel different blend	30	–	410	**1,120**
E85 petrol	42	5,479	58	**99**
Gas oil (Red diesel)	227,731	288,143	292,501	**212,909**
100% mineral diesel	85,944	20,025	16,636	**15,381**
100% mineral petrol	47,056	44,795	12,939	**3,848**
LPG	149	185	571	**212**
CNG	5	1	2	**1**
Boiler fuel	374	921	1,582	**1,146**
Total	921,631	1,041,248	1,030,512	**855,167**

Community engagement

In many markets the ability to demonstrate the social value of the Group's operations in economic terms is vital. To benefit local areas, the Group uses local suppliers, employees and materials wherever possible, and invests in future talent through apprenticeship schemes and work placement opportunities.

Involved (Balfour Beatty's community investment programme in the UK) was established in 2015 and focuses on three key areas where the Group can add value to its customers and the local community:

- local employment and skills
- supporting local businesses
- community engagement through charitable fundraising, volunteering and mentoring.

Wherever the Group operates it seeks to integrate within the neighbourhood, supporting the local community, its businesses and its workforce. Involved gives Balfour Beatty the opportunity to work within a framework whereby the results of its interventions are captured and the benefit to society shared with its customers and other interested parties.

Community investment through charitable fundraising

The Balfour Beatty Building Better Futures Charitable Trust was formed in 2009 to help the most disadvantaged young people in society. Through a mix of employee fundraising and financial support provided by the Company, the Trust currently supports three charities: Barnardo's, Coram and The Prince's Trust. In 2017, employees raised over £20,964 through Building Better Futures. The Company matched this with an additional contribution and donated a total of £100,000. Since 2013 the Trust has raised £181,416 to support Barnardo's, helping over 1,340 young people. Since 2010 the Trust has contributed over £470,000 to Coram, funding vital services for children and young people.

The Group has been particularly active with the Prince's Trust 'Get Into' programmes to help more young people into the Construction sector. This includes the 'Get into Construction' programme, which the Group helped to shape and deliver nationally in 2017. Since the beginning of the partnership, the Group has raised over £1.3 million for the Prince's Trust. In the UK, a further £157,424 was raised by employees for charitable purposes. The UK business also made in kind contributions of £95,107 to charities and made direct donations of £101,764.

Across the Group's operations, employees volunteered 12,400 hours for charitable causes. This has brought multiple benefits, including helping customer relationships, engaging with employees and supporting local communities.

The US Construction business contributed over US$430,000 to charitable causes in 2017. Some of the organisations receiving donations are:

- Bridges to Prosperity
- American Heart Association
- Make-A-Wish Foundation
- YMCA.

In co-ordination with Bridges to Prosperity, an 11-member team of Balfour Beatty employees from across the US completed construction of a 100-metre suspended footbridge in Bolivia. The new footbridge helps the local community to cross a previously impassable river, providing access to healthcare, education and economic opportunities.

In California, Balfour Beatty hosted its annual Golf Classic that raised more than US$135,000 for the Sharefest 2017 Workday. The tournament raised money for seven Workday sites, sending 230 low-income students to camp and providing five college scholarships to local students.

In Texas, Balfour Beatty employees volunteered to mentor high school students as part of the ACE Mentor of Dallas programme. They taught students how to develop construction milestone schedules and site logistics plans based on an actual 1.9 million square-foot, mixed-use project in Dallas, Texas.

In 2017, Gammon Construction and its staff contributed to nearly 150 activities and community events in Hong Kong, mainland China and Singapore and provided over HK$2.4 million in sponsorships, scholarships and charitable donations.

Gammon's Next Generation Sustainability Panel and Young Professionals Group co-organised a three-month renovation project for the Fung Yuen Butterfly Reserve's footpath network. Gammon's Concrete Technology Department produced 2,700 paving bricks from waste concrete for the path renovations.

In December 2017, the Tuen Mun-Chek Lap Kok viaduct link project team received an Outstanding Award from the Hong Kong Student Aid Society in recognition of its voluntary work repairing the Tung Wan Mok Law Shui Wah school and island hostel that were damaged by typhoons.

Tax strategy

Balfour Beatty recognises that paying taxes arising from its activities is an important part of how it contributes to the societies which it helps to build. The Group makes a major contribution to the tax revenues of governments in the numerous territories in which it operates. For example, the Group's tax contribution extends significantly beyond corporation tax and the collection of substantial amounts of income tax and includes the payment of significant employer social security contributions.

The Group's tax strategy, approved by the Board, is to sustainably minimise tax cost whilst complying with the law. In doing so, it ensures it acts in accordance with Balfour Beatty's ethics, values and Business Integrity programme.

The Group aims to meet all legal requirements, filing all appropriate tax returns and making tax payments accurately and on time.

The Group's tax strategy applies to all territories in which it does business.

Tax governance

Balfour Beatty has clear tax policies, procedures and controls in place which are overseen by the Chief Financial Officer.

A dedicated internal tax team, led by the Group Head of Tax, is responsible for the implementation of the Group's tax strategy and supporting tax policies. Members of the tax team are highly experienced with appropriate professional qualifications and experience which reflect the responsibilities required for their roles.

Tax risk appetite

The Group manages its tax affairs in a proactive manner that seeks to maximise shareholder value. The Group does not enter into artificial arrangements that lack commercial purpose in order to secure a tax advantage. The aim is to ensure full compliance with all statutory obligations and as a consequence attempt to minimise risk wherever possible.

Managing tax risk

There are a number of factors that affect the Group's tax risk and these arise both internally and externally. Balfour Beatty's ability to control these factors varies and its internal tax team works to minimise these risks to an acceptable level. For example:

- new and developing tax legislation is monitored and where it is relevant Balfour Beatty participates in consultations issued by the tax authorities. When new or changed legislation is announced, the impact on the Group is assessed and active measures are taken to ensure there are adequate processes in place to comply with any change
- tax risks in relation to compliance and reporting are managed by meeting regularly with professional advisers, industry groups and the tax authorities to both keep abreast of changes in these areas and to seek information on new systems and software
- risk in relation to tax in general is managed by the internal tax team and if a position is uncertain the Group may obtain third-party advice in order to gain clarity or support for a particular stance or approach.

Interaction with tax authorities

Balfour Beatty's approach to its tax affairs is supported by an open, honest and positive working relationship with the tax authorities, with regular dialogue. Should any dispute arise with regard to the interpretation and application of tax law, the Group is committed to addressing the matter promptly and resolving it in an open and constructive manner.

Measuring our performance

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

Readers of the Annual Report and Accounts are encouraged to review the financial statements in their entirety.

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Measuring the Group's performance

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

Statutory measures

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

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 102 to 109.

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

Performance measures

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

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

a) Order book

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

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

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

b) Underlying performance

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

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions
- costs of major restructuring and reorganisation of existing businesses
- acquisition and similar costs related to business combinations such as transaction costs
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets). These are non-underlying costs as they do not relate to the underlying performance of the Group.

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

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

Further details of these non-underlying items are provided in Note 10.

b) Underlying performance continued

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

Reconciliation of 2017 statutory results to performance measures

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

Reconciliation of 2017 statutory results to performance measures by segment

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

Measuring our performance

Providing clarity on the Group's alternative performance measures continued

Reconciliation of 2016 statutory results to performance measures

	2016 statutory results[4] £m	Build to Last restructuring costs £m	Intangible amortisation £m	Provision increases/ (releases) £m	Gains on disposal £m	Results of ES £m	Non-underlying items Results of Rail Germany £m	Other £m	2016 performance measures[4] £m
Continuing operations									
Revenue including share of joint ventures and associates (performance)	8,368	–	–	–	–	(3)	(150)	–	8,215
Share of revenue of joint ventures and associates	(1,445)	–	–	–	–	–	12	–	(1,433)
Group revenue (statutory)	6,923	–	–	–	–	(3)	(138)	–	6,782
Cost of sales	(6,639)	–	–	–	–	9	127	–	(6,503)
Gross profit	284	–	–	–	–	6	(11)	–	279
Gain on disposals of interests in investments	65	–	–	–	–	–	–	–	65
Amortisation of acquired intangible assets	(9)	–	9	–	–	–	–	–	–
Other net operating expenses	(381)	14	–	31	(8)	–	10	2	(332)
Group operating profit/(loss)	(41)	14	9	31	(8)	6	(1)	2	12
Share of results of joint ventures and associates	58	–	–	(1)	–	–	–	–	57
Profit/(loss) from operations	17	14	9	30	(8)	6	(1)	2	69
Investment income	75	–	–	–	–	–	–	–	75
Finance costs	(82)	–	–	–	–	–	–	–	(82)
Profit/(loss) before taxation	10	14	9	30	(8)	6	(1)	2	62
Taxation	(8)	(4)	(3)	–	–	–	3	–	(12)
Profit/(loss) for the year from continuing operations	2	10	6	30	(8)	6	2	2	50
Profit for the year from discontinued operations	22	–	–	–	(24)	–	–	–	(2)
Profit for the year	24	10	6	30	(32)	6	2	2	48

4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

Reconciliation of 2016 statutory results to performance measures by segment

Profit/(loss) from operations	2016 statutory results[4] £m	Build to Last restructuring costs £m	Intangible amortisation £m	Provision increases/ (releases) £m	Gains on disposal £m	Results of ES £m	Non-underlying items Results of Rail Germany £m	Other £m	2016 performance measures[4] £m
Segment									
Construction Services	(55)	12	3	19	(5)	6	(1)	–	(21)
Support Services	22	1	–	11	–	–	–	–	34
Infrastructure Investments	83	–	6	–	(3)	–	–	3	89
Corporate activities	(33)	1	–	–	–	–	–	(1)	(33)
Total	17	14	9	30	(8)	6	(1)	2	69

4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

c) Underlying profit before tax

As mentioned on page 38, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

		2017 £m	2016 £m
Underlying profit from operations (section (b) and Note 5)		**116**	89
Add:	Subordinated debt interest receivable+	**26**	29
	Interest receivable on PPP financial assets+	**11**	21
Less:	Non-recourse borrowings finance cost+	**(13)**	(24)
Underlying profit before tax		**140**	115
Non-underlying items (section (b) and Note 5)		**(6)**	(6)
Statutory profit before tax		**134**	109

+ Refer to Note 8 and Note 9.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2017 pence	2016[4] pence
Statutory basic earnings per ordinary share	**24.7**	3.5
Less: earnings from discontinued operations	**(1.0)**	(3.3)
Statutory basic earnings per ordinary share from continuing operations	**23.7**	0.2
Amortisation of acquired intangible assets	**0.8**	0.9
Other non-underlying items	**(3.6)**	6.1
Underlying basic earnings per ordinary share from continuing operations (performance)	**20.9**	7.2

4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

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

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

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

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

f) Recourse net cash/borrowings

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

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

Net cash/borrowings reconciliation

	2017 statutory £m	Adjustment £m	2017 performance £m	2016 statutory £m	Adjustment £m	2016 performance £m
Total cash within the Group	**968**	(135)	**833**	769	(7)	762
Cash and cash equivalents – infrastructure concessions	**135**	(135)	**–**	7	(7)	–
– other	**833**	–	**833**	762	–	762
Total debt within the Group	**(1,041)**	543	**(498)**	(929)	340	(589)
Borrowings – non-recourse loans	**(440)**	440	**–**	(240)	240	–
– other	**(498)**	–	**(498)**	(589)	–	(589)
Liability component of preference shares	**(103)**	103	**–**	(100)	100	–
Net (borrowings)/cash	**(73)**	408	**335**	(160)	333	173

g) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and the liability component of the Company's preference shares, and this performance measure shows average net cash of £42 million for 2017 (2016: £46 million net borrowings).

Using a statutory measure (inclusive of non-recourse elements and the liability component of the Company's preference shares) gives average net borrowings of £117 million for 2017 (2016: £230 million).

Measuring our performance

Providing clarity on the Group's alternative performance measures continued

h) Directors' valuation of the Investments portfolio

The Group uses a different methodology to assess the value of its Investments portfolio. As described on pages 26 to 28, the Directors' valuation has been undertaken using forecast cash flows for each project based on progress to date and market expectations of future performance. These cash flows have been discounted using different discount rates depending on project risk and maturity, reflecting secondary market transaction experience. As such, the Board believes that this measure better reflects the potential returns to the Group from this portfolio.

The Directors have valued the Investments portfolio at £1.24 billion at year end (2016: £1.22 billion). The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

Reconciliation of the net assets of the Infrastructure Investments segment to the comparable statutory measure of the Investments portfolio included in the Directors' valuation

	2017 £m	2016 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**629**	631
Less: Recourse loans presented within Corporate activities relating to Infrastructure Investments projects	**(13)**	(12)
Less: Net assets not included within the Directors' valuation:		
– Housing division	**(24)**	(21)
– Infrastructure asset (see Note 5.2)*	**–**	(6)
Comparable statutory measure of the Investments portfolio under IFRS	**592**	592

* Infrastructure asset represents the Group's carrying value of Blackpool Airport. Blackpool Airport was not included in the Directors' valuation and has been disposed in 2017.

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

	2017 £m	2016 £m
Statutory measure of the Investments portfolio (as above)	**592**	592
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases:		
– historical cost		
– amortised cost		
– fair value	**652**	628
Directors' valuation (performance measure)^	**1,244**	1,220

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

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

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

As referred to in the Strategic Report on page 26, the Directors' valuation is calculated using discounted cash flows. In deriving these cash flows, assumptions have been made and different discount rates used which are updated at each valuation date.

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

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

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

i) Constant exchange rates (CER)

The Group operates across a variety of geographic locations and in its statutory results, the results of its overseas entities are translated into the Group's presentational currency at average rates of exchange for the period. The Group's key exchange rates applied in deriving its statutory results are shown in Note 3.

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

2017 statutory growth compared to performance growth

	Construction Services						
	UK	**US**	**Gammon**	**Total**	**Support Services**	**Infrastructure Investments**	**Total**
Revenue (£m)							
2017 statutory	2,011	3,586	–	5,597	1,031	288	6,916
2016 statutory	2,282	3,330	–	5,612	1,076	235	6,923
Statutory growth (%)	(13)%	8%	–	–	(4)%	23%	–
2017 performance+	1,998	3,634	1,017	6,649	1,061	524	8,234
2016 performance retranslated+	2,143	3,595	1,009	6,747	1,105	591	8,443
Performance CER growth (%)	(7)%	1%	1%	(2)%	(4)%	(11)%	(3)%
Order book (£bn)							
2017	2.7	4.3	1.3	8.3	3.1	–	11.4
2016	2.3	5.5	1.5	9.3	3.1	–	12.4
Growth (%)	17%	(22)%	(13)%	(11)%	–	–	(8)%
2017	2.7	4.3	1.3	8.3	3.1	–	11.4
2016 retranslated	2.3	5.0	1.4	8.7	3.1	–	11.8
CER growth (%)	17%	(14)%	(7)%	(5)%	–	–	(3)%

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

Chief Financial Officer's review

Philip Harrison
Chief Financial Officer

Results for the year

	2017	2016[4]
Revenue from continuing operations		
– underlying including joint ventures and associates	**£8,234m**	£8,215m
– statutory	**£6,916m**	£6,923m
Pre-tax profit from continuing operations		
– underlying	**£165m**	£62m
– statutory	**£117m**	£10m
Post-tax profit/(loss) from discontinued operations		
– underlying	**£1m**	£(2)m
– statutory	**£6m**	£22m
Basic earnings per share from continuing operations		
– underlying	**20.9p**	7.2p
– statutory	**23.7p**	0.2p

Underlying profit from operations[2,3]	2017 £m	2016[4] £m
US Construction	**41**	33
UK Construction	**16**	(65)
Gammon	**15**	11
Construction Services	**72**	(21)
Support Services	**41**	34
Infrastructure Investments	**116**	89
Corporate activities	**(33)**	(33)
Total	**196**	69

2 From continuing operations.
3 Before non-underlying items (Note 10).
4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

Group financial summary

In 2017, Balfour Beatty delivered a strong financial performance. The Group's income statement, cash flow and balance sheet all strengthened as the progress made with Phase Two of Build to Last translated into improved financial metrics.

In the Group income statement, revenue was flat, gross profit increased and overheads reduced – resulting in increased profitability. Underlying profit from operations margins increased in all business segments as the Group remains on track to deliver industry-standard margins in the second half of 2018.

Year end net cash stood at £335 million and importantly average net cash for the year was £42 million.

The order book at £11.4 billion decreased by 8%, down 3% at constant exchange rates (CER), compared to prior year (2016: £12.4 billion). The year end £11.4 billion is directly in line with the order book at 30 June 2017.

Underlying revenue was flat at £8,234 million (2016: £8,215 million) as the Group continued with its more disciplined and selective approach to bidding. Underlying revenue at CER fell by 3%. Statutory revenue, which excludes joint ventures and associates, was £6,916 million (2016: £6,923 million).

Construction Services underlying revenue was up 2% (down 2% at CER) at £6,649 million (2016: £6,537 million) as growth in the US offset an expected decline in the UK. Support Services underlying revenue declined 4% at £1,061 million (2016: £1,103 million) as an increase in utilities was more than offset by lower transportation revenues.

Underlying profit from operations increased to £196 million (2016: £69 million), with Construction Services, Support Services and Infrastructure Investments all reporting improved profitability in the period. Underlying profit from operations increased at all geographical business segments within Construction Services. Statutory profit from operations increased to £148 million (2016: £17 million), primarily driven by the increase in underlying profits.

> In 2017, Balfour Beatty delivered a strong financial performance.
>
> **Philip Harrison**
> Chief Financial Officer

Construction Services improved from a loss of £21 million in 2016, to a profit from operations of £72 million in 2017 as UK Construction reported a profit of £16 million in the period (2016: £65 million loss). Support Services also improved, with underlying profit from operations of £41 million (2016: £34 million). Infrastructure Investments increased from prior year, as partial sell-downs of the Connect Plus M25 asset generated an £86 million profit on disposal of assets from the portfolio (2016: £65 million).

Net finance costs increased to £31 million (2016: £7 million). The prior year comparison benefited from a £19 million gain on foreign currency deposits, with the corresponding gain in 2017 at £1 million. Underlying pre-tax profit from continuing operations increased to £165 million (2016: £62 million). The taxation charge on underlying profits increased to £23 million (2016: £12 million).

Underlying profit after tax including discontinued operations for the year at £143 million (2016: £48 million) represents a material improvement over the previous year, primarily driven by the improvement in Construction Services. Total statutory profit after tax for the year was £168 million (2016: £24 million), as a result of the net effect of non-underlying items.

Non-underlying items

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

Non-underlying items of £20 million were a net credit to the profit for the year from continuing operations (2016: £48 million net charge).

During the year significant actuarial gains in the Group's main pension fund, the Balfour Beatty Pension Fund (BBPF), led to the recognition of a deferred tax liability which was accounted for through reserves in line with the treatment of the pension movement. This, in turn, led to the recognition of additional UK deferred tax assets of £34 million which resulted in a tax credit being recognised in the income statement as a non-underlying item.

The US Government has reduced the Federal corporate income tax rate from 35% to 21% with effect from 1 January 2018. The net impact of this change in 2017 was a non-underlying £32 million tax credit in the income statement.

On 15 January 2018, Carillion plc filed for compulsory liquidation. Carillion was one of the Group's joint operations partners in the Aberdeen Western Peripheral Route (AWPR) project on a joint and several basis. As a result of Carillion's liquidation, the Group and its remaining joint operations partner on the project, Galliford Try plc, are jointly liable to deliver Carillion's remaining obligations on this contract in addition to each partner's existing 33% share. As a result, the Group has recognised a one-off non-underlying loss provision of £44 million in 2017 which reflects the Group's additional loss on the contract as a result of Carillion's liquidation. The contract is expected to complete in the summer of 2018.

Other items included: £12 million of restructuring costs incurred relating to the Group's Build to Last transformation programme; a £9 million charge relating to the amortisation of acquired intangible assets; and a £18 million gain on the disposal of Heery International Inc.

Taxation

The Group's underlying profit before tax from continuing operations for subsidiaries of £106 million (2016: £5 million) resulted in an underlying tax charge of £23 million (2016: £12 million).

Discontinued operations

The Group has presented its 49% interests in its Middle East joint ventures as discontinued operations in 2017, with comparatives restated accordingly. The sale of these interests was completed in March 2017 and resulted in a non-underlying gain on disposal of £5 million in 2017.

Earnings per share

Underlying basic earnings per share from continuing operations were 20.9 pence (2016: 7.2 pence), which, along with a non-underlying earnings per share from continuing operations of 2.8 pence (2016: 7.0 pence loss), gave a total basic earnings per share for continuing operations of 23.7 pence (2016: 0.2 pence). Discontinued operations contributed 0.1 pence (2016: 0.2 pence loss) to the total underlying basic earnings of 21.0 pence per share (2016: 7.0 pence). Total basic earnings per share were 24.7 pence (2016: 3.5 pence).

Cash flow performance

The total cash movement in the period resulted in a £162 million increase (2016: £10 million) to the Group's net cash position to £335 million (2016: £173 million) driven by operating cash flows and proceeds from investment disposals, partly offset by new investments in infrastructure assets and pension deficit payments.

The £162 million improvement is primarily as a result of the continuing recovery in profitability of the Group's earnings-based businesses, particularly UK Construction.

Operating cash flows, before movements in working capital and pension deficit payments, improved to an inflow of £39 million (2016: £58 million outflow). Working capital had an inflow of £27 million (2016: £48 million outflow) and pension deficit payments were an outflow of £25 million (2016: £41 million).

Cash flow performance	**2017 £m**	2016 £m
Operating cash flows	**39**	(58)
Working capital inflow/(outflow)	**27**	(48)
Pension deficit payments	**(25)**	(41)
Cash generated from/(used in) operations	**41**	(147)
Infrastructure Investments:		
– disposal proceeds	**105**	189
– new investments	**(35)**	(65)
Other	**51**	33
Cash inflow	**162**	10
Opening net cash*	**173**	163
Closing net cash*	**335**	173

* Excluding infrastructure concessions (non-recourse) net debt.

On statutory basis the Group reported net debt of £73 million at 31 December 2017 (2016: £160 million).

Chief Financial Officer's review

Working capital

The Group has maintained the strong working capital position from December 2016, with an inflow of £27 million in 2017 (2016: £48 million outflow).

Trade and other payables decreased during 2017, creating a working capital outflow of £92 million (2016: £60 million outflow), offset by a working capital inflow of £95 million (2016: £134 million outflow) from trade and other receivables. The offsetting reduction in both balances is predominantly due to contract timings and associated customer and supplier payments compared to the prior year and the ongoing completion of historical non-underlying contracts.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital decreased to £888 million at 31 December 2017 (2016: £894 million).

Working capital flows	2017 £m	2016 £m
Inventories and WIP	**(12)**	42
Construction contract balances	**7**	36
Trade and other payables	**(92)**	(60)
Trade and other receivables	**95**	(134)
Provisions	**29**	68
Working capital inflow/ (outflow)^	**27**	(48)

^ Excludes impact of foreign exchange and disposals.

Net cash/borrowings

The Group's net cash position at 31 December 2017, excluding non-recourse net borrowings, was £335 million (2016: £173 million). Non-recourse net borrowings, held in wholly-owned infrastructure concessions, increased to £305 million (2016: £233 million). The balance sheet also includes £103 million (2016: £100 million) for the liability component of the preference shares. Statutory net debt at 31 December 2017 was £73 million (2016: £160 million).

Pensions

Following the formal triennial funding valuation of the Balfour Beatty Pension Fund (BBPF) at 31 March 2016, the Company and the trustees agreed the key commercial principles of a plan for the BBPF to reach self-sufficiency during 2027, some three years earlier than previously planned. Under this plan Balfour Beatty will make cash contributions totalling £140 million over the next six years. There is an agreed dividend sharing mechanism such that if the dividend cover ratio falls below 2x from 2018 onwards, funding to the BBPF will be accelerated.

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

The Group's balance sheet includes net retirement benefit assets of £32 million (2016: £231 million liabilities) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. This is primarily due to net actuarial gains of £242 million in the year within the Statement of Other Comprehensive Income, including a gain of £123 million from changes in discount rate methodology.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2017 decreased to £874 million (2016: £937 million). The decrease was due to currency translation differences of £46 million and the disposal of goodwill relating to Heery International Inc of £17 million. The Group has conducted impairment reviews on its goodwill balance at the year end and has concluded that it was fully recoverable.

Impact of IFRS 15

The Directors have completed their assessment of the impact of IFRS 15 Revenue from Contracts with Customers. The Group will adopt the new standard from 1 January 2018 with the opening equity position as at 1 January 2018 restated by a credit of £3 million to reflect the impact of transitioning to the new accounting standard. This adjustment primarily reflects the impact of unbundling a handful of contracts according to the Group's assessment of its performance obligation to be delivered to the customer. Using the five-step model required by the new standard, the impact of the £3 million credit to equity represents the acceleration of revenue on transition to IFRS 15 which was not recognised by the Group under the previous revenue standards. IFRS 15 would have resulted in an immaterial impact on the Group's income statement for the year ended 31 December 2017.

Banking facilities

The Group's committed revolving credit facility totals £400 million. The purpose of this facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities.

The Group completed its refinancing in December 2015 with the £400 million facility extending through to 2018. In November 2017, £375 million of the facility was extended until December 2020. At 31 December 2017, all of this facility was undrawn.

Outlook

The Build to Last transformation programme is designed to deliver superior returns over the medium term for all stakeholders, from a Group which is Lean, Expert, Trusted and Safe. As a result of the successful self-help actions taken in Phase One, Balfour Beatty now has a strong foundation on which to deliver sustainable, profitable growth.

In Phase Two (24-month period to the end of 2018), the Group expects each of its Construction Services and Support Services businesses to continue their positive trajectory to achieve industry-standard margins. Specifically, for these earnings-based businesses, the underlying profit from operations margin targets are as follows:

UK Construction	2%-3%
US Construction	1%-2%
Support Services	3%-5%

The Group is on track to achieve industry-standard margins in the second half of 2018 as it continues to drive three key levers for improved financial performance: finalising the remaining historical contracts through to completion; reducing costs and raising productivity across its operations; and executing on the improved quality of the order book.

For Infrastructure Investments, during Phase Two of Build to Last, the Group will continue to sell assets, as appropriate, to maximise value to shareholders and invest in new opportunities.

In Phase Three (2019+), Balfour Beatty aims to command a premium to industry-standard margins as market-leading strength should be matched by market-leading performance.

Dividend

Following the 1.2 pence per share dividend declared at the half-year, the Board is recommending a final dividend of 2.4 pence per share, giving a total recommended dividend for the year of 3.6 pence per share (2016: 2.7 pence).

The Board recognises the importance of dividends to shareholders and anticipates a progressive dividend policy going forward.

Financial risk factors and going concern
The key financial risk factors for the Group remain largely unchanged.

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2017, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

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

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

– the Group has a strong order 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 £335 million at 31 December 2017
– the Group's portfolio of PPP investments comprises reasonably realisable securities which can be sold to meet funding requirements as necessary
– the Group has access to committed credit facilities totalling £400 million through to December 2018 and £375 million to December 2020. At 31 December 2017, this facility was wholly undrawn.

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

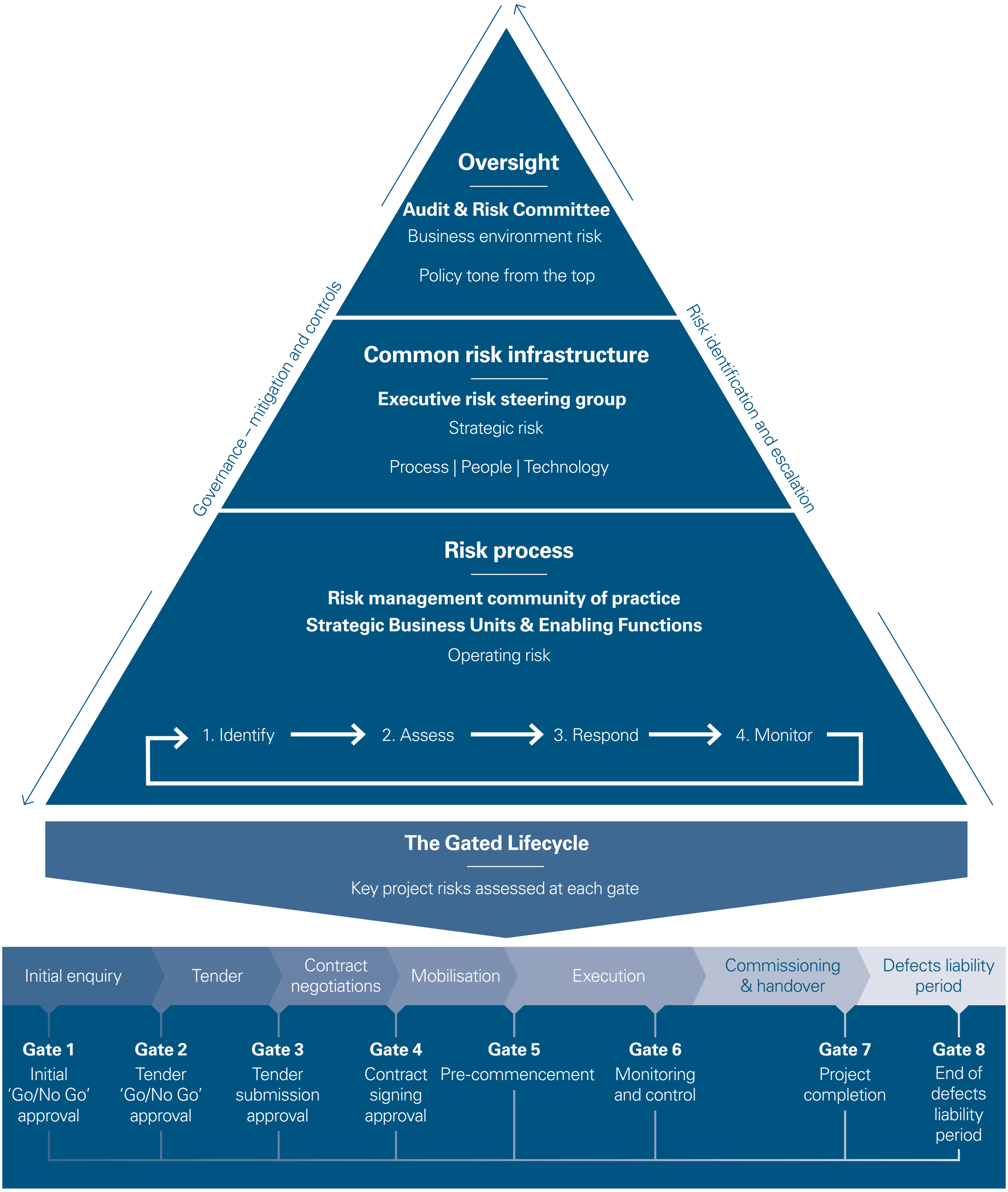
To appreciate the prospects for the Group as a whole, the complete Annual Report and Accounts 2017 needs to be read.

Philip Harrison

Philip Harrison
Chief Financial Officer

Risk management framework

Reinforcing a strong culture of risk management



Introduction

Balfour Beatty's risk management process continues to evolve to ensure it is reflective of the shape of the business and its operations. In 2017, the Enterprise Risk management team was repositioned to be fully aligned with the Internal Audit function to further sharpen the focus on the Group's internal risk and control environment. The Group recognises that a consistent, agile and responsive approach to risk management is crucial to the sustainable delivery of its business objectives.

Oversight

To meet the requirements of the UK Corporate Governance Code, the Board accepts overall responsibility for risk management and determines the nature and extent of the principal risks to be taken and assesses the effectiveness of the risk management and internal control systems that are in place to mitigate impacts. The business has in place several well established processes including the Gated Lifecycle and Project on a Page to enable senior leadership to engage with the work winning and operational teams to understand the Group's risk exposure and manage it correctly.

Common risk infrastructure

The dynamic structure of the Group's risk management process allows the Group Chief Executive to monitor the risk profile of the business via the Executive Risk Steering Group. Members of the steering group act as the executive sponsor for risk management within their business and functions and as such are in a position to directly influence custom and practice. The steering group undertook a reassessment of the Group Risk Register in 2017 including mapping and assessing the internal control environment against an updated and more granular probability and impact matrix.

Risk process

The Enterprise Risk management team engages with the wider risk management leadership teams in a number of ways including Strategic Business Unit committees, a community of practice and day-to-day liaison. This two-way information share involves disseminating best practice on risk management across the enabling functions and businesses to ensure consistency of assessment and treatment of risk. As part of the Build to Last programme the application of effective risk management has been greatly improved and this culture will be further embedded in 2018 with the launch of Group Minimum Expectations for Risk Management.

Assessment

The Gated Lifecycle remains central to Balfour Beatty's risk management process with a mandatory assessment of risk and risk appetite being made at each review gate. In-house project management includes assessment and subsequent rating of risk and reinforcement of the importance of adherence to the Group's commercial policies and practices.

Risk management framework

Reinforcing a strong culture of risk management continued

Risk appetite

Understanding risk is at the heart of Balfour Beatty's decision-making process.

An ongoing appraisal of the Group's risk profile is made by the Board. The level of risk the Group is willing to accept is defined as its risk appetite and has been set in the context of the interaction between risk assessment processes and its ability to mitigate and exert control over existing and emerging risks. Risk appetite within any organisation must be dynamic and determined by senior leaders and practitioners to ensure it is embedded in critical business processes.

Strategic priorities – Build to Last

Lean

Deliver value to our customers by improving operational efficiency and eliminating waste right through the supply chain.

Risk appetite
Balfour Beatty is committed to the transformation programme.

In driving out unnecessary cost and improving efficiencies it is essential to take some operational risk.

Such risks must not be at the expense of achieving the overall lean objective.

The Group's risk appetite for efficiency is moderate.

Transformation programme
Read more on p54

Supply chain
Read more on p55

Legacy pension liabilities
Read more on p56

Expert

Ensure we have the best engineering, design and project management capabilities.

Risk appetite
In order to deliver the best solutions to customers and stakeholders Balfour Beatty strives to remain at the vanguard of innovation and skill development.

Controlled and understood risks can be taken whilst seeking to mitigate significant repercussions.

The Group has a moderate appetite for expert risk.

Economic environment
Read more on p53

People
Read more on p53

Transformation programme
Read more on p54

Trusted

Be the construction partner of choice for our customers and supply chain by delivering on our promises.

Risk appetite
Balfour Beatty must deliver on its promises to stakeholders.

The Group has a low appetite for risks around customer delivery.

Work winning
Read more on p51

Project execution
Read more on p52

Data governance
Read more on p52

Transformation programme
Read more on p54

Financial strength
Read more on p54

Business conduct
Read more on p55

Legal and regulatory
Read more on p56

Safe

We must ensure the health and safety of everyone who comes into contact with our activities.

Risk appetite
Conducting business in a safe way and providing a Zero Harm environment for Balfour Beatty's people and stakeholders is paramount.

The Group's appetite for safety risk is zero.

Health and safety
Read more on p51

Transformation programme
Read more on p54

Principal risks

Understanding our risk profile

Understanding Balfour Beatty's risk profile and establishing the most effective way to manage, accept or transfer risk is central to the Group's decision-making process. As such, the Board has made a robust assessment of the principal risks which the Group faces, the controls in place to remove or mitigate these risks and also whether these risks represent new, increased or decreased threats.

The Group recognises that its risk profile comprises interlinked and discrete risks. The principal risks as set out below should therefore be considered alongside the viability statement on page 57 and the discussion on financial risk factors and going concern on page 47.

Health and safety

Risk: **Increased**

Owner: **Safety and Sustainability Committee**

Build to Last pillar: **Safe**

Risk description

The Group works on significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks.

Causes

Some common themes where health and safety risks could arise are recognised and communicated, including:

- risk identification/assessment
- processes that fail to deliver risk elimination or mitigation
- failure in safety leadership
- management of subcontractors
- not briefing people properly before setting them to work
- failure to follow procedures
- ongoing change programme and performance pressures, which may have an effect on people and their ability to remain focused on health and safety risks.

What impact it might have

Failure to manage these risks gives the potential for significant harm to, or even the death of, employees, subcontractor staff or members of the public, as well as the potential for criminal prosecutions, significant fines, debarment and reputational damage.

How it is mitigated

Balfour Beatty has detailed health and safety policies, procedures and initiatives to minimise such risks. These are reviewed and monitored by management and external verification bodies.

Each business has experienced health and safety professionals in place who provide advice and support and undertake regular reviews.

The Safety and Sustainability Committee of the Board, as well as business-level Health and Safety executive leadership teams, meet regularly throughout the year to develop a consistent approach to health and safety best practice.

Training programmes (including behavioural) are in place.

Zero Harm action plans continue to be implemented and monitored.

Risk movement

Lagging performance indicators continue to improve however the upper limits for fines and scope for prosecution have increased.

Work winning

Risk: **No change**

Owner: **Group Tender and Investment Committee**

Build to Last pillar: **Trusted**

Risk description

Failure to identify, price, and execute the right volume and quality of bids and investment opportunities to maintain a profitable, sustainable order book and deliver value to stakeholders.

Causes

Inaccuracy in:

- assumptions behind investment decisions
- costs versus scope and time calculations
- project programme and task duration estimates
- design and specifications not fully developed or understood
- assessment of the impact of inflation and exchange rates
- contract management
- negotiation of terms and conditions
- assessment of customers' liquidity/creditworthiness
- assessment of joint venture partners or supply chain.

What impact it might have

Failure to estimate accurately the risks, costs versus scope, time to complete, impact of inflation and exchange rates, and failure to understand specification changes and contractual terms and how best to manage them could cause financial losses.

In the event of disagreement with, failure of, or poor delivery performance by a joint venture partner, the Group could face financial and reputational risks.

If any of the assumptions behind investment decisions prove incorrect, the profitability of those investments could be reduced.

How it is mitigated

Consistent and shared policies and minimum commercial expectations including acceptable margins.

A wide and ongoing range of training initiatives across all disciplines within the Group including Cash is our Compass and High Value Selling to drive increased commercial awareness and an understanding of expectations on margins and cost.

All bids are subject to rigorous estimating and tendering processes as part of the gateway review process.

Commercial/contractual reviews are conducted by key commercial and legal staff.

Defined delegated authority levels are in place for approving all tenders and infrastructure investments.

Reviews are conducted following all tenders to ensure lessons are learnt, captured and applied to future tenders.

Before entering into a joint venture agreement, the Group reviews the relevant skills, experience, resources and values of joint venture partners to understand how they complement its own.

Investment appraisals are performed and reviewed by experienced professionals. The Group analyses the risks associated with revenues and costs and, where appropriate, establishes contractual and other risk mitigations.

Principal risks

Understanding our risk profile continued

Project execution

Risk: **No change**

Owner: **Group management**

Build to Last pillar: **Trusted**

Risk description

Failure to deliver projects at the required specification on time and on budget to meet the expectations of customers and minimise the risk of delay-related damages and defect liabilities.

Causes

Failure to implement, maintain and challenge operational and commercial controls (as detailed within checklists at Gate reviews (4-6)) allowing:

- unrealistic programming targets
- non-availability of specialist resource
- unrealistic progress assessments and cost to complete judgements
- overly-optimistic claim recovery assumptions
- incomplete visibility and appreciation of scale of commercial judgements
- inaccurate and/or incomplete cost and value data or failure to analyse and report correctly, which could arise due to poor training, lack of supervision, lack of accountability or fear of reporting bad news
- failings in administering the contract terms to safeguard or protect future claims, change and extensions of time (EOTs).

What impact it might have

Failure to manage or deliver against contracted customer requirements on time, on budget and to an appropriate quality could result in issues such as contract disputes, rejected claims, design issues, liquidated damages, cost overruns, failure to achieve customer savings and costs to rectify defective work – which in turn harm Balfour Beatty's profitability and reputation.

The Group may also be exposed to long-term obligations including litigation and costs to rectify defective or unsafe work.

Execution failure on a high-profile project could result in significant reputational damage and costs.

How it is mitigated

An increased focus on identifying and reporting risks, including the accuracy of cost and cash forecasting.

Consistent application of strong commercial management and contract administration processes.

Targeted recruitment of key staff within project delivery teams and senior management, together with ongoing and focused training of staff via the Balfour Beatty Academy.

Ongoing project resource reviews.

Gateway process embedded within each business and held on the Business Management System to increase accuracy and consistency within work winning and project delivery.

Site Mobilisation Hub in place to facilitate early and effective start-up on site.

Use of innovative and cost effective engineering and technical solutions.

Planning and programming is undertaken to mitigate unforeseen events and changes.

Drive for defect-free delivery is being embedded at all levels.

Professional indemnity cover in place to provide further financial safeguards.

Balfour Beatty monitors the performance of joint ventures, joint venture partners, subcontractors and suppliers throughout the lifecycle of a project.

Data governance and cyber security

Risk: **Increased**

Owner: **Group management**

Build to Last pillar: **Trusted**

Risk description

Breach of the Data Protection Act or the General Data Protection Regulation (GDPR) and/or key company data or other confidential information is lost, stolen or compromised.

Causes

Failure to correctly assess and prepare for:

- the new GDPR
- the ongoing threat of cybercrime
- malicious intent and/or targeted attack
- breakdown of key security software or management system.

What impact it might have

Crystallisation of this risk has the potential for:

- the business facing legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties and reputational damage
- a reduction or loss of competitive advantage (including loss of intellectual property)
- a negative impact on customer relationships, including loss of confidence
- exclusion from bidding opportunities.

How it is mitigated

Data Protection Officers embedded throughout the businesses to ensure breaches are reported promptly and risks are appropriately escalated to the Group Data Protection Officer for consideration and assessment.

Data protection programme covering policies, procedures and approved access levels in place alongside a comprehensive training plan.

The Group's exposure has been reduced via a significant reduction in approved suppliers.

All data is stored in secure data centres with strengthened back-up procedures.

Regular review and communication of the ever-changing cyber threats and how they manifest themselves in practical guidance that all employees and contractors understand.

Use of up-to-date anti-viral software and increased patching of key software.

All employees are trained in and must comply with information security management obligations.

Risk movement

The potential risk exposure has increased as a result of the higher level of fines which will be enforceable under The General Data Protection Regulation.

Uncertainty within our economic environment

Risk: **No change**

Owner: **The Board**

Build to Last pillar: **Expert**

Risk description
The effects of national or market trends, political or regulatory change (including the UK's exit from the EU and the change of administration in the US), or new developments in infrastructure expenditure or procurement may cause customers to re-evaluate existing or future projects.

Causes
Failure to plan for any potentially negative impacts, or to capture any opportunities that may be presented could lead to:

- customers postponing, reducing or changing expenditure plans
- wider than expected fluctuations in inflation
- increased competition (eg in the UK from foreign investors acquiring competitors)
- increased supply chain risks (eg solvency, people and materials)
- reduced revenue or pressure on margins.

What impact it might have
Any significant changes in the level or timing of customer spending or investment plans could adversely impact the Group's strategy, business model, revenue or profitability in the short or medium term.

Restrictions to the availability of skilled labour and competitively priced materials will lead to a loss of competitive advantage and a devaluation of the business.

Financial failure of a customer, including any government or public sector body, could result in not collecting amounts owed.

How it is mitigated
The Group's strategy to focus on the more resilient and stable infrastructure markets and geographies will help mitigate this risk. The effect of spending changes in any one market is mitigated by the Group's broad exposure to infrastructure markets and the continued need for infrastructure spending. Balfour Beatty also mitigates the effects of such market conditions by continuing to adapt its business model.

The Group is actively monitoring the potential impacts of the UK exiting the EU including potential market stimulation by the UK Government, freedom of movement, finance costs, exchange rates and commodity prices. A dedicated Group-wide forum is in place for this purpose and issues a Brexit position paper for external audiences which is updated every second month.

The financial solvency and strength of counterparties is always considered before contracts are signed and such assessments are updated and reviewed whenever possible during the project lifecycle. The business also seeks to ensure that it is not over-reliant on any one counterparty.

People

Risk: **No change**

Owner: **The Board**

Build to Last pillar: **Expert**

Risk description
Inability to attract and retain required levels of skilled and competent staff to meet the Group's objectives.

Causes
- Perceived limitations to internal career development
- Lack of recognition and reward
- Failure of businesses to promote good news stories
- Failure to maintain a culture of pride in the workplace
- Lack of a diverse workforce
- Restrictions in the availability of skilled labour.

What impact it might have
Failure to recruit and retain appropriately skilled people could harm the Group's ability to win or perform specific contracts, grow its business and meet its strategic objectives.

A high level of staff turnover or low employee engagement could result in a drop in confidence in the business within the market, customer relationships being lost and an inability to focus on business improvements.

How it is mitigated
The Balfour Beatty Academy has been established in the UK to provide professional development and knowledge sharing opportunities and to ensure employees feel valued and specialisms are recognised.

Regular reviews of remuneration arrangements to ensure they are appropriate to help the Group attract, motivate and retain key employees.

Strong employee communication channels are in place celebrating individual, business and Group-level successes.

An annual Group-wide employee engagement survey is undertaken to measure engagement and appropriate actions are developed and communicated.

Recruitment and retention rates are measured and regularly reviewed across all parts of the business.

Affinity networks have been established to create a diverse and inclusive working environment.

Emerging talent is supported via a range of graduate, apprenticeship, trainee and industrial placement/internship schemes including The 5% Club (see page 32).

Competency frameworks within core job families identify and support the development of key knowledge, skills and expertise.

The talent review process focuses on succession and the talent pipeline is supported by various development initiatives across the Group.

Principal risks

Understanding our risk profile continued

Realising the transformation programme

Risk: **No change** | Owner: **The Board** | Build to Last pillar: **All**

Risk description

The momentum gained via the policies, process, and practices of Build to Last is not maintained and potential benefits are not realised.

Causes

To enable the transformation programme to succeed, a culture of adhering to the Build to Last principles must be continued and enhanced.

Failing to grow this culture could result from:

- ineffective communication
- inadequate resourcing (financial, physical and people)
- complacency within core disciplines
- new systems and processes being used without appropriate controls being in place and/or tested.

What impact it might have

Failure to capture fully the benefits of Build to Last could result in the Group's ability to deliver sustained profit being jeopardised.

How it is mitigated

Ensuring Build to Last continues to deliver the Group's standard operating procedures is a strategic priority for the Group and is being led by the Group Chief Executive.

Controls include:

- continuing to embed the Build to Last culture within each business unit
- senior leadership communication across the businesses is clear and frequent
- new systems and processes are deployed with training plans and in agreed phases
- employee surveys form a key part of the programme
- leaders throughout the business frequently monitor the delivery and impacts of the programme
- senior leadership is well experienced in delivering business transformation successfully.

Financial strength

Risk: **No change** | Owner: **The Board** | Build to Last pillar: **Trusted**

Risk description

Inability of the Group to maintain the financial strength required to operate its business and deliver its objectives.

Causes

Failure to manage financial risks, including forecasting material exposures, and the financial resources of the Group that underpin its ability to:

- meet ongoing liquidity obligations so that it remains a going concern
- meet financial covenants as set out in financing facility agreements
- maintain the confidence of customers and key markets and therefore continue to win long-term contracts.

What impact it might have

Failure to deliver effectively the required financial strength will mean the Group:

- fails to meet financial covenant tests, as set out in its financing facility agreements, that would lead to an event of default if not remedied within a specific grace period
- fails to pass the required tests that allow it to continue to adopt the going concern basis of preparing the financial statements
- loses the ability to compete for key long-term contracts that are critical to the delivery of its long-term objectives and viability.

How it is mitigated

The Group operates with a centralised treasury function that is responsible for managing key financial risks, cash resources and the availability of liquidity and credit capacity.

The Group maintains significant undrawn term committed bank facilities with a banking group of high credit-quality to underpin the liquidity requirements of the Group.

The Group maintains significant bank and surety bonding facilities to deliver trade finance requirements of the Group on an ongoing basis.

The Group operates standardised reporting, forecasting and budgeting financial processes. This allows monitoring of the impact of business decisions on financial performance over future time horizons.

Supply chain

Risk: **Decreased**

Owner: **Group management**

Build to Last pillar: **Lean**

Risk description

Supply chain partners are not able to meet the Group's operational expectations and requirements including availability, financial stability, technical ability, quality, safety, environmental, social and ethical.

Causes

- Supply chain failure risk, exacerbated during, and when emerging from, tough economic conditions
- Over-reliance on a limited number of suppliers
- Retention of subcontracted parties in buoyant markets
- Inadequate assessment of supply chain partner capabilities and process (including safety, ethics, quality, material stewardship, child labour, forced labour and modern slavery)
- Failure to accurately assess project resource requirements and key deliverables
- Unethical treatment of the supply chain.

What impact it might have

Failure of a subcontractor or supplier would result in the Group having to find a replacement or undertaking the task itself. This could result in delays, additional costs or a reduction in quality owing to lack of expertise.

Mistreatment of suppliers, subcontractors and their staff, or poor ethical standards in the supply chain, could lead to legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and debarment.

How it is mitigated

The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations and dependencies.

Contingency plans in place to address subcontractor failure including replacement supplier list.

Lessons are learnt from supply chain performance.

All UK trade suppliers and subcontractors are assessed using the Constructionline service that collects, assesses and monitors standard company information through a question set aligned to PAS 91, the industry-standard pre-qualification questionnaire.

The risk management framework and the gateway review process allow for early (Gates 1-4) and ongoing (Gate 6) assessment of the appropriateness of resource allocation and dependencies.

My Contribution programme generates ideas for more effective procurement and resourcing.

The Group obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency.

Key supplier audits within projects to ensure they are in a position to deliver consistently against requirements.

Group-wide Code of Conduct and Supplier Code of Conduct, and related policies and procedures in place.

Risk movement

Increased rigour in the pre-qualification processes, consolidation of the supply chain and improved monitoring of supplier performance.

Business conduct/compliance

Risk: **No change**

Owner: **The Board**

Build to Last pillar: **Trusted**

Risk description

The Group operates in various markets that present business conduct-related risks involving fraud, bribery or corruption, whether by its own staff or via third parties such as agents, partners or subcontractors. Those risks are higher in some countries and sectors. Overall, the construction industry has a higher risk profile than other industries.

Causes

- Corruption
- Bribery
- Fraud, deception, false claims or false accounting
- Unfair competition
- Human rights abuses, such as child and other labour standards generally, illegal workers, human trafficking and modern slavery
- Unethical treatment of and by the supply chain
- Risk of ethics and values being compromised as a result of commercial pressures
- Other emerging ethical risks.

What impact it might have

Failure by the Group, or employees and third parties acting on its behalf or in partnership, to observe the highest standards of integrity and conduct could result in legal proceedings (including prosecution under the UK Bribery Act), investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and debarment.

How it is mitigated

The Business Integrity function promotes, monitors, assesses awareness of and provides training on, the Code of Conduct. The function provides reports to the Audit and Risk Committee and has the full support of the Board.

Each business unit, supported by the Business Integrity function, is responsible for embedding the Code of Conduct.

The Group has a range of risk assessment, due diligence and procurement controls that are designed to identify and manage risks with third parties.

Independent third-party whistleblowing hotline and dedicated email are in place and actively promoted. All in-scope complaints are independently investigated by the Business Integrity function and appropriate action is taken, where necessary.

Balfour Beatty works with a limited number of agents, all of whom undergo a due diligence and approval process.

Principal risks

Understanding our risk profile continued

Legal and regulatory

Risk: **No change**

Owner: **The Board**

Build to Last pillar: **Trusted**

Risk description

The Group does not comply with all legal, tax and regulatory requirements.

Causes

A failure to recognise or adapt to changes in applicable laws affecting the Group's businesses.

Such changes may include:

- obligations as a result of government/ regulatory enquiry and enforcement actions
- adverse changes of law, including changes to tax law
- local procurement laws
- exclusion from bidding or blacklisting.

What impact it might have

The business could face legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and exclusion from bidding.

Such action could also impact upon the valuation of assets within that territory.

How it is mitigated

The Group monitors and responds to tax, legal and regulatory developments and requirements in the territories in which it operates.

Local legal and regulatory frameworks are considered as part of any decision to conduct business in a new country.

Appropriate and responsive policies, procedures, training and risk management processes are in place throughout the business.

Legacy pension liabilities

Risk: **No change**

Owner: **The Board**

Build to Last pillar: **Lean**

Risk description

The Group is exposed to significant defined benefit pension risks.

Causes

The Group is unable to ensure that the trustees of the pension funds react effectively to or manage:

- changes in interest rates
- inflation or life expectancy trends
- intervention by regulators or legislators
- investment performance of the funds' assets.

What impact it might have

Failure to manage these risks adequately could lead to the Group being exposed to significant additional liabilities due to increased pension deficits.

How it is mitigated

The Group constructively engages with the trustees of the pension funds to ensure that they are taking appropriate advice and the funds' assets and liabilities are being managed appropriately.

The Group's main UK fund has hedged in excess of 80% of its exposure to interest rate and inflation movements.

More generally and in addition to its principal risks Balfour Beatty faces significant risks and uncertainties that are common to many companies – including financial and treasury, communications and marketing, wider information security, business continuity and crisis management, and hazard risks.

Viability statement

Testing the Group's viability

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group over a three-year period to 31 December 2020.

The Directors consider this period to be appropriate because this is the period aligned to the current order book and for which there is a good visibility of the pipeline of potential new projects. This period also allows greater certainty over the forecasting assumptions used in labour and material pricing, skills and availability. In the longer term, there is also significant political uncertainty. There is inherently limited visibility of contract bidding opportunities beyond the three-year period, and the accuracy of any forecasting exercise will also be impeded by the uncertainty around the costs involved to deliver these contracts. Consequently, the Group performs its medium-term planning over three years.

The Directors and the Executive Risk Steering Group continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, its business model, future performance, solvency and liquidity. As part of assessing the Group's future viability, the Directors have considered these principal risks and the mitigations available to the Group. These principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 51 to 56.

In their assessment of the Group's viability, the Directors have also considered the need to be successful in implementing the Group's Build to Last transformation programme and to focus on its strategic priorities of Lean, Expert, Trusted and Safe detailed on pages 12 to 15.

By the end of 2016, the Group had successfully exceeded its Phase One Build to Last targets of £200 million cash in: £100 million cost out. The Group continues to exploit opportunities to re-engineer processes to drive efficiencies, reducing cost whilst maintaining or improving efficiencies. The Group is now in Phase Two of its Build to Last programme, which aims towards achieving industry-standard margins in its earnings-based businesses. As part of Phase Two, it remains critical that the principles embedded in Phase One of Build to Last are maintained in order to achieve these industry-standard margins, although this is also dependent to a certain extent on the Group's ability to selectively win new contracts which will be partly impacted by political changes, particularly in the UK and the US.

The Directors have assessed the Group's viability in conjunction with its current position as well as its financial projections in the context of the various debt facilities and associated covenants. These financial projections are based on the Group's Three Year Plan, which has been built up through a bottom-up basis with a Group overlay which provides a more top-down view to align to the Group's strategic objectives. These projections indicate that the projected headroom, provided by the Group's net cash position and under the debt facilities currently in place, are adequate to support the Group over the next three years, whilst still enabling the Group to repay its £410 million debt falling due in the next three years. In the three-year period, the Group is also not projecting to draw down on its revolving credit facility of £400 million to 31 December 2018 and £375 million to 31 December 2020. In testing the headroom available under the key sensitivities modelled, the Directors have assumed that the expiring debt facilities will be fully repaid and will not be replaced with another form of debt.

The Group's projections have been stress-tested against key sensitivities which could materialise as a result of crystallisation of one or a combination of the Group's principal risks with the aim of stress-testing the Group's future viability against severe but plausible scenarios. These severe but plausible scenarios include:

- failure to manage effectively the uncertainties caused by Britain's exit from the EU
- an inability to collect recoverable amounts
- an operating event that damages the Group's reputation and results in significant penalty
- more onerous payment terms demanded from suppliers leading to a reduction in creditor payment days
- failure to realise further projected benefits from Build to Last.

The above scenarios result in:

- a reduction in revenue
- a reduction in margin
- an increase in operating costs
- a slowdown in the Group's investments disposal programme
- negative changes to working capital.

The Directors also assessed a 'perfect storm' scenario by combining multiple scenarios above and modelling the resulting downside to stress-test the Group's viability if these cash flows were to immediately and simultaneously come under severe threat. This scenario is aimed to test the viability of the Group if it was to experience a catastrophic failure and to allow the Directors to assess the mitigations available to avoid this.

In assessing the Group's viability under these severe but plausible scenarios (including in the instance of a 'perfect storm'), the Directors have also considered the Group's projected cash position (which excludes cash that is not immediately available to the Group), bank facilities and their maturity profile and covenants, the borrowing powers allowed under the Company's Articles of Association and the fact that the Group's PPP investments comprise reasonably realisable securities which can be sold to meet funding requirements if necessary.

It is unlikely, but not impossible, that the crystallisation of a single risk would test the future viability of the Group; however, unsurprisingly, it is possible to construct scenarios where either multiple occurrences of the same risk, or single occurrences of different principal risks, could put pressure on the Group's ability to meet its financial covenants. The Directors have considered the strength of the mitigations available to the Group and whether these are sufficient to avoid a catastrophic outcome to the Group's viability and believe that there are sufficient mitigations immediately available to minimise this risk.

Based on the assessment undertaken to stress-test the Group's viability against severe but plausible scenarios, and taking into account the strength of mitigations that are immediately available to the Group, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period until 31 December 2020.

Our 2017 Strategic Report, from pages 1 to 57, was approved by the Board on 13 March 2018.

Philip Harrison

Philip Harrison
Chief Financial Officer

Chairman's introduction to corporate governance

"The statement of corporate governance practices set out on pages 58 to 87 and the information referred to therein constitutes our Corporate Governance Report which we believe remains appropriate for the Group's business and is supportive of its strategy and culture.

Philip Aiken AM
Chairman

Leadership

We have a collective responsibility to challenge strategy, performance and accountability to ensure every decision complies with high standards of business integrity and is in the best interests of the Company's shareholders.

Read more about the Board's leadership p60-62

Effectiveness

We continually evaluate the balance of skills and experience of the Board and management team to ensure we have the right people in place to provide effective leadership.

Read more about the Board's effectiveness p63-66

Accountability

The Board sets the Group's strategy and risk appetite and approves the operating plans and targets to deliver this strategy based on the recommendations of management.

Read more about the Board's accountability p67-71

Remuneration

Our remuneration policy aims to attract, retain and motivate the right calibre of people to drive the performance of the business. We aim to operate this policy in a transparent manner.

Read more about the Board's remuneration policy p76-87

Compliance with the Code
The UK Corporate Governance Code 2016 (the Code) is the standard applying to good corporate governance practice in the UK and the Listing Rules require listed companies to disclose whether they have complied with the provisions of the Code (www.frc.org.uk).

The Company has complied fully with the requirements of the Code throughout the accounting period and to the date of this report.

Leadership

The Board seeks to promote the long-term success of the Group, delivering sustainable value to shareholders and promoting a culture of opennness and debate. It is responsible for setting and upholding high standards of corporate governance, including the way the Group conducts its business and its approach to ethical matters, and sets the risk appetite appropriate to delivering the Group's strategy. It is committed to providing effective leadership by ensuring that those governance principles are adhered to throughout the Group, supported by an effective framework of systems and controls which define clearly delegations of authority and accountabilities. Further details of how the Board manages risk can be found on pages 65 and 66.

As Chairman, it is my role to ensure that the executive leadership and the Board are able to discharge their responsibilities effectively and, within that, I have responsibility to ensure that a robust succession plan is in place to cover all eventualities.

The Board comprises a majority of non-executive Directors whose role it is to challenge constructively, scrutinise the performance of management in meeting agreed targets and contribute to the development of strategy.

Maureen Kempston Darkes, who has served as a Director since July 2012 and chair of the Safety and Sustainability Committee, retired at the AGM in 2017. I am delighted to welcome two new non-executive Directors to the Board, Barbara Moorhouse who joined in June and Michael Lucki who joined in July.

Non-executive Directors are appointed to the Board for an initial three-year term and, subject to continuing satisfactory performance and re-election by shareholders at AGMs, are expected to serve two three-year terms. The Board may invite a Director to serve beyond six years but any such extended period would be subject to particularly stringent review.

The Directors believe that the Board provides effective leadership. Details of the Directors are set out on pages 60 and 61.

Very sadly, during the year, Steve Marshall, my predecessor as Chairman, passed away. I would like to express our condolences to his family and recognise the leadership he gave Balfour Beatty at a very challenging time for the Company.

Diversity

Appointments to the Board are made on merit and candidates are assessed against objective criteria through a rigorous selection process, overseen by the Nominations Committee. We ask search firms to identify suitable female candidates although we do not believe in gender quotas.

Diversity and inclusion are key components of our talent management and development programmes, details of which can be found on the Company's website balfourbeatty.com.

Accountability

We believe that Balfour Beatty's processes and procedures have been further strengthened during the year with the development of a Business Management System for all aspects of UK business practice and ever greater harmonisation of HR systems and of financial reporting platforms, enabling the Board to present a fair, balanced and understandable assessment of the Group's trading position and its prospects. We continue to keep under review the matters reserved to the Board and the terms of reference of its Committees. Copies can be found on the Company's website.

Remuneration

The remuneration policy was approved by shareholders at the 2017 AGM. Details of how we intend to operate that policy in 2018 can be found in the Remuneration report on pages 76 to 87.

Relations with shareholders

Our investor relations programme is of critical importance to the Board. The Board routinely receives reports from the investor relations team and analysts, together with feedback from any meetings which the Directors have with institutional investors. As Chairman, I seek to meet, at least annually, with representatives of the UK Shareholders Association. We recognise the AGM as an important opportunity for private investors to engage with the Board. All resolutions will, however, be put to a poll rather than a show of hands to ensure that shareholders who are not able to attend the meeting have their votes fully taken into account.

Philip Aiken AM
Chairman

Leadership
Board of Directors

The Board comprises eight Directors. The names of the Directors serving throughout the year and at the year end are shown here.

Maureen Kempston Darkes retired as a non-executive Director at the conclusion of the AGM on 18 May 2017.

From 6 January 2017, as part of an agreed review of Committee membership:

- Stephen Billingham joined the Safety and Sustainability Committee
- Iain Ferguson left the Safety and Sustainability Committee.

Following the retirement of Maureen Kempston Darkes, Stuart Doughty became Chairman of the Safety and Sustainability Committee from 1 July 2017. On 6 July 2017, there was a further review of committee membership:

- Iain Ferguson left the Audit and Risk Committee and joined the Safety and Sustainability Committee
- Stephen Billingham left the Safety and Sustainability Committee and joined the Nomination Committee
- Barbara Moorhouse joined the Audit and Risk Committee and the Remuneration Committee
- Michael Lucki joined the Remuneration Committee and with effect from 1 September 2017 joined the Audit and Risk Committee.

Board Committees code:

1 Audit and Risk

2 Safety and Sustainability

3 Nomination

4 Remuneration

5 Group Tender and Investment

6 Finance and General Purposes

Chair

Philip Aiken AM (69)
Chairman

Joined the Board as Chairman in March 2015. He is non-executive chairman of Aveva Group plc and a non-executive director of Newcrest Mining Limited. He was a non-executive director of National Grid plc, chairman of Robert Walters plc and a non-executive (and senior independent) director of Kazakhmys plc and Essar Energy plc, and a senior adviser at Macquarie Bank Ltd. Prior to that, he was group president Energy BHP Billiton and president BHP Petroleum, chief executive of BTR Nylex, and held senior roles in BOC Group.

2 3 4

Leo Quinn (61)
Group Chief Executive

Appointed as Group Chief Executive in January 2015, after five years as group chief executive of QinetiQ Group plc and before that five years as CEO of De La Rue plc. Prior to these senior roles, he spent almost four years as COO of Invensys plc's production management business, headquartered in the US, and 16 years with Honeywell Inc in senior management roles across the UK, Europe, the Middle East and Africa, including global president of H&BC Enterprise Solutions. He was a non-executive director of Betfair Group plc and Tomkins plc. He is a civil engineer, and began his career at Balfour Beatty. He is the founder of The 5% Club which encourages industry to increase graduate training and apprenticeships.

2 3 5 6

Philip Harrison (57)
Chief Financial Officer

Appointed as Chief Financial Officer in June 2015. He was previously group finance director at Hogg Robinson Group plc, and before that he was group finance director at VT Group plc. Prior to that, he served as VP Finance at Hewlett-Packard Europe, Middle East and Africa region and was a member of the EMEA board. His earlier career included senior international finance roles at Compaq, Rank Xerox and Texas Instruments. He is a Fellow of the Chartered Institute of Management Accountants.

5 6

Iain Ferguson CBE (62)
Non-executive Senior Independent Director

Appointed a Director in January 2010. Until 2009, he was chief executive of Tate & Lyle. Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development. He is non-executive chairman of Stobart Group Limited and of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office. He is also a non-executive director of Personal Assets Trust plc. He was formerly chairman of Berendsen plc and a non-executive director of Sygen International and of Greggs plc.

2 3 4

Barbara Moorhouse (59)
Non-executive Director

Appointed a Director in June 2017. Barbara has over 30 years of business and management experience in the private, public and regulated sectors and is currently a non-executive director at Microgen plc, IDOX plc, Agility Trains, and the Lending Standards Board, and is a trustee of Guy's & St Thomas' Charity. Formerly group finance director at Morgan Sindall plc, regulatory director at South West Water and chief finance officer for two international listed IT companies – Kewill Systems plc and Scala Business Solutions NV. Latterly, she has been director general at the Ministry of Justice and the Department for Transport. Her most recent executive appointment was chief operating officer at Westminster City Council.

1 4

Dr Stephen Billingham (59)
Non-executive Director

Appointed a Director in June 2015. He is non-executive chairman of Anglian Water Group Ltd and URENCO Ltd. He was group finance director of British Energy Group plc (FTSE 100 power generator) and WS Atkins plc (FTSE 250, and the UK's largest engineering consultancy) and ran Punch Taverns plc (the UK's second largest pub owner) as executive chairman. He played instrumental roles in the financial and operational turnarounds of all three companies. He spent 11 years with Balfour Beatty's predecessor company BICC plc.

1 3

Stuart Doughty CMG (74)
Non-executive Director

Appointed a Director in April 2015. He has over 50 years' experience in the civil engineering, construction and infrastructure sectors, and was chief executive of Costain Group PLC between 2001 and 2005. This followed executive positions in Welsh multi-utility Hyder plc, Alfred McAlpine plc and Tarmac Construction, where he represented the company on the Channel Tunnel board, following 20 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, and as chairman of Alstec Ltd, Somero Plc and Beck and Pollitzer Limited.

1 2 3

Michael Lucki (61)
Non-executive Director

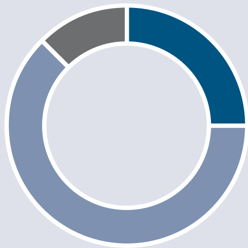
Appointed a Director in July 2017. He has over 35 years of business and leadership experience in the US and internationally in the engineering and construction sector. He has held a number of leadership and finance roles, including chief financial officer, executive vice president and board member at CH2M HILL and an audit partner at Ernst & Young LLP and their Global Industry Leader for Infrastructure, Construction and Engineering Practices. Latterly, he has acted as a strategic advisor to companies and private equity firms in the engineering and construction industry. He is currently an advisory board member at Psomas.

1 4

Board balance

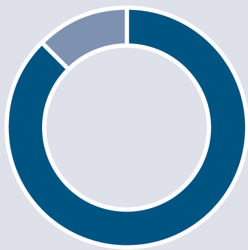
Chairman	1
Executive Directors	2
Non-executive Directors	5

Board tenure



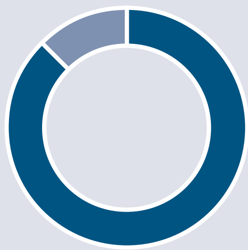
0–2 years	2
2–4 years	5
4–6 years	0
6+ years	1

Board balance



Male	7
Female	1

Board geography



UK	7
Americas	1

Leadership continued

BOARD

Audit and Risk Committee	Safety and Sustainability Committee	Nomination Committee	Remuneration Committee	Group Tender and Investment Committee	Finance and General Purposes Committee
Monitors and reviews the integrity of the financial statements, the relationship with the external auditor, and the Group's internal operational procedures and risk management process.	Monitors health and safety practices across the organisation to mitigate against harm to employees, and ensures other key sustainability issues such as integrity are reviewed at Board level.	Has responsibility for assisting the Board with succession planning and with the selection of new executive and non-executive Directors or Chairman.	Has responsibility for the creation, approval and implementation of the Company's remuneration policy under which it determines the pay of the executive Directors.	Assesses the viability and pricing of major tenders, and monitors and approves key capital expenditure to ensure adequate returns.	Approves various routine banking and treasury matters and matters relating to share capital.
Read more p67-69	Read more p70	Read more p71	Read more p76	Read more p71	Read more p71

GROUP CHIEF EXECUTIVE

Leads the business and is responsible for its day-to-day management.

Roles
The roles of the Chairman and the Group Chief Executive are separate, with a clear division of responsibilities between the running of the Board and executive responsibility for running the Group's businesses. Their respective roles are formally recorded and are available to view on the Company's website as are those of the Senior Independent Director.

www.balfourbeatty.com/investors

Board and Committee meetings
Procedures for Board and Committee meetings remain largely unchanged from previous years. The Company Secretary is responsible for advising the Board on appropriate governance matters and for ensuring a good information flow and that Board procedures are properly followed. He is available to individual Directors for advice on Board procedures.

Details of the number of meetings of the Board and its Committees held during the year and attendance of Directors thereat are set out on page 63. Outside the formal schedule of meetings, the non-executive Directors met without the executive Directors present on a number of occasions. Meetings are normally held at one of the Company's London offices.

The Board has six standing Committees. In the cases of the Group Tender and Investment Committee and the Finance and General Purposes Committee, membership comprises the executive Directors and other members of the senior management team.

All non-executive Directors have an open invitation to attend any Committee meeting. A number of the Directors took this opportunity during the year.

Board and Committee meetings typically take place over two consecutive days with the first day allocated to Committee meetings and ending with a 'focus' presentation by a member of the leadership team. Board meetings will usually include a 'deep dive' presentation from one of the business units as well as an agenda focusing on key priorities for the Group, including:

- progress with the Build to Last transformation programme
- strategy and budgets
- operating structures, processes and costs
- the Group's financial performance
- bid and project updates
- legacy contract out-turns
- annual and interim financial statements
- health and safety performance
- significant human resources issues, including succession planning and diversity
- reports from the head of the business integrity function
- consideration of issues relating to major disputes, proceedings or other matters of potentially adverse effect on the Group's reputation
- reports by non-executive Directors on site visits
- the sale of investment assets
- the results of employee engagement surveys.

Conflicts of interest and contracts of significance
The Board has established a policy and procedures relating to Directors' conflicts of interest. Where conflicts of interest arise, the Board has power to authorise them. None of the Directors had a conflict of interest during the year.

None of the Directors had a direct or indirect material interest in any contract of significance with any Group company during the year.

Effectiveness

Directors' independence

At its meeting in January 2018, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them continues to be independent.

A non-exhaustive list of the key strengths of the Directors is set out in the table below. Details of their service agreements, emoluments and share incentives are shown in the Remuneration report starting on page 76.

Following the performance evaluations of each of the non-executive Directors, it is confirmed that the performance of each continues to be effective and demonstrates commitment to the role.

Responsibility and delegation

The Board is responsible for the success of the Company and has a formal schedule of matters reserved for its decision which includes the matters summarised below:

– determining the Group's strategic direction
– approving annual budgets and financial reporting, including the annual and half-year results and interim management statements
– approving interim, and recommending final, dividends
– approving major acquisitions, disposals and capital expenditure
– approving contracts, contract tenders and bid submissions above specified values or of an unusual nature or complexity
– ensuring the necessary financial and human resources are in place to achieve objectives and review management performance
– setting the Company's values and ethical standards
– approving policies and systems for risk management and assurance.

The Board reviewed its list of reserved matters, most recently, at its meeting in July 2017. The full list and the terms of reference of the Board Committees are available on the Company's website:

www.balfourbeatty.com/investors

The day-to-day management of the business is delegated to executive Directors and the Group's senior management.

The Directors are experienced and influential individuals from varied commercial, professional and international backgrounds. Their diverse and balanced mix of skills and business experience, as shown below, is key to the effective functioning of the Board and its Committees, ensuring matters are fully and effectively debated and challenged.

Directors – significant strengths

Director	Strategic development	Operating performance and delivery	Mergers and acquisitions	Business integration	Financial management and planning	Sector-specific	Experience of international markets	Health and safety	Risk management and assurance	HR management	Stakeholder engagement	Ethics, values and culture
Philip Aiken	•	•	•	•	•		•	•	•	•	•	•
Stephen Billingham	•	•	•	•	•	•		•	•		•	•
Stuart Doughty	•	•	•	•	•	•		•	•		•	•
Iain Ferguson	•	•					•	•		•	•	•
Philip Harrison	•	•	•		•		•		•		•	•
Michael Lucki	•	•	•	•	•	•	•	•	•		•	•
Barbara Moorhouse	•	•	•	•	•	•	•		•		•	•
Leo Quinn	•	•	•	•	•	•	•	•	•	•	•	•

Board and Committee meetings attendance

Details of the number of meetings and attendance at the Board meetings and meetings of the Audit and Risk, Safety and Sustainability, Nomination and Remuneration Committees during the year are set out in the table below.

Director	Board (8)	Audit and Risk (4)	Safety and Sustainability (3)	Nomination (3)	Remuneration (3)
Philip Aiken	8		3	3	3
Stephen Billingham	8	4	1(1)		
Stuart Doughty	8	4	3	3	
Iain Ferguson	8	2(2)	2(2)	3	3
Philip Harrison	8				
Maureen Kempston Darkes	3(3)		1(1)		1(2)
Michael Lucki	5(5)	1(1)			1(1)
Barbara Moorhouse	5(5)	2(2)			1(1)
Leo Quinn	8		3	3	

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships). All serving Directors attended the AGM held on 18 May 2017. In addition to the information reported above, the Chairman, Group Chief Executive and Chief Financial Officer routinely attend meetings of the Audit and Risk Committee. The Group Chief Executive also routinely attends meetings of the Remuneration Committee except when matters relating to his own remuneration are discussed. Where Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman or the Committee chair, as appropriate.

Effectiveness continued

Further information about the work of each of the Board's Committees may be found on pages 67 to 71 and pages 76 to 87.

Board development

Induction

Directors undertake a thorough induction programme and receive a range of information about the Company when they join the Board, including access to a portal on which all Board papers are stored, Balfour Beatty's Code of Conduct and processes for dealing in Balfour Beatty shares. In addition, they take part in a series of one-to-one meetings with other members of the Board, senior executives in the businesses and the Company's external advisers, which include briefings on the Group's business strategy, financial procedures, business development, legal and other key issues.

The Directors' induction programme also provides the foundation for continuing professional development. This takes place throughout the year by way of a series of internal and external updates, including visits to operating companies to meet local management and visits to Balfour Beatty projects, both in the UK and overseas.

For a copy of the Code of Conduct see:

www.balfourbeattycodeofconduct.com/

Training and development

In discussion with the Directors and Company Secretary, each year the Chairman determines whether there are any specific training needs identified by the Directors, which can be addressed by the topic being included at a future Board meeting. Directors are also enrolled in the Deloitte Academy, a seminar-led programme for directors of UK listed companies, which provides regular updates throughout the year on the principal governance and other matters of which directors of a listed company should be fully aware.

Board evaluation

Introduction

In keeping with the Code, the Board undertakes external evaluations, typically every three years, with internal evaluations in the intervening two years. The most recent external evaluation was carried out in early 2016, in respect of 2015, by Lintstock, an external facilitator. For 2017, the evaluation has been conducted using internal resources and considered the performance of the Board and its Committees, as well as the Chairman and individual Directors.

2017 evaluation

During October 2017, the Chairman conducted an evaluation review with all Board members, the results of which were summarised and presented to the Board for discussion in November 2017.

The review was tailored to the specific circumstances of Balfour Beatty and covered the composition, expertise and dynamics of the Board, the Board's management of time, the support afforded to the Board, the Board's oversight of strategy and succession planning. Any reported comments made during the reviews were unattributed.

Key conclusions from the evaluation

Overall, Directors considered that the Board and its Committees are working effectively and that year-on-year performance improvements are apparent. The quality and timeliness of management information continues to be good and the relationships between executive and non-executive Directors has strengthened during the year. There is a good knowledge of the issues and opportunities facing the Group amongst the non-executive Directors and the recent appointees are already contributing strongly to discussions. All non-executive Directors are encouraged to make regular visits to project sites throughout the UK and overseas and are individually and collectively involved in project reviews. The Board will continue to undertake at least one visit to the US each year, combining a series of presentations by the US leadership team with site visits.

Annual General Meeting and Class Meeting of Preference Shareholders

The AGM will be held at Painters Hall, 9 Little Trinity Lane, London EC4V 2AD on Thursday 24 May 2018 commencing at 11am. Immediately following the AGM, a Class Meeting of the holders of the Company's cumulative convertible redeemable preference shares will be held. Shareholders are encouraged to attend these meetings and ask any relevant questions they may have.

Risk management and internal control

Risk management

An assessment of risk is central to the Group's strategic decision-making process and an essential part of meeting the requirements of the UK Corporate Governance Code. By delivering effective risk management and understanding its exposure to risk, the business is better able to protect its reputation, ensure long-term viability and generate sustainable shareholder value. Balfour Beatty maintains an agile and comprehensive internal control environment. Key risks are identified and a decision made to treat, tolerate, terminate or transfer potential exposure dependent upon the Group's risk attitude or appetite. For more information, refer to pages 48 to 56.

The Board has applied principle C2 of the UK Corporate Governance Code by embedding continuously evolving risk management processes throughout the Group at all levels which form an integral part of day-to-day business activity.

Roles and responsibilities

The Board is responsible for the implementation and oversight of Balfour Beatty's risk management framework. It sets the Group's appetite for and attitude to risk in pursuit of its agreed strategic objectives and therefore the level of risk that can be taken by Group, strategic business unit and individual business unit management without specific Board approval. Group policies, procedures and delegated authority levels set by the Board provide the structure in which risks are reviewed and escalated to the appropriate level within the Group, up to and including the Board, for consideration and approval.

The roles and responsibilities of the Board, its Committees, strategic business unit and individual business unit management are set out below.

	Responsibilities	Actions undertaken
1. Board	– Responsible for the Group's systems of risk management and internal control – Determines Group appetite for and attitude to risk in pursuit of its strategic objectives.	– Issues and reviews the Group risk management policy – Annually reviews effectiveness of Group risk management and internal control systems – Reviews the Group's risk landscape, principal risks and risk responses.
Audit and Risk Committee	– Regularly reviews the effectiveness of Group internal controls, including systems to identify, assess, manage and monitor risks – Agrees the Group Internal Audit Plan.	– Receives regular reports on internal and external audit and other assurance activities – Annually assesses Group risk management and internal control systems – Reviews effectiveness of the Group's helpline and other channels for raising concerns about Code of Conduct breaches.
Safety and Sustainability Committee	– Reviews management of non-financial risks such as health and safety, and sustainability.	– Receives regular reports on implementation of Group policies and procedures on non-financial risks.
Group Tender and Investment Committee	– Reviews and approves tenders and investments, triggered by certain financial thresholds or other risk factors.	– Critically appraises significant tender proposals and investment/divestment opportunities, with a specific focus on risk.
2. Group management	– Strategic leadership – Responsible for reviewing and implementing the Group risk management policy – Ensures appropriate actions are taken to manage strategic risks and other key risks.	– Strategic plan and annual budget process – Produces and tracks Group risk register – Reviews risk management and assurance activities and processes – Monthly/quarterly finance and performance reviews.
3. Strategic business unit management	– Responsible for risk management and internal control systems within its business – Ensures that business units' responsibilities are discharged.	– Reviews key risks and mitigation plans – Reviews and challenges business units' internal control environment – Reviews results of internal control testing – Escalates key risks to Group management and the Board.
4. Business unit management	– Maintains an effective system of risk management and internal control within its business unit and projects.	– Maintains and regularly reviews project, functional and strategic risk registers – Reviews mitigation plans – Plans, executes and reports on internal control testing.

Effectiveness continued

Risk management process

Balfour Beatty's risk management policy requires that all business units implement effective arrangements and management controls across all operations for the management of risk. The Group's approach to risk management is to reduce the likelihood of risk events occurring, mitigate the adverse impact of such events and identify opportunities where taking risks might benefit the business. Balfour Beatty is relentless in ensuring that a positive risk management culture remains embedded at all levels.

When pursuing new opportunities, an assessment of risk forms a key part of the work winning process. Risks are continuously assessed to ensure potential exposure remains within an accepted tolerance.

Additionally, the Board sets and regularly reviews delegated authority levels which act as triggers for the escalation of matters requiring approval. In relation to work winning, this means projects above a certain value, or those with unusual characteristics, such as a move into new markets, require approval by the Group Tender and Investment Committee or the Board, as appropriate.

Reporting structures ensure that risks are monitored continually, mitigation plans are reviewed and significant exposures which develop are reviewed within the business unit or by Group senior management via the Executive Risk Steering Group.

Effective risk management cannot stand still. In 2017 significant improvements have been made to further align the Group's risk management and audit functions to bring greater focus on the assurance mapping process. This work will continue in 2018 as part of the ongoing review of risk aggregation and escalation. Review of the Group's business continuity arrangements will ensure that Balfour Beatty remains resilient to the ever-changing threats it faces in delivering its business objectives.

Internal control

The Board has ultimate responsibility for the Group's risk management systems and internal control and regularly reviews their effectiveness. The Group's systems and controls are designed to ensure exposure to significant risk is managed appropriately. The Board recognises that any system of internal control is designed to understand and manage rather than eliminate the risk and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved are treated, for these purposes, as part of the Group. Where they are not, systems of internal control and risk management are applied as agreed between the joint venture partners.

Central to the Group's systems of internal control are its processes and framework for risk management. These align with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and were in place throughout 2017 and up to the date of signing this report. Guidance and policies have been issued and are continuously monitored to provide an interlinked and comprehensive internal control environment. Such topics include but are not limited to:

- a clear system of delegated authorities from the Board to management with certain matters reserved by the Board
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and management, including particular areas of business or project risk. This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control identified risks
- annual review of the strategy and plans of each business and of the Group as a whole to identify risks to the achievement of objectives and, where appropriate, any relevant mitigating actions
- specific policies set out in the Group Finance Manual covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, application of accounting policies and financial controls
- risk management expectations which are embedded throughout the Group
- gateway reviews requiring risk, uncertainty and control assessment at all stages of project development and at all levels of the business from business unit level to Board Committee if value, or perceived exposure, exceeds certain thresholds
- reviews and tests by the internal audit function of critical business financial processes and controls and specific reviews in areas of perceived high business risk
- reviews and authorising of proposed investment, divestment and capital expenditure through the Board and Board Committees
- regular reporting, monitoring and review of the effectiveness of health, safety, environment and sustainability processes. These processes are subject to independent audit and certification to internationally recognised standards as appropriate
- legal and regulatory compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- promotion of a culture of compliance with ethics and integrity responsibilities to help manage legal and reputational risks across the Group. An ethics helpline encourages staff to raise concerns, in confidence, about possible breaches of the Code of Conduct.

There is also an independent internal audit function that executes a risk-based programme of audit throughout the entire Group. All audit reports are shared with relevant business leaders in addition to being reviewed by the Audit and Risk Committee (see pages 67 to 69).

It is the expectation and requirement of the Board that business leaders ensure this comprehensive internal control environment (including internal audit) is embedded within their business units.

The Board's assessment of the risk management processes and internal controls during 2017 is based on reports it received and those presented to the Audit and Risk Committee and the Safety and Sustainability Committee, including:

- the results of the internal audit function's reviews of internal financial controls
- a Group-wide certification that effective internal controls had been maintained or, where any significant non-compliance or breakdown had occurred with or without loss, that appropriate remedial action has been or is being taken
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

Principal risks

The principal risks that could adversely impact on the Group's profitability and ability to achieve its strategic objectives are set out on pages 51 to 56.

Accountability

Stephen Billingham
Chairman of the Audit and Risk Committee

Audit and Risk Committee

During the year the Committee comprised Stephen Billingham as chairman, non-executive Directors Stuart Doughty, Iain Ferguson (until 6 July 2017), Barbara Moorhouse (from 6 July 2017) and Michael Lucki (from 1 September 2017).

Main responsibilities

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council. The main responsibilities of the Audit and Risk Committee are summarised below:

- review the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance
- review the Group's internal controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems it has established and the conclusions of any testing carried out by the internal audit function and external auditor
- monitor and review the effectiveness of the internal audit function, including its work programme
- make recommendations to the Board in relation to the appointment of the external auditor and approve the remuneration and terms of engagement of the external auditor
- assess the independence, objectivity and effectiveness of the external auditor and develop and implement policy on the engagement of the external auditor to supply non-audit services
- review the integrity of the statement in the Annual Report on being fair, balanced and understandable, as required under the Companies Act 2006
- review the procedures for the Group's helplines and other mechanisms used by employees to raise concerns confidentially (including any whistleblowing facilities) and their effectiveness.

Dr Stephen Billingham, formerly group finance director (CFO) of British Energy Group plc and of WS Atkins plc, has been identified by the Board as having recent and relevant financial experience.

Partners from the external auditor, the Group Risk and Audit Director, the Chairman, the Group Chief Executive, the Chief Financial Officer and the Group Financial Controller regularly attend meetings. The Committee also invites divisional leaders and specialists relevant to the Committee's agenda.

Summary of activities in 2017

In 2017, the Committee's work programme focused on a number of significant issues and other accounting judgements where the Committee believed the highest level of judgement was required and with the highest potential impact on the Group's financial statements. Further information is set out on page 68.

Financial reporting

The Committee reviews and evaluates the appropriateness of the interim and annual financial statements (including the announcements thereof to the London Stock Exchange) with both management and the external auditor, including:

- at the Board's request, whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Audit and Risk Committee has assisted in achieving this objective by reviewing proposals for the internal procedures to be applied in preparing the Annual Report
- the clarity of disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements and guidelines, including the European Securities and Markets Authority Guidelines on Alternative Performance Measures
- discussing the critical accounting policies and use of assumptions and estimates, as noted on pages 108 and 109 of this Annual Report, and concluding that the estimates, judgements and assumptions used were reasonable based on the information available and had been used appropriately in applying the Company's accounting policies
- assessing the Group's implementation of the new revenue recognition standard, IFRS 15 Revenue from Contracts with Customers. In particular, the Committee focused on the robustness of the implementation project led by the Group team and the impact assessment of the new standard on the Group's results. The Committee also reviewed, assessed and endorsed the Group's proposed internal accounting policies to reflect the requirements of the new standard, which was adopted by the Group on 1 January 2018. Further detail on the impact of the adoption of IFRS 15 can be found on page 102
- reviewing the viability of the Group over the longer term as part of its assessment of the Group's risks (see page 57).

The Committee is able to question management at both Group and business unit levels to gain further insight into the issues addressed in these reports.

The key significant financial reporting issues and other accounting judgements are set out in the table on page 68.

Accountability continued

Significant issues and other accounting judgements

Revenue and margin recognition	Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports and met with management, the Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements.
Carrying value of goodwill and other intangibles	The judgement largely relates to the assumptions underlying the value in use of the cash-generating units, primarily the achievement of the three-year strategic plan and the macroeconomic assumptions (such as discount rates) underpinning the valuation process. The Committee received reports from management outlining the impairment model and the assumptions used; in addition, the external auditor provided detailed written reports in this area.
Going concern and viability statement	In order to satisfy itself that the Company has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's viability statement, cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the Annual Report. More details on going concern and the viability statement are contained on pages 47 and 57.
Non-underlying items	The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.
Provisions	The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.
Retirement benefits	The key judgement relates to the assumptions underlying the valuation of the retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.
Deferred tax assets	The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.
Directors' valuation of the Investments portfolio	The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Other matters

In addition to its key role in the financial reporting process, the Audit Committee also considered the following as well as developments in regulation:

	Items discussed	**March**	**May**	**Aug**	**Nov**
Internal audit	– annual assessment of risk and internal control	•			
	– approval of the Group's internal audit plan and review of internal audit activity reports and updates	•	•	•	•
	– review of the internal audit function's terms of reference	•			
	– review of the effectiveness of internal audit				•
External audit	– audit report on 2016 financial results	•			
	– review report on 2017 interim results			•	
	– approval and review of the proposed audit strategy plan and procedures			•	•
	– review of auditor effectiveness and independence following KPMG's first year as external auditor	•			
	– review of the provision of non-audit services provided by the external auditor (including fees)	•			
	– review and assessment of the effectiveness of the planned audit strategy	•		•	
	– review of the summary and findings of process and control issues identified during the audit and recommendations to management	•	•		•
Other matters	– progress report on the Group's implementation of IFRS 15, impact assessment and endorsement of the proposed accounting policies to be adopted by the Group upon transition		•		•
	– assessment of the Group's insurance strategy and programme		•		
	– consideration of consequences of future failure to prevent tax evasion		•		•
	– assessment of the robustness of the Group's procedures on Business Integrity		•		
	– review and discuss findings in the Group's Business Integrity reports	•	•	•	•
	– consideration of the Group's readiness to comply with the UK Payment Legislation Requirements				•
	– consideration of the correspondence with the FRC on its thematic review of the Group's 2016 APMs				•
	– annual review of the Committee's terms of reference				•

FRC's thematic review on Alternative Performance Measures

In 2016, the Group received a letter from the Financial Reporting Council (FRC) confirming that the Group's disclosures on Alternative Performance Measures in its Annual Report and Accounts 2016 would be included in the FRC's thematic review. At the FRC's request, the Committee notes that the FRC's review only covered the specific disclosures relating to the thematic review and provides no assurance that the report and accounts were correct in all material aspects.

As a result of this review, the Group committed to providing additional disclosures on how the Directors' valuation of its Investments portfolio compares to the equivalent statutory measure reported under accounting standards. The enhanced disclosure is included on page 42.

Areas of focus in 2018

In 2018, the Committee will continue to address the topics described on pages 67 and 68 including continuing to undertake reviews of the risk management and assurance practices across the Group on a rolling programme. The Committee will also continue to receive any necessary training in order to broaden and refresh the skills and knowledge of its members. The Committee will also oversee the Group's transition to the new leasing standard, IFRS 16.

Risk management and internal control

The risk management and internal control framework now comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion. These processes are underpinned by common minimum standards in project and commercial management and are under constant review to ensure their effectiveness and compliance.

Internal auditor effectiveness

The Committee reviews the effectiveness of the internal audit function on an ongoing basis. This is achieved, in part, by reviewing and discussing the reports presented to it at each meeting, setting out the function's work and findings, but also through a formal annual assessment. An independent periodic review of the internal audit function, as well as a thorough self-assessment scorecard drawn up in accordance with best practice guidelines, also helps contribute to the Committee's evaluation.

External auditor independence and effectiveness

The Committee carries out a formal review each year to assess the independence and effectiveness of the external auditor, KPMG. The Committee has satisfied itself as to KPMG's independence. The Committee took into consideration the following matters:

Non-audit work

The objective set out in the Company's policy is to ensure that the external auditor is not placed in a position where its independence is, or might be seen to be, compromised. Under no circumstances will any assignment be given to the external auditor, if it results in:

– audits of its own work
– making management decisions on behalf of the Group
– acting as advocate for the Group
– a mutuality of interest being created.

The Company's policy identifies the various types of non-audit services and determines the analysis to be undertaken, and level of authority required, before the external auditor can be considered to undertake such services. For any non-audit services (which are not excluded under the policy), the policy provides for approval by the Chief Financial Officer of expenditure below £250,000, and approval by the chairman of the Audit and Risk Committee of expenditure above £250,000. A report is also submitted to the Committee of any non-audit services carried out by the external auditor, irrespective of value. The aggregated spend on non-audit services with the external auditor will not exceed 60% of the Group audit fee, unless exceptional circumstances exist, with a three-year rolling average not exceeding 70% of the Group audit fee.

During 2017, there were fees of £0.5 million (2016: £0.5 million) paid to the external auditor for non-audit services. 2017 non-audit services primarily related to the half-year review. Audit fees for 2017 were £2.7 million. Further details are included in Note 6.2 on page 113.

There is no inconsistency between the Financial Reporting Council's ethical standards and the Company's policy.

The Committee considers that the Company receives particular benefits, including those relating to cost, quality and consistency, from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations. There can also be savings in management time and accelerated delivery of work in situations where rapid turnaround is required.

90% by value of non-audit related work provided by international accounting firms in 2017 was carried out by firms other than KPMG.

Annual assessment of the audit process

In addition to receiving written reports from the auditors (both internal and external) and management, the Committee also conducted separate private meetings with the external auditors and with management. These provide the opportunity for open dialogue and feedback on the audit process, the responsiveness of management and the effectiveness of individual internal and external audit teams.

A detailed assessment of the external audit process and the effectiveness of the external auditor, together with any identified improvement recommendations, is prepared each year.

External auditor rotation

The external auditors are required to rotate the lead partner every five years. Such changes are carefully planned to ensure business continuity without undue risk or inefficiency. KPMG's lead partner, Stephen Wardell, who will complete his second year in May 2018, has communicated to the Committee during 2017 that he will be retiring in May 2018 and will be succeeded by Paul Sawdon. The Committee will oversee this transition.

The EU Audit Directive on audit tendering took effect from June 2016 and its key aspects include:

– audit firms will have a maximum tenure of 10 years, although the UK Government proposes to allow an extension of (i) up to an additional 10 years where a public tender is carried out after 10 years; or (ii) by an additional 14 years where more than one audit firm is appointed to carry out the audit
– audit firms are to be prohibited from providing certain non-audit services and where non-audit services are provided they will be subject to a fees cap
– a restriction in any contract limiting a company's choice of auditor will be prohibited.

The Group has therefore adopted a policy that no external auditor appointed after June 2016 can remain in post for longer than 20 years and there will be a tendering process every 10 years, and that KPMG, as the currently appointed external auditor, may remain so until the completion of the 2025 annual audit. However, the Committee will continue to consider annually the need to tender the audit for audit quality or independence reasons. There are no contractual obligations in place that restrict the Company's choice of statutory auditor.

The disclosures provided above constitute the Company's statement of compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Stuart Doughty
Chairman of the Safety and Sustainability Committee

Safety and Sustainability Committee

Summary of activities in 2017

In July 2017, Stuart Doughty assumed responsibility as Committee chairman following the retirement of Maureen Kempston Darkes on 18 May 2017. Other members during the year included the Company Chairman, Phil Aiken, non-executive Directors Stephen Billingham (from 6 January 2017 to 6 July 2017) and Iain Ferguson (until 6 January 2017 and from 6 July 2017), and the Group Chief Executive, Leo Quinn.

The UK Health, Safety, Environment and Sustainability function performs a Group-wide data collection and reporting role for Balfour Beatty's UK and international operations.

The Committee considered certain significant health and safety related incidents, including fatalities, discussing in detail the themes around supervision, communications and safety by design. It also reviewed the Group's sustainability performance alongside environmental incidents.

During the year safety performance benchmarking against industry peers has been extended to provide the Committee with more objective reporting of absolute and relative performance against agreed KPIs. The Committee has also overseen improvements to the escalation procedures so as to ensure the immediate reporting of any major incidents to all members of the Committee.

Initiatives to work with equipment manufacturers have also been taken with a view to designing-in engineering control improvements for improved operational safety.

Good progress has been made in establishing much closer liaison between the Committee and its equivalents within major customers, with a view to facilitating a greater sharing of safety information, the development of safer working practices and to improve understanding and co-operation with regard to sustainability objectives.

The Committee has also overseen the greater sharing of health and safety best practices between the Group's UK and US operations.

The Group's sustainability strategy, Our Blueprint, can be viewed at:

www.balfourbeatty.com/media/195840/sustainability-blueprint-2017.pdf

The merger of the UK Health and Safety function with the UK Environment and Sustainability function has proven very successful with the benefits of greater collaboration now apparent. This continues to be supported by training of health, safety, environment and sustainability practitioners as part of an ongoing development programme to build expertise and flexibility.

The Committee has reviewed a number of opportunities to improve Balfour Beatty's sustainability performance, including opportunities to reduce carbon emissions by focusing on Balfour Beatty's plant and fleet operations. It has also reviewed Balfour Beatty's engagement process with customers to drive sustainability performance to add value.

Areas of focus in 2018

In 2018, the Committee will continue to seek greater collaboration with the Group's major customers and maintain its focus on the key areas of health and safety and sustainability by design, supervision, subcontractor engagement and treating health like safety, resource efficiency, carbon reduction, social value and supply chain engagement, as well as measuring performance against Our Blueprint and the Zero Harm action plan. The Committee will also review how best practice is shared across geographies to continually improve performance.

Philip Aiken AM
Chairman of the Nomination Committee

Nomination Committee

Summary of activities in 2017

During the year the Committee comprised Philip Aiken as chairman, non-executive Directors Stuart Doughty, Iain Ferguson and Stephen Billingham (from 6 July 2017) and the Group Chief Executive, Leo Quinn.

During 2017, the Committee's programme of work included the recruitment of two new non-executive Directors, Barbara Moorhouse and Michael Lucki.

All appointments to the Board are based on merit, against objective criteria, having due regard for diversity, including gender.

In seeking suitable candidates for the positions, Heidrick and Struggles US and Ridgeway, external executive search agencies, were separately engaged. The Committee identified the competencies and experience sought.

The key determinant in the selection of the Directors was a background in organisations that share key dynamics with Balfour Beatty, including contracting, customer service, major capital projects, infrastructure and B2B services.

The search agencies appointed were reminded to approach a diverse talent pool of candidates, and neither has other connections with Balfour Beatty.

Areas of focus in 2018

In January 2018, the Committee received from the Group Chief Executive a comprehensive presentation on the succession and development plans for the Group's senior leadership team and discussed succession plans for the Board. The implications of the business strategy for senior executive recruitment and the impact on the Group's succession planning are also areas which the Committee will consider during the year. It will continue to monitor the appropriateness of the composition of the Board.

Leo Quinn
Group Chief Executive

Group Tender and Investment Committee

Summary of role

The Committee has been chaired by Leo Quinn as the Group Chief Executive, or in his absence, the Chief Financial Officer, or in his absence by any one of four senior business unit leaders. Those business unit leaders are not permitted to chair any meeting which reviews proposals from those areas of the business for which he/she has executive responsibility.

The main purpose of the Committee is to review all major proposed tenders with projected values above specified levels, with a specific focus on risk. The Committee also has authority to approve capital expenditure applications and any proposed acquisitions or disposals up to certain specified limits determined by the Board. For example, currently the Committee's terms of reference require contracts for construction or services in the UK of a value exceeding £100 million to be submitted for review, whilst other limits vary according to geography and nature of the contract.

Any member may convene a meeting of the Committee to discuss any of the tender reviews in more detail. In addition to those members of the Committee most relevant for the consideration of each proposed tender, meetings are attended by key members of the bid team concerned and their strategic business unit leaders. Minutes of all meetings are made available to all Directors.

Finance and General Purposes Committee

Summary of role

The Committee is chaired by Leo Quinn as the Group Chief Executive or, in his absence, by the Chief Financial Officer.

The Committee is responsible for agreeing the Group's borrowing and banking arrangements, management of foreign exchange exposure, contract financing, bonding and leasing arrangements and various matters relating to the issued share capital of the Company.

A summary of the business conducted at the meetings is provided to all Directors.

Directors' report – other disclosures

Business and financial review

The Chairman's introduction on pages 2 and 3, the Group Chief Executive's review on pages 4 and 5, the market and strategic reviews on pages 8 to 15, the performance review on pages 16 to 25, the sustainability section on pages 29 to 37 and the Chief Financial Officer's review on pages 44 to 47, are incorporated by reference into the Directors' report.

Corporate governance

The Governance section on pages 58 to 87, including the Compliance with the Code statement on page 58, forms part of the Directors' report.

Results and dividends

The results for the year are shown in the audited financial statements presented on pages 94 to 173 and are explained more fully in the Group Chief Executive's review, the performance review and the Chief Financial Officer's review.

An interim dividend of 1.2p per ordinary share was approved by the Board on 15 August 2017 and a final dividend of 2.4p per ordinary share will be recommended at the Annual General Meeting, giving a total dividend per ordinary share of 3.6p for 2017 (2016: 2.7p). Preference dividends totalling 10.75p per preference share were paid in 2017 (2016: 10.75p).

The Directors continued to offer the dividend reinvestment plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service.

Innovation, research and development

Information concerning innovation, research and development is set out on pages 29 and 30, and forms part of the Directors' report disclosures.

Branches

As the Group is a global business, there are activities operated through branches in certain jurisdictions.

Share capital and shareholders

Details of the share capital of the Company as at 31 December 2017, including the rights attaching to each class of share, are set out in Note 29 on page 145. During the year ended 31 December 2017, no ordinary or preference shares were issued or repurchased for cancellation.

At 31 December 2017, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2017 to purchase through the market 68,973,961 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2018 AGM or on 1 July 2018.

Throughout the year, all the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report. There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the Articles of Association and the prevailing law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

No person has special rights of control over the Company's share capital and all issued shares are fully paid.

As at 31 December 2017, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its ordinary share capital:

	Number of ordinary shares held	Percentage of ordinary shares held
Causeway Capital Management LLC	76,067,468	11.03
Henderson Group plc	48,009,867	6.96
Prudential plc	42,969,270	6.22
BlackRock Inc	34,825,961	5.04
Schroders plc	34,779,827	5.04
Newton Investment Management Limited	31,347,697	4.54
Invesco Limited	29,102,945	4.21

Since 1 January 2018, the Company has received further notifications that BlackRock Inc's interest has increased to 6.17% and that Schroders plc's interest has fallen below 5% and has therefore ceased to be notifiable.

Auditor

KPMG LLP has indicated its willingness to continue as auditor to the Company and a resolution for its re-appointment will be proposed at the 2018 AGM.

Articles of Association

The Company has not adopted any special rules regarding the appointment and replacement of Directors or the amendment of the Articles of Association, other than as provided under UK company law.

Relations with shareholders

The Board attaches great importance to maintaining good relationships with all shareholders and ensures that shareholders are kept informed of significant Company developments.

The Company continued its programme of communication with institutional investors and sell-side analysts throughout 2017. Presentations of the half-year and annual results were made in accordance with the practice of previous years.

Through the year, approximately 125 one-on-one and group meetings were held at regular intervals with institutional shareholders (2016: approximately 75). Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during road shows in London and North America.

This communication programme will be maintained and expanded where appropriate, subject to the constraints of regulation and practice. The 2018 investor relations programme will focus on ensuring investors and the analyst community understand the Group, its operations and strategy, and that institutions continue to be given the opportunity to meet with management.

Care is exercised to ensure that any price sensitive information is released to all shareholders at the same time in accordance with UK Listing Authority requirements.

Executive Directors report regularly to the Board on meetings or other contact with shareholders or their representatives. The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman and the Senior Independent Director and through the regular reports to the Board, they are kept fully aware of the views of the larger shareholders in the Company and the investment community generally.

The Board continues to retain the services of independent external corporate and investor relations consultants who provide advice on the relationship between the Company and its institutional investors.

Further information on the Company's investor relations programme can be found at: www.balfourbeatty.com/investors

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders.

The chairs of the Board Committees attend the AGM each year along with the other Directors and are available to answer questions from shareholders. The circular setting out the Notice of the 2018 AGM provides a detailed explanation of the business to be transacted and includes contact details which shareholders can use to make any comments or ask any questions concerning the AGM.

The website is regarded by the Company as an important source of information on the Group, including financial press releases, shareholder documentation, annual and half-year results presentations and the terms of reference of the principal Board Committees. The Company's website continues to be developed to ensure it remains a principal source of information on the Group and its activities.

Political donations

At the AGM held in May 2017, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2018 AGM.

In the US and Canada, corporate political contributions totalling £19,306 were made by business units during 2017 (2016: £195,290). Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct.

Corporate responsibility

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 29 to 37. The Group's published policies on health and safety, the environment, business conduct and ethics remain in place and are subject to regular reviews.

Greenhouse gas emissions

Details of emissions during the year and the actions which the Group is taking to reduce them are set out on pages 35 and 36 and form part of the Directors' report disclosures.

Employment

The Balfour Beatty Group operates across a number of geographies and end markets.

Balfour Beatty provides a Human Resources framework for promoting diversity, ethical behaviour and learning and development as well as continuing to fulfil its commitments in relation to regulation and corporate governance. The key principles in the design and practice of employment policy that are applicable across the Group are to:

– provide a safe, open, inclusive and challenging environment that attracts and retains the best people
– enable all employees to perform at their best and realise their full potential, assisted by appropriate training and career development
– communicate the strategy of the Group, the objectives of each respective business and the role and objectives of each employee within that business
– actively consult with all employees and engage in a participating environment that fosters the exchange of best practice and collaboration
– provide market competitive pay and benefits that reward both individual and collective performance
– ensure that all job applicants receive fair treatment, regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
– ensure that all employees similarly receive fair treatment throughout their career
– provide a working environment of respect and free from harassment.

The Group provides fair and flexible employment policies and practices that respond to the different needs of its people. Information concerning employee diversity is set out on page 33 and forms part of the Directors' report disclosures.

Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible and is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential, consistent with all other employees.

The Company also operates an all employee Share Incentive Plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders. Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants.

Information concerning the performance of the Group and the Company's share price is provided to all employees via the Company's website.

Directors' report – other disclosures continued

Events after the reporting date

On 15 January 2018, Carillion plc filed for compulsory liquidation. Carillion was one of the Group's joint operations partners in the Aberdeen Western Peripheral Route (AWPR) project on a joint and several basis. As a result of Carillion's liquidation, the Group and its remaining joint operations partner on the project, Galliford Try plc, are jointly liable to deliver Carillion's remaining obligations on this contract in addition to each partner's existing 33% share. The Group has assessed the liquidation of Carillion plc as an adjusting post balance sheet event and in light of this, the Group has recognised a one-off non-underlying loss provision of £44m in 2017, which reflects the Group's additional loss on the contract as a result of Carillion's liquidation. The contract is expected to complete in the summer of 2018. Refer to Note 10 on page 114.

On 14 February 2018, the Group repurchased a further £17.7m of its convertible bonds, which will result in a loss on settlement of £0.3m. This settlement will also trigger a further £2m of reserves relating to the equity component of the repurchased bonds being transferred from other reserves into retained earnings. Following this settlement, the Group's outstanding bonds on maturity in December 2018 amount to £213.7m.

On 19 February 2018, the Group agreed the disposal of a further 5% interest in Connect Plus (M25) Holdings Ltd to Equitix for a cash consideration of £42m, equivalent to the price of the 20% disposal in 2017. The expected profit on disposal for this transaction is £21m. On 23 February 2018, the Group completed this transaction and received from Equitix the full cash consideration of £104m, inclusive of the £62m outstanding at the reporting date as detailed in Note 32.2.4 on page 151. The Group continues to own a 15% interest in Connect Plus (M25) Holdings Ltd.

On 7 March 2018, the Group repaid the first tranche of its US private placement notes amounting to US$45m (£32.5m). US$305m remain outstanding, with the next tranche of US$46m being due in March 2020 and the remaining loan notes falling due in March 2023 and March 2025.

Change of control provisions

The Group's bank facility agreements contain provisions that, on 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control of the Company and cancel all commitments under the agreement concerned.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty on a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

The Group's US private placement arrangements require the Company, promptly upon becoming aware that a change of control of the Company has occurred (and in any event within 10 business days), to give written notice of such fact to all holders of the notes and make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest.

The Group's convertible bond arrangements provide that the holder of bonds can require the Company to redeem its bonds following a change of control of the Company at their principal amount, together with accrued interest. The Company is required to notify the bond holder within 14 days of a change of control.

Some other commercial agreements, entered into in the normal course of business, include change of control provisions.

The Group's share and incentive plans include usual provisions relating to change of control, as do the terms of the Company's cumulative convertible redeemable preference shares.

There are no agreements providing for compensation for the Directors or employees on a change of control.

Financial instruments

The Group's financial risk management objectives and policies and its exposure to the following risks – foreign currency, interest rate, price and credit – are detailed in Note 38 on pages 156 to 160.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant, reliable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements
- assess the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, 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 that they face.

In light of the work undertaken by the Audit and Risk Committee reported in greater detail on pages 67 to 69 and the internal verification and approval process which has been followed this year, the Directors are able to state that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Statements of Directors as to disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

David Mercer
General Counsel and Company Secretary

13 March 2018

Registered Office:
5 Churchill Place, Canary Wharf
London E14 5HU

Registered in England Number 395826

Remuneration report

Chairman of Remuneration Committee's introduction

"Our remuneration policy's primary objective is to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders.

Iain Ferguson
Chairman of the Remuneration Committee

Dear fellow shareholders,

As chairman of the Board's Remuneration Committee, I am pleased to present the Directors' Remuneration report for 2017, which will be subject to an advisory vote at the 2018 AGM.

At the 2017 AGM, shareholders approved the Remuneration Policy. The policy is not presented here, but can be found in full at https://balfourbeatty.com/remuneration_policy. The decisions set out in this report are in line with that policy.

Our remuneration policy's primary objective is to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders.

Context

As our Chairman, Philip Aiken, explained in his introduction, the Group has continued to demonstrate further progress in restoring Balfour Beatty to profitability and enhancing its financial and operational resilience.

This transformation has happened as a result of strong, confident leadership over the last three years and the team has delivered considerable value for shareholders over the period.

Whilst, of course, this has been achieved through the commitment and dedication of our employees, substantial credit should be given to Group Chief Executive, Leo Quinn, and Chief Financial Officer, Philip Harrison.

Since joining the Company in 2015, Leo and Philip have led the Build to Last transformation programme and made significant progress towards achieving our goals.

As you will see within the report, the decisions recognise the scale of change that Leo and Philip have brought and I hope that you will support these by voting in favour of this report at the 2018 AGM.

Reward for 2017

In respect of 2017, the annual bonus payments for the executive Directors reflect the strong performance of the Group – profit and cash targets were met in full and the personal performance of both executive Directors was strong. The Group Chief Executive and the Chief Financial Officer received annual bonus payments of 97% and 96% of the maximum available respectively. 50% of this will be deferred in shares for three years.

The TSR performance conditions relating to the 2015 PSP measured performance over the three years ended 31 December 2017 for all participants except Leo Quinn whose award had a measurement period for the TSR part of the three years ended 14 October 2017. TSR performance conditions were met in part, EPS almost met its maximum target and the maximum cash target was met. As a result, 89% and 86% of these awards will vest for Leo Quinn and Philip Harrison respectively on 26 June 2018. Again this reflects the strong performance over the three years of our Build to Last transformation.

Salaries are normally reviewed on 1 July, and it was agreed that the executive Directors would not receive a salary increase for 2017, with salaries remaining at the level agreed upon their appointment in 2015. The next salary review date is 1 July 2018.

Areas of focus in 2018

The current remuneration policy was approved by shareholders at the 2017 AGM. The Committee believes that the current approach remains effective and aligned to the Company's strategic objectives. The Committee will continue to monitor external corporate governance developments and best practice developments over the forthcoming year.

Remuneration policy for 2018

The Committee will continue to operate within the remuneration policy approved by shareholders in 2017. The key highlights of how we intend to apply this for 2018 are:

– the annual bonus will be based on profit before tax 40%, cash 35% and strategic business and personal objectives 25%
– the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary and
– consistent with awards made previously, PSP awards will continue to be based on the achievement of three performance metrics split equally between relative TSR, EPS and cash.

Conclusion

The Committee will continue to engage with major shareholders to ensure that executive remuneration remains appropriate as the Board takes its responsibility to engage with investors seriously. We believe that our policy continues to deliver a robust link between reward and performance, that it is implemented rigorously in line with its stated objectives, and is aligned with the Group's strategic goals. We hope you will support our remuneration report at this year's AGM.

Iain Ferguson
Chairman of the Remuneration Committee

Annual report on remuneration

This part of the Remuneration report sets out how the remuneration policy will be applied over the year ending 31 December 2018 and how it was implemented over the year ended 31 December 2017. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The detailed information about the Directors' remuneration, set out on pages 78 to 87 (excluding the performance graph on page 85), has been audited by the Company's independent auditor, KPMG LLP.

The areas covered in this Annual Report on Remuneration comprise:

Annual report on remuneration continued

Implementation of the remuneration policy for the year ending 31 December 2018

Base salaries

The annual base salary review date is 1 July for executive Directors. Current base salaries for the executive Directors are as follows:

	1 July 2016 £	**1 July 2017 £**	% increase
Leo Quinn	800,000	**800,000**	0.0%
Philip Harrison	400,000	**400,000**	0.0%

The normal review date for executive Directors' base salaries is 1 July, but it was agreed that neither would receive an increase in 2017. The next salary review date is 1 July 2018.

Performance targets for the AIP in 2018

For 2018, the AIP for the executive Directors will be a maximum bonus of 150% of base salary, based on the achievement of three performance measures:

– profit before tax (40%)
– cash (35%)
– strategic business and personal objectives (25%).

The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in Balfour Beatty shares.

While the Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in next year's Annual Report on Remuneration.

Performance targets for PSP awards granted in 2018

For 2018, the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary. Consistent with the approach adopted in 2015, 2016 and 2017, the PSP awards to be granted in 2018 will be based on the achievement of three performance measures:

– relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2018, the start of the performance period. There is no vesting for ranking below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
– EPS (33.3%) – the Group's EPS over the three-year performance period
– cash (33.3%) – cash remains critical as a long-term performance measure during the Group's transformation.

As at the date of publication of this Remuneration report, the Committee had not finalised the EPS and cash performance targets for the PSP awards to be granted in 2018. These EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement issued immediately following the grant of the PSP award and in the Remuneration report for 2018.

Non-executive Directors

The Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. At the annual review of fees for the non-executive Directors on 1 July 2017, the annual base fee was increased from £56,000 to £60,000 and the annual fee for chairing a Board Committee was increased from £10,000 to £12,500. Those fees had not been increased since the review on 1 July 2012. A summary of current fees is as follows:

	1 July 2016 £	**1 July 2017 £**	% increase
Chairman	270,000	**270,000**	0%
Base fee	56,000	**60,000**	7%
Senior Independent Director fee	10,000	**10,000**	0%
Committee chair fee	10,000	**12,500**	25%

For non-executive Directors based outside Europe, the travel allowance for each overseas visit made on Company business remains at £2,500.

Where the Chairman is also the chair of a Committee, he or she receives no committee chair fee. The Senior Independent Director fee is only payable if he or she is not the chair of a Committee.

Remuneration received by Directors for the year ended 31 December 2017

The table below sets out the Directors' remuneration for the year ended 31 December 2017 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ending 31 December 2016.

	Year	Base salary and fees[1,2] £	Taxable benefits[3,4] £	Pension cash allowance £	Annual incentive cash[5] £	Annual incentive deferred shares[5] £	Long-term incentives[6] £	Other[7] £	Total £
Executive Directors									
Philip Harrison	**2017**	**400,000**	**14,503**	**80,000**	**288,000**	**288,000**	**751,897**	**74,461**	**1,896,861**
	2016	400,000	14,449	80,000	112,992	112,992	–	57,741	778,174
Leo Quinn	**2017**	**800,000**	**21,006**	**160,000**	**582,000**	**582,000**	**2,077,004**	**1,171,881**	**5,393,891**
	2016	800,000	29,250	160,000	228,000	228,000	–	–	1,445,250
Non-executive Directors									
Philip Aiken	**2017**	**270,000**	**34**	**–**	**–**	**–**	**–**	**–**	**270,034**
	2016	270,000	1,688	–	–	–	–	–	271,688
Stephen Billingham	**2017**	**69,250**	**–**	**–**	**–**	**–**	**–**	**–**	**69,250**
	2016	64,333	–	–	–	–	–	–	64,333
Stuart Doughty	**2017**	**64,250**	**–**	**–**	**–**	**–**	**–**	**–**	**64,250**
	2016	56,000	–	–	–	–	–	–	56,000
Iain Ferguson	**2017**	**69,250**	**–**	**–**	**–**	**–**	**–**	**–**	**69,250**
	2016	66,000	–	–	–	–	–	–	66,000
Michael Lucki[8]	**2017**	**30,000**	**5,000**	**–**	**–**	**–**	**–**	**–**	**35,000**
Barbara Moorhouse[9]	**2017**	**34,667**	**–**	**–**	**–**	**–**	**–**	**–**	**34,667**
Former non-executive Directors									
Maureen Kempston Darkes[10]	**2017**	**25,554**	**24,393**	**–**	**–**	**–**	**–**	**–**	**49,947**
	2016	66,000	2,573	–	–	–	–	–	68,573
Graham Roberts[11]	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2016	33,000	57	–	–	–	–	–	33,057

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors.

2 In practice, the base salary paid to Leo Quinn was reduced due to his participation in the Company's Share Incentive Plan. The salary reduction in 2017 was £1,800.

3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for himself and his spouse and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for himself only and received a car allowance of £14,000 per annum.

4 Philip Aiken, Michael Lucki, Maureen Kempston Darkes and Graham Roberts received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column.

5 AIP 2017: further details of these awards are set out on pages 80 and 81.

6 This relates to the 2015 PSP award for which the performance period ended in 2017 with the valuation of vesting shares calculated on the closing share price of 297p on 31 December 2017. Under the rules of the PSP scheme, the participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares. Further details of these awards are set out on pages 81 and 82.

7 Other payments relate to the conditional share awards granted to Philip Harrison and Leo Quinn to compensate them for share awards which were forfeited upon leaving their respective former employers. For 2017, Philip Harrison's award is the second tranche for which the performance period ended 31 December 2017 with the valuation of the 25,071 shares vesting calculated on the closing share price of 297p at 31 December 2017. For 2017, Leo Quinn's award is the first tranche for which the performance period ended 2 January 2017 with the valuation of the 423,704 shares vesting calculated on the share price of 276.58p at the vesting date on 16 March 2017. For 2016, Philip Harrison's award is the first tranche for which the performance period ended 31 December 2016 with the valuation of the 21,529 vesting shares calculated on the closing share price of 268.2p at 31 December 2016. Further details of these awards are set out on pages 83 and 84.

8 Michael Lucki joined the Board effective 1 July 2017.

9 Barbara Moorhouse joined the Board effective 1 June 2017.

10 Maureen Kempton Darkes stepped down from the Board effective 18 May 2017.

11 Graham Roberts died on 1 July 2016.

Annual report on remuneration continued

AIP awards for the year ended 31 December 2017

For 2017, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

- profit before tax (40%)
- cash (35%)
- strategic business and personal objectives (25%).

The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares.

AIP objective			Actual	Maximum (% of salary)	Actual (% of salary)	Payable in cash (% of salary)	Payable in shares (% of salary)
Profit before tax and non-underlying items	Threshold Target Maximum	£63.7m £79.6m £87.6m	£165m	60.0	60.0	30.0	30.0
Group Total Cash Flow	Threshold Target Maximum	£(146.6)m £(122.2)m £(110.0)m	£162m	52.5	52.5	26.25	26.25
Strategic business and personal objectives as agreed by the Remuneration Committee (details below)	Remuneration Committee assessment of achievement		Group Chief Executive 88.0%	37.5	33.0	16.5	16.5
			Chief Financial Officer 84.0%	37.5	31.5	15.75	15.75
			Total – Group Chief Executive	150.0	145.5	72.75	72.75
			Total – Chief Financial Officer	150.0	144.0	72.0	72.0

Performance against the 2017 AIP strategic business and personal objectives as it relates to the executive Directors was:

Summary of key strategic objectives	Examples of actual achievement	Group Chief Executive Weight %	Group Chief Executive Out-turn %
Lean: – Established detailed plans for Phase 2 of Build to Last transformation programme	**Met in full:** – Further overhead cost reduction of £30m – Strong cash performance moving to average net cash excluding non-recourse debt – Simplification of the business model–exit Middle East and Indonesia, sale of Heery International Inc	32.0	32.0
Expert: – Build a high-calibre sustainable senior leadership team and establish effective processes to develop a sustainable talent pipeline – Improve UK employee voluntary retention rates and employee engagement survey results – Launch management development programme for future leaders	**Met in part:** – Improvement of employee engagement index results from 58% to 60% – Voluntary turnover in the UK improved by 4.6% – Management development programme launched across UK – 5.3% of UK workforce in 'earn and learn' positions – meeting The 5% Club target	24.0	20.0
Trusted: – Continue improvement in managing risk and reputation through embedded governance and controls – Over 90% in measured customer satisfaction	**Met in full:** – Governance and controls in place providing a transparent and disciplined contracting framework – 94% customer satisfaction achieved	24.0	24.0
Safe: – Ongoing leadership and drive in improved safety culture and performance – Continue improvement in UK and US leading and lagging indicators	**Met in part:** – Displayed strong leadership and high visibility with regard to promoting Zero Harm objectives – nevertheless three fatalities occurred during the year, two in US and one in Far East – Strong performance in leading indicators: observations increased by 24% – Good performance in lagging indicators (LTIR, AFR, HiPo)	20.0	12.0
Total		100.0	88.0

Summary of key strategic objectives	Examples of actual achievement	Group Financial Officer Weight %	Group Financial Officer Out-turn %
Lean: – Achieve a minimum £25m annual overhead cost reduction – Deliver 2017 budget targets for cost of the finance function and establish clear strategy and plan to achieve the 2018 targets – Improve financial systems and processes; minimum 70% electronic invoicing	**Met in full:** – Exceeded annual overhead cost reduction target, achieved £30m overhead improvement – Standardised management reporting process across Group – 84% electronic invoicing usage achieved – Launched single ERP in the US Construction businesses on time (1 January 2018)	28.0	28.0
Expert: – Improve quality of financial information for UK central functions – Progress in building a high-calibre sustainable finance function in the UK and US with appropriate short and long-term succession options for key positions	**Met in part:** – Improved cash forecasting and monthly reporting – Created integrated finance team in the US Construction businesses	24.0	18.0
Trusted: – Develop and implement agreed capital structure for the Group	**Met in full:** – Full programme developed and agreed by the Board – Average net cash excluding non-recourse debt for the year	28.0	28.0
Safe: – Support and role model improvement in safety culture and performance	**Met in part:** – Displayed strong, visible leadership with regard to promoting Zero Harm objectives – nevertheless three fatalities occurred during the year, two in US and one in Far East – Improvements in leading and lagging indicators	20.0	10.0
Total		100.0	84.0

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of the profit performance and determined that the above payments are appropriate given the Group's strong financial performance and the personal performance of the executive Directors. The executive Directors have, in the opinion of the Committee, continued to make significant improvements to the business through Build to Last to deliver our goals.

Vesting of PSP awards for the year under review

The PSP awards granted on 26 June 2015 were based on a performance period for the three years ended 31 December 2017, except for Leo Quinn's award which has a measurement period for the TSR part of the three years to 14 October 2017. The performance conditions applying to one-third of each award were comparative Total Shareholder Return measured versus the FTSE 51-150 (excluding investment trust) 'live' companies, cash performance measured as Total Net Debt and Earnings Per Share. 25% of each part of the award would vest for threshold performance increasing to 100% of each part of the award vesting for maximum performance or above.

Details of the PSP awards vesting for the year under review are therefore as follows:

Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting %
Total Shareholder Return – Leo Quinn	TSR against the 89 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	45.0 or above	22.75 or above	32.54	67.00
Total Shareholder Return – Philip Harrison	TSR against the 90 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	45.5 or above	23.0 or above	35.67	57.77
Cash		Total Net Cash/(Debt)	£(150)m	£0m	£335m	100
Earnings Per Share		Earnings Per Share	14p	21p	20.9p	98.93
	Total vesting – Leo Quinn					88.64%
	Total vesting – Philip Harrison					85.57%

Annual report on remuneration continued

Vesting of PSP awards for the year under review continued

Name of Director	Type of award	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares[1]
Leo Quinn	2015 conditional	26 June 2018	788,954	699,328	89,626	£2,077,004
Philip Harrison	2015 conditional	26 June 2018	295,857	253,164	42,693	£751,897

1 Valuation of vesting shares calculated on the closing price share price of 297p at 31 December 2017.

Outstanding share awards

				Maximum number of shares subject to award				
Name of Director	Share award	Date granted	At 1 January 2017	Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2017	Exercisable and/ or vesting from
Philip Harrison	PSP[1,2,5,6]	26 June 2015	295,857	–	–	–	**295,857**	26 June 2018
	PSP[3,5,6]	13 April 2016	254,885	–	–	–	**254,885**	13 April 2019
	PSP [4,5,6,7]	7 June 2017	–	253,347	–	–	**253,347**	7 June 2020
	DBP[8,9,11,13]	31 March 2016	26,143	285	–	–	**26,428**	31 March 2019
	DBP[8,9,11,12,13]	31 March 2017	–	42,880	–	–	**42,880**	31 March 2020
	Share buyout[14]	11 June 2015	30,831	–	21,529	9,302	**–**	31 December 2016
	Share buyout[14]	11 June 2015	61,662	–	–	–	**61,662**	31 December 2017
Leo Quinn	PSP[1,2,5,6]	26 June 2015	788,954	–	–	–	**788,954**	26 June 2018
	PSP[3,5,6]	13 April 2016	679,694	–	–	–	**679,694**	13 April 2019
	PSP[4,5,6,7]	7 June 2017	–	579,080	–	–	**579,080**	7 June 2020
	DBP[8,9,11,13]	26 June 2015	193,907	2,120	–	–	**196,027**	26 June 2018
	DBP[8,9,11,13]	31 March 2016	89,636	980	–	–	**90,616**	31 March 2019
	DBP[8,9,11,12,13]	31 March 2017	–	86,527	–	–	**86,527**	31 March 2020
	Share buyout[14]	2 January 2015	604,256	–	423,704	180,552	**–**	2 January 2017
	Share buyout[14]	2 January 2015	1,208,511	–	–	–	**1,208,511**	2 January 2018

1 2015 PSP award: Further details of this award are set out on pages 81 and 82.
2 The 2015 PSP award used a share price of 202.8p to calculate the number of shares awarded, being the average middle market price of ordinary shares in the Company for the 10 dealing dates before Leo Quinn joined the Company on 2 January 2015. The closing middle market price of ordinary shares on the date of the award was 243.0p.
3 The 2016 PSP award is subject to three performance targets over a three-year performance period commencing 1 January 2016. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–150 by market capitalisation in the FTSE All Share Index (excluding investment trusts), no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. Net Debt part (33.3% weighting), no vesting unless 2018 year end Net Debt is less than £(75) million, 25% to 50% for Net Debt between £(75) million and £(0) million, rising to full vesting for net cash of £50 million. EPS part (33.3% weighting), no vesting unless 2018 EPS is 20p, 25% vesting of this part at 20p, rising to full vesting at 27p.
4 2017 PSP award: Details are set out on page 83.
5 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 301.9p for the 2014 award, 235.4p for the 2016 award and 276.3p for the 2017 award. The closing middle market price of ordinary shares on the date of the awards was 299.6p, 238.3p and 271.0p respectively.
6 All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc.
7 On 7 June 2017, for all participants in the PSP, a maximum of 3,087,443 conditional shares were awarded which are exercisable on 7 June 2020.
8 All DBP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
9 The initial DBP awards made in March 2015, June 2015, March 2016 and March 2017 will vest on 31 March 2018, 26 June 2018, 31 March 2019 and 31 March 2020 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
10 The initial DBP awards made in 2014 vested on 31 March 2017. The closing middle market price of ordinary shares in the Company on the vesting date was 269.40p.
11 The shares subject to the DBP awards made on 31 March 2014, 31 March 2015, 26 June 2015, 31 March 2016 and 31 March 2017 were purchased at average prices of 301.9p, 241.0p, 245.0p, 252.5p and 266.4p respectively.
12 On 31 March 2017, for all participants in the DBP, a maximum of 632,308 conditional shares were awarded which will normally be released on 31 March 2020.
13 On 20 April 2017 and 5 October 2017, a further 11,289 conditional shares and 7,765 conditional shares were awarded in lieu of entitlements to the final 2016 dividend and interim 2017 dividend respectively. These shares were allocated at average prices of 280.4p and 267.2p respectively.
14 The share buyout awards were granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. The awards compensate each of Leo Quinn and Philip Harrison for incentive awards which were forfeited on leaving their previous employers. Further details of these awards are set out on pages 83 and 84. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.
15 The closing market price of the Company's ordinary shares on 31 December 2017 was 297.0p. During the year, the highest and lowest closing market prices were 298.4p and 253.5p respectively.

PSP awards granted during the year

On 7 June 2017, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Leo Quinn	Conditional	200% of salary of £800,000	276.3p	579,080	£1,600,000	25%	31 December 2019	7 June 2020
Philip Harrison	Conditional	175% of salary of £400,000	276.3p	253,347	£700,000	25%	31 December 2019	7 June 2020

The performance condition applying to one third of each award (the TSR Part) will measure the Company's total shareholder return performance (TSR) relative to the TSR performance over the same period of a comparator group of companies comprising the constituents of the FTSE 51-200 (excluding investment trusts) as at the start of the measurement period. The measurement period for the TSR Part is the three financial years to 31 December 2019.

No portion of the TSR Part will vest unless the Company's TSR performance ranks at least equal to median TSR performance of the comparator group, at which point 25% of the TSR Part will vest, rising on a straight-line basis to 100% vesting for the Company's TSR performance ranking at upper quartile or better relative to the TSR performance of the comparator group companies.

The performance condition applying to a separate one third of each award (the Cash Part) will measure improvement in the Group's Operating Cash Flow (OCF) from continuing operations.

No portion of the Cash Part will vest unless the Group's OCF for the financial year ending 31 December 2019 is greater than £132 million. Were OCF for 2019 to be greater than £132 million but not more than £164 million, 25% to 50% of the Cash Part would vest on a straight-line basis. Were OCF for 2019 to be £164 million to £200 million or more, between 50% of and 100% of the Cash Part would vest on a straight-line basis.

The performance condition applying to a separate one-third of each award (the EPS Part) will measure the Group's earnings per share performance.

No portion of the EPS Part will vest unless the Group's EPS for the financial year ending 31 December 2019 is 19p, at which point 25% of the EPS Part will vest, rising on a straight-line basis to 100% vesting for the Group's EPS for 2019 being 29p or more.

Executive Directors' recruitment terms

Leo Quinn

As part of his recruitment arrangements and as fully disclosed in the 2014, 2015 and 2016 Remuneration reports, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer. The Company granted a conditional share award over 1,812,767 Balfour Beatty plc shares on 2 January 2015 to vest in two tranches:

- After application of the performance criteria, the first tranche vested on 16 March 2017 with 423,704 shares vesting and 180,552 shares lapsing. Vesting was subject to share price targets tested at the second anniversary of grant based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p with no vesting for this part of the award for an average share price of less than 222p.
- Outstanding at year end is the second tranche, a conditional share award over 1,208,511 Balfour Beatty plc shares granted on 2 January 2015 which will vest on the third anniversary of grant subject to share price targets tested at the end of the three-year period based on a 60-day average share price as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p.
- In addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The outstanding share-based buyout award lapses in the event of voluntary resignation or termination for cause prior to the vesting date. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro-rating at the time of cessation.

In relation to the second tranche of 1,208,511 shares, on 12 March 2018 the Remuneration Committee reviewed the end average share price of 277.31p at 2 January 2018 against the target range, indicating vesting at 40.76% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 40.76% of the award (492,589 shares) will be permitted to vest on 14 March 2018 when the Company enters an open period.

Annual report on remuneration continued

Executive Directors' recruitment terms continued

Philip Harrison

As part of his recruitment arrangements, the Company agreed to compensate Philip Harrison for share awards which were forfeited upon leaving his previous employer. The performance targets are consistent with the awards granted to Leo Quinn at the start of 2015.

The Company granted a conditional share award over 92,493 Balfour Beatty plc shares on 11 June 2015 to vest in two tranches:

- After application of the performance criteria, the first tranche vested on 16 March 2017 with 21,529 shares vesting and 9,302 shares lapsing. Vesting was subject to share price targets tested at 31 December 2016 based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p with no vesting for this part of the award for an average share price of less than 222p.
- Outstanding at year end is the second tranche, a conditional share award over 61,662 Balfour Beatty plc shares which will vest on 31 December 2017 subject to share price targets based on a 60-day average share price as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p.
- In addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The outstanding share buyout award lapses in the event of voluntary resignation or termination for cause prior to the vesting date. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro-rating at the time of cessation.

In relation to the second tranche of 61,662 shares, on 12 March 2018 the Remuneration Committee reviewed the end average share price of 277.14p at 31 December 2017 against the target range, indicating vesting at 40.66% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 40.66% of the award (25,071 shares) will be permitted to vest on 14 March 2018 when the Company enters an open period.

Payments to past Directors

There were no payments to past executive Directors during 2017.

Statement of Directors' shareholdings and share interests

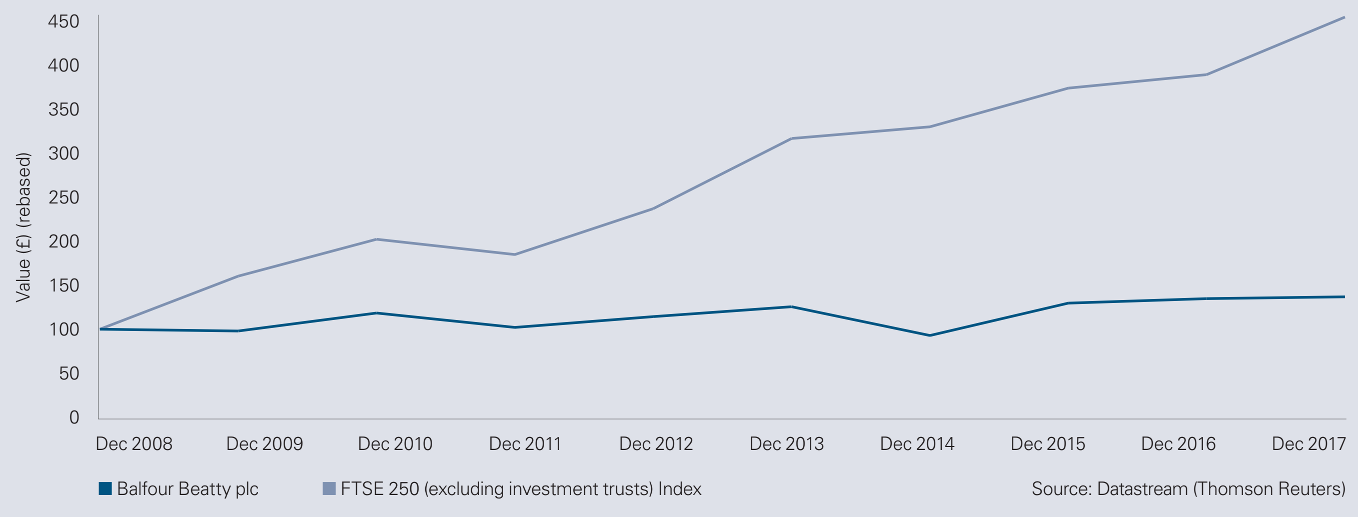
The interests of the Directors and connected persons (including, amongst others, members of the Director's immediate family) in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below:

Directors	Beneficially owned at 1 January 2017[1,2]	Beneficially owned at 31 December 2017[2,3,4]	Outstanding PSP awards	Outstanding DBP awards	Outstanding share buyout awards	Beneficially owned at 31 December 2017 as a % of base salary at 31 December[5] 2017	Guideline met[6]
Philip Harrison	6,349	17,744	804,089	69,308	61,662	13%	No
Leo Quinn	486,127	798,663	2,047,728	373,170	1,208,511	297%	Yes
Philip Aiken	15,000	15,000					
Stephen Billingham[7]	23,580	23,757					
Stuart Doughty	–	4,550					
Iain Ferguson	55,000	55,000					
Maureen Kempston Darkes	7,000	7,000					
Michael Lucki	–	–					
Barbara Moorhouse	–	4,000					

1 Or date of appointment, if later.
2 Includes any shares held in the Company's all-employee Share Incentive Plan.
3 Or date of stepping down from the Board, if earlier.
4 As at 13 March 2018, there have been no changes to the above other than an increase in respect of ordinary shares held in the Share Incentive Plan for Leo Quinn by 106 shares.
5 The closing market price of the Company's ordinary shares as at 31 December 2017 (297.0p) was used to calculate the value of shares beneficially owned.
6 The Group Chief Executive and Chief Financial Officer are required to hold shares in the Company worth 200% and 150% of base salary respectively and must retain no fewer than 50% of the shares, net of taxes, vesting under the DBP and PSP until the required shareholding is met.
7 Stephen Billingham was also interested in 36,070 redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2017 and 31 December 2017.

Performance graph

As in previous reports, the Remuneration Committee has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, and have been calculated using 30 trading day average values.



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last nine financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ended 31 December								
	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Total remuneration[1]	£1,617,233	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568	£1,442,070	£1,445,250	**£4,222,010**
AIP (%)[2]	60.4%	69.6%	65.3%	40.2%	21.0%	0%	47.0%	47.5%	**97.0%**
PSP (%)	50.0%	18.4%	0%	0%	0%	0%	0%	0%	**88.6%**

1 The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures for 2015 onwards relate to Leo Quinn.

2 Andrew McNaughton did not qualify for any 2014 AIP.

Percentage change in Group Chief Executive's remuneration compared with all UK employees

The table below shows the percentage change in the Group Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2016 and 31 December 2017, compared with the percentage increase in the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator.

	2016	**2017**	% change
Salary for year ended 31 December			
Group Chief Executive (£000)	800	**800**	0%
All UK employees (£m)	668	**672**	1%
Benefits for year ended 31 December			
Group Chief Executive (£000)	189	**181**	(4)%
All UK employees (£m)	36	**47**	31%
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000)	456	**1,164**	155%
All UK employees (£m)	17	**12**	(29)%
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	1,445	**2,145**	48%
All UK employees (£m)	721	**731**	1%

Annual report on remuneration continued

Relative importance of spend on pay, dividends and underlying pre-tax profit

The following table shows the Company's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit:

	2016	**2017**	% change
Staff costs (£m)[1]	1,201	**1,193**	(1)%
Dividends (£m)	6	**20**	233%
Underlying pre-tax profit (£m)[2]	60	**166**	177%

1 Staff costs include base salary, benefits and bonuses for all Group employees in continuing and discontinued operations (excluding joint ventures and associates).
2 Underlying pre-tax profit is from continuing and discontinued operations.

Directors' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2017. The executive Directors were in receipt of a cash allowance in lieu of pension equivalent to 20% of base salary as disclosed in the Directors' Remuneration table on page 79.

External appointments of executive Directors

No Director held external appointments in 2017.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code. No member of the Committee has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. During the year under review, the members of the Committee were as follows:

- Iain Ferguson (Committee chair)
- Philip Aiken
- Maureen Kempston Darkes until 18 May 2017.
- Michael Lucki from 6 July 2017.
- Barbara Moorhouse from 6 July 2017.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed
- New Bridge Street (a trading name of Aon plc) (NBS).

NBS has been appointed as external independent executive remuneration advisers by the Committee and has provided a range of advice to the Committee during the year, including:

- in support of the Remuneration Policy review, NBS provided analysis of market practice and advice on remuneration approaches for consideration by the Committee and in relation to the views of shareholders and their representative bodies
- assistance with the drafting of the Remuneration report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards and the share buyout awards.

Neither NBS nor any part of Aon plc provided any other services to the Company during the year under review. Total fees paid to NBS in respect of its services to the Committee were £38,040 (2016: £62,206).

NBS is a signatory to the Remuneration Consultants' Code of Conduct. The Committee is satisfied that the advice that it receives from NBS is objective and independent.

Statement of shareholder voting at the AGM

At the AGM on 18 May 2017, the resolution to approve the Remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	509,605,262	96.7%
Against	17,155,440	3.3%
Total votes cast	526,760,702	100%
Abstentions	59,119	–

The resolution to approve the Remuneration Policy at the same AGM received the following votes from shareholders:

	Total number of votes	% of votes cast
For	407,216,825	77.2%
Against	120,392,331	22.8%
Total votes cast	527,609,156	100%
Abstentions	81,587	–

By order of the Board

Iain Ferguson
Chairman of the Remuneration Committee

13 March 2018

Independent auditor's report to the members of Balfour Beatty plc

1 Our opinion is unmodified

We have audited the financial statements of Balfour Beatty plc (the Company) for the year ended 31 December 2017 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group and Company Balance Sheets, Group Statement of Cash Flows, and the related Notes, including the accounting policies in Note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were appointed as auditor by the shareholders on 19 May 2016. The period of total uninterrupted engagement is for the two financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements, including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£10.0m (2016: £10.0m) 6.4% (2016: 20%) of normalised Group profit before tax from continuing operations	
Coverage	100% (2016: 99%) of Group profit before tax	
Risk of material misstatement vs 2016		
Recurring risks	Contract accounting	◀▶
	Recoverability of Group goodwill and of parent Company's investment in subsidiaries	◀▶

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk

Contract accounting £6,103 million (2016: £6,173 million) **Risk vs 2016: ◀▶**

Refer to page 68 (Audit and Risk Committee report), pages 104 and 105 (Principal accounting policies – Note 2.5 Construction and service contracts) and pages 108 and 109 (Judgements and key sources of estimation uncertainty – Note 2.27a Revenue and margin recognition and Note 2.27f Provisions).

Subjective estimate

For the majority of its contracts, the Group recognises revenue and profit on the stage of completion based on the proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total forecast costs of the contract at completion.

The recognition of revenue and profit/loss therefore rely on estimates in relation to the forecast total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and adjusted where appropriate.

The revenue on contracts may also include variations and claims. Variations and claims are recognised on a contract-by-contract basis when the Group's negotiations have reached a stage such that it is probable that the customer will accept the claim and the amount can be measured reliably. In certain circumstances recoveries from insurers are also included in forecasts where sufficient progress has been made to meet accounting recognition requirements. In addition for certain contracts estimates are made for latent and known defect provisions within the warranty period. Therefore there is a high degree of risk and associated management judgement in estimating the amount of revenue and associated profit to be recognised by the Group up to the balance sheet date and changes to these estimates could give rise to material variances.

Our response

Using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the detailed project review papers from the Group to support the estimates made and challenged the judgements underlying those papers with senior operational, commercial and financial management. In this area our audit procedures included:

- **Historical comparisons:** evaluating the financial performance of contracts against budget and historical trends;
- **Site visits:** completing site visits, with the involvement of our industry specialists, to certain higher risk or larger value contracts, physically inspecting the progress on site for individual projects and identifying areas of complexity through observation and discussion with site personnel;
- **Benchmarking assumptions:** challenging the Group's judgement in respect of forecast contract out-turn, contingencies, settlements and the recoverability of contract balances via agreement to third-party certifications and confirmations and with reference to our own assessments, historical outcomes and industry norms;
- **Customer correspondence scrutiny:** analysing correspondence with customers around variations and claims to challenge the estimates of claims and variations made by the Group;
- **Insurer correspondence scrutiny:** analysing correspondence with insurers around recognised insurance claims to challenge management's position taken on the contract;
- **Test of detail:** analysing the end of job forecasts on contracts tested and challenging the estimates within the forecasts by considering the amounts already procured, the amounts still to be procured, the site and time related cost forecasts against programme and run rates, and any contingency held;
- **Test of detail**: inspecting selected contracts for key clauses; identifying relevant contractual mechanisms such as pain/gain shares, design bonuses, liquidated damages and success fees and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements;
- **Our sector experience:** using our sector experience to assess whether the amounts recognised in the financial statements resulting from the estimates and assumptions made represent a balanced view of the risks and opportunities pertinent to the contract working capital positions;
- **Our sector experience:** considering whether provisions against contracts sufficiently reflect the level of risk by challenging the Group's judgement in this area with reference to our own assessments.

Our findings:

We considered the amount of revenue and associated profits recognised to be acceptable.

Independent auditor's report to the members of Balfour Beatty plc continued

The risk

Recoverability of Group goodwill and of parent Company's investment in subsidiaries

Group goodwill, excluding Balfour Beatty Communities US: £825 million (2016: £883 million); Parent Company: amount within total investment in subsidiaries of £1,700 million (2016: £1,698 million)

Risk vs 2016: ◀▶

Refer to page 68 (Audit and Risk Committee report), page 106 (Principal accounting policies – Note 2.12 Intangible assets, Note 2.16 Impairment of assets and Note 2.17 Investments) and pages 119 and 120 (Note 14 Intangible assets – goodwill) and page 129 (Note 19.2 Investments – Company)

Forecast-based valuation

There is a risk that the goodwill allocated to cash-generating units (CGUs) and parent Company's investment in subsidiaries are not recoverable and should be impaired. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgement areas for our audit.

Our risk relates to the goodwill within the Construction Services and Support Services segments and to the parent Company's investment in Balfour Beatty Investment Holdings Ltd.

The Group annually carries out an impairment assessment of goodwill and investments using a value-in-use model which is based on the net present value of the forecast earnings of the cash-generating unit. This is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts.

Our response

Our procedures included:

- **Assessing methodology:** considering the consistency and appropriateness of the allocation of businesses and related goodwill balances into CGUs;
- **Sensitivity analysis:** performing our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and margins to identify areas on which to focus our procedures;
- **Our sector experience:** considering the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy, current order book, and wider macro-environment conditions;
- **Our valuation experience:** challenging the assumptions used by the Group in the calculation of the discount rates, including comparisons with external data sources and by involving our own valuation specialist to assist us in evaluating the valuation methodologies used by the Group, as well as the discount rate assumptions applied;
- **Assessing transparency:** considering the adequacy of the Group's disclosures including disclosure of sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflecting the risks inherent in the valuation of goodwill. We also considered the adequacy of the disclosures in respect of the parent Company's investment in subsidiaries.

Our findings:

We considered the Group's assessment of the recoverability of goodwill in the Group and the parent Company's investment in subsidiaries to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £10.0 million (2016: £10.0 million), determined with reference to the benchmark of Group profit before tax from continuing operations of £156 million normalised to take into account items that are considered one-off or exceptional in the year as disclosed in Note 10 on pages 114 to 116, but not including an adjustment for the amortisation of acquired intangible assets of £9 million, of which it represents 6.4% (2016: 20%).

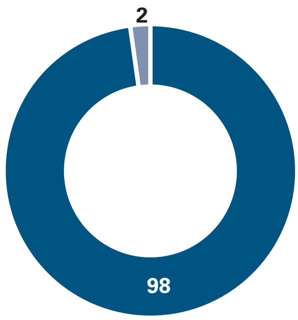
Due to the volatility in the Group's results in recent financial years, as part of our materiality assessment we also considered the scale of the business, the level of judgement and precision within the Group's key accounting judgements, as well as how the level of materiality compares to other relevant benchmarks such as revenue, of which it represents 0.1% and total assets, of which it represents 0.2%, where they provide more consistent measures year on year than Group profit before tax.

We reported to the Audit and Risk Committee any corrected and uncorrected identified misstatements exceeding £0.5 million (2016: £0.5 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

Materiality for the parent Company financial statements as a whole was set at £9.0 million (2016: £9.0 million), determined with reference to a benchmark of Company total assets, of which it represents 0.27% (2016: 0.27%).

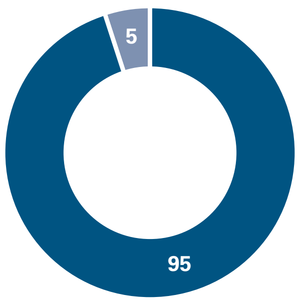
Scoping and coverage

Group revenue
%



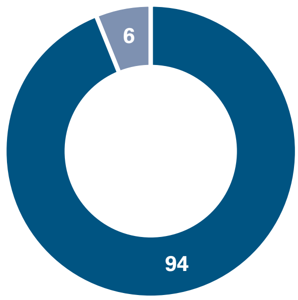
- Full scope audit (2016: 96%)
- Specified risk-focused audit procedures (2016: 4%)

Group profit before tax
%



- Full scope audit (2016: 93%)
- Specified risk-focused audit procedures (2016: 6%)

Group total assets
%



- Full scope audit (2016: 94%)
- Specified risk-focused audit procedures (2016: 6%)

Of the Group's 16 reporting components (2016: 16), 11 were subject to an audit for Group reporting purposes (2016: 11) and five (2016: two) to specified risk-focused audit procedures. For the residual three components in 2016, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these. The components for which we performed specified risk-focused procedures were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed. The specified audit procedures were performed over fixed assets (one component), inventory (one component), provisions (two components), contract accounting (one component) and cash (one component). The components within the scope of our work accounted for 100% (2016: 100%) of Group revenue, 100% (2016: 99%) of Group profit before tax and 100% (2016: 100%) of Group total assets as illustrated above.

The Group operates one shared service centre in Newcastle, United Kingdom, the outputs of which are included in the financial information of the reporting components it services. Therefore it is not a separate reporting component. The service centre is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at each reporting component to address the audit risks not covered by the work performed over the shared service centre.

The Group audit team instructed components, and the auditors of the shared service centre, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the components' materiality, which ranged from £0.5 million to £9.0 million, having regard to the mix of size and profile of the Group across the components. The work on the 11 of the Group's 16 components was performed by the component auditors. Specified risk-focused procedures on four components, audit of the parent Company, Group consolidation work and procedures on the items excluded from normalised Group profit before tax were performed by the Group audit team.

In 2017, the Group audit team visited nine components in the United Kingdom, United States and Hong Kong (2016: nine components). Telephone conference meetings were held with these component auditors and the majority of the others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in detail.

4 We have nothing to report on going concern

We are required to report to you if:

– we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 on page 102 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

– the related statement under the Listing Rules set out on page 47 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Independent auditor's report to the members of Balfour Beatty plc continued

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 57 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that 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 Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 74 and 75, the Directors are responsible for: the preparation of the financial statements, including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. In planning and performing our audit we considered the impact of laws and regulations in core areas such as financial reporting, and company and taxation legislation.

We considered the extent of compliance with those laws and regulations that directly affect the financial statements, being financial reporting, and company and taxation legislation, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we made enquiries of Directors and other management (as required by auditing standards).

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Wardell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

13 March 2018

Group Income Statement

For the year ended 31 December 2017

	Notes	2017 Underlying items[1] £m	2017 Non-underlying items (Note 10) £m	2017 Total £m	2016[2] Underlying items[1] £m	2016[2] Non-underlying items (Note 10) £m	2016[2] Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**8,234**	**30**	**8,264**	8,215	153	8,368
Share of revenue of joint ventures and associates	18.2	**(1,340)**	**(8)**	**(1,348)**	(1,433)	(12)	(1,445)
Group revenue	4	**6,894**	**22**	**6,916**	6,782	141	6,923
Cost of sales		**(6,541)**	**(64)**	**(6,605)**	(6,503)	(136)	(6,639)
Gross profit/(loss)		**353**	**(42)**	**311**	279	5	284
Gain on disposals of interests in investments	32.2/32.3	**86**	**–**	**86**	65	–	65
Amortisation of acquired intangible assets	15	**–**	**(9)**	**(9)**	–	(9)	(9)
Other net operating expenses		**(302)**	**3**	**(299)**	(332)	(49)	(381)
Group operating profit/(loss)		**137**	**(48)**	**89**	12	(53)	(41)
Share of results of joint ventures and associates	18.2	**59**	**–**	**59**	57	1	58
Profit/(loss) from operations	6	**196**	**(48)**	**148**	69	(52)	17
Investment income	8	**42**	**–**	**42**	75	–	75
Finance costs	9	**(73)**	**–**	**(73)**	(82)	–	(82)
Profit/(loss) before taxation		**165**	**(48)**	**117**	62	(52)	10
Taxation	11	**(23)**	**68**	**45**	(12)	4	(8)
Profit/(loss) for the year from continuing operations		**142**	**20**	**162**	50	(48)	2
Profit/(loss) for the year from discontinued operations		**1**	**5**	**6**	(2)	24	22
Profit/(loss) for the year		**143**	**25**	**168**	48	(24)	24
Attributable to							
Equity holders		**143**	**25**	**168**	48	(24)	24
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit/(loss) for the year		**143**	**25**	**168**	48	(24)	24

1 Before non-underlying items (Notes 2.10 and 10).
2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

	Notes	2017 Pence	2016[2] Pence
Basic earnings per ordinary share			
– continuing operations	12	**23.7**	0.2
– discontinued operations	12	**1.0**	3.3
	12	**24.7**	3.5
Diluted earnings per ordinary share			
– continuing operations	12	**23.4**	0.2
– discontinued operations	12	**1.0**	3.3
	12	**24.4**	3.5
Dividends per ordinary share proposed for the year	13	**3.6**	2.7

2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

Commentary on the Group Income Statement*

Total pre-tax profit from continuing operations for 2017 was £117m, which is inclusive of a non-underlying loss of £48m. The total profit after tax including discontinued operations was £168m.

Background

The Group Income Statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the statement of comprehensive income. The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The income statement shows the revenue and results of continuing operations. The post-tax results shown within discontinued operations represent the Group's share of underlying profits from its joint venture interests in Dutco Balfour Beatty LLC and BK Gulf LLC up until the date of disposal on 1 March 2017 of £1m. Upon disposal of these interests, a non-underlying gain of £5m was recognised within discontinued operations.

Revenue

Revenue from continuing operations including non-underlying items, joint ventures and associates decreased by 1% to £8,264m from £8,368m in 2016.

Gain on disposal of investments

The Group continued its programme of realising accumulated value in the Investments portfolio and generated income by disposing of a 20% interest in Connect Plus (M25) Holdings Ltd resulting in a net underlying gain of £86m after recycling gains of £85m from reserves to the income statement. The Group continued to hold a 20% interest in this asset at 31 December 2017.

Share of results of joint ventures and associates

Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

The Group's profit generated from its share of joint ventures and associates was in line with the prior year.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 44 to 47.

Underlying profit from continuing operations

Underlying profit from continuing operations increased to £196m from £69m in 2016. This was primarily driven by an improvement in Construction Services from a loss of £21m in 2016 to a profit from operations of £72m in 2017 as the Group continued to be more selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and better contract governance. Support Services and Infrastructure Investments also reported improved operating results, including the benefit of £86m of gains from investment disposals.

Non-underlying items

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

Non-underlying items from continuing operations of £48m before tax were charged to the income statement.

On 15 January 2018, Carillion plc filed for compulsory liquidation. Carillion was one of the Group's joint operations partners in the Aberdeen Western Peripheral Route (AWPR) project on a joint and several basis. As a result of Carillion's liquidation, the Group and its remaining joint operations partner on the project, Galliford Try plc, are jointly liable to deliver Carillion's remaining obligations on this contract in addition to each partner's existing 33% share.

In light of this, the Group has recognised a one-off non-underlying loss provision of £44m which reflects the Group's additional loss on the contract as a result of Carillion's liquidation. The contract is expected to complete in the summer of 2018.

The Group also disposed of its entire interest in its professional services business, Heery International Inc, resulting in a gain on disposal of £18m. In addition to Heery, the Group also disposed of its entire interest in Regional & City Airports (Blackpool) Holdings Ltd (Blackpool Airport) which resulted in a loss on disposal of £1m.

Significant other non-underlying items included £12m of restructuring costs incurred relating to the Group's Build to Last transformation programme which was launched in early 2015, and amortisation of acquired intangible assets of £9m.

Net finance cost

Net finance cost of £31m in the year represents an increase from £7m in 2016. The prior year comparison benefited from a £19m gain on foreign currency deposits, with the corresponding gain in 2017 at £1m.

Taxation

The Group's underlying profit before tax from continuing operations for subsidiaries of £106m (2016: £5m) resulted in an underlying tax charge of £23m (2016: £12m).

Discontinued operations

On 1 March 2017, the Group disposed of its 49% interests in its Middle East joint ventures for total consideration of £11m, generating a non-underlying gain of £5m in the year. As a result of this disposal, the Group's interests in its Middle East joint ventures have been presented as discontinued operations. The Group has re-presented its comparatives accordingly.

In 2016, the Group reached a settlement with the purchaser of Parsons Brinckerhoff (PB), the Group's former professional services business disposed in October 2014, in relation to outstanding tax matters and indemnities. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters have been released, resulting in an overall non-underlying gain to the Group of £24m.

Earnings per share

Basic earnings per share from continuing operations were 23.7p (2016: 0.2p) as a result of significant improvements in Construction Services as discussed above. Including the results from discontinued operations, the Group generated basic earnings per share of 24.7p (2016: 3.5p). Underlying earnings per share from continuing operations were 20.9p (2016: 7.2p).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 44 to 47.

Group Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 Group £m	2017 Share of joint ventures and associates £m	2017 Total £m	2016 Group £m	2016 Share of joint ventures and associates £m	2016 Total £m
Profit/(loss) for the year		**108**	**60**	**168**	(32)	56	24
Other comprehensive income/(loss) for the year							
Items which will not subsequently be reclassified to the income statement							
Actuarial gains/(losses) on retirement benefit liabilities	30.1	**242**	**4**	**246**	(121)	1	(120)
Tax on above	30.1	**(37)**	**–**	**(37)**	2	–	2
		205	**4**	**209**	(119)	1	(118)
Items which will subsequently be reclassified to the income statement							
Currency translation differences	30.1	**(30)**	**(18)**	**(48)**	51	41	92
Fair value revaluations – PPP financial assets	30.1	**3**	**60**	**63**	27	10	37
– cash flow hedges	30.1	**4**	**11**	**15**	(16)	(92)	(108)
– available-for-sale investments in mutual funds	30.1	**3**	**–**	**3**	1	–	1
Recycling of revaluation reserves to the income statement on disposal*	32.2/32.3	**–**	**(85)**	**(85)**	(17)	9	(8)
Tax on above	30.1	**–**	**(13)**	**(13)**	(1)	15	14
		(20)	**(45)**	**(65)**	45	(17)	28
Total other comprehensive income/(loss) for the year		**185**	**(41)**	**144**	(74)	(16)	(90)
Total comprehensive income/(loss) for the year	30.1	**293**	**19**	**312**	(106)	40	(66)
Attributable to							
Equity holders				**312**			(67)
Non-controlling interests				**–**			1
Total comprehensive income/(loss) for the year	30.1			**312**			(66)

* Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.

Commentary on Group Statement of Comprehensive Income*

Total comprehensive income for 2017 was £312m comprising a total profit after tax including discontinued operations of £168m and other comprehensive income after tax of £144m.

Background

The Group Statement of Comprehensive Income is presented on a total Group basis combining continuing and discontinued operations. Other comprehensive income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement.

Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit liabilities are increases or decreases in the present value of the pension liability because of:

- differences between the previous actuarial assumptions and what has actually occurred; or
- changes in actuarial assumptions used to value the obligations.

Actuarial gains for the Group including joint ventures and associates totalled £246m in 2017 compared to losses of £120m in 2016. Refer to Note 28.

Items which will subsequently be reclassified to the income statement

Currency translation differences

The Group operates in a number of countries with different local currencies. Currency translation differences arise on translation of the balance sheet and results from the local functional currency into the Group's presentational currency, sterling.

Fair value revaluations – PPP financial assets

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related fair value movements recognised in OCI. During the year, there was a decrease in gilt rates resulting in a fair value gain including joint ventures and associates of £63m being taken through OCI (2016: £37m).

Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in the Group's Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements. The fair value of derivatives changes in response to prevailing market conditions. During the year, LIBOR increased resulting in a fair value gain on the interest rate swaps including joint ventures and associates of £15m being recognised in OCI (2016: £108m loss).

Recycling of reserves to the income statement on disposal

Fair value gains and losses and currency translation differences recognised in OCI are transferred to the income statement upon disposal of the asset and therefore on disposal of Infrastructure Investments' concessions and other businesses, £85m profit including joint ventures and associates was recycled to the income statement through OCI and is included in the gain on disposal.

There is no associated tax on the amounts recycled to the income statement.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 44 to 47.

Group Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves (Note 18.6) £m	Other reserves (Note 30.1) £m	Retained profits/ (losses) £m	Non-controlling interests £m	Total £m
At 1 January 2016		345	65	22	196	144	54	4	830
Total comprehensive income/(loss) for the year	30.1	–	–	–	40	44	(151)	1	(66)
Ordinary dividends	13	–	–	–	–	–	(6)	–	(6)
Joint ventures' and associates' dividends	18.1	–	–	–	(43)	–	43	–	–
Movements relating to share-based payments		–	–	–	–	3	1	–	4
Reserve transfers relating to joint venture and associate disposals	18.6	–	–	–	(9)	–	9	–	–
At 31 December 2016		345	65	22	184	191	(50)	5	762
Total comprehensive income/(loss) for the year	30.1	**–**	**–**	**–**	**19**	**(20)**	**313**	**–**	**312**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**–**	**(20)**	**–**	**(20)**
Joint ventures' and associates' dividends	18.1	**–**	**–**	**–**	**(69)**	**–**	**69**	**–**	**–**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**6**	**1**	**–**	**7**
Reserve transfers relating to joint venture and associate disposals	18.6	**–**	**–**	**–**	**(21)**	**–**	**21**	**–**	**–**
Minority interests		**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Convertible bonds repurchase	26.3	**–**	**–**	**–**	**–**	**(2)**	**2**	**–**	**–**
At 31 December 2017		**345**	**65**	**22**	**113**	**175**	**336**	**10**	**1,066**

Commentary on Group Statement of Changes in Equity*

Total equity holders' funds of £1,066m at 31 December 2017 increased by 40% primarily due to movements in comprehensive income.

Background

The Group Statement of Changes in Equity includes the total comprehensive income attributable to equity holders of the Company and non-controlling interests and also discloses transactions which have been recognised directly in equity and not through the income statement.

Dividends

Following the declaration of an interim dividend of 1.2p in August 2017 which was paid in December 2017, the Board is recommending a final dividend of 2.4p, giving a total recommended dividend for the year of 3.6p.

Joint ventures' and associates' dividends

Dividends of £69m were received in the year from joint ventures and associates (JVA) resulting in a transfer of this amount between JVA reserves and Group retained profits.

Other reserves

Other reserves comprise: the equity components of the preference shares £18m (2016: £18m) and convertible bonds £24m (2016: £26m); the hedging reserves £(27)m (2016: £(30)m); PPP financial assets revaluation reserve £27m (2016: £25m); currency translation reserve £105m (2016: £135m); and other reserves £28m (2016: £17m).

Other reserve transfers relating to joint venture and associate disposals

On disposal of JVAs, retained profits relating to these businesses are transferred from the JVA reserves to the Group's retained profits.

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves (Note 30.2) £m	Retained profits £m	Total £m
At 1 January 2016		345	65	22	116	604	1,152
Total comprehensive loss for the year	30.2	–	–	–	–	(18)	(18)
Ordinary dividends	13	–	–	–	–	(6)	(6)
Movements relating to share-based payments		–	–	–	6	(2)	4
At 31 December 2016		345	65	22	122	578	1,132
Total comprehensive loss for the year	30.2	**–**	**–**	**–**	**–**	**(35)**	**(35)**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**(20)**	**(20)**
Movements relating to share-based payments		**–**	**–**	**–**	**2**	**(1)**	**1**
Convertible bonds repurchase		**–**	**–**	**–**	**(2)**	**2**	**–**
At 31 December 2017		**345**	**65**	**22**	**122**	**524**	**1,078**

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 44 to 47.

Balance Sheets

At 31 December 2017

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets					
Intangible assets – goodwill	14	**874**	937	**–**	–
– other	15	**281**	225	**–**	–
Property, plant and equipment	16	**157**	181	**–**	–
Investment properties	17	**46**	36	**–**	–
Investments in joint ventures and associates	18	**531**	628	**–**	–
Investments	19	**39**	45	**1,700**	1,698
PPP financial assets	20	**163**	163	**–**	–
Trade and other receivables	23	**216**	180	**2**	2
Retirement benefit assets	28	**156**	–	**–**	–
Deferred tax assets	27	**52**	54	**–**	–
Derivative financial instruments	38	**1**	3	**–**	–
		2,516	2,452	**1,702**	1,700
Current assets					
Inventories and non-construction work in progress	21	**107**	101	**–**	–
Due from construction contract customers	22	**377**	380	**–**	–
Trade and other receivables	23	**899**	1,066	**1,531**	1,471
Cash and cash equivalents – infrastructure concessions	26	**135**	7	**–**	–
– other	26	**833**	762	**134**	167
Current tax receivable		**8**	8	**3**	5
Derivative financial instruments	38	**2**	1	**–**	1
		2,361	2,325	**1,668**	1,644
Total assets		**4,877**	4,777	**3,370**	3,344
Current liabilities					
Due to construction contract customers	22	**(535)**	(542)	**–**	–
Trade and other payables	24	**(1,542)**	(1,752)	**(1,925)**	(1,771)
Provisions	25	**(194)**	(147)	**–**	–
Borrowings – non-recourse loans	26	**(8)**	(47)	**–**	–
– other	26	**(268)**	(56)	**(33)**	(50)
Current tax payable		**(15)**	(18)	**–**	–
Derivative financial instruments	38	**(5)**	(6)	**–**	(1)
		(2,567)	(2,568)	**(1,958)**	(1,822)
Non-current liabilities					
Trade and other payables	24	**(157)**	(151)	**(4)**	(3)
Provisions	25	**(98)**	(126)	**–**	–
Borrowings – non-recourse loans	26	**(432)**	(193)	**–**	–
– other	26	**(230)**	(533)	**(226)**	(285)
Liability component of preference shares	29	**(103)**	(100)	**(103)**	(100)
Retirement benefit liabilities	28	**(124)**	(231)	**–**	–
Deferred tax liabilities	27	**(70)**	(80)	**(1)**	(2)
Derivative financial instruments	38	**(30)**	(33)	**–**	–
		(1,244)	(1,447)	**(334)**	(390)
Total liabilities		**(3,811)**	(4,015)	**(2,292)**	(2,212)
Net assets		**1,066**	762	**1,078**	1,132
Equity					
Called-up share capital	29	**345**	345	**345**	345
Share premium account	30	**65**	65	**65**	65
Special reserve	30	**22**	22	**22**	22
Share of joint ventures' and associates' reserves	30	**113**	184	**–**	–
Other reserves	30	**175**	191	**122**	122
Retained profits/(losses)	30	**336**	(50)	**524**	578
Equity attributable to equity holders of the parent		**1,056**	757	**1,078**	1,132
Non-controlling interests	30	**10**	5	**–**	–
Total equity		**1,066**	762	**1,078**	1,132

On behalf of the Board

Leo Quinn
Director

Philip Harrison
Director

13 March 2018

Commentary on the Group Balance Sheet*

Total assets of £4.9bn were 2% more than last year. Total liabilities of £3.8bn decreased by 5%, resulting in an overall increase in net assets of 40%. The increase is primarily driven by net actuarial gains on retirement benefit liabilities of £246m and increased profits generated in the year of £168m.

Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2017. In accordance with IAS 1 Presentation of Financial Statements and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the Group does not re-present the prior year balance sheet for assets held for sale or disposals.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2017 decreased to £874m (2016: £937m). The decrease was due to currency translation differences of £46m and the disposal of goodwill relating to Heery International Inc of £17m. The Group has conducted impairment reviews on its goodwill balance at the year end and has concluded that it was fully recoverable.

Investments in joint ventures and associates

Investments in joint ventures and associates have decreased to £531m in 2017 from £628m in 2016 primarily due to the disposal of a 20% interest in Connect Plus (M25) Holdings Ltd for total consideration of £165m, of which £62m was included in trade and other receivables as amounts due on disposals. This disposal triggered a £86m gain on disposal, including £85m in respect of revaluation reserves recycled to the income statement on disposal. The Group continued to hold a 20% interest in this joint venture at 31 December 2017.

Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 101.

Borrowings

Borrowings excluding non-recourse loans

The Group's committed facility totals £400m. The purpose of this facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities.

The Group completed its refinancing in December 2015 with the £400m facility extending though to 2018. In November 2017, £375m of the facility was extended until 2020. At 31 December 2017, all of this facility was undrawn.

In December 2017, the Group repurchased £21m of its convertible bonds. The Group's remaining £231m convertible bonds are due to mature in December 2018. Thus the liability component amounting to £226m has been reclassified from non-current to current on the Group's balance sheet.

The Group's borrowings include recourse borrowings to the Group arising from certain Infrastructure Investments projects in North America amounting to £13m (2016: £12m).

Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain infrastructure concessions projects.

At 31 December 2017, the Group's share of these non-recourse net borrowings amounted to £1,724m (2016: £1,755m), comprising £1,419m (2016: £1,522m) in relation to joint ventures and associates as disclosed in Note 18.2 and £305m (2016: £233m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 26.

Retirement benefit assets and liabilities

The Group's balance sheet includes net retirement benefit assets of £32m (2016: £231m liabilities) representing net surpluses in the Group's pension schemes. This is primarily due to net actuarial gains of £242m in the year. The Group benefited from changes in discount rate methodology, which resulted in a £123m gain which was recognised as part of the net actuarial gains for the year within the Statement of Other Comprehensive Income. The Group accounted for the discount rate change prospectively as a change in estimate. Refer to Note 28 for further details.

Any surplus of deficit contributions would be recoverable by way of a refund as the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the schemes have been settled.

Other

In addition to the liabilities on the balance sheet, in the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities, commonly referred to as bonds. These bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. They are customary or mandatory in many of the markets in which the Group operates. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from the Company. As at 31 December 2017, contract bonds in issue by financial institutions under uncommitted facilities covered £3.2bn (2016: £4.0bn) of the contract commitments of the Group.

Equity commitments

During 2017, the Group invested £35m (2016: £65m) in a combination of equity and shareholder loans to Infrastructure Investments' project companies and at the end of the year had committed to provide a further £101m from 2018 onwards, inclusive of £23m expected for projects at preferred bidder stage. £37m of this is expected to be invested in 2018, as disclosed in Note 39(f).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 44 to 47.

Group Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 £m	2016[2,#] £m
Cash flows from/(used in) operating activities			
Cash generated from/(used in):			
– continuing operations – underlying[1]	31.1	**62**	(132)
– non-underlying	31.1	**(21)**	(15)
– discontinued operations	31.1	**–**	–
Income taxes (paid)/received		**(3)**	11
Net cash generated from/(used in) operating activities		**38**	(136)
Cash flows from investing activities			
Dividends received from joint ventures and associates:			
– infrastructure concessions	18.5	**16**	20
– other	18.5	**53**	23
Interest received – infrastructure concessions	18.5	**9**	19
Interest received – other[#]		**12**	13
Acquisition of businesses, net of cash and cash equivalents acquired	32.1	**(3)**	(6)
Purchases of:			
– intangible assets – infrastructure concessions	15	**(76)**	(6)
– intangible assets – other	15	**(5)**	(5)
– property, plant and equipment – infrastructure concessions	16	**–**	(14)
– property, plant and equipment – other	16	**(20)**	(27)
– investment properties	17	**(3)**	(32)
– other investments	19	**(1)**	(1)
Investments in and long-term loans to joint ventures and associates	18.5	**(30)**	(37)
PPP financial assets cash expenditure	20	**(1)**	(31)
PPP financial assets cash receipts	20	**15**	39
Disposals of:			
– investments in joint ventures – infrastructure concessions	18.5/32	**103**	155
– investments in joint ventures – other	18.5/32	**3**	2
– subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions	32.2.11	**4**	17
– subsidiaries net of cash disposed, separation and transaction costs – other	32.2.11	**36**	14
– property, plant and equipment		**11**	9
– other investments	19	**8**	5
Net cash from investing activities		**131**	157
Cash flows from financing activities			
Purchase of ordinary shares	30.3	**(2)**	(4)
Proceeds from:			
– other new loans – infrastructure concessions	31.3	**212**	65
– other new loans – other	31.3	**–**	52
Repayments of:			
– loans – infrastructure concessions	31.3	**(4)**	(25)
– loans – other	31.3	**(52)**	(1)
Repurchase of convertible bonds	31.3	**(21)**	–
Ordinary dividends paid	13	**(20)**	(6)
Interest paid – infrastructure concessions		**(16)**	(24)
Interest paid – other[#]		**(24)**	(41)
Preference dividends paid		**(12)**	(12)
Net cash from financing activities		**61**	4
Net increase in cash and cash equivalents		**230**	25
Effects of exchange rate changes		**(30)**	80
Cash and cash equivalents at beginning of year		**768**	663
Cash and cash equivalents at end of year	31.2	**968**	768

1 Before non-underlying items (Notes 2.10 and 10).
2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.
Re-presented to show interest received and paid in relation to the Group's offset arrangements on a net basis.

Commentary on the Group Statement of Cash Flows*

Cash and cash equivalents increased by 26% during the year to £968m. The Group generated cash from operating activities in the year of £38m compared to cash used in operating activities of £136m in the prior year.

Background

The Group Statement of Cash Flows shows the cash flows from operating, investing and financing activities during the year.

Working capital

Working capital includes: inventories and non-construction work in progress; amounts due to and from construction contract customers; operating trade and other receivables; operating trade and other payables; and operating provisions. Where the net working capital balance is in an asset position, ie the inventories and receivables balances are greater than the payables and provisions, this is referred to as unfavourable/positive working capital. Where this is not the case, this is referred to as favourable/negative working capital.

Working capital movements

The movement of the individual working capital balances on the balance sheet will not be reflective of the underlying movement of working capital due to the balance sheet being affected by foreign currency movements and business disposals.

Working capital movements are disclosed in Note 31.1.

Trade and other receivables and trade and other payables

Trade and other payables decreased during 2017, creating a working capital outflow of £92m (2016: £60m), offset by a working capital inflow of £95m (2016: £134m outflow) from trade and other receivables. The offsetting reduction in both balances is predominantly due to contract timings and associated customer and supplier payments compared to the prior year and the ongoing completion of historical non-underlying contracts.

Cash used in operations

Underlying cash generated from continuing operations of £62m (2016: £132m outflow) comprised a profit from operations of £196m (2016: £67m), a working capital outflow of £7m (2016: £82m) and includes the following significant adjustment items: share of results of joint ventures and associates £59m (2016: £55m), depreciation charges of £29m (2016: £29m), pension deficit payments of £25m (2016: £41m) and gain on disposals of investments in infrastructure concessions of £86m (2016: £65m).

Non-underlying cash used in continuing operations of £21m (2016: £15m) was impacted by a loss from operations of £48m (2016: £52m) and a working capital inflow of £34m (2016: £34m), after adjusting for the following principal non-cash items: a £17m net gain on disposal of businesses (2016: £8m), and an amortisation charge of £9m (2016: £9m) on acquired intangible assets.

Cash flows from investing activities

The Group received dividends of £69m (2016: £43m) from joint ventures and associates during the year.

During the year, the Group incurred additional spend on intangible assets of £81m (2016: £11m), of which £76m related to the construction spend on the University of Sussex student accommodation (2016: £6m at the University of Edinburgh) and £5m (2016: £5m) related to software and other intangible assets.

The Group disposed of a 20% interest in Connect Plus (M25) Holdings Ltd for a total cash consideration of £165m, of which £103m was received in the year and the balance was received on 23 February 2018. The Group disposed of its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC during the year for cash consideration of £11m, of which £5m was deferred and included in trade and other receivables as amounts due on disposals. In addition, the Group also made a payment of £3m in 2017 following the completion of the Balfour Beatty Sakti Indonesia disposal. In 2017, the Group also completed the disposal of its entire interest in its professional services business Heery International Inc, for a net cash consideration of £36m. Finally, the Group also received £4m of cash consideration for the disposal of its entire interest in Blackpool Airport.

During the year, the Group incurred cash expenditure of £1m (2016: £31m) and received cash receipts of £15m (2016: £39m) relating to PPP financial assets.

Cash flows from financing activities

The Group made further drawdowns on its non-recourse borrowings of £212m mainly to finance the construction of the University of Sussex student accommodation which has been classified as an IFRIC 12 intangible asset (2016: £65m at the University of Edinburgh). The Group repurchased £21m of its convertible bonds and also repaid £50m of its committed facility. The Group's entire committed facility of £400m was undrawn at the year end.

Preference dividends of £12m (2016: £12m) were paid in the year.

Total interest payments amounted to £40m (2016: £65m) during the year of which £16m (2016: £24m) related to infrastructure concessions and £24m (2016: £41m) related to the US private placement, convertible bonds and recourse borrowings drawn down by the Group.

Cash and cash equivalents

Cash and cash equivalents increased from £768m to £968m.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 44 to 47.

Notes to the financial statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on page 47 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 2017.

The financial statements have been prepared under the historical cost convention, except as described under Note 2.26. The functional and presentational currency of the Company and the presentational currency of the Group is sterling.

The separate financial statements of the Company are presented as required by the Companies Act 2006 (the Act). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2017 the Company reported under FRS 101 as issued by the Financial Reporting Council.

Except as noted below, the Company's accounting policies are consistent with those described in the Group's consolidated financial statements. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, related party transactions and comparative information. Where required, equivalent disclosures are given in the consolidated financial statements.

In addition to the application of FRS 101, the Company has taken advantage of Section 408 of the Act and consequently its statement of comprehensive income (including the profit and loss account) is not presented as part of these accounts.

2 Principal accounting policies

2.1 Accounting standards

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 7 Disclosure Initiative
  - IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses.

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

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 2017:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  - IAS 28 Long-term Interests in Associates and Joint Ventures
  - IAS 40 Transfers of Investment Property
  - IFRS 2 Classification and Measurement of Share-based Payment Transactions
  - IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
  - IFRS 9 Prepayment Features with Negative Compensation
  - Clarifications to IFRS 15 Revenue from Contracts with Customers
  - Improvements to IFRSs (2014–2016)
  - Improvements to IFRSs (2015–2017).

The Directors have completed the impact assessment of IFRS 9 and have concluded that under the new standard, which will be adopted for the financial year ending 31 December 2018, the Group will be able to continue to record movements in its PPP financial assets through other comprehensive income (OCI) using the fair value through OCI category. This is because these financial assets are held within a business model whose objective at Group level is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset meet the "solely payments of principal and interest on the principal outstanding" criterion. Therefore, there will be no quantitative impact on the Group upon adoption of IFRS 9 at 1 January 2018.

The Directors have also completed their assessment of the impact of IFRS 15 and the Group will adopt the new standard for the financial year ending 31 December 2018 retrospectively using the cumulative effect approach. As a result, the Group will restate its opening equity position as at 1 January 2018 by a credit of £3m to reflect the impact of transitioning to IFRS 15. This adjustment primarily reflects the impact of unbundling of a handful of contracts according to what the Group has assessed to be the performance obligation to be delivered to the customer. Using the five-step model required by the new standard, the impact of the £3m credit to equity represents the acceleration of revenue on transition to IFRS 15 which was not recognised by the Group under the previous revenue standards. IFRS 15 would have resulted in an immaterial impact on the Group's income statement for the year ended 31 December 2017.

In addition to the impact on equity, there will be balance sheet reclassifications as a result of moving away from IAS 11 balance sheet captions to those prescribed by IFRS 15. Full IFRS 15 disclosures will be presented in the Annual Report and Accounts 2018. As the Group has chosen to adopt the cumulative effect approach, the comparative information will not be restated and the Group will continue to present its 2017 results under the previous revenue standards – IAS 11 and IAS 18.

As a result of this new standard, the Group has also revised its accounting policies around revenue recognition (where applicable) as detailed on page 103.

2 Principal accounting policies continued

2.1 Accounting standards continued

The Directors continue to assess the impact of IFRS 16. IFRS 16 Leases was issued by the IASB in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. The new standard will replace IAS 17 Leases and will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. The adoption of IFRS 16 is not expected to have a significant impact on the Group's net results or net assets, although the full impact will be subject to further assessment.

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

IFRS 15 revenue recognition policies applied from 1 January 2018

The Group recognises revenue when it transfers control over a product or service to its customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Where consideration is not specified within the contract and therefore subject to variability, the Group estimates the amount of consideration to be received from its customer. The consideration recognised is the amount which is highly probable not to result in a significant reversal in future periods.

Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

The Group's activities are wide-ranging, and as such, depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Group will account for revenue over time and at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

Revenue is recognised as follows:

- revenue from construction and services activities is recognised over time and the Group uses the input method to measure progress of delivery
- revenue from manufacturing activities is recognised at a point in time when title has passed to the customer
- interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount
- dividend income is recognised when the equity holder's right to receive payment is established.

IFRS 15 policies in relation to construction and service contracts

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date. Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract. Estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract.

The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. Management continually review the estimated final out-turn on contracts, and in certain limited cases, assess recoveries from insurers, and make adjustments where necessary. No margin is recognised until the outcome of the contract can be estimated with reasonable certainty.

Provision is made for all known or expected losses on individual contracts once such losses are foreseen. Revenue in respect of variations to contracts and incentive payments is recognised when it is probable it will be agreed by the customer. Revenue in respect of claims is recognised only if it is highly probable not to reverse in future periods. Profit for the year includes the benefit of claims settled in the year on contracts completed in previous years.

2.2 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are consolidated from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition.

The interest of non-controlling equity holders is stated at the non-controlling equity holders' proportion of the fair value of the assets and liabilities recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less direct costs of the transaction and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (ie reclassified to profit or loss or transferred directly to retained earnings).

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Notes to the financial statements continued

2 Principal accounting policies continued

2.2 Basis of consolidation continued

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its individual assets and obligations for its individual liabilities.

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control or joint control.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The Group may elect to measure some of its investments in associates at fair value through profit or loss in accordance with IAS 39 where the investment is held by a Group entity which meets the classification of a venture capital organisation, in which case the investment will be marked to market with movements being recognised in the income statement. The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return. Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Joint operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

2.3 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Significant exchange rates used in the preparation of these financial statements are shown in Note 3.

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date. Currency translation differences arising are transferred to the Group's foreign currency translation reserve and are recognised in the income statement on disposal of the underlying investment.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward foreign exchange contracts. Refer to Note 2.26(c) for details of the Group's accounting policies in respect of such derivative financial instruments.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales based taxes, after eliminating revenue within the Group.

Revenue is recognised as follows:

- revenue from construction and service activities represents the value of work carried out during the year, including amounts not invoiced
- revenue from manufacturing activities is recognised when title has passed
- interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount
- dividend income is recognised when the equity holder's right to receive payment is established.

2.5 Construction and service contracts

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date.

Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract. Estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. Management continually review the estimated final out-turn on contracts, and in certain limited cases, assess recoveries from insurers, and make adjustments where necessary.

No margin is recognised until the outcome of the contract can be estimated with reasonable certainty.

Provision is made for all known or expected losses on individual contracts once such losses are foreseen.

2 Principal accounting policies continued

2.5 Construction and service contracts continued

Revenue in respect of variations to contracts and incentive payments is recognised when it is probable it will be agreed by the customer. Revenue in respect of claims is recognised when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the probable amount can be measured reliably.

Profit for the year includes the benefit of claims settled in the year on contracts completed in previous years.

2.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision maker and therefore the segmental disclosures provided in Note 5 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into three reportable segments which reflect the nature of the services provided by the Group. A description of each reportable segment is provided in Note 5. Further information on the business activities of each reportable segment is set out on pages 16 to 25.

Working capital is the balance sheet measure reported to the chief operating decision maker. The profitability measure used to assess the performance of the Group is underlying profit from operations.

Segment results represent the contribution of the different segments after the allocation of attributable corporate overheads. Transactions between segments are conducted at arm's-length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable. Non-recourse net borrowings are directly attributable to Infrastructure Investments and therefore not included within Corporate activities.

Major customers are defined as customers contributing more than 10% of the Group's external revenue.

2.7 Pre-contract bid costs and recoveries

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written off are deferred and amortised over the life of the contract.

For construction and services projects, the relevant contract is the construction or services contract respectively. With respect to PPP projects, an assessment is made as to which contractual element the pre-contract costs relate to, in order to determine the relevant period for amortisation. The relevant contract is that which gives rise to a financial or intangible asset, which is either the construction contract or the contract which transferred the asset to the project.

2.8 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

2.9 Finance costs

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method.

2.10 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will not affect the absolute amount of the results for the period and the trend of results. Underlying items are items before non-underlying items.

Non-underlying items include:

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

These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group.

The results of Rail Germany and certain legacy ES contracts have been included as non-underlying. Refer to Note 5.

2.11 Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also accounted for within equity. Current tax is based on the profit for the year.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the financial statements continued

2 Principal accounting policies continued

2.12 Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and other businesses, joint ventures and associates and represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written off or discount arising on acquisition credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation charges in respect of software and Infrastructure Investments intangibles are included in underlying items.

c) Research and development

Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met:

– an asset is created that can be identified
– it is probable that the asset created will generate future economic benefits
– the development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure associated with bringing the asset to its operating location and condition.

2.14 Investment properties

The Group classifies land and buildings which it holds to generate capital appreciation and/or to earn rental income as investment property. The Group has chosen to state its investment properties at cost less accumulated depreciation and impairment losses. The Group depreciates its investment properties over 25 years. Land is not depreciated.

2.15 Leasing

Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease, and depreciation is provided accordingly. The liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant effective rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2.16 Impairment of assets

Assets that have an indefinite useful life (such as goodwill arising on acquisitions) are reviewed at least annually for impairment. Other intangible assets and property, plant and equipment are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

2.17 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Available-for-sale investments are measured at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Held to maturity investments are measured at amortised cost.

2.18 Assets held for sale and discontinued operations

Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Held for sale assets are measured at the lower of their carrying amount on classification as held for sale or fair value less costs to sell.

A component of the Group is presented as a discontinued operation if it has either been disposed of or is classified as held for sale and it is a separate major line of business or geographic operation or the proposed sale is part of a single co-ordinated plan to dispose of a single separate major line of business or geographical operation. When classified as a discontinued operation, income statement performance is reported in summary form outside continuing operations and comparative figures are restated.

2.19 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost includes an appropriate proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2 Principal accounting policies continued

2.20 Trade receivables
Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts.

2.21 Trade payables
Trade payables are not interest bearing and are stated at cost.

2.22 Provisions
Provisions for insurance liabilities retained in the Group's captive insurance arrangements, legal claims, defects and warranties, environmental restoration, onerous leases, and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability.

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

2.23 Borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Premiums payable on settlement or redemption and direct issue costs are included in the carrying amount of the instrument and are charged to the income statement on an accruals basis using the effective interest method together with the interest payable.

2.24 Retirement benefit costs
The Group, through trustees, operates a number of defined benefit and defined contribution retirement and other long-term employee benefit schemes, the majority of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the scheme assets. Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

2.25 Share-based payments
Employee services received in exchange for the grant of equity-settled awards are charged to the income statement on a straight-line basis over the vesting period, based on the fair values of the awards at the date of grant.

The credits in respect of the amounts charged are included within separate reserves in equity until such time as the awards are exercised, when the shares are transferred to employees.

2.26 Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Classification of financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

b) Cumulative convertible redeemable preference shares and convertible bonds
The Company's cumulative convertible redeemable preference shares and the Group's convertible bonds are compound instruments, comprising a liability component and an equity component. The fair value of the liability components was estimated using the prevailing market interest rates at the dates of issue for similar non-convertible instruments. The difference between the proceeds of issue of the preference shares and convertible bonds and the fair value assigned to the respective liability components, representing the embedded option to convert the liability components into the Company's ordinary shares, is included in equity.

The interest expense on the liability components is calculated by applying applicable market interest rates for similar non-convertible debt prevailing at the dates of issue to the liability components of the instruments. The difference between this amount and the dividend/interest payable is included in the carrying amount of the liability component and is charged to the income statement on an accrual basis together with the dividend/interest payable.

c) Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 38.

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently re-measured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (OCI). Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement for the period.

Notes to the financial statements continued

2 Principal accounting policies continued

2.26 Financial instruments continued

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded in the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the balance sheet are recognised in the income statement as they arise.

d) PPP concession companies

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets.

In the construction phase, income is recognised by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, income is recognised by allocating a proportion of total cash receivable over the life of the project to service costs by means of a deemed rate of return on those costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method, giving rise to interest income.

Due to the nature of the contractual arrangements, the projected cash flows can be estimated with a high degree of certainty.

In the construction phase, the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in OCI. Amounts originally recognised in OCI are transferred to the income statement upon disposal of the asset.

2.27 Judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may differ from these judgements, estimates and assumptions.

The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group as at 31 December 2017 are discussed below.

All of the below are both judgements and estimates made by the Group apart from the classification of non-underlying items which is an item that requires judgement only.

a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in Notes 2.4 and 2.5, are central to how the Group values the work it has carried out in each financial year.

These policies require forecasts to be made of the outcomes of long-term construction services and support services contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

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

b) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures. This may involve a significant amount of judgement as tax legislation can be complex and open to different interpretation in particular in relation to the basis of taxation on one-off or unusual transactions. Management uses both in-house and external tax experts and previous experience when assessing tax risks. These judgements are prone to changes in future periods. Each potential liability or contingency is revisited annually, and where actual expected tax liabilities differ from the provisions, adjustments are made which can have a material impact on the Group's profit for the year.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is probable that future taxable profit will arise against which the temporary differences will be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and level of future taxable profits. Refer to Note 27.

c) Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying items or non-underlying items requires judgement. A total non-underlying loss after tax of £25m was credited (2016: £24m charged) to the income statement for the year ended 31 December 2017. Refer to Note 10.

d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash-generating unit and the application of a suitable discount rate in order to calculate the present value. A nominal growth rate, based on real GDP growth plus CPI inflation, is used to calculate a terminal growth multiple in accordance with the Gordon Growth Model. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash-generating unit. The carrying value of goodwill at 31 December 2017 was £874m (2016: £937m). Refer to Note 14.

e) Available-for-sale financial assets

At 31 December 2017, £2,006m (2016: £2,292m) of PPP financial assets constructed by the Group's subsidiary, joint venture and associate companies were classified as available-for-sale financial assets. In the operational phase the fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates is used from 2.2% to 7.7% (2016: 2.3% to 8.3%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. Refer to Note 38.

A £63m gain was taken to other comprehensive income in 2017 (2016: £37m gain) and a cumulative fair value gain of £269m had arisen on these financial assets as a result of market-related movements in the fair value of these financial assets at 31 December 2017 (2016: £349m gain).

2 Principal accounting policies continued

2.27 Judgements and key sources of estimation uncertainty continued

f) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date.

More specifically on the Group's provisions set aside for any liabilities arising due to defects, there is a 12-month latent defect period for which the provision is held, but where there are known identified issues then the provision may be required to cover rectification work over a more extended period.

The Group recognised provisions at 31 December 2017 of £292m (2016: £273m). Refer to Note 25.

g) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 28, including tables showing the sensitivity of the pension scheme obligations and assets to different actuarial assumptions.

At 31 December 2017, the net retirement benefit assets recognised on the Group's balance sheet were £32m (2016: £231m liabilities). The effects of changes in the actuarial assumptions underlying the schemes' obligations and discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2017, the Group recognised net actuarial gains of £246m in equity (2015: £120m losses), including its share of the actuarial gains and losses arising in joint ventures and associates.

In 2017, the Group benefited from changes in discount rate methodology, which resulted in a £123m gain which was recognised as part of the actuarial gains for the year within the statement of comprehensive income. The Group accounted for the discount rate change prospectively as a change in estimate.

3 Exchange rates

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

Average rates

£1 buys	2017	2016	Change
US$	**1.29**	1.35	(4.4)%
HK$	**10.07**	10.51	(4.2)%
Euro	**1.14**	1.23	(7.3)%

Closing rates

£1 buys	2017	2016	Change
US$	**1.35**	1.23	9.8%
HK$	**10.56**	9.57	10.3%
Euro	**1.13**	1.17	(3.4)%

4 Revenue

Continuing operations	Group 2017 £m	Group 2016 £m
Revenue from the provision of services*	**6,873**	6,884
Revenue from manufacturing activities	**16**	11
Proceeds from sale of development land	**27**	28
Total revenue	**6,916**	6,923
Investment income (Note 8)	**42**	75
Total revenue and investment income	**6,958**	6,998

* Includes IAS 11 construction contract revenue of £6,103m (2016: £6,173m).

Notes to the financial statements continued

5 Segment analysis

Reportable segments of the Group:

- Construction Services – activities resulting in the physical construction of an asset
- Support Services – activities which support existing assets or functions such as asset maintenance and refurbishment
- Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment also includes the Group's housing development division.

5.1 Total Group

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

1 Before non-underlying items (Note 2.10 and 10).

Income statement – performance by activity from continuing operations	Construction Services 2016[2] £m	Support Services 2016 £m	Infrastructure Investments 2016 £m	Corporate activities 2016 £m	Total 2016[2] £m
Revenue including share of joint ventures and associates[1]	6,537	1,103	575	–	8,215
Share of revenue of joint ventures and associates[1]	(1,066)	(27)	(340)	–	(1,433)
Group revenue[1]	5,471	1,076	235	–	6,782
Group operating profit/(loss)[1]	(50)	33	62	(33)	12
Share of results of joint ventures and associates[1]	29	1	27	–	57
Profit/(loss) from operations[1]	(21)	34	89	(33)	69
Non-underlying items:					
– include results from certain legacy ES contracts within Construction Services	(6)	–	–	–	(6)
– include results from Rail Germany within Construction Services	1	–	–	–	1
– amortisation of acquired intangible assets	(3)	–	(6)	–	(9)
– other non-underlying items	(26)	(12)	–	–	(38)
	(34)	(12)	(6)	–	(52)
Profit/(loss) from operations	(55)	22	83	(33)	17
Investment income					75
Finance costs					(82)
Profit before taxation					10

1 Before non-underlying items (Note 2.10 and 10).
2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

5 Segment analysis continued

5.1 Total Group continued

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

* Includes non-operating items and current working capital.

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

Assets and liabilities by activity	Construction Services 2016 £m	Support Services 2016 £m	Infrastructure Investments 2016 £m	Corporate activities 2016 £m	Total 2016 £m
Due from construction contract customers	247	133	–	–	380
Due to construction contract customers	(492)	(50)	–	–	(542)
Inventories and non-construction work in progress	30	47	24	–	101
Trade and other receivables – current	882	93	45	46	1,066
Trade and other payables – current	(1,421)	(218)	(57)	(56)	(1,752)
Provisions – current	(126)	(5)	(3)	(13)	(147)
Working capital from continuing operations*	(880)	–	9	(23)	(894)

* Includes non-operating items and current working capital.

Total assets	2,306	476	1,080	915	4,777
Total liabilities	(2,534)	(322)	(449)	(710)	(4,015)
Net (liabilities)/assets	(228)	154	631	205	762

Other information – continuing operations	**Construction Services 2017 £m**	**Support Services 2017 £m**	**Infrastructure Investments 2017 £m**	**Corporate activities 2017 £m**	**Total 2017 £m**
Capital expenditure on property, plant and equipment (Note 16)	**5**	**9**	**–**	**6**	**20**
Capital expenditure on investment properties (Note 17)	**–**	**–**	**3**	**–**	**3**
Capital expenditure on intangible assets (Note 15)	**–**	**–**	**82**	**5**	**87**
Depreciation (Note 16 and Note 17)	**13**	**8**	**3**	**5**	**29**
Gain on disposals of interests in investments (Note 32.2)	**–**	**–**	**86**	**–**	**86**

Other information – continuing operations	Construction Services 2016 £m	Support Services 2016 £m	Infrastructure Investments 2016 £m	Corporate activities 2016 £m	Total 2016 £m
Capital expenditure on property, plant and equipment (Note 16)	17	3	14	7	41
Capital expenditure on investment properties (Note 17)	–	–	32	–	32
Capital expenditure on intangible assets (Note 15)	–	5	6	–	11
Depreciation (Note 16)	14	11	2	3	30
Gain on disposals of interests in investments (Note 32.3)	–	–	65	–	65

Notes to the financial statements continued

5 Segment analysis continued

5.1 Total Group continued

Performance by geographic destination – continuing operations	United Kingdom 2017 £m	United States 2017 £m	Rest of world 2017 £m	Total 2017 £m
Revenue including share of joint ventures and associates	**3,200**	**3,819**	**1,245**	**8,264**
Share of revenue of joint ventures and associates	**(139)**	**(55)**	**(1,154)**	**(1,348)**
Group revenue	**3,061**	**3,764**	**91**	**6,916**

Performance by geographic destination – continuing operations	United Kingdom 2016 £m	United States 2016 £m	Rest of world 2016[2] £m	Total 2016[2] £m
Revenue including share of joint ventures and associates	3,465	3,533	1,370	8,368
Share of revenue of joint ventures and associates	(202)	(104)	(1,139)	(1,445)
Group revenue	3,263	3,429	231	6,923

2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

Major customers

Included in Group revenue are revenues from continuing operations of £1,276m (2016: £1,359m) from the US Government and £1,093m (2016: £1,324m) from the UK Government, which are the Group's two largest customers. These revenues are included in the results across all three reported segments.

5.2 Infrastructure Investments

Underlying profit from operations[1]	Group 2017 £m	Share of joint ventures and associates (Note 18.2)+ 2017 £m	Total 2017 £m	Group 2016 £m	Share of joint ventures and associates (Note 18.2)+ 2016 £m	Total 2016 £m
UK^	**9**	**15**	**24**	6	14	20
North America	**30**	**14**	**44**	16	13	29
Gain on disposals of interests in investments	**86**	**–**	**86**	65	–	65
	125	**29**	**154**	87	27	114
Bidding costs and overheads	**(38)**	**–**	**(38)**	(25)	–	(25)
	87	**29**	**116**	62	27	89
Net assets/(liabilities)						
UK^	**418**	**253**	**671**	261	334	595
North America	**103**	**160**	**263**	117	146	263
Infrastructure	**–**	**–**	**–**	6	–	6
	521	**413**	**934**	384	480	864
Non-recourse borrowings net of associated cash and cash equivalents (Note 26)	**(305)**	**–**	**(305)**	(233)	–	(233)
Total Infrastructure Investments net assets	**216**	**413**	**629**	151	480	631

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Singapore. The results for 2016 included Australia.
1 Before non-underlying items (Notes 2.10 and 10).

6 Profit/(loss) from operations

6.1 Profit/(loss) from continuing operations is stated after charging/(crediting)

	2017 £m	2016 £m
Research and development costs	**1**	2
Depreciation of property, plant and equipment	**28**	30
Depreciation of investment properties	**1**	–
Amortisation of intangible assets	**22**	21
Net charge of trade receivables impairment provision	**–**	2
Impairment of property, plant and equipment	**–**	3
Impairment of inventory	**–**	1
Impairment of intangible assets	**–**	1
Profit on disposal of property, plant and equipment	**(6)**	(5)
Cost of inventory recognised as an expense	**82**	141
Exchange gains and losses	**3**	–
Auditor's remuneration	**3**	3
Short-term hire charges for plant and equipment	**53**	68
Other operating lease rentals	**41**	42

6.2 Analysis of auditor's remuneration – continuing and discontinued operations

	2017 £m	2016 £m
Services as auditor to the Company	**0.5**	0.5
Services as auditor to Group subsidiaries+	**2.2**	2.0
Total audit fees	**2.7**	2.5
Audit-related assurance fees	**0.4**	0.4
Other assurance fees	**0.1**	0.1
Total non-audit fees	**0.5**	0.5
Total fees in relation to audit and other services	**3.2**	3.0

+ The 2017 audit fee includes an additional fee of £0.2m which represents additional audit scope in the year relating to the audit of the Group's impact of transitioning to IFRS 15.

7 Employee costs

7.1 Group

Employee costs during the year	2017 £m	2016 £m
Wages and salaries	**1,193**	1,201
Underlying redundancy costs	**3**	–
Non-underlying redundancy costs (Note 10.1.4.1)	**8**	9
Social security costs	**98**	97
Pension costs (Note 28)	**52**	48
Share-based payments (Note 33)	**9**	7
	1,363	1,362

Average number of Group employees	2017 Number	2016 Number
Construction Services	**13,454**	13,974
Support Services	**5,929**	6,841
Infrastructure Investments	**1,448**	1,524
Corporate	**109**	111
Continuing operations	**20,940**	22,450

At 31 December 2017, the total number of Group employees was 20,238 (2016: 21,829).

Detailed disclosures of items of remuneration, including those accruing under the Company's equity-settled share-based payment arrangements can be found within the Remuneration report on pages 76 to 87.

7.2 Company

The Company did not have any employees and did not incur any employee costs in the year (2016: £nil). Balfour Beatty Group Employment Ltd, which was established in February 2013, remains the employing entity for the Balfour Beatty Group's UK employees.

Notes to the financial statements continued

8 Investment income

Continuing operations	2017 £m	2016 £m
Subordinated debt interest receivable	**26**	29
Interest receivable on PPP financial assets	**11**	21
Gain on foreign currency deposits	**1**	19
Other interest receivable and similar income	**4**	6
	42	75

9 Finance costs

Continuing operations		2017 £m	2016 £m
Non-recourse borrowings	– bank loans and overdrafts	**13**	24
Preference shares	– finance cost	**12**	12
	– accretion	**3**	2
Convertible bonds	– finance cost	**5**	5
	– accretion	**7**	7
US private placement	– finance cost	**13**	13
Other interest payable	– committed facilities	**1**	4
	– letter of credit fees	**4**	3
	– other finance charges	**9**	8
Net finance cost on pension scheme assets and obligations (Note 28.2)		**6**	4
		73	82

10 Non-underlying items

		2017 £m	2016 £m
Items (charged against)/credited to profit			
10.1	**Continuing operations**		
10.1.1	Trading results of Rail Germany (including £2m (2016: £10m) of other net operating expenses)	**–**	1
10.1.2	Results of certain legacy ES contracts	**–**	(6)
10.1.3	Amortisation of acquired intangible assets	**(9)**	(9)
10.1.4	Other non-underlying items:		
	– Build to Last transformation costs	**(12)**	(14)
	– additional loss on the AWPR contract as a result of Carillion's liquidation	**(44)**	–
	– loss on disposal/impairment of land of Blackpool Airport	**(1)**	(3)
	– gain on disposal of Heery International Inc	**18**	–
	– pension fund settlement gain	**–**	1
	– provision increases resulting from revised legal guidelines and settlements	**–**	(25)
	– release of Trans4m provisions on liquidation	**–**	8
	– provision increases resulting from reassessment of industrial disease related liabilities	**–**	(14)
	– gain on disposal of Balfour Beatty Infrastructure Partners	**–**	3
	– gain on disposal of Signalling Solutions Ltd	**–**	3
	– gain on disposal of parts of Rail Germany	**–**	2
Total other non-underlying items from continuing operations		**(39)**	(39)
		(48)	(53)
10.1.5	Share of results of joint ventures and associates – release of Trans4m provisions on liquidation	**–**	1
Charged against profit before taxation from continuing operations		**(48)**	(52)
10.1.6	Tax credits:		
	– tax effect as a result of the reduction in US Federal corporate income tax rate	**32**	–
	– non-underlying recognition of deferred tax assets in the UK	**34**	–
	– tax on other items above	**2**	4
Total tax credit on continuing operations		**68**	4
Non-underlying items credited to/(charged against) profit for the year from continuing operations		**20**	(48)
10.2	**Discontinued operations**		
10.2.1	Other non-underlying items:		
	– gain on disposal of Dutco Balfour Beatty LLC & BK Gulf LLC	**5**	–
	– gain on disposal of Parsons Brinckerhoff	**–**	24
Non-underlying items credited to profit/(loss) for the year from discontinued operations		**5**	24
Credited to/(charged against) profit for the year		**25**	(24)

10 Non-underlying items continued

Continuing operations

10.1.1 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. In 2017, the remaining parts of Rail Germany generated a £nil profit or loss before tax (2016: £1m profit before tax).

10.1.2 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. Construction on these contracts has now completed. These contracts resulted in a £nil profit or loss to the Group in 2017 (2016: £6m loss).

10.1.3 The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £6m (2016: £6m) and customer relationships £3m (2016: £3m). These have been included as non-underlying items as they relate to costs arising on acquisition of businesses.

The charge was recognised in the following segments: Construction Services £4m (2016: £3m) and Infrastructure Investments £5m (2016: £6m).

10.1.4.1 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 £12m were incurred in 2017 relating to: Construction Services £6m; Support Services £2m; and Corporate £4m. These restructuring costs comprise: redundancy costs £8m; property-related costs £3m; and other restructuring costs £1m.

In 2016, the Group incurred restructuring costs of £14m relating to: Construction Services £12m; Support Services £1m; and Corporate £1m. These restructuring costs comprise: redundancy costs £9m; external advisers £2m; property-related costs £1m; and other restructuring costs £2m.

10.1.4.2 On 15 January 2018, Carillion plc filed for compulsory liquidation. Carillion was one of the Group's joint operations partners in the Aberdeen Western Peripheral Route (AWPR) project on a joint and several basis. As a result of Carillion's liquidation, the Group and its remaining joint operations partner on the project, Galliford Try plc, are jointly liable to deliver Carillion's remaining obligations on this contract in addition to each partner's existing 33% share.

In light of this, the Group has recognised a one-off non-underlying loss provision of £44m which reflects the Group's additional loss on the contract as a result of Carillion's liquidation. The contract is expected to complete in the summer of 2018. This loss has been recognised in the Construction Services segment.

10.1.4.3 On 12 September 2017, the Group disposed of its entire interest in Regional & City Airports (Blackpool) Holdings Ltd for a cash consideration of £4m. The disposal resulted in a £1m loss being recognised as a non-underlying item. Refer to Note 32.2.2. In 2016, an impairment of £3m was recognised on land held at Blackpool Airport. These losses have been included in the Infrastructure Investments segment.

10.1.4.4 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc for a cash consideration of £43m. The disposal resulted in a net gain of £18m being recognised as a non-underlying item. Refer to Note 32.2.3. This gain on disposal has been included in the Construction Services segment.

10.1.4.5 In 2016, £1m was recognised in relation to pension liability settlements by certain members of the Balfour Beatty Pension Fund. This has been reported within Corporate activities.

10.1.4.6 In 2016, potential liabilities on historical health and safety breaches were reassessed following new sentencing guidelines introduced and the settlement of other historical claims previously treated as non-underlying items. As a result of this, the Group revised its legal provisioning levels relating to these items, recognising an expense of £25m. This was presented as non-underlying because its size would otherwise distort the underlying financial performance achieved by the Group and the events giving rise to these expenses occurred in prior years.

The charge was recognised in the following segments: Construction Services £13m and Support Services £12m.

10.1.4.7 In 2016, the Group released all remaining provisions relating to Trans4m Ltd (Trans4m) amounting to £9m, £1m of which was recognised at the joint venture level. Trans4m was an equal joint operation between Balfour Beatty and three other partner shareholders and was contracted to Metronet as part of the London Underground PPP. The provisions were originally recorded in non-underlying items in 2007. Trans4m went into creditors' voluntary liquidation on 27 June 2016.

The credit was recognised in the following segments: Construction Services £8m and Support Services £1m.

10.1.4.8 In 2016, the Group commissioned a revised independent actuarial report on its exposure to industrial disease related liabilities. These are mostly for asbestos-related claims in relation to events pre-1972 which are not insured by the Financial Services Compensation Scheme. As a result of the findings within this report, the Group had increased its provision held with respect to industrial disease related liabilities, resulting in a £14m charge to the income statement. This was presented as non-underlying because its size would otherwise distort the underlying financial performance achieved by the Group and the events giving rise to these liabilities occurred in prior years. The entire charge was recognised within Construction Services.

10.1.4.9 In 2016, the Group disposed of its interest in Balfour Beatty Infrastructure Partners, comprising its 17.8% interest in the Infrastructure Fund and 100% interest in the fund's advisor. Initial consideration of £48m was received, resulting in a gain of £3m to the Group. Refer to Notes 32.3.4 and 32.3.5.

Notes to the financial statements continued

10 Non-underlying items continued

Continuing operations continued

10.1.4.10 In 2016, additional consideration relating to the Group's disposal of its 50% interest in Signalling Solutions Ltd (SSL) in 2015 resulted in a further gain of £2m being reported. In addition to this, a £1m pension settlement gain arose as a result of transferring pension liabilities relating to the employees of SSL to the new employer. This gain was recognised within Construction Services.

10.1.4.11 In September 2016, the Group completed the disposal of parts of Rail Germany to Tianjin Keyvia Electric Co Ltd for a cash consideration of £15m. This sale resulted in a £2m gain as a result of recycling of foreign currency reserves. Refer to Note 32.3.7.

10.1.5 Refer to Note 10.1.4.7.

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

10.1.6.2 During the year significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of a deferred tax liability. Refer to Note 27.1. This in turn lead to the recognition of additional UK deferred tax assets of £34m. Given the size and nature of the credit resulting from the increase to actuarial gains in the BBPF, the credit has been included as a non-underlying item.

10.1.6.3 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £2m comprising: £3m tax credit on amortisation of acquired intangible assets; and £1m charge on the gain on disposal of Heery (2016: £3m tax credit on amortisation of acquired intangible assets; £3m charge on the results of Rail Germany; and £4m credit on other non-underlying items).

Discontinued operations

10.2.1.1 On 1 March 2017, the Group disposed of its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC to its joint venture partner for a total cash consideration of £11m, resulting in a gain on disposal of £5m. Refer to Note 32.2.1.

10.2.1.2 Following the Group's disposal of Parsons Brinckerhoff (PB) in 2015, the Group reached a settlement with the purchaser of PB in relation to outstanding tax matters and indemnities in 2016. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters were released, resulting in an overall gain to the Group of £24m. Refer to Note 32.3.10.

11 Income taxes

11.1 Income tax credit

Continuing operations[x]	Underlying items[1] 2017 £m	Non-underlying items (Note 10) 2017 £m	Total 2017 £m	Total 2016 £m
Total UK tax	2	(32)	(30)	2
Total non-UK tax	21	(36)	(15)	6
Total tax charge/(credit)	23	(68)	(45)	8
UK current tax				
– current tax	2	2	4	(1)
– adjustments in respect of previous periods	(1)	–	(1)	(6)
	1	2	3	(7)
Non-UK current tax				
– current tax	6	(3)	3	3
– adjustments in respect of previous periods	(6)	–	(6)	(10)
	–	(3)	(3)	(7)
Total current tax	1	(1)	–	(14)
UK deferred tax				
– origination and reversal of temporary differences	1	(37)	(36)	9
– adjustments in respect of previous periods	–	–	–	3
– UK corporation tax rate change	–	3	3	(3)
	1	(34)	(33)	9
Non-UK deferred tax				
– origination and reversal of temporary differences	19	(1)	18	8
– US Federal corporate income tax rate change	–	(32)	(32)	–
– adjustments in respect of previous periods	2	–	2	5
	21	(33)	(12)	13
Total deferred tax	22	(67)	(45)	22
Total tax charge/(credit) from continuing operations	23	(68)	(45)	8

x Excluding joint ventures and associates.
1 Before non-underlying items (Notes 2.10 and 10).

11 Income taxes continued

11.1 Income tax credit continued

The Group has recognised £68m of tax credits within non-underlying items in the year. Refer to Notes 10.1.6.1 to 10.1.6.3.

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 18.2), except where tax is levied at the Group level.

In addition to the Group tax charge, tax of £50m is charged (2016: £16m credited) directly to other comprehensive income, comprising: a deferred tax charge of £37m for subsidiaries (2016: £1m credit); and a deferred tax charge in respect of joint ventures and associates of £13m (2016: £15m credit). Refer to Note 30.1.

11.2 Income tax reconciliation

Continuing operations	2017 £m	2016[2] £m
Profit before taxation	**117**	10
Less: share of results of joint ventures and associates	**(59)**	(58)
Profit/(loss) before taxation	**58**	(48)
Add: non-underlying items charged excluding share of joint ventures and associates	**48**	53
Underlying profit before taxation and the results of joint ventures and associates[1]	**106**	5
Tax on profit before taxation at standard UK corporation tax rate of 19.25% (2016: 20%)	**20**	1
Adjusted for the effects of:		
Expenses not deductible for tax purposes and other permanent items	**3**	5
Non-taxable disposals[+]	**(16)**	(13)
Tax levied at Group level on share of joint ventures' and associates' profits[#]	**9**	11
Preference share dividends not deductible	**2**	2
Deferred tax assets not recognised[^]	**1**	12
Recognition of losses not previously recognised	**(1)**	–
Effect of tax rates in non-UK jurisdictions	**10**	4
UK corporation tax rate change	**–**	(3)
Adjustments in respect of previous periods	**(5)**	(7)
Total tax charge on underlying profit	**23**	12
Less: credit on non-underlying tax items (Note 10.1.6)	**(68)**	(4)
Total tax (credit)/charge on profit from continuing operations	**(45)**	8

+ These gains on disposal are not taxable due to availability of exemptions and use of capital losses.
# These are mainly in connection with US and Canadian joint ventures and associates where tax is levied at the Group level rather than within the share of joint ventures and associates.
^ Deferred tax was not recognised on certain losses where we do not currently expect to be able to recover these amounts against future forecasted taxable profits.
1 Before non-underlying items (Notes 2.10 and 10).
2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

Notes to the financial statements continued

12 Earnings per ordinary share

Earnings

	Basic 2017 £m	Diluted 2017 £m	Basic 2016[2] £m	Diluted 2016[2] £m
Continuing operations				
Earnings	**162**	**162**	2	2
Amortisation of acquired intangible assets – net of tax credit of £3m (2016: £3m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £65m (2016: £1m)	**(26)**	**(26)**	42	42
Underlying earnings	**142**	**142**	50	50
Discontinued operations				
Earnings	**6**	**6**	22	22
Other non-underlying items	**(5)**	**(5)**	(24)	(24)
Underlying earnings/(loss)	**1**	**1**	(2)	(2)
Total operations				
Earnings	**168**	**168**	24	24
Amortisation of acquired intangible assets – net of tax credit of £3m (2016: £3m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £65m (2016: £1m)	**(31)**	**(31)**	18	18
Underlying earnings	**143**	**143**	48	48

	Basic 2017 m	Diluted 2017 m	Basic 2016 m	Diluted 2016 m
Weighted average number of ordinary shares	**680**	**688**	680	684

Earnings per share

	Basic 2017 Pence	Diluted 2017 Pence	Basic 2016[2] Pence	Diluted 2016[2] Pence
Continuing operations				
Earnings per ordinary share	**23.7**	**23.4**	0.2	0.2
Amortisation of acquired intangible assets	**0.8**	**0.8**	0.9	0.9
Other non-underlying items	**(3.6)**	**(3.5)**	6.1	6.1
Underlying earnings per ordinary share	**20.9**	**20.7**	7.2	7.2
Discontinued operations				
Earnings per ordinary share	**1.0**	**1.0**	3.3	3.3
Other non-underlying items	**(0.9)**	**(0.9)**	(3.5)	(3.5)
Underlying earnings/(loss) per ordinary share	**0.1**	**0.1**	(0.2)	(0.2)
Total operations				
Earnings per ordinary share	**24.7**	**24.4**	3.5	3.5
Amortisation of acquired intangible assets	**0.8**	**0.8**	0.9	0.9
Other non-underlying items	**(4.5)**	**(4.4)**	2.6	2.6
Underlying earnings per ordinary share	**21.0**	**20.8**	7.0	7.0

2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

13 Dividends on ordinary shares

	Per share 2017 Pence	Amount 2017 £m	Per share 2016 Pence	Amount 2016 £m
Proposed dividends for the year				
Interim – current year	**1.2**	**8**	0.9	6
Final – current year	**2.4**	**16**	1.8	12
	3.6	**24**	2.7	18
Recognised dividends for the year				
Final – prior year		**12**		–
Interim – current year		**8**		6
		20		6

The final 2016 dividend was paid on 7 July 2017 and the interim 2017 dividend was paid on 1 December 2017. Subject to approval at the Annual General Meeting on 24 May 2018, the final 2017 dividend will be paid on 6 July 2018 to holders on the register on 20 April 2018 by direct credit or, where no mandate has been given, by cheque posted on 6 July 2018 payable on 5 July 2018. The ordinary shares will be quoted ex-dividend on 19 April 2018.

14 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2016	997	(153)	844
Currency translation differences	116	(25)	91
Additions (Note 32.1)	2	–	2
Disposals	(5)	5	–
At 31 December 2016	1,110	(173)	937
Currency translation differences	**(48)**	**2**	**(46)**
Disposal of Blackpool Airport (Notes 32.2.2 and 32.2.6)	**(4)**	**4**	**–**
Disposal of Heery International Inc (Notes 32.2.3 and 32.2.6)	**(21)**	**4**	**(17)**
At 31 December 2017	**1,037**	**(163)**	**874**

Carrying amounts of goodwill by segment

			2017			2016
	United Kingdom £m	**United States £m**	**Total £m**	United Kingdom £m	United States £m	Total £m
Construction Services	**260**	**434**	**694**	260	492	752
Support Services	**131**	**–**	**131**	131	–	131
Infrastructure Investments	**–**	**49**	**49**	–	54	54
Group	**391**	**483**	**874**	391	546	937

Carrying amounts of goodwill by cash-generating unit

		2017		2016
	£m	**Pre-tax discount rate %**	£m	Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.3**	248	10.2
Balfour Beatty Construction Group Inc	**413**	**11.0**	452	12.6
Rail UK	**68**	**10.4**	68	10.4
Gas & Water	**58**	**10.4**	58	10.2
Balfour Beatty Communities US	**49**	**11.0**	54	12.6
Other	**38**	**10.2–11.0**	57	10.2–12.8
Group total	**874**		937	

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 2018 to 2020 and includes the stabilisation and recovery of the Construction Services UK business to more normal levels of performance. 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.

Whilst it is anticipated that growth will remain stable in the UK buildings sector, tender margins will improve as there will be an increased selectivity to drive a higher quality project portfolio. The Group is well positioned in the UK infrastructure market for major schemes and regulatory spending uplift. It is anticipated that the US construction market will continue to improve, as will tender margins which will also be driven by increased selectivity of projects. In the Support Services segment, market conditions are anticipated to be stable in the UK. The Support Services business has a portfolio of long-term contracts and has secured the majority of its workload for the forecast period.

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.

Notes to the financial statements continued

14 Intangible assets – goodwill continued

	2017			2016		
	Inflation rate %	**Real growth rate %**	**Nominal long-term growth rate applied %**	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	**2.1**	**0.1**	**2.2**	1.8	1.1	2.9
Balfour Beatty Construction Group Inc	**2.0**	**1.4**	**3.4**	1.9	1.5	3.4
Rail UK	**2.1**	**0.1**	**2.2**	1.8	1.1	2.9
Gas & Water	**2.1**	**0.1**	**2.2**	1.8	1.1	2.9
Balfour Beatty Communities US	**1.9**	**0.1**	**2.0**	1.9	1.5	3.4
Other	**2.1**	**0.2**	**2.3**	1.9	1.4	3.3

Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the discount rate and the long-term growth rate, and for certain CGUs, changes to underlying cash projections. In particular, a reduction of 150 basis points in margin within the Gas & Water CGU would reduce its headroom to £nil.

Except as noted above, a reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs.

The Group continues to consider whether a reasonable possible change in assumptions within the construction business in light of its historical losses would lead to an impairment of the goodwill in the related CGUs and concluded that it is not the case. The Group maintains that the stabilisation and recovery of the Group's UK Construction business to more normal levels of performance is still a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

15 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Infrastructure Investments intangible £m	Software and other £m	Total £m
Cost						
At 1 January 2016	207	59	21	72	130	489
Currency translation differences	39	9	–	–	2	50
Transfers	–	1	(1)	–	–	–
Additions	1	–	–	6	4	11
Removal of fully amortised intangible asset	(9)	(19)	(16)	–	(4)	(48)
Disposal of BBIP Advisor (Notes 32.3.5 and 32.3.11)	–	–	–	–	(4)	(4)
Disposal of parts of Rail Germany (Notes 32.3.7 and 32.3.11)	–	–	–	–	(3)	(3)
At 31 December 2016	238	50	4	78	125	495
Currency translation differences	**(20)**	**(5)**	**–**	**–**	**(1)**	**(26)**
Additions	**–**	**–**	**–**	**82**	**5**	**87**
Removal of fully amortised intangible asset	**–**	**–**	**(1)**	**–**	**–**	**(1)**
At 31 December 2017	**218**	**45**	**3**	**160**	**129**	**555**
Accumulated amortisation						
At 1 January 2016	(130)	(42)	(19)	(1)	(75)	(267)
Currency translation differences	(25)	(5)	(1)	–	(2)	(33)
Charge for the year	(6)	(3)	–	(1)	(11)	(21)
Impairment charge	–	–	–	–	(1)	(1)
Removal of fully amortised intangible asset	9	19	16	–	4	48
Disposal of BBIP Advisor (Notes 32.3.5 and 32.3.11)	–	–	–	–	1	1
Disposal of parts of Rail Germany (Notes 32.3.7 and 32.3.11)	–	–	–	–	3	3
At 31 December 2016	(152)	(31)	(4)	(2)	(81)	(270)
Currency translation differences	**13**	**3**	**–**	**–**	**1**	**17**
Charge for the year	**(6)**	**(3)**	**–**	**(2)**	**(11)**	**(22)**
Removal of fully amortised intangible asset	**–**	**–**	**1**	**–**	**–**	**1**
At 31 December 2017	**(145)**	**(31)**	**(3)**	**(4)**	**(91)**	**(274)**
Carrying amount						
At 31 December 2017	**73**	**14**	**–**	**156**	**38**	**281**
At 31 December 2016	86	19	–	76	44	225

The Group recognises intangible assets as Infrastructure Investments intangible for assets where the Group bears demand risk under IFRIC 12 Service Concession Arrangements. At 31 December 2017, there are two student accommodation projects which have been classified as intangible assets. These projects are to design, build and maintain postgraduate accommodation. In 2017, the construction phase at the University of Edinburgh was completed with additional spend of £nil (2016: £6m) incurred in the year. In 2017, the Group also commenced the construction phase at the University of Sussex, incurring a spend of £82m (2016: £nil) in the year (including interest capitalised of £6m (2016: £nil)). Construction on this project is anticipated to complete in 2020.

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to 10 years for customer relationships, three to seven years for software, and up to five years for brand names, except for customer contracts and relationships relating to Balfour Beatty Investments North America which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships. These contracts have a duration of up to 50 years for customer contracts relating to Balfour Beatty Investments North America.

The Infrastructure Investments intangible assets are amortised on a straight-line basis over the life of the projects, which is 50 years.

Software assets recognised in the UK are amortised on a basis matching their usage profile over their seven-year life. The Group's remaining knowledge sharing and collaboration software is amortised on a basis matching its usage profile over its five-year life. Other intangible assets are amortised over periods up to 10 years.

Notes to the financial statements continued

16 Property, plant and equipment
16.1 Movements

	Land and buildings £m	Plant and equipment £m	Infrastructure leasehold improvements £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 January 2016	73	359	35	9	476
Currency translation differences	6	19	8	2	35
Transfers	12	(12)	25	(25)	–
Additions	10	17	–	14	41
Disposals	(4)	(48)	–	–	(52)
Disposal of parts of Rail Germany (Notes 32.3.7 and 32.3.11)	(4)	(26)	–	–	(30)
At 31 December 2016	93	309	68	–	470
Currency translation differences	**(3)**	**(7)**	**(6)**	**–**	**(16)**
Transfers	**(1)**	**5**	**–**	**(4)**	**–**
Additions	**6**	**7**	**–**	**7**	**20**
Reclassified from inventory	**–**	**5**	**–**	**–**	**5**
Removal of fully depreciated assets/assets scrapped	**–**	**(5)**	**–**	**–**	**(5)**
Disposals	**(4)**	**(22)**	**–**	**–**	**(26)**
Disposal of Blackpool Airport (Notes 32.2.2 and 32.2.6)	**(15)**	**–**	**–**	**–**	**(15)**
Disposal of Heery International Inc (Notes 32.2.3 and 32.2.6)	**(4)**	**(6)**	**–**	**–**	**(10)**
At 31 December 2017	**72**	**286**	**62**	**3**	**423**
Accumulated depreciation					
At 1 January 2016	(39)	(273)	(1)	–	(313)
Currency translation differences	(3)	(16)	(1)	–	(20)
Transfers	(6)	6	–	–	–
Charge for the year	(7)	(22)	(1)	–	(30)
Impairment charge	(3)	–	–	–	(3)
Disposals	4	44	–	–	48
Disposal of parts of Rail Germany (Notes 32.3.7 and 32.3.11)	4	25	–	–	29
At 31 December 2016	(50)	(236)	(3)	–	(289)
Currency translation differences	**2**	**6**	**–**	**–**	**8**
Transfers	**1**	**(1)**	**–**	**–**	**–**
Charge for the year	**(8)**	**(18)**	**(2)**	**–**	**(28)**
Removal of fully depreciated assets/assets scrapped	**–**	**5**	**–**	**–**	**5**
Disposals	**2**	**19**	**–**	**–**	**21**
Disposal of Blackpool Airport (Notes 32.2.2 and 32.2.6)	**9**	**–**	**–**	**–**	**9**
Disposal of Heery International Inc (Notes 32.2.3 and 32.2.6)	**3**	**5**	**–**	**–**	**8**
At 31 December 2017	**(41)**	**(220)**	**(5)**	**–**	**(266)**
Carrying amount					
At 31 December 2017	**31**	**66**	**57**	**3**	**157**
At 31 December 2016	43	73	65	–	181

Infrastructure leasehold improvements comprise student accommodation projects in Iowa and Reno. All buildings are held under short leaseholds and are depreciated over 40 years.

The carrying amount of the Group's plant and equipment held under finance leases was £nil (2016: £1m). The Company has no property, plant and equipment held under finance leases.

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated on a straight-line basis over their expected useful lives. Buildings are depreciated at 2.5% per annum or over the term of the lease, and plant and equipment is depreciated at 4% to 33% per annum.

16.2 Analysis of carrying amount of land and buildings

	Group 2017 £m	Group 2016 £m
Freehold	**7**	14
Long leasehold – over 50 years unexpired	**1**	1
Short leasehold	**23**	28
	31	43

17 Investment properties

	Cost £m	Accumulated depreciation £m	Carrying amount £m
Cost or valuation			
At 1 January 2016	4	–	4
Additions	32	–	32
At 31 December 2016	36	–	36
Additions	**4**	**–**	**4**
Reclassified from inventories	**7**	**–**	**7**
Depreciation charge for the year	**–**	**(1)**	**(1)**
At 31 December 2017	**47**	**(1)**	**46**

Investment properties are held by the Group to generate rental income and capital appreciation. The Group has chosen to account for its investment property assets under the cost method. For one of its investment properties, the Group has secured non-recourse project specific financing amounting to £26m (2016: £18m), which is secured through a floating charge over the property. As a result, £1m of interest cost was capitalised on the asset in 2017 whilst the property was under construction.

Construction commenced on one property in 2016 and this was completed in 2017. Once the property was ready for use, the Group ceased capitalisation of interest cost and commenced depreciation on the property, on a straight-line basis over 25 years.

The remaining investment properties within the Group consist of one other fully constructed property and £4m of land. The fair value of the Group's investment properties at 31 December 2017 approximates the carrying value. The Group generated £1m (2016: £nil) of rental income from its investment properties.

Notes to the financial statements continued

18 Investments in joint ventures and associates

18.1 Movements

	Net assets £m	Loans £m	Infrastructure Fund £m	Total £m
At 1 January 2016	418	215	38	671
Currency translation differences	45	–	5	50
Income recognised	57	(1)	–	56
Fair value revaluation of PPP financial assets (Note 30.1)	10	–	–	10
Fair value revaluation of cash flow hedges (Note 30.1)	(92)	–	–	(92)
Actuarial movements on retirement benefit liabilities (Note 30.1)	1	–	–	1
Tax on items taken directly to equity (Note 30.1)	15	–	–	15
Dividends	(40)	–	(3)	(43)
Additions	12	–	–	12
Capital calls	–	–	8	8
Disposals	(7)	(33)	(48)	(88)
Fair value of retained interest in the five streetlighting projects	4	4	–	8
Loans advanced	–	17	–	17
Reclassify additional losses incurred on negative investment in Dutco# to provisions (Note 25)	3	–	–	3
At 31 December 2016	426	202	–	628
Currency translation differences	**(21)**	**–**	**–**	**(21)**
Income recognised	**60**	**–**	**–**	**60**
Fair value revaluation of PPP financial assets (Note 30.1)	**60**	**–**	**–**	**60**
Fair value revaluation of cash flow hedges (Note 30.1)	**10**	**–**	**–**	**10**
Actuarial movements on retirement benefit liabilities (Note 30.1)	**4**	**–**	**–**	**4**
Tax on items taken directly to equity (Note 30.1)	**(13)**	**–**	**–**	**(13)**
Dividends	**(69)**	**–**	**–**	**(69)**
Additions	**29**	**–**	**–**	**29**
Disposal of Connect Plus M25 (Note 32.2.4)	**(121)**	**(39)**	**–**	**(160)**
Loans advanced^	**–**	**4**	**–**	**4**
Reclassify profit generated by Dutco# to provisions (Note 25)	**(1)**	**–**	**–**	**(1)**
At 31 December 2017	**364**	**167**	**–**	**531**

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.
^ Includes £3m of subordinated debt interest expense which has been capitalised into the carrying amount of the loan.

The principal joint ventures and associates are shown in Note 39.

The amount of the Group's share of borrowings of joint ventures and associates which was supported by the Group and the Company was £nil (2016: £17m), relating to the Group's share of guaranteed borrowings.

The non-recourse borrowings of joint venture and associate entities relating to infrastructure concessions projects are repayable over periods extending up to 2044. The non-recourse borrowings arise under facilities taken out by project-specific joint venture and associate concession companies. The borrowings of each concession company are secured by a combination of fixed and floating charges over that concession company's interests in its project's assets and revenues and the shares in the concession company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

As disclosed in Note 39(f), the Group has committed to provide its share of further equity funding of joint ventures and associates in Infrastructure Investments' projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction is complete. As is customary in such projects, banking covenants restrict the payment of dividends and other distributions.

In 2016 and up until the Group disposed of its 49% interests in Dutco#, the Group recognised losses in relation to Dutco in excess of the carrying value of its investment as the Group had constructive obligations to provide further funding to make good these losses. As at the date of disposal, these losses amounted to £11m and had been classified as other provisions (2016: £12m). Refer to Notes 18.4 and 25. The Group disposed of its 49% interests in BK Gulf LLC and Dutco Balfour Beatty LLC on 1 March 2017. Refer to Note 32.2.1.

18 Investments in joint ventures and associates continued

18.2 Share of results and net assets of joint ventures and associates

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

^ Including Singapore.
1 Before non-underlying items (Notes 2.10 and 10).

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. The military housing joint ventures and associates have total non-recourse net borrowings of £2,340m (2016: £2,710m). Note 39(e) details the Group's military housing projects.

On certain Infrastructure Investments concessions where net fair value revaluations of PPP financial assets and cash flow hedges resulted in the Group's carrying value of these investments being negative, the Group has not recognised losses beyond the carrying value of its investments. This is because the Group has not committed to provide any further funding to these investments and the borrowings within these concessions are non-recourse to the Group. At 31 December 2017, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £9m (2016: £19m).

Notes to the financial statements continued

18 Investments in joint ventures and associates continued
18.2 Share of results and net assets of joint ventures and associates continued

Income statement – continuing operations[2]	Construction Services[+] 2016 £m	Support Services 2016 £m	Infrastructure Investments UK^ 2016 £m	Infrastructure Investments North America 2016 £m	Infrastructure Investments Total 2016 £m	Total 2016 £m
Revenue[1]	1,066	27	220	120	340	1,433
Underlying operating profit[1]	31	1	6	15	21	53
Investment income	2	–	126	7	133	135
Finance costs	(1)	–	(114)	(9)	(123)	(124)
Profit before taxation[1]	32	1	18	13	31	64
Taxation	(3)	–	(4)	–	(4)	(7)
Profit after taxation before non-underlying items	29	1	14	13	27	57
Share of results within non-underlying items	1	–	–	–	–	1
Profit after taxation	30	1	14	13	27	58
Balance sheet						
Non-current assets						
Intangible assets – goodwill	35	–	–	–	–	35
– Infrastructure Investments intangible	–	–	19	–	19	19
– other	3	–	12	–	12	15
Property, plant and equipment	29	–	33	–	33	62
Investment properties	–	–	–	61	61	61
Investments in joint ventures and associates	4	–	–	–	–	4
PPP financial assets	–	–	1,941	188	2,129	2,129
Military housing projects	–	–	–	121	121	121
Other non-current assets	44	–	24	–	24	68
Current assets						
Cash and cash equivalents	392	–	203	35	238	630
Other current assets	272	–	69	2	71	343
Total assets	779	–	2,301	407	2,708	3,487
Current liabilities						
Borrowings – non-recourse	(51)	–	(23)	–	(23)	(74)
Other current liabilities	(527)	–	(148)	(39)	(187)	(714)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,520)	(217)	(1,737)	(1,737)
Other non-current liabilities	(57)	–	(474)	(5)	(479)	(536)
Total liabilities	(635)	–	(2,165)	(261)	(2,426)	(3,061)
Net assets	144	–	136	146	282	426
Loans to joint ventures and associates	–	4	198	–	198	202
Total investment in joint ventures and associates	144	4	334	146	480	628

^ Including Singapore. The results for 2016 included Australia.
+ Excludes the Group's share of the balance sheets of BK Gulf LLC and Dutco Balfour Beatty LLC as this is presented within provisions as set out in Note 18.1.
1 Before non-underlying items (Notes 2.10 and 10).
2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

18.3 Aggregate information of joint ventures and associates

	Joint ventures 2017 £m	**Associates 2017 £m**	**Total 2017 £m**
The Group's share of profit from continuing operations	**49**	**10**	**59**
Aggregate carrying amount of the Group's interest	**425**	**106**	**531**

	Joint ventures[2] 2016 £m	Associates 2016 £m	Total[2] 2016 £m
The Group's share of profit from continuing operations	48	10	58
Aggregate carrying amount of the Group's interest	504	124	628

2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

18 Investments in joint ventures and associates continued

18.4 Details of material joint ventures

	Gammon@		Connect Plus (M25) Ltd+		Dutco^
	2017 £m	2016 £m	**2017 £m**	2016 £m	2016 £m
Proportion of the Group's ownership interest in the joint venture	**50%**	50%	**20%**	40%	49%
Income statement – continuing operations					
Revenue	**2,040**	1,940	**118**	126	642
Underlying operating profit/(loss)	**35**	25	**3**	6	(1)
Investment income	**15**	12	**138**	138	–
Finance costs	**(12)**	(8)	**(111)**	(104)	(2)
Income tax charge	**(6)**	(7)	**(6)**	(7)	–
Profit/(loss) and total comprehensive income/(loss) (100%)	**32**	22	**24**	33	(3)
Group's share of profit/(loss) and total comprehensive income/(loss)	**16**	11	**10**	14	(2)
Dividends received by the Group during the year	**37**	–	**–**	2	–
Balance sheet					
Non-current assets	**319**	317	**2,123**	1,967	23
Current assets					
Cash and cash equivalents	**622**	672	**197**	160	12
Other current assets	**387**	514	**69**	68	624
	1,009	1,186	**266**	228	636
Current liabilities					
Trade and other payables	**(699)**	(807)	**(86)**	(66)	(605)
Provisions	**(54)**	(52)	**–**	–	(26)
Borrowings – recourse	**–**	–	**–**	–	(35)
Borrowings – non-recourse	**(70)**	(109)	**(6)**	(6)	–
Other current liabilities	**(123)**	(94)	**(45)**	(47)	(19)
	(946)	(1,062)	**(137)**	(119)	(685)
Non-current liabilities					
Trade and other payables	**(76)**	(76)	**–**	–	–
Provisions	**(21)**	(17)	**–**	–	–
Borrowings – non-recourse	**(109)**	(116)	**(1,027)**	(1,044)	–
Other non-current liabilities (including shareholder loans)	**(36)**	(45)	**(618)**	(605)	–
	(242)	(254)	**(1,645)**	(1,649)	–
Net assets/(liabilities) (100%)	**140**	187	**607**	427	(26)
Reconciliation of the above summarised financial information to the carrying amount of the interest in the above joint ventures recognised in the consolidated financial statements:					
Net assets/(liabilities) of joint venture (100%)	**140**	187	**607**	427	(26)
Group's share of net assets/(liabilities)	**70**	94	**121**	171	(13)
Add: Group's interest in shareholder loans	**–**	–	**39**	78	–
Goodwill	**29**	32	**–**	–	1
Carrying amount of the Group's interest in the joint venture	**99**	126	**160**	249	(12)&

@ Represents the combined results of Gammon China Ltd and Gammon Capital (West) Pte. Ltd as both joint ventures have common ownership and report under the same management structure.

\+ The Group disposed of a 20% interest in December 2017. Refer to Note 32.2.4.

^ 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. The Group disposed of its 49% interests in Dutco on 1 March 2017. Refer to Note 32.2.1.

& The negative carrying amount of the Group's interest in Dutco was presented within provisions in 2016. Refer to Notes 18.1 and 25.

Notes to the financial statements continued

18 Investments in joint ventures and associates continued

18.5 Cash flow from/(to) joint ventures and associates

	Infrastructure Investments				Infrastructure Investments				
Cash flows from investing activities	**UK^ 2017 £m**	**North America 2017 £m**	**Other 2017 £m**	**Total 2017 £m**	UK^ 2016 £m	North America 2016 £m	Infra-structure Fund 2016 £m	Other 2016 £m	Total 2016 £m
Dividends from joint ventures and associates	**2**	**14**	**53**	**69**	5	12	3	23	43
Subordinated debt interest received	**9**	**–**	**–**	**9**	19	–	–	–	19
Investments in and loans to joint ventures and associates	**(4)**	**(26)**	**–**	**(30)**	(20)	(9)	(8)	–	(37)
Equity	**(3)**	**(26)**	**–**	**(29)**	(3)	(9)	(8)	–	(20)
Subordinated debt invested	**(1)**	**–**	**–**	**(1)**	(17)	–	–	–	(17)
Disposal of investments in joint ventures	**103**	**–**	**3**	**106**	108	–	47	2	157
Net cash flow from/(to) joint ventures and associates	**110**	**(12)**	**56**	**154**	112	3	42	25	182

^ Including Singapore. The cash flows for 2016 included Australia.

18.6 Share of reserves of joint ventures and associates

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total (Note 30.1) £m
At 1 January 2016	92	(201)	282	23	196
Currency translation differences	–	–	–	41	41
Income recognised	56	–	–	–	56
Fair value revaluation of PPP financial assets	–	–	10	–	10
Fair value revaluation of cash flow hedges	–	(92)	–	–	(92)
Actuarial movements on retirement benefit liabilities	1	–	–	–	1
Tax on items taken directly to equity	–	14	1	–	15
Dividends	(43)	–	–	–	(43)
Recycling of revaluation reserves to the income statement on disposal	(6)	81	(66)	–	9
Reserves disposed	(9)	–	–	–	(9)
At 31 December 2016	91	(198)	227	64	184
Currency translation differences	**–**	**–**	**–**	**(18)**	**(18)**
Income recognised	**60**	**–**	**–**	**–**	**60**
Fair value revaluation of PPP financial assets	**–**	**–**	**60**	**–**	**60**
Fair value revaluation of cash flow hedges	**–**	**11**	**–**	**–**	**11**
Actuarial movements on retirement benefit liabilities	**4**	**–**	**–**	**–**	**4**
Tax on items taken directly to equity	**(1)**	**(2)**	**(10)**	**–**	**(13)**
Dividends	**(69)**	**–**	**–**	**–**	**(69)**
Recycling of revaluation reserves to the income statement on disposal	**–**	**58**	**(143)**	**–**	**(85)**
Reserves disposed	**(20)**	**(1)**	**–**	**–**	**(21)**
At 31 December 2017	**65**	**(132)**	**134**	**46**	**113**

19 Investments

19.1 Group

	Held to maturity bonds £m	Available-for-sale investments in mutual funds £m	Total £m
At 1 January 2016	24	20	44
Currency translation differences	–	4	4
Fair value gains	–	1	1
Additions	–	1	1
Maturities/disposals	(2)	(3)	(5)
At 31 December 2016	22	23	45
Currency translation differences	**–**	**(2)**	**(2)**
Fair value gains	**–**	**3**	**3**
Additions	**–**	**1**	**1**
Maturities/disposals	**(5)**	**(3)**	**(8)**
At 31 December 2017	**17**	**22**	**39**

The held to maturity bonds are held by the Group's captive insurance company, Delphian Insurance Company Ltd, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 0.73% (2016: 0.73%) and weighted average life of 2.2 years (2016: 2.1 years). The fair value of the bonds is £17m (2016: £23m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2017 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The available-for-sale investments in mutual funds comprise holdings in a number of funds, based on employees' investment elections, in respect of the deferred compensation obligations of the Group as disclosed in Note 28.2. The fair value of the available-for-sale investments is £22m (2016: £23m), determined by the market price of the funds at the reporting date.

19.2 Company

	2017 £m	2016 £m
Investment in subsidiaries	**1,802**	1,800
Provisions	**(102)**	(102)
	1,700	1,698

20 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
At 1 January 2016	283	119	402
Income recognised in the income statement:			
– interest income (Note 8)	14	7	21
Gains recognised in the statement of comprehensive income:			
– fair value movements	16	11	27
Other movements:			
– cash expenditure	25	6	31
– cash received	(28)	(11)	(39)
– disposal of interest in the five streetlighting projects (Notes 32.3.9 and 32.3.11)	(279)	–	(279)
At 31 December 2016	31	132	163
Income recognised in the income statement:			
– interest income (Note 8)	**3**	**8**	**11**
Gains recognised in the statement of comprehensive income:			
– fair value movements	**(1)**	**4**	**3**
Other movements:			
– cash expenditure	**1**	**–**	**1**
– cash received	**(4)**	**(11)**	**(15)**
At 31 December 2017	**30**	**133**	**163**

Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets and are denominated in sterling. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets.

In 2016, the Group disposed of 80% interests in five streetlighting projects and retained 20% interests. Refer to Note 32.3.9.

There were no impairment provisions in 2017 or 2016.

Notes to the financial statements continued

21 Inventories

	2017 £m	2016 £m
Unbilled non-construction work in progress	**55**	36
Raw materials and consumables	**20**	29
Development and housing land and work in progress	**27**	32
Finished goods and goods for resale	**5**	4
	107	101

22 Construction contracts

Contracts in progress at reporting date	2017 £m	2016 £m
Due from construction contract customers	**377**	380
Due to construction contract customers	**(535)**	(542)
	(158)	(162)

23 Trade and other receivables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Current				
Trade receivables	**536**	653	**–**	–
Less: provision for impairment of trade receivables	**(7)**	(7)	**–**	–
	529	646	**–**	–
Due from subsidiaries	–	–	**1,531**	1,453
Due from joint ventures and associates	**23**	58	**–**	17
Due from joint operation partners	**25**	7	**–**	–
Contract retentions receivable#	**185**	242	**–**	–
Accrued income	**18**	17	**–**	–
Prepayments	**35**	36	**–**	1
Due on disposals	**63**	–	**–**	–
Other receivables	**21**	60	**–**	–
	899	1,066	**1,531**	1,471
Non-current				
Due from joint ventures and associates	**38**	25	**2**	2
Contract retentions receivable#	**173**	151	**–**	–
Due on disposals	**4**	–	**–**	–
Other receivables	**1**	4	**–**	–
	216	180	**2**	2
Total trade and other receivables	**1,115**	1,246	**1,533**	1,473
Comprising				
Financial assets (Note 38)	**1,080**	1,210	**1,533**	1,472
Non-financial assets – prepayments	**35**	36	**–**	1
	1,115	1,246	**1,533**	1,473

Including £352m (2016: £390m) construction contract retentions receivable.

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Directors believe no further credit risk provision is required in respect of trade receivables.

The Directors consider that the carrying values of current and non-current trade and other receivables approximate their fair values.

23 Trade and other receivables continued

Movement in the provision for impairment of trade receivables

	Group 2017 £m	Group 2016 £m
At 1 January	**(7)**	(11)
(Charged)/credited to the income statement:		
– additional provisions	**(2)**	(3)
– unused amounts reversed	**2**	1
Utilised during the year	**–**	5
Disposal of parts of Rail Germany (Notes 32.3.7 and 32.3.11)	**–**	1
At 31 December	**(7)**	(7)

Maturity profile of impaired trade receivables and trade receivables past due but not impaired

	Impaired		**Past due but not impaired**	
	Group 2017 £m	Group 2016 £m	**Group 2017 £m**	Group 2016 £m
Up to three months	**–**	1	**31**	23
Three to six months	**–**	–	**9**	12
Six to nine months	**1**	–	**5**	10
Nine to 12 months	**–**	1	**3**	6
More than 12 months	**6**	5	**27**	33
	7	7	**75**	84

At 31 December 2017, trade receivables of £75m (2016: £84m) were past due but not impaired. These relate to a number of individual customers where there is no reason to believe that the receivable is not recoverable.

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

Notes to the financial statements continued

24 Trade and other payables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Current				
Trade and other payables+	**833**	936	**1**	2
Accruals	**604**	701	**7**	7
Deferred income	**1**	15	**–**	–
VAT, payroll taxes and social security	**68**	73	**–**	–
Advance payments on contracts	**16**	4	**–**	–
Due to subsidiaries	**–**	–	**1,911**	1,756
Due to joint ventures and associates	**11**	11	**–**	–
Dividends on preference shares	**6**	6	**6**	6
Due on acquisitions	**3**	3	**–**	–
Due on disposals (Note 32.3.8)	**–**	3	**–**	–
	1,542	1,752	**1,925**	1,771
Non-current				
Trade and other payables	**120**	110	**1**	–
Accruals	**19**	20	**–**	–
Due to joint ventures and associates	**7**	7	**3**	3
Due on acquisitions	**11**	14	**–**	–
	157	151	**4**	3
Total trade and other payables	**1,699**	1,903	**1,929**	1,774
Comprising				
Financial liabilities (Note 38)	**1,585**	1,772	**1,929**	1,774
Non-financial liabilities:				
– accruals not at amortised cost	**29**	39	**–**	–
– deferred income	**1**	15	**–**	–
– VAT, payroll taxes and social security	**68**	73	**–**	–
– advance payments on contracts	**16**	4	**–**	–
	1,699	1,903	**1,929**	1,774

+ Included within the Group's trade and other payables balance is £0.2m (2016: £2.6m) relating to payments due to UK suppliers who are on bank-supported supply chain finance arrangements. The Group settles these amounts in accordance with the relevant supplier's standard supplier payment terms, normally 30 days. In 2017 these arrangements were used by 19 suppliers and had a peak utilisation of £2.6m. These arrangements are not being extended to any other supplier.

Maturity profile of the Group's non-current financial liabilities at 31 December

	Trade and other payables 2017 £m	Accruals 2017 £m	Due to joint ventures and associates 2017 £m	Due on acquisitions 2017 £m	Total 2017 £m
Due within one to two years	**104**	**13**	**–**	**3**	**120**
Due within two to five years	**12**	**5**	**–**	**8**	**25**
Due after more than five years	**4**	**1**	**7**	**–**	**12**
	120	**19**	**7**	**11**	**157**

	Trade and other payables 2016 £m	Accruals 2016 £m	Due to joint ventures and associates 2016 £m	Due on acquisitions 2016 £m	Total 2016 £m
Due within one to two years	98	10	–	3	111
Due within two to five years	4	7	–	8	19
Due after more than five years	8	3	7	3	21
	110	20	7	14	151

The Directors consider that the carrying values of current and non-current trade and other payables approximate their fair values. The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

25 Provisions

	Group				Company
	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m	Other provisions £m
At 1 January 2016	92	54	60	206	2
Currency translation differences	6	2	1	9	–
Transfers	1	5	(6)	–	–
Reclassified from accruals and due to construction contract customers	40	–	4	44	–
Charged/(credited) to the income statement:					
– additional provisions	100	43	33	176	–
– unused amounts reversed	(36)	(15)	(21)	(72)	(2)
– additional losses arising from Dutco^ (Note 18.1)	–	–	3	3	–
Utilised during the year	(56)	(28)	(8)	(92)	–
Disposal of parts of Rail Germany (Notes 32.3.7 and 32.3.11)	(1)	–	–	(1)	–
At 31 December 2016	146	61	66	273	–
Currency translation differences	**(3)**	**–**	**(1)**	**(4)**	–
Transfers	**4**	**3**	**(7)**	**–**	–
Reclassified from accruals and due to construction contract customers	**13**	**–**	**1**	**14**	–
Charged/(credited) to the income statement:					
– additional provisions	**122**	**29**	**12**	**163**	–
– unused amounts reversed	**(38)**	**(7)**	**(10)**	**(55)**	–
– profit generated by Dutco^ (Note 18.1)	**–**	**–**	**(1)**	**(1)**	
Utilised during the year	**(51)**	**(24)**	**(10)**	**(85)**	–
Disposal of Dutco (Note 32.2.1)	**–**	**–**	**(11)**	**(11)**	–
Disposal of Heery International Inc (Note 32.2.3 and 32.2.6)	**(2)**	**–**	**–**	**(2)**	–
At 31 December 2017	**191**	**62**	**39**	**292**	**–**

				Group				Group
	Contract provisions 2017 £m	**Employee provisions 2017 £m**	**Other provisions 2017 £m**	**Total 2017 £m**	Contract provisions 2016 £m	Employee provisions 2016 £m	Other provisions 2016 £m	Total 2016 £m
Due within one year	**148**	**22**	**24**	**194**	109	22	16	147
Due within one to two years	**20**	**7**	**6**	**33**	11	10	16	37
Due within two to five years	**16**	**9**	**6**	**31**	19	22	26	67
Due after more than five years	**7**	**24**	**3**	**34**	7	7	8	22
	191	**62**	**39**	**292**	146	61	66	273

^ 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. The Group disposed of its 49% interests in Dutco on 1 March 2017. Refer to Note 32.2.1.

Contract provisions include construction insurance liabilities, principally in the Group's captive insurance arrangements, and defect and warranty provisions on contracts, primarily construction contracts, that have reached practical completion. There is a 12 month latent defect period for which the provision is held, but where there are known identified issues then the provision may be required to cover rectification work over a more extended period.

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's captive insurance arrangements and provisions for employee termination liabilities arising from the Group's restructuring programmes.

Other provisions principally comprise: motor and other insurance liabilities in the Group's captive insurance arrangements; legal claims and costs, where provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress; property-related provisions, mainly onerous lease commitments, some of which arise from the Group's restructuring programmes; and environmental provisions.

The Group takes actuarial advice when establishing the level of provisions in the Group's captive insurance arrangements and certain other categories of provision.

Insurance-related provisions within these categories were £62m (2016: £82m) as follows: Contract provisions £32m (2016: £42m); Employee provisions £26m (2016: £31m); and Other, mainly motor, provisions £4m (2016: £9m).

Restructuring provisions within these categories were £6m (2016: £10m) as follows: Employee provisions £1m (2016: £10m); and Other, mainly property-related, provisions £5m (2016: £nil).

In 2016 and up until the Group disposed of its 49% interests in Dutco^, the Group recognised losses in relation to Dutco^ in excess of its carrying value of its investment as the Group had constructive obligations to provide further funding to make good these losses and these were classified as other provisions. Refer to Note 18. The Group disposed of its 49% interests in Dutco^ on 1 March 2017. Refer to Note 32.2.1.

Notes to the financial statements continued

26 Cash and cash equivalents and borrowings

26.1 Group

	Current 2017 £m	Non-current 2017 £m	Total 2017 £m	Current 2016 £m	Non-current 2016 £m	Total 2016 £m
Unsecured borrowings at amortised cost						
– bank overdrafts	–	–	–	(1)	–	(1)
– US private placement (Note 26.2)	(33)	(226)	(259)	–	(285)	(285)
– liability component of convertible bonds (Note 26.3)	(226)	–	(226)	–	(240)	(240)
– loans under committed facilities	–	–	–	(50)	–	(50)
– other loans	(9)	(4)	(13)	(4)	(8)	(12)
Secured borrowings at amortised cost						
– finance leases	–	–	–	(1)	–	(1)
	(268)	(230)	(498)	(56)	(533)	(589)
Cash and deposits at amortised cost	717	–	717	605	–	605
Term deposits at amortised cost	116	–	116	157	–	157
Cash and cash equivalents (excluding infrastructure concessions)	833	–	833	762	–	762
	565	(230)	335	706	(533)	173
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2062	(8)	(432)	(440)	(47)	(193)	(240)
Infrastructure concessions cash and cash equivalents	135	–	135	7	–	7
	127	(432)	(305)	(40)	(193)	(233)
Net cash/(borrowings)	692	(662)	30	666	(726)	(60)

The loans relating to project finance arise under non-recourse facilities taken out by project-specific subsidiary companies. The loans of each company are secured by a combination of fixed and floating charges over that company's interests in its project's assets and revenues and the shares in the company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

Included in cash and cash equivalents is restricted cash of: £25m (2016: £23m) held by the Group's captive insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations; £12m (2016: £31m) held within construction project bank accounts; £nil (2016: £nil) relating to cash collateral held against an issued letter of credit; and £135m (2016: £7m) relating to the maintenance and other reserve accounts in the Infrastructure Investments subsidiaries.

Cash, deposits and term deposits include the Group's share of amounts held by joint operations of £261m (2016: £282m).

Maturity profile of the Group's borrowings at 31 December

	Non-recourse project finance 2017 £m	Other borrowings 2017 £m	Total 2017 £m	Non-recourse project finance 2016 £m	Finance leases 2016 £m	Other borrowings 2016 £m	Total 2016 £m
Due on demand or within one year	(8)	(268)	(276)	(47)	(1)	(55)	(103)
Due within one to two years	(70)	(4)	(74)	(8)	–	(285)	(293)
Due within two to five years	(22)	(34)	(56)	(32)	–	(37)	(69)
Due after more than five years	(340)	(192)	(532)	(153)	–	(211)	(364)
	(440)	(498)	(938)	(240)	(1)	(588)	(829)

The carrying values of the Group's borrowings are equal to the fair values at the reporting date. The fair values are determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

Undrawn Group committed borrowing facilities at 31 December in respect of which all conditions precedent were satisfied

	Non-recourse project finance 2017 £m	Other borrowings 2017 £m	Total 2017 £m	Non-recourse project finance 2016 £m	Other borrowings 2016 £m	Total 2016 £m
Expiring in one year or less	1	25	26	8	–	8
Expiring in more than one year but not more than two years	–	–	–	–	22	22
Expiring in more than two years	–	375	375	–	328	328
	1	400	401	8	350	358

In November 2017, £375m of the Group's £400m revolving credit facility was extended until 2020. The entire facility remains undrawn at 31 December 2017.

26 Cash and cash equivalents and borrowings continued

26.2 US private placement

In March 2013, the Group raised US$350m (£231m) of borrowings through a US private placement of a series of notes with an average coupon of 4.94% per annum and an average maturity of 9.3 years. At 31 December 2017, as a result of movements in exchange rates, the balance outstanding was £259m (2016: £285m).

26.3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds of £100,000 each maturing on 3 December 2018 at a total issue price of £252.7m and incurred transaction costs of £6.7m resulting in net proceeds of £246m. The bonds have a coupon of 1.875% per annum payable semi-annually in arrears and the initial conversion price has been set at £3.6692 per share. On 23 April 2014, the conversion price was revised to £3.6212.

From 14 January 2014 until 14 days prior to final maturity, one bond is convertible at the option of the holder into one preference share in Balfour Beatty Finance No 2 Ltd which is immediately transferred to the Company in exchange for the issue of ordinary shares in the Company.

The bonds are compound instruments, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was £220m estimated using the prevailing market interest rate of 4.29% per annum for a similar non-convertible instrument. The difference between the net proceeds of issue of the convertible bonds after the transaction costs and the fair value assigned to the liability component, representing the value of the equity conversion component, was included in equity holders' funds. Refer to Note 29.3.

In December 2017, the Group repurchased £21.3m of the convertible bonds, resulting in a loss on settlement of £0.4m. As a result of this settlement, £2m of reserves previously held in other reserves which related to the equity conversion component of the bonds that were repurchased was transferred to retained earnings. Refer to Note 30.1.

Liability component recognised in the Balance Sheet

	2017 £m	2016 £m
Liability component at 1 January at amortised cost	**240**	233
Accretion	**7**	7
Repurchase of bonds	**(21)**	–
Liability component at 31 December at amortised cost	**226**	240

The fair value of the liability component of the convertible bonds at 31 December 2017 was £227m (2016: £244m).

The finance cost of the convertible bonds is calculated using the effective interest method.

26.4 Company

	Current 2017 £m	**Non-current 2017 £m**	**Total 2017 £m**	Current 2016 £m	Non-current 2016 £m	Total 2016 £m
Cash and deposits	**134**	**–**	**134**	167	–	167
Unsecured borrowings at amortised cost						
– bank loans and overdrafts	**–**	**–**	**–**	–	–	–
– loans under committed facilities	**–**	**–**	**–**	(50)	–	(50)
– US private placement (Note 26.2)	**(33)**	**(226)**	**(259)**	–	(285)	(285)
Net borrowings	**101**	**(226)**	**(125)**	117	(285)	(168)

The bank loans and overdrafts are sterling denominated, variable rate instruments and repayable on demand.

Notes to the financial statements continued

27 Deferred tax

27.1 Group

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Net deferred tax position at 31 December

	Group 2017 £m	Group 2016 £m	**Company 2017 £m**	Company 2016 £m
Deferred tax assets	**52**	54	**–**	–
Deferred tax liabilities	**(70)**	(80)	**(1)**	(2)
	(18)	(26)	**(1)**	(2)

Movement for the year in the net deferred tax position

	Group £m	Company £m
At 1 January 2016	5	(2)
Currency translation differences	(13)	–
Charged to income statement#	(22)	–
Credited to equity#	1	–
Disposal of five streetlighting projects (Notes 32.3.9 and 32.3.11)	3	–
At 31 December 2016	(26)	(2)
Currency translation differences	**7**	–
Credited to income statement#	**45**	1
Charged to equity#	**(37)**	–
Research and development tax credit	**1**	–
Disposal of Blackpool Airport (Notes 32.2.2 and 32.2.6)	**1**	–
Disposal of Heery International Inc (Notes 32.2.3 and 32.2.6)	**(9)**	–
At 31 December 2017	**(18)**	(1)

Group includes £34m credited (2016: £nil) to the income statement and £1m credited (2016: £nil) to equity in relation to changes in the US Federal corporate income rate taxes.

27 Deferred tax continued

27.1 Group continued

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority.

Net deferred tax position

	Depreciation in excess of capital allowances £m	Retirement benefits £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Preference shares £m	Fair value adjustments £m	Derivatives £m	Other GAAP differences £m	Research and development credit £m	Total £m
At 1 January 2016	14	26	46	2	33	(3)	(50)	–	(63)	–	5
Currency translation differences	(2)	2	9	–	4	–	(11)	(1)	(14)	–	(13)
Transfers	–	–	–	–	–	–	(4)	4	–	–	–
Credited/(charged) to income statement	5	(8)	7	–	7	1	(12)	–	(22)	–	(22)
Credited/(charged) to equity	–	2	–	–	–	–	(2)	1	–	–	1
Disposal of five streetlighting projects (Notes 32.3.9 and 32.3.11)	–	–	–	–	–	–	–	3	–	–	3
At 31 December 2016	17	22	62	2	44	(2)	(79)	7	(99)	–	(26)
Currency translation differences	**–**	**(1)**	**(4)**	**–**	**1**	**–**	**4**	**–**	**7**	**–**	**7**
Credited/(charged) to income statement	**2**	**(5)**	**21**	**2**	**(16)**	**–**	**14**	**–**	**27**	**–**	**45**
Credited/(charged) to equity	**–**	**(37)**	**–**	**1**	**–**	**–**	**–**	**(1)**	**–**	**–**	**(37)**
Research and development tax credit	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Disposal of Blackpool Airport (Notes 32.2.2 and 32.2.6)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Disposal of Heery International Inc (Notes 32.2.3 and 32.2.6)	**–**	**–**	**–**	**–**	**(3)**	**–**	**4**	**–**	**(10)**	**–**	**(9)**
At 31 December 2017	**19**	**(21)**	**79**	**5**	**26**	**(2)**	**(57)**	**6**	**(74)**	**1**	**(18)**

At the reporting date the Group had unrecognised tax losses from operations (excluding capital losses) that arose over a numbers of years of approximately £922m (2016: £1,064m) which are available for offset against future profits. £8m (2016: £6m) will expire between five and 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2018. The remaining losses may be carried forward indefinitely.

The Group has recognised deferred tax assets for UK corporation tax trading losses of £245m (2016: £4m). The Group has UK corporation tax trading losses of £612m (2016: £768m) which are not recognised as deferred tax assets. The Group also had temporary differences relating to retirement benefits on which a deferred tax asset has not been recognised of £62m (2016: £108m).

At the reporting date the undistributed reserves for which deferred tax liabilities have not been recognised were £nil (2016: £1m) in respect of subsidiaries and £nil (2016: £nil) in respect of joint ventures and associates. No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated.

27.2 Company

Deferred tax assets and liabilities

	Deferred tax liabilities	Deferred tax assets		Net deferred tax assets/(liabilities)
	Preference shares £m	Provisions £m	Share-based payments £m	£m
At 1 January 2016	(3)	1	–	(2)
Credited/(charged) to income statement	1	(1)	–	–
At 31 December 2016	(2)	–	–	(2)
Credited to income statement	**–**	**–**	**1**	**1**
At 31 December 2017	**(2)**	**–**	**1**	**(1)**

Notes to the financial statements continued

28 Retirement benefit assets and liabilities

28.1 Introduction

The Group, through trustees, operates a number of defined contribution and defined benefit pension schemes.

Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

Defined benefit schemes are schemes other than defined contribution schemes where the Group's obligation is to provide specified benefits on retirement.

IAS 19 Employee Benefits (IAS 19) prescribes the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on high-quality corporate bonds. The pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net finance 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 IAS 19 accounting valuations are set out in Note 28.2.

A different calculation is used for the formal triennial funding valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme obligations. The principal difference between the two methods is that under the funding basis the obligations are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on high-quality corporate bonds as required by IAS 19 for the financial statements. Details of the latest formal triennial funding valuations are set out in Note 28.3.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of, the Group.

Principal schemes

The Group's principal schemes are the Balfour Beatty Pension Fund (BBPF), which includes defined contribution and defined benefit sections, and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme (RPS). The defined benefit sections of both schemes are funded and closed to new members with the exception of employees where employment has transferred to the Group under certain agreed arrangements. Pension benefits are based on employees' pensionable service and their pensionable salary.

The schemes operate under trust law and are managed and administered by trustees on behalf of the members in accordance with the terms of the trust deed and rules and relevant legislation. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice. The trustees are responsible for establishing the investment strategy and ensuring that there are sufficient assets to meet the cost of current and future benefits.

These schemes expose the Group to investment and actuarial risks where additional contributions may be required if assets are not sufficient to pay future pension benefits:

- investment risk: equity returns are a key determinant of investment return but the investment portfolio is also subject to a range of other risks typical of the investments held, for example, credit risk on corporate bond holdings.
- actuarial risk: the ultimate cost of providing pension benefits is affected by inflation rates and members' life expectancy. The net present value of the obligations is affected by the market yield on high-quality corporate bonds used to discount the obligations.

Changes in the principal actuarial assumptions based on market data, such as inflation and the discount rate, and experience, such as life expectancy, expose the Group to fluctuations in the net IAS 19 liability and the net finance cost.

28 Retirement benefit assets and liabilities continued

28.1 Introduction continued

Balfour Beatty Pension Fund

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

On 1 July 2015, the Group established a Scottish Limited Partnership (SLP) structure into which its investment in Consort Healthcare (Birmingham) Holdings Ltd (Consort Birmingham), which owns the Group's 40% interest in the Birmingham Hospital PFI investment, was transferred. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in Consort Birmingham for other investments from time to time. On 29 December 2016 the Group transferred into the SLP its investment in Holyrood Student Accommodation Holdings Ltd, which owns the Group's 100% interest in the Edinburgh student accommodation project.

Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension surplus presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. In 2017, the BBPF received distributions of £1m from the SLP (2016: £1m).

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

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

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

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

Notes to the financial statements continued

28 Retirement benefit assets and liabilities continued

28.1 Introduction continued

Railways Pension Scheme

The RPS is a shared cost scheme. The legal responsibility of the Group in the RPS is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing.

In 2013 and previous years, the assumed cost of providing benefits was split between the Group and the members in the ratio 60:40. This had been a reasonable assumption to make of how costs might have been shared over the long term. This assumption has been retained in relation to the cost of providing future service benefits.

Since 2014, because of a declining population of active members, it became less likely that the Group's costs of meeting any deficits would be capped in line with its strict legal obligation of 60%. It was anticipated that members might only be able to afford to fund a small proportion of the scheme deficit. In the accounts for the years ended 31 December 2014 and 31 December 2015, the long-term cost of providing past service benefits was assumed to be split between the Group and the members in the ratio 95:5. From 1 January 2016 it has been assumed that the Group will be responsible for 100% of any deficit and the balance sheet assets and obligations disclosed, therefore, are equal to 100% of the total scheme assets and obligations.

The RPS invests in a range of pooled investment funds intended to generate a combination of capital growth and income and, as determined by the trustee, taking account of the characteristics of the obligations and the trustee's attitude to risk. The majority of the RPS' assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled growth fund. This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time. The remaining assets in the RPS are principally fixed and index-linked bonds.

Following the formal triennial funding valuation carried out as at 31 December 2016, the Group agreed to make ongoing fixed deficit contributions of £6m per annum which should reduce the deficit to zero by 2027. This agreement constitutes a MFR under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the RPS would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the RPS have been settled.

Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe, the majority of which are closed to new entrants, and deferred compensation schemes in North America, where an element of employees' compensation is deferred and invested in available-for-sale assets (as disclosed in Note 19.1) in a trust, the assets of which are for the ultimate benefit of the employees but are available to the Group's creditors in the event of insolvency.

Membership of the principal schemes

	Balfour Beatty Pension Fund 2017			**Railways Pension Scheme 2017**			Balfour Beatty Pension Fund 2016			Railways Pension Scheme 2016		
	Number of members	**Defined benefit obligations £m**	**Average duration Years**	**Number of members**	**Defined benefit obligations £m**	**Average duration Years**	Number of members	Defined benefit obligations £m	Average duration Years	Number of members	Defined benefit obligations £m	Average duration Years
Defined benefit												
– active members	**10**	**3**	**17**	**93**	**43**	**22**	12	3	17	99	90	21
– deferred pensioners	**11,753**	**1,692**	**23**	**1,234**	**139**	**22**	12,414	1,754	22	1,292	151	20
– pensioners, widow(er)s and dependants	**18,186**	**1,817**	**11**	**1,709**	**209**	**13**	18,606	1,926	11	1,686	175	12
Defined contribution	**13,534**	**–**	**–**	**–**	**–**	**–**	13,290	–	–	–	–	–
Total	**43,483**	**3,512**	**17**	**3,036**	**391**	**17**	44,322	3,683	17	3,077	416	16

28.2 IAS 19 accounting valuations

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

	Balfour Beatty Pension Fund 2017 %	**Railways Pension Scheme 2017 %**	Balfour Beatty Pension Fund 2016 %	Railways Pension Scheme 2016 %
Discount rate	**2.55**	**2.55**	2.50	2.50
Inflation rate – RPI	**3.15**	**3.15**	3.20	3.20
– CPI	**2.05**	**2.05**	2.00	2.00
Future increases in pensionable salary	**2.05**	**2.05**	2.00	2.00
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.95**	**2.20**	2.95	2.15

28 Retirement benefit assets and liabilities continued

28.2 IAS 19 accounting valuations continued

In December 2017, the Group changed two elements of the discount rate methodology which resulted in a discount rate of 2.55% in the current year compared to 2.35% under the previous methodology. The first change was to exclude certain bonds issued by Universities and entities with a UK Government guarantee, which the Group did not consider to meet the high-quality corporate bond requirement of IAS 19. The second change, and noting IAS 19 does not specify the approach that should be adopted where there are no corporate bonds of a suitable duration, was to change from extrapolating the discount rate yield curve with reference to UK Government gilts to using the forward rates observable from relevant corporate bonds. In the Group's view, these changes resulted in a high-quality corporate bond based discount rate yield curve which is more appropriate for the profile of the Group's UK pension obligations. The impact of these changes in discount rate methodology is a £123m gain which was recognised as part of the actuarial gains/(losses) for the year within the Statement of Comprehensive Income. The Group accounted for the discount rate change prospectively as a change in estimate.

At the same time, following independent advice from the Group's actuaries, the Group reassessed the difference between RPI and CPI measures of price inflation from 1.2% at December 2016 to 1.1% at December 2017. This resulted in an actuarial loss of £25m, which was recognised as part of the actuarial gains/(losses) for the year within the Statement of Comprehensive Income.

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (43,483 members at 31 December 2017) 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 2017 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2016 to 31 March 2017. The mortality tables adopted for the 2017 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2016: SAPS S2 tables) with a multiplier of 102% for all male and female members (2016: 102%) and 106% for female widows and dependants (2016: 106%); all with future improvements in line with the CMI 2016 core projection model (2016: CMI 2015 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2016: 1.25% per annum and 1.00% per annum).

	2017 Average life expectancy at 65 years of age		2016 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.9**	**23.6**	22.1	23.9
Members not yet in receipt of a pension (current age 50)	**23.0**	**24.6**	23.4	25.0

Amounts recognised in the income statement

The BBPF defined contribution employer contributions paid and charged to the income statement have been separately identified in the table below and the defined contribution section assets and liabilities amounting to £460m (2016: £405m) have been excluded from the tables on pages 142 to 144. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

	Balfour Beatty Pension Fund 2017 £m	**Railways Pension Scheme 2017 £m**	**Other schemes 2017 £m**	**Total 2017 £m**	Balfour Beatty Pension Fund 2016 £m	Railways Pension Scheme 2016 £m	Other schemes 2016 £m	Total 2016 £m
Group								
Current service cost	**(2)**	**(1)**	**(3)**	**(6)**	(2)	(1)	(3)	(6)
Defined contribution charge	**(43)**	**–**	**(3)**	**(46)**	(44)	–	–	(44)
Included in employee costs (Note 7)	**(45)**	**(1)**	**(6)**	**(52)**	(46)	(1)	(3)	(50)
Interest income	**89**	**7**	**–**	**96**	108	10	–	118
Interest cost	**(90)**	**(10)**	**(2)**	**(102)**	(109)	(11)	(2)	(122)
Net finance cost (Note 9)	**(1)**	**(3)**	**(2)**	**(6)**	(1)	(1)	(2)	(4)
Settlements (Note 7)	**–**	**–**	**–**	**–**	1	1	–	2
Total charged to income statement	**(46)**	**(4)**	**(8)**	**(58)**	(46)	(1)	(5)	(52)

Amounts recognised in the Statement of Comprehensive Income

	Balfour Beatty Pension Fund 2017 £m	**Railways Pension Scheme 2017 £m**	**Other schemes 2017 £m**	**Total 2017 £m**	Balfour Beatty Pension Fund 2016 £m	Railways Pension Scheme 2016 £m	Other schemes 2016 £m	Total 2016 £m
Actuarial movements on pension scheme obligations	**72**	**20**	**2**	**94**	(710)	(115)	–	(825)
Actuarial movements on pension scheme assets	**129**	**19**	**–**	**148**	652	52	–	704
Total actuarial movements recognised in the Statement of Comprehensive Income (Note 30.1)	**201**	**39**	**2**	**242**	(58)	(63)	–	(121)
Cumulative actuarial movements recognised in the Statement of Comprehensive Income	**(133)**	**(68)**	**(27)**	**(228)**	(334)	(107)	(29)	(470)

The actual return on plan assets was a gain of £244m (2016: £822m).

Notes to the financial statements continued

28 Retirement benefit assets and liabilities continued

28.2 IAS 19 accounting valuations continued

Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Other schemes† 2017 £m	Total 2017 £m	Balfour Beatty Pension Fund 2016 £m	Railways Pension Scheme 2016 £m	Other schemes† 2016 £m	Total 2016 £m
Present value of obligations	**(3,512)**	**(391)**	**(53)**	**(3,956)**	(3,683)	(416)	(56)	(4,155)
Fair value of plan assets	**3,668**	**320**	**–**	**3,988**	3,621	303	–	3,924
Asset/(liabilities) in the balance sheet	**156**	**(71)**	**(53)**	**32**	(62)	(113)	(56)	(231)

† Available-for-sale investments in mutual funds of £22m (2016: £23m) are held to satisfy the Group's deferred compensation obligations (Note 19.1).

The defined benefit obligation comprises £53m (2016: £56m) arising from wholly unfunded plans and £3,903m (2016: £4,099m) arising from plans that are wholly or partly funded.

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Other schemes 2017 £m	Total 2017 £m	Balfour Beatty Pension Fund 2016 £m	Railways Pension Scheme 2016 £m	Other schemes 2016 £m	Total 2016 £m
At 1 January	(3,683)	(416)	(56)	(4,155)	(3,031)	(314)	(52)	(3,397)
Currency translation differences	**–**	**–**	**2**	**2**	–	–	(9)	(9)
Current service cost	**(2)**	**(1)**	**(3)**	**(6)**	(2)	(1)	(3)	(6)
Interest cost	**(90)**	**(10)**	**(2)**	**(102)**	(109)	(11)	(2)	(122)
Actuarial movements from changes in discount rate methodology	**110**	**13**	**–**	**123**	–	–	–	–
Actuarial movements from reassessing the difference between RPI and CPI	**(20)**	**(5)**	**–**	**(25)**	(33)	(11)	–	(44)
Other financial actuarial movements	**(64)**	**(7)**	**2**	**(69)**	(700)	(103)	(3)	(806)
Actuarial movements from changes in demographic assumptions	**40**	**4**	**–**	**44**	(50)	(1)	–	(51)
Experience gains	**6**	**15**	**–**	**21**	73	–	3	76
Total actuarial movements	**72**	**20**	**2**	**94**	(710)	(115)	–	(825)
Benefits paid	**191**	**16**	**4**	**211**	168	16	4	188
Settlements	**–**	**–**	**–**	**–**	1	9	–	10
Disposal of parts of Rail Germany (Notes 32.3.7 and 32.3.11)	**–**	**–**	**–**	**–**	–	–	6	6
At 31 December	**(3,512)**	**(391)**	**(53)**	**(3,956)**	(3,683)	(416)	(56)	(4,155)

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Total 2017 £m	Balfour Beatty Pension Fund 2016 £m	Railways Pension Scheme 2016 £m	Total 2016 £m
At 1 January	3,621	303	3,924	2,988	263	3,251
Interest income	**89**	**7**	**96**	108	10	118
Actuarial movements	**129**	**19**	**148**	652	52	704
Contributions from employer						
– regular funding	**1**	**1**	**2**	2	–	2
– ongoing deficit funding+	**19**	**6**	**25**	39	2	41
Benefits paid	**(191)**	**(16)**	**(207)**	(168)	(16)	(184)
Settlements	**–**	**–**	**–**	–	(8)	(8)
At 31 December	**3,668**	**320**	**3,988**	3,621	303	3,924

+ Ongoing deficit funding contributions presented above for BBPF of £19m are less than the amounts prescribed in the funding agreement of £27m due to overpaid contributions in 2016 of £3m, and £5m of BBPF running costs which are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

28 Retirement benefit assets and liabilities continued

28.2 IAS 19 accounting valuations continued

Fair value of the assets held by the schemes at 31 December

	2017			2016		
	Balfour Beatty Pension Fund £m	**Railways Pension Scheme† £m**	**Total £m**	Balfour Beatty Pension Fund £m	Railways Pension Scheme† £m	Total £m
Return-seeking	**1,126**	**222**	**1,348**	1,221	224	1,445
– Developed nation equities^	**384**	**–**	**384**	370	–	370
– Emerging market equities^	**36**	**–**	**36**	117	–	117
– Hedge funds	**337**	**–**	**337**	400	–	400
– Return-seeking growth pooled funds	**–**	**222**	**222**	–	224	224
– Other return-seeking assets	**369**	**–**	**369**	334	–	334
Liability-matching bond-type assets	**2,060**	**86**	**2,146**	2,119	78	2,197
– Corporate bonds^	**621**	**–**	**621**	698	–	698
– Fixed interest gilts^	**397**	**–**	**397**	599	–	599
– Index-linked gilts^	**887**	**–**	**887**	627	–	627
– Liability-matching pooled funds	**–**	**86**	**86**	–	78	78
– Interest and inflation rate swaps	**155**	**–**	**155**	195	–	195
Property	**215**	**–**	**215**	169	–	169
Secure income assets	**115**	**–**	**115**	51	–	51
Other	**152**	**12**	**164**	61	1	62
Total	**3,668**	**320**	**3,988**	3,621	303	3,924

† The amounts represent 100% of the scheme's assets.

^ Of the assets included above, £1,955m (2016: £2,048m) are assets that have quoted prices in active markets, of which £671m (2016: £822m) relate to the corporate bonds, developed nation equities and emerging market equities.

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2018

	Balfour Beatty Pension Fund 2018 £m	**Railways Pension Scheme 2018 £m**	**Total 2018 £m**
Regular funding	**2**	**1**	**3**
Ongoing deficit funding	**25**	**6**	**31**
Total required by schedule of contributions	**27**	**7**	**34**
Estimated BBPF running costs to be funded from ongoing deficit contributions*	**(4)**	**–**	**(4)**
Estimated total cash contributions	**23**	**7**	**30**

* The running costs of the BBPF are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

Notes to the financial statements continued

28 Retirement benefit assets and liabilities continued

28.2 IAS 19 accounting valuations continued

The sensitivity analysis below has been determined based on reasonably possible changes in assumptions occurring at the end of the reporting period. In each case the relevant change in assumption occurs in isolation from potential changes in other assumptions. In practice more than one variable is likely to change at the same time. The sensitivities have been calculated using the projected unit credit method.

Sensitivity of the Group's retirement benefit obligations at 31 December 2017 to different actuarial assumptions

	Percentage points/ Years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Increase in discount rate	**0.5%**	**(8.1)%**	**(314)**
Increase in market expectation of RPI inflation	**0.5%**	**5.7%**	**223**
Increase in salary growth	**0.5%**	**0.0%**	**1**
Increase in life expectancy	**1 year**	**4.1%**	**164**

Sensitivity of the Group's retirement benefit assets at 31 December 2017 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	**(8.5)%**	**(335)**
Increase in market expectation of RPI inflation	**0.5%**	**5.7%**	**223**

The asset sensitivities only take into account the impact of the changes in market conditions on bond type assets. The value of the schemes' return-seeking assets is not directly correlated with movements in interest rates or RPI inflation.

Year end historical information for the Group's retirement defined benefit schemes

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Present value of obligations	**(3,956)**	(4,155)	(3,397)	(3,518)	(3,229)
Fair value of assets	**3,988**	3,924	3,251	3,390	2,795
Surplus/(deficit)	**32**	(231)	(146)	(128)	(434)
Experience adjustment for obligations	**21**	76	1	(7)	16
Experience adjustment for assets	**148**	704	(154)	574	(44)
Total deficit funding	**25**	41	66	49	59

28.3 Latest formal triennial funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal triennial funding valuation	31/03/2016	31/12/2016
Scheme deficit		
Market value of assets	3,536	319
Present value of obligations	(3,642)	(367)
Deficit in defined benefit scheme	(106)	(48)
Funding level	97.1%	86.9%

29 Share capital

29.1 Ordinary shares of 50p each

	Million	Issued £m
At 31 December 2016 and 2017	**690**	**345**

All issued ordinary shares are fully paid. Ordinary shares carry no right to fixed income but each share carries the right to one vote at general meetings of the Company. No ordinary shares were issued during the current year.

29.2 Cumulative convertible redeemable preference shares of 1p each

	Million	Issued £m
At 31 December 2016 and 2017	**112**	**1**

All issued preference shares are fully paid. During the current and prior year, no preference shares were repurchased for cancellation by the Company.

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. A preference dividend of 5.375p per cumulative convertible redeemable preference share of 1p was paid on 1 July 2017 in respect of the six months ended 30 June 2017. A preference dividend of 5.375p per cumulative convertible redeemable preference share of 1p was paid on 1 January 2018 in respect of the six months ended 31 December 2017.

On 1 July 2020, any preference shares still outstanding are redeemable at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2017 (2016: £112m).

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 24.69136 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances. The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30-day period exceeds 810p, subject to adjustment in certain circumstances.

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding up of the Company. On winding up the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares.

The preference shares are a compound instrument, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13.5% per annum for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, at the date of issue, representing the equity conversion component at £18m, was included in equity holders' equity, net of deferred tax.

Liability component recognised in the Balance Sheet

	2017 £m	2016 £m
Redemption value of shares in issue at 1 January	**112**	112
Equity component	**(18)**	(18)
Interest element	**6**	4
Liability component at 1 January at amortised cost	**100**	98
Interest accretion	**3**	2
Liability component at 31 December at amortised cost	**103**	100

The fair value of the liability component of the preference shares at 31 December 2017 amounted to £126m (2016: £135m). The fair value is determined by using the market price of the preference shares at the reporting date and attributing a fair value to the equity component.

Interest expense on the preference shares is calculated using the effective interest method.

29.3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds for net proceeds of £246m. The convertible bonds are compound instruments comprising equity and liability components. The fair value of the liability component was estimated as £220m using the prevailing market rate at the date of issue for a similar non-convertible instrument. The difference between the net proceeds and the fair value of the liability represented the embedded option to convert the liability into the Company's ordinary shares being the equity component of £26m.
At 31 December 2017, £2m of this equity component was transferred to retained earnings on the repurchase of £21m worth of convertible bonds. Refer to Note 26.3.

Notes to the financial statements continued

30 Movements in equity
30.1 Group

					Other reserves							
	Called-up share capital 2017 £m	Share premium account 2017 £m	Special reserve 2017 £m	Share of joint ventures' and associates' reserves (Note 18.6) 2017 £m	Equity component of preference shares and convertible bonds 2017 £m	Hedging reserves 2017 £m	PPP financial assets 2017 £m	Currency translation reserve 2017 £m	Other 2017 £m	Retained profits/ (losses) 2017 £m	Non-controlling interests 2017 £m	Total 2017 £m
At 1 January 2017	345	65	22	184	44	(30)	25	135	17	(50)	5	762
Profit for the year	–	–	–	**60**	–	–	–	–	–	**108**	–	**168**
Currency translation differences	–	–	–	**(18)**	–	–	–	**(30)**	–	–	–	**(48)**
Actuarial movements on retirement benefit liabilities	–	–	–	**4**	–	–	–	–	–	**242**	–	**246**
Fair value revaluations												
– PPP financial assets	–	–	–	**60**	–	–	**3**	–	–	–	–	**63**
– cash flow hedges	–	–	–	**11**	–	**4**	–	–	–	–	–	**15**
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	**3**	–	–	**3**
Recycling of revaluation reserves to the income statement on disposal@	–	–	–	**(85)**	–	–	–	–	–	–	–	**(85)**
Tax on items recognised in other comprehensive income@	–	–	–	**(13)**	–	**(1)**	**(1)**	–	**2**	**(37)**	–	**(50)**
Total comprehensive income/ (loss) for the year	–	–	–	**19**	–	**3**	**2**	**(30)**	**5**	**313**	–	**312**
Ordinary dividends	–	–	–	–	–	–	–	–	–	**(20)**	–	**(20)**
Joint ventures' and associates' dividends	–	–	–	**(69)**	–	–	–	–	–	**69**	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	**6**	**1**	–	**7**
Reserve transfers relating to joint venture and associate disposals	–	–	–	**(21)**	–	–	–	–	–	**21**	–	–
Minority interests+	–	–	–	–	–	–	–	–	–	–	**5**	**5**
Convertible bonds repurchase	–	–	–	–	**(2)**	–	–	–	–	**2**	–	–
At 31 December 2017	**345**	**65**	**22**	**113**	**42**	**(27)**	**27**	**105**	**28**	**336**	**10**	**1,066**

@ Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.
\+ Representing the minority interest's share of the impact of fair valuing the loan instrument which was injected into the related Group subsidiary.

30 Movements in equity continued

30.1 Group continued

	Called-up share capital 2016 £m	Share premium account 2016 £m	Special reserve 2016 £m	Share of joint ventures' and associates' reserves (Note 18.6) 2016 £m	Other reserves: Equity component of preference shares and convertible bonds 2016 £m	Other reserves: Hedging reserves 2016 £m	Other reserves: PPP financial assets 2016 £m	Other reserves: Currency translation reserve 2016 £m	Other reserves: Other 2016 £m	Retained profits 2016 £m	Non-controlling interests 2016 £m	Total 2016 £m
At 1 January 2016	345	65	22	196	44	(58)	58	87	13	54	4	830
Profit/(loss) for the year	–	–	–	56	–	–	–	–	–	(32)	–	24
Currency translation differences	–	–	–	41	–	–	–	50	–	–	1	92
Actuarial movements on retirement benefit liabilities	–	–	–	1	–	–	–	–	–	(121)	–	(120)
Fair value revaluations												
– PPP financial assets	–	–	–	10	–	–	27	–	–	–	–	37
– cash flow hedges	–	–	–	(92)	–	(16)	–	–	–	–	–	(108)
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	1	–	–	1
Recycling of revaluation reserves to the income statement on disposal@	–	–	–	9	–	48	(63)	(2)	–	–	–	(8)
Tax on items recognised in other comprehensive income@	–	–	–	15	–	(4)	3	–	–	2	–	16
Total comprehensive income/(loss) for the year	–	–	–	40	–	28	(33)	48	1	(151)	1	(66)
Ordinary dividends	–	–	–	–	–	–	–	–	–	(6)	–	(6)
Joint ventures' and associates' dividends	–	–	–	(43)	–	–	–	–	–	43	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	3	1	–	4
Reserve transfers relating to joint venture and associate disposals	–	–	–	(9)	–	–	–	–	–	9	–	–
At 31 December 2016	345	65	22	184	44	(30)	25	135	17	(50)	5	762

@ Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.

Notes to the financial statements continued

30 Movements in equity continued

30.2 Company

	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves: Equity component of preference shares and convertible bonds £m	Other reserves: Other £m	Retained profits £m	Total £m
At 1 January 2016	345	65	22	44	72	604	1,152
Loss for the year	–	–	–	–	–	(10)	(10)
Currency translation differences	–	–	–	–	–	(8)	(8)
Total comprehensive loss for the year	–	–	–	–	–	(18)	(18)
Ordinary dividends	–	–	–	–	–	(6)	(6)
Movements relating to share-based payments	–	–	–	–	6	(2)	4
At 31 December 2016	345	65	22	44	78	578	1,132
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(54)**	**(54)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**19**	**19**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(35)**	**(35)**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**2**	**(1)**	**1**
Convertible bonds repurchase	**–**	**–**	**–**	**(2)**	**–**	**2**	**–**
At 31 December 2017	**345**	**65**	**22**	**42**	**80**	**524**	**1,078**

As permitted under Section 408 of the Companies Act 2006, the Company has elected not to present its Statement of Comprehensive Income (including the profit and loss account) for the year. Balfour Beatty plc reported a loss for the financial year ended 31 December 2017 of £54m (2016: £10m loss).

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £nil occurred in 2017 (2016: £nil).

30.3 Balfour Beatty Employee Share Ownership Trust

The retained profits in the Group and the retained profits of the Company are stated net of investments in Balfour Beatty plc ordinary shares acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Performance Share Plan, the Executive Buyout Scheme, the Deferred Bonus Plan and the Restricted Share Plan. In 2017, 0.6m (2016: 1.6m) shares were purchased at a cost of £1.7m (2016: £3.9m). The market value of the 9.7m (2016: 10.3m) shares held by the Trust at 31 December 2017 was £26.2m (2016: £27.8m). The carrying value of these shares is £24.1m (2016: £25.6m).

Following confirmation of the performance criteria at the end of the performance period in the case of the Performance Share Plan and the Executive Buyout Scheme, and at the end of the vesting period in the case of the Deferred Bonus Plan and the Restricted Share Plan, the appropriate number of shares will be unconditionally transferred to participants. In 2017, 0.5m shares were transferred to participants in relation to the March 2014 awards under the Performance Share Plan (2016: nil shares were transferred to participants in relation to the April 2013 awards under the Performance Share Plan), 0.4m shares were transferred to participants in relation to the January 2015 awards under the Executive Buyout Scheme (2016: nil), and 0.3m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2016: 0.3m shares).

The Trustees have waived the rights to dividends on shares held by the trust. Participants in the schemes receive an award of shares to represent the dividends which would have been payable on the shares since the date of grant.

Other reserves in the Group and Company include £10.1m (2016: £5.8m) relating to unvested Performance Share Plan awards, £3.1m (2016: £1.5m) relating to unvested Restricted Share Plan awards, £1.2m (2016: £1.5m) relating to unvested Executive Buyout Scheme awards and £2.4m (2016: £1.9m) relating to unvested Deferred Bonus Plan awards.

31 Notes to the statement of cash flows

31.1 Cash generated from/(used in) operations

	Notes	Continuing operations: Underlying items[1] 2017 £m	Continuing operations: Non-underlying items (Note 10) 2017 £m	Discontinued operations 2017 £m	2017 £m	2016 £m
Profit/(loss) from operations		**196**	**(48)**	**6**	**154**	39
Share of results of joint ventures and associates	18	**(59)**	**–**	**(1)**	**(60)**	(56)
Depreciation of property, plant and equipment	16	**28**	**–**	**–**	**28**	30
Depreciation of investment properties	17	**1**	**–**	**–**	**1**	–
Amortisation of other intangible assets	15	**13**	**9**	**–**	**22**	21
Impairment of IT intangible assets	15	**–**	**–**	**–**	**–**	1
Pension deficit payments	28.2	**(25)**	**–**	**–**	**(25)**	(41)
Pension fund settlement gain	10	**–**	**–**	**–**	**–**	(1)
Movements relating to share-based payments	33	**9**	**–**	**–**	**9**	7
Gain on disposal of investments in infrastructure concessions	32.2	**(86)**	**–**	**–**	**(86)**	(65)
Net gain on disposal of other businesses	32.2	**–**	**(17)**	**(5)**	**(22)**	(32)
Profit on disposal of property, plant and equipment		**(6)**	**–**	**–**	**(6)**	(5)
Impairment of land relating to Blackpool Airport	10	**–**	**–**	**–**	**–**	3
Other non-cash items		**(2)**	**1**	**–**	**(1)**	–
Operating cash flows before movements in working capital		**69**	**(55)**	**–**	**14**	(99)
(Increase)/decrease in operating working capital		**(7)**	**34**	**–**	**27**	(48)
Inventories and non-construction work in progress		**(12)**	**–**	**–**	**(12)**	42
Due from construction contract customers		**(17)**	**3**	**–**	**(14)**	(5)
Trade and other receivables		**63**	**32**	**–**	**95**	(134)
Due to construction contract customers		**(1)**	**22**	**–**	**21**	41
Trade and other payables		**(65)**	**(27)**	**–**	**(92)**	(60)
Provisions		**25**	**4**	**–**	**29**	68
Cash generated from/(used in) operations		**62**	**(21)**	**–**	**41**	(147)

1 Before non-underlying items (Notes 2.10 and 10).

31.2 Cash and cash equivalents

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash and deposits	**717**	605	**71**	50
Term deposits	**116**	157	**63**	117
Cash balances within infrastructure concessions	**135**	7	**–**	–
Bank overdrafts	**–**	(1)	**–**	–
	968	768	**134**	167

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

31.3 Analysis of movement in borrowings

	Infrastructure concessions non-recourse project finance 2017 £m	US private placement £m	Convertible bonds £m	Loans under committed facilities £m	Other £m	Total 2017 £m
At 1 January 2017	**(240)**	**(285)**	**(240)**	**(50)**	**(14)**	**(829)**
Currency translation differences	**4**	**26**	**–**	**–**	**–**	**30**
Accretion on convertible bonds	**–**	**–**	**(7)**	**–**	**–**	**(7)**
Proceeds from new loans	**(212)**	**–**	**–**	**–**	**–**	**(212)**
Repayments of loans	**4**	**–**	**21**	**50**	**2**	**77**
Amortisation of arrangement fees	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Fair value adjustment on loan attributable to minority interest	**4**	**–**	**–**	**–**	**–**	**4**
At 31 December 2017	**(440)**	**(259)**	**(226)**	**–**	**(13)**	**(938)**

Notes to the financial statements continued

31 Notes to the statements of cash flows continued

31.3 Analysis of movement in borrowings continued

	Infrastructure concessions non-recourse project finance 2016 £m	US private placement 2016 £m	Convertible bonds 2016 £m	Loans under committed facilities 2016 £m	Other 2016 £m	Total 2016 £m
At 1 January 2016	(385)	(236)	(233)	–	(14)	(868)
Currency translation differences	(6)	(49)	–	–	1	(54)
Accretion on convertible bonds	–	–	(7)	–	–	(7)
Proceeds from new loans	(65)	–	–	(50)	(2)	(117)
Repayments of loans	25	–	–	–	1	26
Disposal of non-recourse borrowings (Note 32.3.11)	191	–	–	–	–	191
At 31 December 2016	(240)	(285)	(240)	(50)	(14)	(829)

During the year ended 31 December 2017, the main movement in borrowings within the infrastructure concessions non-recourse project finance was an increase in new loans of £212m (2016: £65m) relating primarily to the development of student accommodation at the University of Sussex, which has been accounted for as an IFRIC 12 intangible. Refer to Note 15. Within the recourse element of the Group's borrowings, £21m of convertible bonds have been repurchased by the Group and £50m of the drawn committed facility has been repaid in the year. The Group's entire revolving credit facility of £400m was undrawn at 31 December 2017.

32 Acquisitions and disposals

32.1 Current and prior year acquisitions

There were no material acquisitions in 2017.

On 30 September 2016, the Group acquired 100% of Omnicom Engineering Ltd for a purchase price of £3m. The consideration included a deferred consideration element of £0.3m which was subject to Omnicom securing key orders at an acceptable level of margin and was paid in 2017. The acquisition resulted in goodwill of £2m. Refer to Note 14.

Deferred consideration paid during 2017 in respect of acquisitions completed in earlier years was £3m (2016: £3m). This related to the Group's acquisition of Centex Construction in 2007.

32.2 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
32.2.1	1 March 2017	Dutco Balfour Beatty LLC & BK Gulf LLC^	49%	**11#**	**(6)+**	**–**	**–**	**–**	**5**
32.2.2	12 September 2017	Regional & City Airports (Blackpool) Holdings Ltd*	100%	**4**	**(5)**	**–**	**–**	**–**	**(1)**
32.2.3	27 October 2017	Heery International Inc*	100%	**43**	**(21)**	**6**	**(10)**	**–**	**18**
32.2.4	21 & 29 December 2017	Connect Plus (M25) Holdings Ltd^	20%	**165@**	**(164)&**	**85**	**–**	**86**	**–**
				223	**(196)**	**91**	**(10)**	**86**	**22**

* Subsidiary.

^ Joint venture.

\+ Net assets disposed include loan receivables due to the Company from BK Gulf LLC of £17m which were settled as part of the disposal.

\# Cash consideration above reflects elements which have been deferred and therefore discounted at year end. These amount to £5m and have been included in due on disposals within trade and other receivables. Refer to Note 23.

@ Of this amount, £103m was received in 2017. The remaining £62m has been included in due on disposals within trade and other receivables and was subsequently received on 23 February 2018.

& Net assets disposed include £6m of subordinated debt receivable which was settled as part of the disposal. The balance also includes £2m of excess bid costs recovered which were released and credited to the gain on disposal.

32.2.1 On 26 January 2017, the Group reached agreement to sell its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC to its joint venture partner for a total cash consideration of £11m, an element of which was deferred. The sale subsequently completed on 1 March 2017. The Group's share of results in these entities is presented as part of its discontinued operations with comparatives restated accordingly. The £5m gain on the disposal is presented as non-underlying within discontinued operations.

32.2.2 On 12 September 2017, the Group disposed of its entire 100% interest in Regional & City Airports (Blackpool) Holdings Ltd for a cash consideration of £4m. The disposal resulted in a £1m loss being recognised as a non-underlying item within continuing operations.

32 Acquisitions and disposals continued

32.2 Current year disposals continued

32.2.3 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc for a cash consideration of £43m. The disposal resulted in a net gain of £18m being recognised as a non-underlying item within continuing operations, comprising a gain of £12m in respect of net assets disposed (after direct costs and indemnity provisions incurred of £10m) and a gain of £6m in respect of cumulative foreign exchange reserves recycled to the income statement. The disposal included cash disposed of £5m.

32.2.4 On 21 December 2017, the Group disposed of a 12.5% interest in Connect Plus (M25) Holdings Ltd to Dalmore for a cash consideration of £103m. Subsequently on 29 December 2017, the Group disposed of a further 7.5% interest in the joint venture for a cash consideration of £62m. On this date, the Group ceased to jointly control this 7.5% interest as Equitix had the right to acquire this stake for a cash consideration of £62m which was exercisable up until 13 March 2018. At the same time, the Group had an unconditional right to sell the stake to Dalmore for an identical price if Equitix failed to exercise its right to acquire. The completion of this portion of the disposal was ongoing at the balance sheet date and therefore the consideration of £62m has been included in trade and other receivables as amounts due on disposals. Refer to Note 23. This consideration was subsequently received on 23 February 2018 following completion of the disposal to Equitix. Refer to Note 37.

These disposals resulted in a net gain of £86m comprising a gain of £1m in respect of the Group's investment in the joint venture and a gain of £85m in respect of revaluation reserves recycled to the income statement on disposal.

32.2.5 On 21 November 2016, the Group reached agreement to dispose of its 49% interest in Balfour Beatty Sakti Indonesia to its joint venture partner for a payment by the Group of £3m reflecting the Group's share of the net liabilities of the joint venture. This was recognised as a disposal in 2016 as completion of the sale was not subject to any substantive terms at 31 December 2016. The Group subsequently completed the disposal in March 2017. A payment of £3m was made by the Group to the purchaser following the completion of this disposal.

32.2.6 Subsidiaries net assets disposed

Net assets disposed	Notes	Regional & City Airports (Blackpool) Holdings Ltd	Heery International Inc £m	Total £m
Intangible assets – goodwill	14	–	17	17
Property, plant and equipment	16.1	6	2	8
Deferred taxation	27.1	(1)	9	8
Due to construction contract customers		–	(6)	(6)
Trade and other receivables		–	18	18
Trade and other payables		–	(22)	(22)
Provisions	25	–	(2)	(2)
Cash		–	5	5
		5	21	26
Costs directly related to the sale		–	10	10
		5	31	36
Cash consideration		(4)	(43)	(47)
Amounts recycled from reserves		–	(6)	(6)
Loss/(gain) on disposal		1	(18)	(17)
Net cash flow effect				
Total consideration		4	43	47
Cash and cash equivalents disposed		–	(5)	(5)
Transaction costs paid		–	(2)	(2)
Net cash consideration		4	36	40

Notes to the financial statements continued

32 Acquisitions and disposals continued
32.3 Prior 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
32.3.1	15 April 2016	Connect M1-A1 Holdings Ltd^	30%	15	(10)&	–	–	5	–
32.3.2	5 May 2016	Living & Learning Unit Trust^	50%	19	(1)	(8)	(1)	9	–
32.3.3	1 July 2016	BSF Schools: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing, Derby City^	80/90%	73	(27)	(8)	–	38	–
32.3.4	1 July 2016	BBIP Infrastructure Fund+	17.8%	48	(48)	7	(1)	–	6
32.3.5	1 July 2016	BBIP Advisor*	100%	–	(3)	–	–	–	(3)
32.3.6	7 September 2016	Humber Gateway^	40%	2	–	–	–	2	–
32.3.7	21 September 2016	Parts of Rail Germany*	100%	15	(14)	2	(1)	–	2
32.3.8	21 November 2016	Balfour Beatty Sakti Indonesia^	49%	(3)	3	–	–	–	–
32.3.9	15 December 2016	Streetlighting: Sunderland, South Tyneside, Coventry, Cambridgeshire, Northamptonshire*	80%	33	(37)	15	–	11	–
				202#	(137)	8	(3)	65	5

* Subsidiary.
^ Joint venture.
\+ Associate.
\# Total cash consideration received by the Group also includes £9m of cash received in respect of Parsons Brinckerhoff (Note 32.3.10) and £2m of deferred cash consideration received in respect of SSL (Note 10.1.4.9).
& Net assets disposed include amounts due to the joint venture of £4m held by the Company.

32.3.1 On 15 April 2016, the Group disposed of a 30% interest in Connect M1-A1 Holdings Ltd for a cash consideration of £15m. The infrastructure concession disposal resulted in a net gain of £5m being recognised within underlying operating profit. The Group retains a 20% interest in Connect M1-A1 Holdings Ltd.

32.3.2 On 5 May 2016, the Group disposed of its 50% interest in Living & Learning Holdings Custodians Pty Ltd (Living & Learning Unit Trust) for a cash consideration of £19m. The infrastructure concession disposal resulted in a net gain of £9m being recognised within underlying operating profit, comprising: a gain of £18m in respect of the investment in the joint venture, an £8m loss in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

32.3.3 On 1 July 2016, the Group disposed of its entire interest in seven BSF (Building Schools for the Future) projects: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing and Derby City for a cash consideration of £73m. On this date, the Group ceased to jointly control these BSF projects by virtue of a put/call structure with a preferred bidder. The disposal completed on 22 August 2016. The infrastructure concession disposal resulted in a net gain of £38m being recognised within underlying operating profit, comprising: a gain of £46m in respect of the investments in the joint ventures and an £8m loss in respect of revaluation reserves recycled to the income statement.

32.3.4 On 1 July 2016, the Group disposed of its 17.8% interest in the BBIP Infrastructure Fund for an initial cash consideration of £48m. The disposal resulted in a net gain of £6m being recognised within non-underlying operating profit, comprising: a gain of £nil in respect of the investment in the associated undertaking, a £7m gain in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

32.3.5 On 1 July 2016, the Group disposed of its 100% interest in the BBIP Advisor for a cash consideration of £nil. The disposal resulted in a net loss of £3m being recognised within non-underlying operating profit, comprising a loss of £3m in respect of the investment in the subsidiary.

32.3.6 On 7 September 2016, the Group disposed of its right to a 40% interest in Humber Gateway OFTO Holdings Ltd. The infrastructure concession disposal resulted in a net gain of £2m being recognised within underlying operating profit comprising a £2m fee received on disposing of the Group's interest. The Group retains a 20% interest in Humber Gateway OFTO Holdings Ltd.

32.3.7 On 21 September 2016, as part of the ongoing process to exit the Mainland European rail business, the Group disposed of part of its Rail business in Germany to Tianjin Keyvia Electric Co Ltd for a cash consideration of £15m. This sale resulted in a £2m gain as a result of recycling of foreign currency reserves. The related assets disposed were impaired by £11m in 2015 to reflect the value of the agreed consideration which was recognised within non-underlying items (refer to Note 10.1.4.10). The disposal included cash disposed of £10m.

32.3.8 On 21 November 2016, the Group reached agreement to dispose of its 49% interest in Balfour Beatty Sakti Indonesia to its joint venture partner for a payment by the Group of £3m reflecting the Group's share of the net liabilities of the joint venture. This has been recognised as a disposal in the year as completion of the sale is not subject to any substantive terms at the year end. The amount due to the purchaser has been recognised in amounts due on disposal at 31 December 2016 within trade and other payables (refer to Note 24) and was paid in 2017.

32 Acquisitions and disposals continued

32.3 Prior year disposals continued

32.3.9 On 16 December 2016, the Group disposed of 80% interests in five streetlighting projects for a cash consideration of £33m. This infrastructure concession disposal resulted in a net gain of £11m being recognised within underlying operating profit, comprising: a loss of £4m in respect of the investments in subsidiaries and a £15m gain in respect of fair value reserves recycled to the income statement. The Group retains 20% interests in the infrastructure concession projects which are accounted for as joint ventures under the equity method. The disposal included cash disposed of £16m.

32.3.10 In 2016, the Group reached a settlement with the purchaser of Parsons Brinckerhoff (PB) in relation to outstanding tax matters and indemnities. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters have been released, resulting in an overall gain to the Group of £24m.

32.3.11 Prior year subsidiaries net assets disposed

Net assets disposed	Notes	Streetlighting £m	Rail Germany[&] £m	BBIP Advisor £m	Total £m
PPP financial assets	20	279	–	–	279
Intangible assets – other	15	–	–	3	3
Property, plant and equipment	16.1	–	1	–	1
Deferred taxation	27.1	(3)	–	–	(3)
Inventories and non-construction work in progress		–	5	–	5
Due from construction contract customers		–	21	–	21
Trade and other receivables		4	8	–	12
Trade and other payables		(3)	(24)	–	(27)
Provisions	25	–	(1)	–	(1)
Retirement benefit liabilities	28.2	–	(6)	–	(6)
Derivative financial instruments		(57)	–	–	(57)
Cash		16	10	–	26
Non-recourse borrowings	31.3	(191)	–	–	(191)
Net assets of interest retained	18.1	(8)	–	–	(8)
		37	14	3	54
Reserves recycled to the income statement		(15)	(2)	–	(17)
Costs directly related to the sale		–	1	–	1
		22	13	3	38
Cash consideration		(33)	(15)	–	(48)
(Gain)/loss on disposal		(11)	(2)	3	(10)
Net cash flow effect					
Total consideration		33	15	–	48
Cash and cash equivalents disposed		(16)	(10)	–	(26)
Net cash consideration		17	5	–	22
Net receipt in relation to the disposal of Parsons Brinckerhoff	32.3.10				9
					31

& Sale of parts of Rail Germany to Tianjin Keyvia Electric Co Ltd.

Notes to the financial statements continued

33 Share-based payments

The Company operates four equity-settled share-based payment arrangements, namely the Executive Buyout Scheme (EBS), the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP) and the Restricted Share Plan (RSP). The Group recognised total expenses relating to equity-settled share-based payment transactions of £9.4m in 2017 (2016: £7.4m). Refer to the Remuneration report for details of the various schemes.

Movements in share plans

2017 number of awards	**EBS conditional awards**	**PSP conditional awards**	**DBP conditional awards**	**RSP conditional awards**
Outstanding at 1 January	**1,905,260**	**8,128,097**	**1,464,322**	**1,936,946**
Granted during the year	**–**	**3,087,443**	**632,308**	**1,539,448**
Awards in lieu of dividends	**–**	**–**	**19,054**	**28,974**
Forfeited during the year	**(189,854)**	**(821,131)**	**(76,848)**	**(342,624)**
Exercised during the year	**(445,233)**	**(489,184)**	**(329,761)**	**(20,084)**
Expired during the year	**–**	**–**	**–**	**–**
Outstanding at 31 December	**1,270,173**	**9,905,225**	**1,709,075**	**3,142,660**
Exercisable at 31 December	**61,662**	**–**	**–**	**–**
Weighted average remaining contractual life (years)	**–**	**1.3**	**1.3**	**1.6**
Weighted average share price at the date of exercise for awards exercised in the year	**271.6p**	**139.3p**	**272.1p**	**274.6p**

2016 number of awards	EBS conditional awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	1,905,260	7,105,303	1,249,236	1,105,658
Granted during the year	–	3,768,644	651,306	986,096
Awards in lieu of dividends	–	–	4,676	5,592
Forfeited during the year	–	(579,335)	(127,790)	(159,400)
Exercised during the year	–	–	(285,853)	(1,000)
Expired during the year	–	(2,166,515)	(27,253)	–
Outstanding at 31 December	1,905,260	8,128,097	1,464,322	1,936,946
Exercisable at 31 December	30,381	–	–	–
Weighted average remaining contractual life (years)	0.7	1.7	1.5	1.8
Weighted average share price at the date of exercise for awards exercised in the year	n/a	n/a	252.4p	228.0p

The principal assumptions, including expected volatility determined from the historical weekly share price movements over the three-year period immediately preceding the award date, used by the consultants in the stochastic model for the 33.3% of the PSP awards granted in 2017 subject to market conditions, were:

Award date	**Name of award**	**Closing share price on award date Pence**	**Expected volatility of shares %**	**Expected term of awards Years**	**Risk-free interest rate %**	**Calculated fair value of an award Pence**
7 June 2017	PSP award	**271.0**	**30.0**	**3.0**	**0.1**	**132.2**

For the 66.7% of the PSP awards granted in 2017 subject to non-market conditions and for the DBP and RSP awards granted in 2017, the fair value of the awards is the closing share price before award date.

34 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £2m (2016: £5m) in the Group and £nil (2016: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt in Infrastructure Investments projects which have reached financial close. Refer to Note 39(f).

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement for continuing operations is disclosed in Note 6.1.

Future operating lease expenditure commitments

	Land and buildings 2017 £m	**Other 2017 £m**	Land and buildings 2016 £m	Other 2016 £m
Due within one year	**22**	**33**	25	41
Due between one and five years	**47**	**48**	63	53
Due after more than five years	**15**	**3**	24	2
	84	**84**	112	96

The Company did not have any future operating lease expenditure commitments as at 31 December 2017 (2016: £nil).

34 Commitments continued
Future committed operating lease income

	Land and buildings 2017 £m	Land and buildings 2016 £m
Due within one year	**7**	6
Due between one and five years	**6**	11
	13	17

The Company did not have any future committed operating lease income as at 31 December 2017 (2016: £nil).

35 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.

36 Related party transactions
Joint ventures and associates
The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £279m (2016: £344m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 23 and 24 respectively.

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

	2017 £m	2016 £m
Anglian Water Group Ltd		
Sale of goods & services	**18**	13
Amounts owed by related parties	**3**	–
URENCO Ltd		
Sale of goods & services	**72**	62
Amounts owed by related parties	**–**	5

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

Compensation of key management personnel of the Company

	2017 £m	2016 £m
Short-term benefits	**2.938**	2.384
Share-based payments	**2.584**	1.612
	5.522	3.996

Key management personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors. The compensation included above is in respect of the period of the year during which the individuals were Directors. Further details of Directors' emoluments, post-employment benefits and interests are set out in the 2017 Remuneration report on pages 76 to 87.

Notes to the financial statements continued

37 Events after the reporting date

On 15 January 2018, Carillion plc filed for compulsory liquidation. Carillion was one of the Group's joint operations partners in the Aberdeen Western Peripheral Route (AWPR) project on a joint and several basis. As a result of Carillion's liquidation, the Group and its remaining joint operations partner on the project, Galliford Try plc, are jointly liable to deliver Carillion's remaining obligations on this contract in addition to each partner's existing 33% share. The Group has assessed the liquidation of Carillion plc as an adjusting post balance sheet event and in light of this, the Group has recognised a one-off non-underlying loss provision of £44m in 2017, which reflects the Group's additional loss on the contract as a result of Carillion's liquidation. The contract is expected to complete in the summer of 2018. Refer to Note 10.

On 14 February 2018, the Group repurchased a further £17.7m of its convertible bonds, which will result in a loss on settlement of £0.3m. This settlement will also trigger a further £2m of reserves relating to the equity component of the repurchased bonds being transferred from other reserves into retained earnings. Following this settlement, the Group's outstanding bonds on maturity in December 2018 amount to £213.7m.

On 19 February 2018, the Group agreed the disposal of a further 5% interest in Connect Plus (M25) Holdings Ltd to Equitix for a cash consideration of £42m, equivalent to the price of the 20% disposal in 2017. The expected profit on disposal for this transaction is £21m. On 23 February 2018, the Group completed this transaction and received from Equitix the full cash consideration of £104m, inclusive of the £62m outstanding at the reporting date as detailed in Note 32.2.4. The Group continues to own a 15% interest in Connect Plus (M25) Holdings Ltd.

On 7 March 2018, the Group repaid the first tranche of its US private placement notes amounting to US$45m (£32.5m). US$305m remain outstanding, with the next tranche of US$46m being due in March 2020 and the remaining loan notes falling due in March 2023 and March 2025.

38 Financial instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The components of capital are as follows: equity attributable to equity holders of the Company comprising issued ordinary share capital, reserves and retained earnings as disclosed in Notes 29.1 and 30; preference shares as disclosed in Note 29.2; US private placement as disclosed in Note 26; convertible bonds as disclosed in Note 26; and cash and cash equivalents and borrowings as disclosed in Note 26.

The Group maintains or adjusts its capital structure through the payment of dividends to equity holders, issue of new shares and buyback of existing shares, and drawdown of new borrowings and repayment of existing borrowings. The policy of the Group is to ensure an appropriate balance between cash, borrowings (other than the non-recourse borrowings of companies engaged in Infrastructure Investments projects), working capital and the value in the Infrastructure Investments investment portfolio.

The overall capital risk management strategy of the Group remains unchanged from 2016.

Categories of financial instruments

	Loans and receivables at amortised cost, cash and deposits 2017 £m	**Financial liabilities at amortised cost 2017 £m**	**Available-for-sale financial assets 2017 £m**	**Held to maturity financial assets 2017 £m**	**Derivatives 2017 £m**	Loans and receivables at amortised cost, cash and deposits 2016 £m	Financial liabilities at amortised cost 2016 £m	Available-for-sale financial assets 2016 £m	Held to maturity financial assets 2016 £m	Derivatives 2016 £m
Financial assets										
Fixed rate bonds and treasury stock	**–**	**–**	**–**	**17**	**–**	–	–	–	22	–
Mutual funds	**–**	**–**	**22**	**–**	**–**	–	–	23	–	–
PPP financial assets	**–**	**–**	**163**	**–**	**–**	–	–	163	–	–
Cash and deposits	**968**	**–**	**–**	**–**	**–**	769	–	–	–	–
Trade and other receivables	**1,080**	**–**	**–**	**–**	**–**	1,210	–	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**3**	–	–	–	–	4
Total	**2,048**	**–**	**185**	**17**	**3**	1,979	–	186	22	4
Financial liabilities										
Liability component of preference shares	**–**	**(103)**	**–**	**–**	**–**	–	(100)	–	–	–
Trade and other payables	**–**	**(1,585)**	**–**	**–**	**–**	–	(1,772)	–	–	–
Unsecured borrowings	**–**	**(498)**	**–**	**–**	**–**	–	(588)	–	–	–
Secured borrowings	**–**	**–**	**–**	**–**	**–**	–	(1)	–	–	–
Infrastructure concessions non-recourse term loans	**–**	**(440)**	**–**	**–**	**–**	–	(240)	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**(35)**	–	–	–	–	(39)
Total	**–**	**(2,626)**	**–**	**–**	**(35)**	–	(2,701)	–	–	(39)
Net	**2,048**	**(2,626)**	**185**	**17**	**(32)**	1,979	(2,701)	186	22	(35)
Current year comprehensive income/(loss) excluding share of joint ventures and associates	**31**	**(67)**	**17**	**1**	**4**	52	(78)	(14)	1	32

38 Financial instruments continued

Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2017 £m	Non-current 2017 £m	Total 2017 £m	Current 2017 £m	Non-current 2017 £m	Total 2017 £m	Current 2016 £m	Non-current 2016 £m	Total 2016 £m	Current 2016 £m	Non-current 2016 £m	Total 2016 £m
Foreign currency contracts												
Held for trading at fair value through Income Statement	**–**	**–**	**–**	**–**	**–**	**–**	1	–	1	(2)	–	(2)
Designated as cash flow hedges	**2**	**1**	**3**	**(1)**	**–**	**(1)**	–	3	3	–	–	–
Interest rate swaps												
Designated as cash flow hedges	**–**	**–**	**–**	**(4)**	**(30)**	**(34)**	–	–	–	(4)	(33)	(37)
	2	**1**	**3**	**(5)**	**(30)**	**(35)**	1	3	4	(6)	(33)	(39)

Non-derivative financial liabilities gross maturity

The following table details the remaining contractual maturity for the Group's non-derivative financial liabilities. The table reflects the undiscounted contractual maturities of the financial liabilities including interest that will accrue on those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that are not included in the carrying value of the financial liability.

Maturity profile of the Group's non-derivative financial liabilities at 31 December

	Non-recourse project finance 2017 £m	Other borrowings 2017 £m	Other financial liabilities 2017 £m	Total non-derivative financial liabilities 2017 £m	Discount 2017 £m	Carrying value 2017 £m
Due on demand or within one year	**(11)**	**(274)**	**(1,448)**	**(1,733)**	**9**	**(1,724)**
Due within one to two years	**(84)**	**(4)**	**(99)**	**(187)**	**14**	**(173)**
Due within two to five years	**(30)**	**(34)**	**(138)**	**(202)**	**17**	**(185)**
Due after more than five years	**(398)**	**(191)**	**(13)**	**(602)**	**58**	**(544)**
	(523)	**(503)**	**(1,698)**	**(2,724)**	**98**	**(2,626)**
Discount	**83**	**5**	**10**	**98**		
Carrying value	**(440)**	**(498)**	**(1,688)**	**(2,626)**		

	Non-recourse project finance 2016 £m	Other borrowings 2016 £m	Other financial liabilities 2016 £m	Total non-derivative financial liabilities 2016 £m	Discount 2016 £m	Carrying value 2016 £m
Due on demand or within one year	(57)	(56)	(1,639)	(1,752)	10	(1,742)
Due within one to two years	(10)	(299)	(93)	(402)	14	(388)
Due within two to five years	(34)	(37)	(134)	(205)	15	(190)
Due after more than five years	(188)	(209)	(20)	(417)	36	(381)
	(289)	(601)	(1,886)	(2,776)	75	(2,701)
Discount	49	12	14	75		
Carrying value	(240)	(589)	(1,872)	(2,701)		

Derivative financial liabilities gross maturity

The following table details the Group's expected maturity for its derivative financial liabilities. The table reflects the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that are settled on a gross basis (foreign exchange contracts). When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves at the reporting date.

Maturity profile of the Group's derivative financial liabilities at 31 December

	Payable 2017 £m	Receivable 2017 £m	Net payable 2017 £m	Payable 2016 £m	Receivable 2016 £m	Net payable 2016 £m
Due on demand or within one year	**(21)**	**18**	**(3)**	(77)	71	(6)
Due within one to two years	**(7)**	**3**	**(4)**	(10)	6	(4)
Due within two to five years	**(10)**	**–**	**(10)**	(14)	3	(11)
Due after more than five years	**(24)**	**–**	**(24)**	(27)	–	(27)
Total	**(62)**	**21**	**(41)**	(128)	80	(48)

Notes to the financial statements continued

38 Financial instruments continued

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk; credit risk; and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company
- interest rate swaps to mitigate the cash flow variability in non-recourse project finance loans arising from variable interest rates on borrowings.

There has been no material change to the Group's exposure to market risks and there has been no change in how the Group manages those risks since 2016.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros and Hong Kong dollars. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Whenever a current or future foreign currency exposure is identified with sufficient reliability Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer.

Refer to page 157 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures.

As at 31 December 2017, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £13m (2016: £70m) receivable and £12m (2016: £71m) payable with related cash flows expected to occur within one year (2016: two years). The foreign exchange gains or losses resulting from fair valuing these unhedged foreign exchange contracts will affect the income statement throughout the same periods.

The Group has designated forward exchange contracts with a notional principal amount of £8m (2016: £10m) receivable and £9m (2016: £11m) payable as cash flow hedges against highly probable cash flows which are expected to occur in up to four (2016: five) years. Fair value gains on these contracts of £1m (2016: £2m) have been taken to hedging reserves through other comprehensive income.

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the Income Statement in relation to any foreign exchange cash flow hedges.

The Group's investments in foreign operations are exposed to foreign currency translation risks. The Group does not enter into forward foreign exchange or other derivative contracts to hedge foreign currency denominated net assets.

In March 2013, the Group raised US$350m through a US private placement which has been designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements. The Group has reassessed this hedge and has concluded that the hedge continues to be effective. Exchange movements in the year totalled £26m (2016: £49m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a £12m decrease (2016: £14m)/£14m increase (2016: £15m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

The hedging policy is reviewed periodically. At the reporting date there had been no change to the hedging policies since 2016.

38 Financial instruments continued

(ii) Interest rate risk management

Interest rate risk arises in the Group's non-recourse project companies which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets. Floating rate borrowings expose the Group to cash flow interest rate risk. The Group's policy to manage this risk is to swap floating rate interest to fixed rate, using interest rate swap contracts.

In an interest rate swap, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The net effect of a movement in interest rates on income would be immaterial. The fair value of interest rate swaps is determined by discounting the future cash flows using the yield curve at the reporting date.

During 2017 and 2016, the Group's non-recourse project subsidiaries' borrowings at variable rates of interest were denominated in sterling and US dollars.

The notional principal amounts of the outstanding subsidiaries' interest rate swaps outstanding at 31 December 2017 totalled £113m (2016: £117m) with maturities that match the maturity of the underlying borrowings ranging from one year to 22 years.

At 31 December 2017, the fixed interest rates range from 3.5% to 5.1% (2016: 3.5% to 5.1%) and the principal floating rates are LIBOR plus a fixed margin.

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £6m increase (2016: £7m)/£8m decrease (2016: £9m) in amounts taken directly to other comprehensive income by the Group in relation to the Group's exposure to interest rates on the available-for-sale PPP financial assets and cash flow hedges of its Infrastructure Investments subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and other borrowings. The majority of the debt of the Group is held at fixed interest rates. A 50 basis point increase/decrease in the interest rate of each currency in which these financial instruments are held would lead to a £2.8m decrease (2016: £nil)/£1.4m increase (2016: £nil) in the Group's net finance cost.

(iii) Price risk management

The Group's principal price risk exposure arises in its Infrastructure Investments concessions. At the commencement of the concession, an element of the unitary payment by the customer is indexed to offset the effect of inflation on the concession's costs. The Group is exposed to price risk to the extent that inflation differs from the index used.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and deposits, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and deposits and derivative financial instruments, the Group has a policy of only using counterparties that are independently rated with a minimum long-term credit rating of BBB+. At 31 December 2017, £1m (2016: £1m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances, however no losses are anticipated from these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board of Directors for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables, credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at the reporting date is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 26.1. The maturity profile of the Group's financial liabilities is set out on page 134.

Notes to the financial statements continued

38 Financial instruments continued

Fair value estimation

The Group holds certain financial instruments on the balance sheet at their fair values. The following hierarchy classifies each class of financial asset or liability in accordance with the valuation technique applied in determining its fair value.

There have been no transfers between these categories in the current or preceding year.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds available-for-sale investments in mutual funds which are traded in active markets and valued at the closing market price at the reporting date.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date and taking into account own credit risk. Own credit risk for Infrastructure Investments' swaps is not material and is calculated using the following credit valuation adjustment (CVA) calculation: loss given default multiplied by exposure multiplied by probability of default.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts. Own credit risk for the other derivative liabilities is not material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party.

Level 3 – The fair value is based on unobservable inputs.

The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin by reference to the construction margin on non-PPP projects reflecting the construction risks retained by the construction contractor, and fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in other comprehensive income and other movements recognised in the Income Statement. Amounts originally recognised in other comprehensive income are transferred to the Income Statement upon disposal of the asset.

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £7m decrease (2016: £7m)/£7m increase (2016: £7m) in the fair value of the assets taken through equity. Refer to Note 20 for a reconciliation of the movement from the opening balance to the closing balance.

				2017				2016
Financial instruments at fair value	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale mutual fund financial assets	**22**	**–**	**–**	**22**	23	–	–	23
Financial assets – foreign currency contracts	**–**	**3**	**–**	**3**	–	4	–	4
Available-for-sale PPP financial assets	**–**	**–**	**163**	**163**	–	–	163	163
Total assets measured at fair value	**22**	**3**	**163**	**188**	23	4	163	190
Financial liabilities – foreign currency contracts	**–**	**(1)**	**–**	**(1)**	–	(2)	–	(2)
Financial liabilities – infrastructure concessions interest rate swaps	**–**	**(34)**	**–**	**(34)**	–	(37)	–	(37)
Total liabilities measured at fair value	**–**	**(35)**	**–**	**(35)**	–	(39)	–	(39)

39 Principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries

	Country of incorporation or registration
Construction and Support Services	
Balfour Beatty Group Ltd	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Construction, LP	Canada
Balfour Beatty Infrastructure Inc	US
Balfour Beatty Rail Inc	US
Infrastructure Investments (Note 39)	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Investments, LP	Canada
Balfour Beatty Communities, LP	Canada
Other	
Balfour Beatty Holdings Inc.	US
Delphian Insurance Company Ltd*	Isle of Man

(b) Principal joint ventures and associates

	Country of incorporation or registration	Ownership interest %
Construction and Support Services		
Gammon China Ltd	Hong Kong	50.0
Infrastructure Investments (Note 39)		
Connect Plus (M25) Ltd		20.0+

(c) Principal joint operations

The Group carries out a number of its larger contracts in joint arrangements with other contractors so as to share resources and risk. The principal joint projects in progress during the year are shown below.

Crossrail		26.7
M25 Maintenance		52.5
Aberdeen Western Peripheral Route^		33.3
Area 10 ASC		70.0
Bergstrom/CRC	US	45.0
Regional Rail Partners/North Metro	US	50.0

Notes
(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.
(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.
* Indicates held directly by Balfour Beatty plc.
\+ Previously 40%, the Group disposed of a 20% interest in December 2017. Refer to Note 32.2.4.
^ Following Carillion plc's compulsory liquidation on 15 January 2018, the Group's interest in this joint operation has increased to 50%, shared equally between the Group and Galliford Try plc. Refer to Note 10.1.4.2.

A full list of the Group's related undertakings is included in Note 41.

Notes to the financial statements continued

39 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK

Roads

Balfour Beatty is a promoter, developer and investor in 13 road and street lighting projects to construct new roads, to upgrade and maintain existing roads and to replace and maintain street lighting. The principal contract is the project agreement with the governmental highway authority. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Connect M1-A1 Ltd	30km road	290	20%	March 1996	30	1999
Connect A50 Ltd	57km road	42	25%	May 1996	30	1998
Connect A30/A35 Ltd	102km road	127	20%	July 1996	30	2000
Connect M77/GSO plc (ii)	25km road	167	85%	May 2003	32	2005
Connect Roads Sunderland Ltd	Streetlighting	27	20%	August 2003	25	2008
Connect Roads South Tyneside Ltd	Streetlighting	28	20%	December 2005	25	2010
Connect Roads Derby Ltd	Streetlighting	36	100%	April 2007	25	2012
Connect Plus (M25) Ltd	J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	1,309	20%	May 2009	30	2012
Connect CNDR Ltd	Carlisle Northern Development Route	176	25%	July 2009	30	2012
Connect Roads Coventry Ltd	Streetlighting	56	20%	August 2010	25	2015
Connect Roads Cambridgeshire Ltd	Streetlighting	51	20%	April 2011	25	2016
Connect Roads Northamptonshire Ltd	Streetlighting	64	20%	August 2011	25	2016
Aberdeen Roads Ltd	Aberdeen Western Peripheral Route	665	33.3%	December 2014	33	2018

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Connect M77/GSO plc and Aberdeen Roads Ltd which are registered in and conduct their principal operations in Scotland.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

Healthcare

Balfour Beatty is a promoter, developer and investor in four healthcare projects to build hospital accommodation and to provide certain non-medical facilities management services over the concession period. The principal contract is the project agreement between the concession company and the NHS Trust and in the case of the Irish Primary Care Centres, the Irish Government. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	June 2006	40	2011
Consort Healthcare (Fife) Ltd	General hospital	170	50%	April 2009	30	2011
Woodland View Project Co Ltd	Mental health hospital in Irvine	58	100%	June 2014	27	2016
Healthcare Centres PPP Ltd	Primary health care centres	158	40%	May 2016	26	2018

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Consort Healthcare (Fife) Ltd and Woodland View Project Co Ltd which are registered in and conduct their principal operations in Scotland and Healthcare Centres PPP Ltd which is registered in and conducts its principal operations in Ireland.

Student accommodation

Balfour Beatty is a promoter, developer and investor in four student accommodation projects. On Holyrood, Sussex and Aberystwyth, the principal agreement is between the concession company and the university and the assets transfer to the customer at the end of the concession. On Glasgow Residences the building is owned outright by Balfour Beatty and rooms will be let to individual students.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Holyrood Student Accommodation SPV Ltd	Edinburgh	82	100%	July 2013	50	2016
Aberystwyth Student Accommodation Ltd	Aberystwyth	51	100%	July 2013	35	2015
Glasgow Residences (Kennedy Street) SPV Ltd	Glasgow	40	100%	April 2016	n/a	2017
East Slope Residencies Student Accommodation LLP	Sussex	218	80%	March 2017	50	2020

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Holyrood Student Accommodation SPV Ltd and Glasgow Residences (Kennedy Street) SPV Ltd which are registered in and conduct their principal operations in Scotland.

39 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK continued

Other concessions

Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex. Gammon Capital (West) Pte Ltd has a contract with the Institute of Technical Education (ITE) College West of Singapore to design, build and finance the ITE and provide long-term facilities management services for the remainder of the 27-year project. Balfour Beatty Fire and Rescue NW Ltd is contracted by the local authority to design, construct, fund and provide facilities for 16 community firestations in Merseyside, Cumbria and Lancashire. UBB Waste (Essex) Ltd and UBB Waste (Gloucestershire) Ltd have contracts with the local authorities to design, build and operate new sustainable waste treatment facilities. Thanet involves the operation of transmission assets for the 300MW offshore windfarm project located off the Kent coast. Gwynt y Môr involves the operation of transmission assets for the 576MW offshore wind farm in the Irish sea. Humber involves the operation of transmission assets for the 219MW offshore wind farm in the North sea. Thanet, Gwynt y Môr and Humber operate and maintain the transmission assets under the terms of perpetual licences granted by Ofgem which contain the right to be paid a revenue stream over a 20-year period on an availability basis. Birmingham Bio Power involves the design, construction, financing, operation and maintenance of a 9.3MW waste wood gasifier located at Tyseley Energy Park, Birmingham. Welland Waste Bio Power involves the design, construction, financing, operation and maintenance of a 10.4MW waste wood gasifier located at Pebble Hall Farm, Thredingworth. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Pevensey Coastal Defence Ltd	Sea defences	3	25%	July 2000	25	n/a
Gammon Capital (West) Pte Ltd	Technical education college	100	50%	August 2008	27	2010
Balfour Beatty Fire and Rescue NW Ltd	Fire stations	55	100%	February 2011	25	2013
UBB Waste (Essex) Ltd	Waste processing plant	146	30%	May 2012	28	2015
UBB Waste (Gloucestershire) Ltd	Waste processing plant	223	49.5%	January 2016*	25	2019
Thanet OFTO Ltd	Offshore transmission	197	20%	December 2014	20	n/a
Gwynt y Môr OFTO plc (ii)	Offshore transmission	256	60%	February 2015	20	n/a
Birmingham Bio Power Ltd	Waste wood gasifier	53	37.5%	December 2013	n/a	2018
Welland Bio Power Ltd	Waste wood gasifier	17	25%	March 2015	n/a	2018
Humber Gateway OFTO Ltd	Offshore transmission	187	20%	September 2016	20	n/a

Notes
(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Gammon Capital (West) Pte Ltd which is registered in and conducts its principal operations in Singapore.
(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.
* Due to delays in achieving planning, UBB Waste (Gloucestershire) Ltd reached a second financial close in January 2016.

(e) Balfour Beatty Investments North America

Military housing

Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 55 US government military bases which includes 55 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 42,800 housing units once development, construction and renovation are complete.

The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), seven projects with the United States Department of the Air Force (Air Force) and two projects with the United States Department of the Navy (Navy). In addition, there is one unaccompanied personnel housing (UPH) project with the Army at Fort Stewart.

Contractual arrangements The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, however it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC. On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, could potentially extend for up to an additional 25 years. The 50-year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the government.

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual minimum preferred rate of return. On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project. During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return. The unpaid amounts will generally accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the government in accordance with the terms of the project agreements.

Notes to the financial statements continued

39 Principal subsidiaries, joint ventures and associates continued
(e) Balfour Beatty Investments North America continued
Military housing continued

Allocation of remaining operating cash flows Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service.

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the applicable military service.

Military concession company (i)(ii)	Projects	Total project funding £m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson Family Housing LLC	Army base	130	November 2003	46	2004
– Fort Carson expansion		96	November 2006	43	2010
– Fort Carson GTA expansion		73	April 2010	39	2013
– Fort Carson GTA II expansion		49	June 2015	34	2018
Stewart Hunter Housing LLC	Two Army bases	277	November 2003	50	2012
Fort Hamilton Housing LLC	Army base	45	June 2004	50	2009
Fort Detrick/Walter Reed Army Medical Center Housing LLC	Two Army bases	82	July 2004	50	2008
Northeast Housing LLC	Seven Navy bases	367	November 2004	50	2010
Fort Eustis/Fort Story Housing LLC	Two Army bases	129	March 2005	50	2011
– Fort Eustis expansion		6	July 2010	45	2011
– Fort Eustis – Marseilles Village		19	March 2013	42	2015
Fort Bliss/White Sands Missile Range Housing LP	Two Army bases	317	July 2005	50	2011
– Fort Bliss expansion		34	December 2009	46	2011
– Fort Bliss GTA expansion phase I		115	July 2011	44	2014
– Fort Bliss GTA expansion phase II		108	November 2012	43	2016
Fort Gordon Housing LLC	Army base	81	May 2006	50	2012
Carlisle/Picatinny Family Housing LP	Two Army bases	62	July 2006	50	2011
– Carlisle Heritage Heights phase II		16	October 2012	44	2014
AETC Housing LP	Four Air Force bases	265	February 2007	50	2012
Southeast Housing LLC	11 Navy bases	412	November 2007	50	2013
Vandenberg Housing LP	Air Force base	115	November 2007	50	2012
Leonard Wood Family Communities LLC	Army base	171	Acquired June 2008	47	2014
AMC West Housing LP	Three Air Force bases	317	July 2008	50	2015
West Point Housing LLC	Army base	163	August 2008	50	2016
Fort Jackson Housing LLC	Army base	134	October 2008	50	2013
Lackland Family Housing LLC	Air Force base	78	Acquired December 2008	50	2013
Western Group Housing LP	Four Air Force bases	243	March 2012	50	2017
Northern Group Housing LLC	Six Air Force bases	324	August 2013	50	2019
ACC Group Housing LLC	Two Air Force bases	43	June 2014	50	2018
Military unaccompanied personnel housing					
Stewart Hunter Housing LLC		26	January 2008	50	2010

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US.
(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts was evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects.

39 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Hospitals

Summary Balfour Beatty is a developer, operator and investor in two hospital projects in Canada.

Contractual arrangements The principal contract is the project agreement between the concession companies and the authorities. An inflation-indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. The construction services for the BC Children's and BC Women's Hospitals project were subcontracted to a joint venture in which the Group has a 50% participation and the facilities maintenance services were subcontracted to a joint venture in which the Group also has a 50% participation. The soft facilities management services at North Island Hospital were subcontracted to a Group company and the hard facilities management services were subcontracted to a third party. The payments for the soft facilities management services, at both projects, are initially market adjusted after the third year of operations and then every six years thereafter. All assets transfer to the authorities at the end of the concession.

Hospitals (i)	Project	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
Affinity Partnerships (ii)	BC Children's and BC Women's Hospitals	270	70%	April 2014	33	2017
THP Partnerships	North Island Hospital	300	50%	June 2014	32	2017

Notes
(i) Registered in the province of Manitoba in Canada and the principal operations of each project are conducted in British Columbia, Canada.
(ii) Balfour Beatty has joint control over the project through unanimous consent over all significant operating and financing decisions, and therefore does not consolidate the project.

Other concessions

Summary Balfour Beatty is a developer, operator and investor in a data centre located at the Canadian Forces base in Borden, Ontario.

Contractual arrangements The principal contract is the project agreement between the concession partnership and the authorities. An inflation-indexed payment is primarily based upon availability of the date centre subject to any performance related deductions or security related deductions.

Concession partnership (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
UIP GP	Borden Data Centre	91	50%	May 2016	25	2018

Note
(i) Registered in the province of Ontario in Canada and the principal operations of the project are conducted in Ontario, Canada.

Residential investments

Summary Balfour Beatty is a developer, operator and investor in seven multifamily residential projects.

Contractual arrangements Balfour Beatty formed joint ventures to acquire residential apartment buildings for seven multifamily residential projects. For Townlake of Coppell, The Dallas 5 Portfolio, Mobile Alabama portfolio, Nesbit Palisades, Carolina Cove and Evergreen projects, the joint ventures entered into agreements with Balfour Beatty Communities LLC to perform the operations and renovation work. For The Ranch at Pinnacle Point, the joint venture entered into an agreement with Balfour Beatty Communities LLC to perform the asset management services and renovation work.

Residential investments (i)	Total project funding £m	Shareholding	Financial close	Renovation completion
RAPP – BBC Associates, LLC (Pinnacle Point, Arkansas)	32	50%	February 2015	2018
DFW 5 Holdings, LLC (Dallas 5 Portfolio, Texas)	128	10%	May 2015	2018
Coppell Properties, LLC (Texas)	37	10%	May 2015	2018
BBC – Apexone Mobile Eastern, LLC (Alabama)	19	50%	January 2016	2018
Nesbit Palisades, LLC (Georgia)	38	15%	July 2016	2019
TBB Evergreen Holdings, LLC (Atlanta, Georgia)	60	15%	June 2017	2019
Carolina Cove (Wilmington) Owner LLC (North Carolina)	34	50%	December 2017	2018

Note
(i) Registered in the US and the principal operations of each project are conducted in the US.

Notes to the financial statements continued

39 Principal subsidiaries, joint ventures and associates continued
(e) Balfour Beatty Investments North America continued
Student accommodation

Summary Through its subsidiary, Balfour Beatty Campus Solutions LLC, Balfour Beatty is a manager on one student accommodation project, where it also acted as a developer. Balfour Beatty is also a developer and owner of three additional student accommodation projects, and is a joint venture partner to develop one other student accommodation project.

Contractual arrangements The principal contract in the Florida Atlantic University project is the property management agreement with the state university setting out the obligations for the operation and maintenance of the student accommodation. The principal contracts in the other student accommodation projects where Balfour Beatty is an owner are the ground leases, development leases and operating agreements with the state universities setting out the obligations for the construction, operation and maintenance of the student accommodation including lifecycle replacement during the concession period.

Concession company (i)	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
C-BB Management LLC/C-BBC Development LLC (Florida)	74	(ii)	March 2010	30	2011
BBCS-Hawkeye Housing LLC (Iowa) Phase 1	23	100%	June 2013	41	2014
BBCS-Hawkeye Housing LLC (Iowa) Phase 2	26	100%	May 2015	39	2016
BBCS-UN Reno Housing LLC (Reno)	16	100%	August 2013	43	2014
Northside Campus Partners LP (Texas Dallas)	40	50%	March 2015	61	2016
Northside Campus Partners 2, LP (Texas Dallas)	50	10%	February 2017	61	2018

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US.
(ii) 50% holding in the management company.

(f) Balfour Beatty Investments UK and North America
Total future committed equity and debt funding for Infrastructure Investments' project companies

Concessions	2018 £m	2019 £m	2020 £m	2021 onwards £m	Total £m
UK					
Roads	20	–	–	–	20
Healthcare	5	–	–	–	5
Student accommodation	–	6	17	–	23
Waste and biomass+	2	25	–	–	27
Other UK+	7	10	2	4	23
	34	41	19	4	98
North America					
Social infrastructure	3	–	–	–	3
	3	–	–	–	3
	37	41	19	4	101
Projects at financial close	30	31	17	–	78
Projects at preferred bidder stage	7	10	2	4	23
Total	37	41	19	4	101

Note
+ These categories have been presented within Other concessions in Note 39(d).

40 Audit exemptions taken for subsidiaries
The following subsidiaries are exempt from the requirements under the Companies Act 2006 relating to the audit of individual financial statements by virtue of Section 479A of the Act.

	Company registration number
Education Investments Holdings Ltd	6863458
Consort Healthcare Infrastructure Investments Ltd	6859623

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2017

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates and joint ventures, including the principal activity, the country of incorporation and the effective percentage of equity owned as at 31 December 2017 is disclosed below. Unless otherwise stated, all interests are in the ordinary share capital or shares of common stock in the entity and are held indirectly by the Company, and all entities operate principally in their country of incorporation. All subsidiaries had a reporting period ended 31 December 2017 and are wholly owned, except where indicated.

Subsidiary undertakings incorporated in the United Kingdom

Name of undertaking	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX	
Aberystwyth Student Accommodation Ltd	Infrastructure concession
Balfour Beatty Fire and Rescue NW Holdings Ltd	Investment holding company
Balfour Beatty Fire and Rescue NW Intermediate Ltd	Infrastructure concession
Balfour Beatty Fire and Rescue NW Ltd	Infrastructure concession
Balfour Beatty Infrastructure Investments Ltd (i)	Investment holding company
Balfour Beatty Infrastructure Partners Member Ltd	Investment holding company
Balfour Beatty Infrastructure Projects Investments Ltd	Investment holding company
Balfour Beatty Investments Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty OFTO Holdings Ltd	Investment holding company
BBI Holdings Australia Ltd	Investment holding company
BBPF LLP (v)	Investment partnership
Connect Roads Derby Holdings Ltd	Investment holding company
Connect Roads Derby Ltd	Infrastructure concession
Connect Roads Infrastructure Investments Ltd	Investment holding company
Consort Healthcare Infrastructure Investments Ltd	Investment holding company
East Slope Residencies Facilities Management Ltd	Infrastructure concession
East Slope Residencies Holdings Ltd	Investment holding company
East Slope Residencies Partner Ltd	Infrastructure concession
East Slope Residencies PLC (iii)	Infrastructure concession
East Slope Residencies Student Accommodation LLP (iii) (v)	Infrastructure concession
Education Investments Holdings Ltd	Investment holding company
Initial GP1 Ltd	Investment holding company
West Stratford Developments Ltd	Investment holding company
5 Churchill Place, Canary Wharf, London E14 5HU	
Avatar Ltd	Dormant
Balfour Beatty Build Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Building Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty CE Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civils Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Const Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Northern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Services (HY) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Group Employment Ltd	Employer for UK workforce
Balfour Beatty Group Ltd	Construction and support services
Balfour Beatty Homes (South Western) Ltd	Dormant
Balfour Beatty Homes Ltd	Agent of Manring Homes Ltd
Balfour Beatty International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Investment Holdings Ltd (i)	Investment holding company
Balfour Beatty Management Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Nominees Ltd	Nominee company
Balfour Beatty Overseas Investments Ltd	Investment holding company
Balfour Beatty Overseas Ltd	Investment holding company
Balfour Beatty Property Ltd (i)	Agent of Balfour Beatty plc
Balfour Beatty Rail Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Projects Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Technologies Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Track Systems Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Refurbishment Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Kilpatrick Ltd	Dormant
Balvac Ltd	Agent of Balfour Beatty Group Ltd
Bical Construction Ltd	Agent of Balfour Beatty Group Ltd
Bignell & Associates Ltd	Agent of Balfour Beatty Group Ltd
Birse Group Ltd	Investment holding company
Birse Metro Ltd	Construction and support services
Birse Rail Ltd	Construction and support services
Bnoms Ltd (i)	Nominee company
BPH Equipment Ltd	Hire of plant and transport
Burnbank House Ltd (ii)	Property investment
Cowlin Group Ltd	Investment holding company
Dean & Dyball Developments Ltd	Dormant
Dean & Dyball Rail Ltd	Dormant
Eastern Infrastructure Maintenance Company Ltd	Dormant
Footprint Furniture Ltd	Construction services
Guinea Investments Ltd	Investment holding company
Haden Building Services Ltd	Investment holding company
Haden Young Ltd (i)	Dormant
Hall & Tawse Western Ltd	Dormant
Heery International Ltd	Agent of Balfour Beatty Group Ltd
Laser Rail Ltd	Agent of Balfour Beatty Group Ltd
Lounsdale Electric Ltd	Dormant
Manring Homes Ltd	Property investment
Multibuild (Construction & Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Multibuild Hotels and Leisure Ltd	Construction services
Multibuild Interiors Ltd	Construction services
Office Projects (Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Office Projects Group Ltd	Investment holding company
Office Projects Ltd	Construction services
Omnicom Engineering Ltd	Construction services
Raynesway Construction Ltd	Agent of Balfour Beatty Group Ltd
South East Infrastructure Maintenance Company Ltd	Dormant
Southern Track Renewals Company Ltd	Dormant
Strata Construction Ltd	Dormant
W. T. Glover & Company Ltd (i)	Dormant

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2017 continued

Subsidiary undertakings incorporated in the United Kingdom continued

Name of undertaking	Principal activity
Hereford Steel Works, Holmer Road, Hereford HR4 9SW	
Painter Brothers Ltd	Agent of Balfour Beatty Group Ltd
Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ	
Balfour Beatty Pension Trust Ltd (i)	Pension fund trustee
C/O Mc Griggors LLP, Arnott House, 12-16 Bridge Street, Belfast, BT1 1LS Northern Ireland	
Balfour Kilpatrick Northern Ireland Ltd	Dormant
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ	
Aberdeen Construction Group Ltd	Dormant
Balfour Beatty Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Scottish & Southern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Kilpatrick Limited	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Residuary Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
BBPFS LP (v)	Investment partnership
Glasgow Residences (Kennedy Street) Holdings Ltd	Investment holding company
Glasgow Residences (Kennedy Street) LLP (v)	Infrastructure concession
Glasgow Residences (Kennedy Street) SPV Ltd	Infrastructure concession
Hall & Tawse Ltd	Dormant
Holyrood Student Accommodation Holdings Ltd	Investment holding company
Holyrood Student Accommodation Intermediate Ltd	Infrastructure concession
Holyrood Student Accommodation plc	Infrastructure concession
Holyrood Student Accommodation SPV Ltd	Infrastructure concession
Initial Founder Partner GP1 Ltd	Investment holding company
Woodland View Holdings Co Ltd	Investment holding company
Woodland View Intermediate Co Ltd	Infrastructure concession
Woodland View Project Co Ltd	Infrastructure concession
Midmill Business Park, Tumulus Way, Kintore, Aberdeenshire AB51 0TG	
Balfour Beatty Engineering Services (CL) Ltd	Agent of Balfour Beatty Group Ltd
Park Square, Newton Chambers Road, Thorncliffe Park, Chapeltown, Sheffield S35 2PH	
Balfour Beatty Utility Solutions Ltd (iv)	Agent of Balfour Beatty Group Ltd
BB Indonesia Ltd	Support services

Name of undertaking	Principal activity
Pavilion B, Ashwood Park, Ashwood Way, Basingstoke, Hampshire RG23 8BG	
Balfour Beatty Ground Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Living Places Ltd	Agent of Balfour Beatty Group Ltd
Sunderland Streetlighting Ltd	Agent of Balfour Beatty Group Ltd
Testing and Analysis Ltd	Agent of Balfour Beatty Group Ltd
Q14, Quorum Business Park, Benton Lane, Newcastle upon Tyne NE12 8B	
Balfour Beatty Rail Corporate Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty WorkSmart Ltd	Agent of Balfour Beatty Group Ltd
C/O Mazars, 90 St Vincent Street, Glasgow G2 5UB	
Balfour Beatty Engineering Services (LEL) Ltd	Dormant – in liquidation
C/O Mazars, Tower Bridge House, St Katharine's Way, London E1W 1DD	
Armpledge Ltd	Investment holding company – in liquidation
Balfour Beatty Engineering Solutions Ltd	Dormant – in liquidation
Balfour Beatty Power Networks (Distribution Services) Ltd	Dormant – in liquidation
Balfour Beatty Property Investments Ltd (i)	Investment holding company – in liquidation
Balfour Beatty Rail Investments Ltd	Investment holding company – in liquidation
Birse Construction Ltd	Investment holding company – in liquidation
Birse Group Services Ltd	Dormant – in liquidation
Birse Integrated Solutions Ltd	Dormant – in liquidation
Birse Properties Ltd	Dormant – in liquidation
Branlow Ltd	Dormant – in liquidation
Chris Britton Consultancy Ltd	Dormant – in liquidation
Clarke Securities Ltd (i)	Investment holding company – in liquidation
Cowlin Management Ltd	Investment holding company – in liquidation
Dean & Dyball Investments Ltd	Investment holding company – in liquidation
Dean & Dyball Ltd	Investment holding company – in liquidation
Dean & Dyball Workforce Ltd	Dormant – in liquidation

Name of undertaking	Principal activity
Edgar Allen Engineering Ltd	Dormant – in liquidation
EIMCO Ltd	Investment holding company – in liquidation
Heery Holdings Ltd (i)	Dormant – in liquidation
John Kennedy (Civil Engineering) Ltd (iv)	Dormant – in liquidation
John Kennedy (Holdings) Ltd	Investment holding company – in liquidation
Kenton Utility Service Management Ltd	Dormant – in liquidation
Kirby Maclean Ltd	Dormant – in liquidation
Mansell North East Ltd	Dormant – in liquidation
Mansell plc	Investment holding company – in liquidation
Network Plant Ltd	Dormant – in liquidation
SEIMCO Ltd	Investment holding company – in liquidation
STAT 123 Ltd	Dormant – in liquidation
The Telegraph Construction and Maintenance Company Ltd	Dormant – in liquidation
Traffic Flow Ltd	Dormant – in liquidation
William Cowlin (Holdings) Ltd	Dormant – in liquidation
West Service Road, Raynesway, Derby DE21 7BG	
Balfour Beatty Plant & Fleet Services Ltd	Hire of plant and transport

Notes:
(i) Held directly by Balfour Beatty plc.
(ii) 75% owned.
(iii) 80% owned.
(iv) Preference shares and/or deferred shares also held.
(v) Partnership interests held.

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2017 continued

Subsidiary undertakings incorporated outside the United Kingdom

Name of undertaking	Principal activity
Australia	
Allens Corporate Services Pty Ltd, Level 4 Deutsche Bank Place, 126 Phillip Street, Sydney NSW 2000	
Balfour Beatty Australia Pty Ltd	Construction and support services
Balfour Beatty Holdings Australia Pty Ltd	Investment holding company
Allens Corporate Services Pty Ltd, Level 33, 101 Collins Street, Melbourne, Victoria 3000	
Balfour Beatty Australian LP (iii)	Investment holding partnership
Bahamas	
One Millars Court, PO Box N-7117, Nassau	
Balfour Beatty Bahamas Ltd	Dormant
Brazil	
Avenida Brigadeiro Faria Lima, No. 1478, Suites 109-110, 1st Floor, Jardim Paulistano, São Paulo, 01.451–001	
RHA do Brasil Serviços de Infraestrutura Ltda	Construction services
Canada	
Borden Ladner Gervais LLP, Scotia Plaza, 40 King Street West, 44th Floor, Toronto ON M5H 3Y4	
BB Group Canada Inc	Investment holding company
720 King Street West, Toronto ON M5V 2T3	
BB UIP Inc	Infrastructure concession
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5	
Balfour Beatty Communities GP, Inc	Infrastructure investment
Balfour Beatty Communities, LP (iii)	Infrastructure investment
Balfour Beatty Construction GP, Inc	Infrastructure investment
Balfour Beatty Construction, LP (iii)	Infrastructure investment
Balfour Beatty CWH Holdings Inc	Infrastructure investment
Balfour Beatty Investments GP, Inc	Infrastructure investment
Balfour Beatty Investments, LP (iii)	Infrastructure investment
Balfour Beatty THP Holdings, Inc.	Infrastructure investment
BB CWH, LP (iii)	Infrastructure investment
BB CWH GP, Inc	Infrastructure investment
BB NIH, LP (iii)	Infrastructure investment
BB NIH GP, Inc	Infrastructure investment
Chile	
Vicuna MacKenna Poniente 6843, Oficina 209, La Florida, Santiago	
Balfour Beatty Chile SA	Construction services

Name of undertaking	Principal activity
China	
Beijing Landmark Towers Building 2, Room 511-514, No 8 Dongsanhuan North Road, Chaoyang District, Beijing	
Balfour Beatty Rail Electrification Equipment Trading (Beijing) Ltd	Construction services
Germany	
Garmischer Strasse 35, 81373 Munich	
Balfour Beatty Capital GmbH	Dormant
Balfour Beatty Offshore Transmission Germany GmbH	Dormant
Balfour Beatty Rail GmbH	Construction services
BICC Holdings GmbH	Investment holding company
Schreck-Mieves GmbH	Construction services
Hong Kong	
Level 54, Hopewell Centre, 183 Queen's Road East	
Balfour Beatty Hong Kong Ltd	Construction and support services
India	
3rd Floor, Municipal No. 1, Service Road, 11 VB Colony, Outer Ring Road, Ward No. 88, Bansawadi, Banglore, Karnataka-KA	
Balfour Beatty Infrastructure India Pvt. Ltd	Construction and support services
Ireland	
City Junction Business Park, Northern Cross, Malahide Road, Dublin 17	
Balfour Beatty Ireland Ltd (ii)	Support services
Kenton Utilities & Developments (Ireland) Ltd	Dormant
Isle of Man	
Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man	
Delphian Insurance Company Ltd (i)	Insurance company
Jersey	
12 Castle Street, St Helier, Jersey, JE2 3RT	
Balfour Beatty Employees Trustees Ltd (i)	Employee trust
47 Esplanade, St Helier, Jersey, JE1 0BD	
Balfour Beatty Finance No.2 Ltd (i)	Finance company
Malaysia	
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya	
Balfour Beatty Projects Sdn Bhd	Construction services
Balfour Beatty Rail Design International Sdn Bhd	Construction services
Netherlands	
Prins Bernhardplein 200, 1097 JB, Amsterdam	
BICC Finance BV	Dormant – in liquidation
Rapenburgerstraat 177/B, 1011 VM, Amsterdam	
Balfour Beatty Netherlands BV	Investment holding company

Name of undertaking	Principal activity
New Zealand	
C/O Price Waterhouse Coopers, Level 8, Price Waterhouse Coopers Tower, 188 Quay Street Private Bag 92162, Auckland	
Balfour Beatty New Zealand Ltd	Construction and support services
Romania	
23 G-Ral Ernest Brosteanu Street, Corp B – Birouri Parter, Sector 1, Bucharest 010527	
SC Balfour Beatty Rail SRL	Construction services
Sri Lanka	
No. 216 De Saram Place, Colombo 10	
Balfour Beatty Ceylon (Private) Ltd	Construction services
Switzerland	
Hansmatt 32, 6370 Stans	
Balfour Beatty Rail Schweiz GmbH	Construction services – in liquidation
Thailand	
9 Soi Santisuk, Sithisarn Road, Huay Kwang, Bangkok	
Asia Trade Development Co Ltd	Construction services
Balfour Beatty Construction (Thailand) Co Ltd	Construction services
Balfour Beatty Holdings (Thailand) Co Ltd	Investment holding company
Balfour Beatty Thai Ltd	Construction services
Linwood Co Ltd	Investment holding company
United States	
1011 Centre Road, Suite 310, Wilmington DE 19805	
Balfour Beatty Holdings Inc	Investment holding company
Balfour Beatty LLC	Investment holding company
50 Public Square, Suite 2175, Cleveland OH 44113	
National Engineering & Contracting Company	Construction services
999 Peachtree Street NE, Atlanta, Georgia 30309-39764	
Balfour Beatty Infrastructure, Inc	Construction services
Corporation Service Company, 505 5th Avenue Suite 729, Des Moines, IA 50309	
BBCS Condominium Association, Inc.	Infrastructure concession
Corporation Service Company, 1127 Broadway Street NE, Suite 310, Salem OR 97301	
Columbia Plaza Investments, LLC	Construction services
HSW Rock Springs, LLC	Construction services

Notes to the financial statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2017 continued

Subsidiary undertakings incorporated outside the United Kingdom continued

Name of undertaking	Principal activity
United States continued	
Corporation Service Company, 1703 Laurel Street, Columbia SC 29201	
National Casualty and Assurance, Inc	Insurance company
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808	
Balfour Beatty Campus Solutions, LLC	Infrastructure investment
Balfour Beatty Communities, LLC	Infrastructure investment
Balfour Beatty Construction D.C., LLC	Construction services
Balfour Beatty Construction, LLC	Construction services
Balfour Beatty Equipment, LLC	Construction services
Balfour Beatty Investments, Inc	Investment holding company
Balfour Beatty Management Inc	Business services
Balfour Beatty Military Housing Development LLC	Infrastructure investment
Balfour Beatty Military Housing Investments LLC	Investment holding company
Balfour Beatty Military Housing Management LLC	Infrastructure investment
Balfour Beatty – Worthgroup, LLC	Construction services
BBC – D5 Investors, LLC (iv)	Infrastructure investment
BBC AF Housing Construction LLC	Infrastructure investment
BBC AF Management/Development LLC	Infrastructure investment
BBC – Evergreen, LLC	Investment holding company
BBC Independent Member I, Inc	Infrastructure investment
BBC Independent Member II, Inc	Infrastructure investment
BBC Military Housing – ACC Group, LLC	Infrastructure concession
BBC Military Housing – AETC General Partner LLC	Infrastructure concession
BBC Military Housing – AETC Limited Partner LLC	Infrastructure concession
BBC Military Housing – AMC General Partner LLC	Infrastructure concession
BBC Military Housing – AMC Limited Partner LLC	Infrastructure concession
BBC Military Housing – Bliss/WSMR General Partner LLC	Infrastructure concession
BBC Military Housing – Bliss/WSMR Limited Partner LLC	Infrastructure concession
BBC Military Housing – Carlisle/Picatinny General Partner LLC	Infrastructure concession
BBC Military Housing – Carlisle/Picatinny Limited Partner LLC	Infrastructure concession

Name of undertaking	Principal activity
BBC Military Housing – FDWR LLC	Infrastructure concession
BBC Military Housing – Fort Carson LLC	Infrastructure concession
BBC Military Housing – Fort Gordon LLC	Infrastructure concession
BBC Military Housing – Fort Hamilton LLC	Infrastructure concession
BBC Military Housing – Fort Jackson LLC	Infrastructure concession
BBC Military Housing – Hampton Roads LLC	Infrastructure concession
BBC Military Housing – Lackland LLC	Infrastructure concession
BBC Military Housing – Leonard Wood LLC	Infrastructure concession
BBC Military Housing – Navy Northeast LLC	Infrastructure concession
BBC Military Housing – Navy Southeast LLC	Infrastructure concession
BBC Military Housing – Northern Group, LLC	Infrastructure concession
BBC Military Housing – Stewart Hunter LLC	Infrastructure concession
BBC Military Housing – Vandenberg General Partner LLC	Infrastructure concession
BBC Military Housing – Vandenberg Limited Partner LLC	Infrastructure concession
BBC Military Housing – West Point LLC	Infrastructure concession
BBC Military Housing – Western General Partner, LLC	Infrastructure concession
BBC Military Housing – Western Limited Partner, LLC	Infrastructure concession
BBC Multifamily Holdings, LLC	Infrastructure investment
BBCS – Hawkeye Housing, LLC	Infrastructure concession
BBCS – Northside Campus, LLC	Infrastructure concession
BBCS – UN Reno Housing, LLC	Infrastructure concession
BBCS Development, LLC	Infrastructure investment
BICC Cables Corporation	Business services
Corporation Service Company, 300 Deschutes Way SW, Suite 304, Tumwater WA 98501	
Howard S Wright Construction Co	Construction services
HSW, Inc	Construction services
CSC – Nevada, C/O CSC Services of Nevada, Inc., 502 East John Street, Carson City, Nevada, 89706	
Balfour Beatty – Golden Construction Company	Construction services

Name of undertaking	Principal activity
Balfour Beatty Construction Company, Inc	Construction services
Balfour Beatty Construction Group, Inc	Construction services

Notes:
(i) Held directly by Balfour Beatty plc.
(ii) In accordance with the provisions of Section 357 of the Irish Companies Act 2014, the Company, as the ultimate parent of Balfour Beatty Ireland Ltd (BBIL) having its registered office at City Junction Business Park, Northern Cross, Malahide Road, Dublin 17, Ireland, irrevocably guarantees in respect of the whole of the financial year of BBIL ended 31 December 2017, all the liabilities of BBIL provided that this guarantee shall not extend to any liability or commitment of BBIL which shall not have arisen otherwise than in respect of the financial year or which shall not constitute a liability or loss.
(iii) Partnership interests held.
(iv) 65% interest held.

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2017 continued

Joint ventures incorporated in the United Kingdom

Name of undertaking	% held by the Group	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX		
BBDE Orbital Holdings, LLP (iii)		Investment holding company
Connect A30/A35 Holdings Ltd	20	Investment holding company
Connect A30/A35 Ltd	20	Infrastructure concession
Connect A50 Ltd	25	Infrastructure concession
Connect CNDR Holdings Ltd	25	Investment holding company
Connect CNDR Intermediate Ltd	25	Infrastructure concession
Connect CNDR Ltd	25	Infrastructure concession
Connect M1-A1 Holdings Ltd (i)	20	Investment holding company
Connect M1-A1 Ltd	20	Infrastructure concession
Connect M77/GSO Holdings Ltd (ii)	85	Investment holding company
Connect M77/GSO plc (ii)	85	Infrastructure concession
Connect Roads Cambridgeshire Holdings Ltd	20	Investment holding company
Connect Roads Cambridgeshire Intermediate Ltd	20	Infrastructure concession
Connect Roads Cambridgeshire Ltd	20	Infrastructure concession
Connect Roads Coventry Holdings Ltd	20	Investment holding company
Connect Roads Coventry Intermediate Ltd	20	Infrastructure concession
Connect Roads Coventry Ltd	20	Infrastructure concession
Connect Roads Ltd	25	Investment holding company
Connect Roads Northamptonshire Holdings Ltd	20	Investment holding company
Connect Roads Northamptonshire Intermediate Ltd	20	Infrastructure concession
Connect Roads Northamptonshire Ltd	20	Infrastructure concession
Connect Roads South Tyneside Holdings Ltd	20	Investment holding company
Connect Roads South Tyneside Ltd	20	Infrastructure concession
Connect Roads Sunderland Holdings Ltd	20	Investment holding company
Connect Roads Sunderland Ltd	20	Infrastructure concession
Consort Healthcare (Birmingham) Funding plc	40	Infrastructure concession
Consort Healthcare (Birmingham) Holdings Ltd	40	Investment holding company
Consort Healthcare (Birmingham) Intermediate Ltd	40	Infrastructure concession
Consort Healthcare (Birmingham) Ltd	40	Infrastructure concession
East Wick and Sweetwater Projects (Holdings) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 1) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 2) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 3) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 4) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 5) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 6) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 7) Ltd	50	Infrastructure concession
Gwynt y Mor OFTO Holdings Ltd (ii)	60	Investment holding company
Gwynt y Mor OFTO Intermediate Ltd (ii)	60	Infrastructure concession
Gwynt y Mor OFTO plc (ii)	60	Infrastructure concession
Humber Gateway OFTO Holdings Ltd	20	Investment holding company
Humber Gateway OFTO Intermediate Ltd	20	Infrastructure concession
Humber Gateway OFTO Ltd	20	Infrastructure concession
Thanet OFTO Holdco Ltd	20	Investment holding company
Thanet OFTO Intermediate Ltd	20	Infrastructure concession
Thanet OFTO Ltd	20	Infrastructure concession
Blythe House, Blythe Park, Cresswell, Stoke on Trent, Staffordshire ST11 9RD		
Birmingham Bio Power Ltd	37.5	Infrastructure concession
Pebblehall Bio Power Ltd	25	Investment holding company
Tyseley Bio Power Ltd	37.5	Investment holding company
Welland Bio Power Ltd	25	Infrastructure concession
Connect Plus House St Albans Road, South Mimms, Hertfordshire EN6 3NP		
Connect Plus (M25) Holdings Ltd (iii)	20	Investment holding company
Connect Plus (M25) Intermediate Ltd (iii)	20	Infrastructure concession
Connect Plus (M25) Ltd (iii)	20	Infrastructure concession
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ		
Aberdeen Roads (Finance) plc	33.3	Infrastructure concession
Aberdeen Roads Holdings Ltd	33.3	Investment holding company
Aberdeen Roads Ltd	33.3	Infrastructure concession
Consort Healthcare (Fife) Holdings Ltd	50	Investment holding company
Consort Healthcare (Fife) Intermediate Ltd	50	Infrastructure concession
Consort Healthcare (Fife) Ltd	50	Infrastructure concession
Westminster House, Crompton Way, Segensworth West, Fareham, Hampshire PO15 5SS		
Pevensey Coastal Defence Ltd	25	Infrastructure concession

Notes:
(i) Held directly by Balfour Beatty plc.
(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.
(iii) The Group owned 68.75% of BBDE Orbital Holdings LLP at 31 December 2017 but had an unconditional right to sell an 18.75% interest, thereby reducing its effective interest to 50%. Connect Plus (M25) Holdings Ltd and its subsidiaries are 40% owned by BBDE Orbital Holdings LLP.

Notes to the financial statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2017 continued

Joint ventures incorporated outside the United Kingdom

Name of undertaking	% held by the Group	Principal activity
Bermuda		
Conyers Dill & Pearman Limited, 2 Clarendon House, 2 Church Street, Hamilton HM 11		
CP Bay Carry A LP	20	Infrastructure concession
CP Bay Carry B LP	20	Infrastructure concession
British Virgin Islands		
P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola		
Gammon Asia Ltd	50	Investment holding company
Gammon Construction Holdings Ltd	50	Investment holding company
Canada		
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5		
Affinity BBL Inc.	50	Infrastructure investment
Affinity General Partner Inc.	50	Infrastructure investment
Affinity LP (i) (iv)	70	Infrastructure investment
Affinity Partnerships	70	Infrastructure investment
CWH Facilities Management, LP (iv)	50	Infrastructure investment
CWH FM GP Inc	50	Infrastructure investment
CWH Design – Build GP (iv)	50	Construction services
Gracorp Balfour Beatty THP Holdings Inc.	50	Investment holding company
Ledcor Balfour Beatty Affinity Holdings Inc.	50	Investment holding company
THP GBB Inc.	50	Infrastructure investment
THP GP Inc.	50	Infrastructure investment
THP LP (iv)	50	Infrastructure investment
THP Partnership	50	Infrastructure investment
Forum House at Brookfield Place, Scotia Plaza, 181 Bay Street, EP210, Toronto, ON M5J 2T3		
UIP GP	50	Infrastructure concession
Germany		
Luisenstr. 38, 10117 Berlin		
InoSig GmbH	50	Construction services
Hong Kong		
28th Floor, Devon House, Taikoo Place, 979 King's Road		
Gammon China Ltd	50	Investment holding company
Gammon Construction Ltd (iii)	50	Construction services
Ireland		
Dunmoy House, St Margaret's Road, Finglas, Dublin 11		
Balfour Beatty CLG Ltd	50	Support services
C/O Sweett Group, 2nd Floor, Cathedral Court, New Street South, Dublin 8		
Healthcare Centres PPP Holdings Ltd	40	Investment holding company
Healthcare Centres PPP Ltd	40	Infrastructure concession
Malaysia		
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya		
Balfour Beatty Ansaldo Systems JV Sdn Bhd (ii)	60	Construction services
Balfour Beatty Rail Sdn Bhd (ii)	70	Construction services
Singapore		
239 Alexandra Road, 159930		
Gammon Capital (West) Holdings Pte. Ltd	50	Infrastructure concession
Gammon Capital (West) Pte. Ltd	50	Infrastructure concession
Gammon Investments Pte. Ltd	50	Investment holding company
United States		
Corporation Service Company, 1201 Hays Street, Tallahassee FL 32301		
C-BB Management, LLC	50	Infrastructure investment
C-BBC Development, LLC	50	Infrastructure investment
Corporation Service Company d/b/a CSC-Lawyers, Incorporating Service Company, 211 E. 7th Street, Suite 620, Austin TX 78701-3218		
Northside Campus Partners, LP (iv)	50	Infrastructure concession
Northside Campus Partners 2, LP (iv)	50	Infrastructure concession
Corporation Trust Company, 1209 Orange St, Wilmington, Delaware 19801		
RAPP-BBC Associates, LLC	10	Infrastructure investment
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808		
Balfour Beatty/Benham Military Communities LLC (i)	90	Infrastructure investment
Balfour Beatty/PHELPS Military Communities LLC (i)	90	Infrastructure investment
BBC – ApexOne Carolina Cove, LLC	50	Infrastructure investment
BBC – ApexOne Mobile Eastern, LLC	50	Infrastructure investment
BBC Army Integrated, LLC	50	Infrastructure investment
United States continued		
Northside Campus General Partner LLC	50	Infrastructure concession
Northside Campus Limited Partner, LLC (i)	90	Infrastructure concession
Corporation Service Company, 2908 Poston Avenue, Nashville TN 37203		
Balfour Concord GP (iv)	50	Construction services
Balfour Concord Property Management, LLC	50	Construction services
430 Eastwood Road, Wilmington, NC 28403		
New Energy Alliance LLC	50	Construction and support services

Notes:
(i) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.
(ii) The Group holds a 70% interest in Balfour Beatty Rail Sdn Bhd, which holds a 60% interest in Balfour Beatty Ansaldo Systems JV Sdn Bhd. Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of these companies, the Directors consider that the Group does not control these companies and they have been accounted for as joint ventures.
(iii) Preference shares and/or deferred shares also held.
(iv) Partnership interests held.

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2017 continued

Associated undertakings incorporated in the United Kingdom

Name of undertaking	% held by the Group	Principal activity
United Kingdom		
Newington House, 237 Southwark Bridge Road, London SE1 6NP		
Power Asset Development Company Ltd	25	Infrastructure concession
UK Power Networks Services Powerlink Ltd	10	Infrastructure concession
Ashford House, Grenadier Road, Exeter, EX1 3LH		
UBB Waste (Essex) Holdings Ltd	30	Investment holding company
UBB Waste (Essex) Intermediate Ltd	30	Infrastructure concession
UBB Waste (Essex) Ltd	30	Infrastructure concession
UBB Waste (Gloucestershire) Holdings Ltd	49.5	Investment holding company
UBB Waste (Gloucestershire) Intermediate Ltd	49.5	Infrastructure concession
UBB Waste (Gloucestershire) Ltd	49.5	Infrastructure concession

Associated undertakings incorporated outside the United Kingdom

Name of undertaking	% held by the Group	Principal activity
United States		
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808		
ACC Group Housing, LLC (i)	100	Infrastructure concession
AETC Housing LP (i)(ii)	100	Infrastructure concession
AMC West Housing LP (i)(ii)	100	Infrastructure concession
Carlisle/Picatinny Family Housing LP (ii)	10	Infrastructure concession
Carolina Cove (Wilmington) Owner, LLC	50	Infrastructure investment
Coppell Properties, LLC	10	Infrastructure investment
DFW 5 – Josey Ranch, LLC	10	Infrastructure investment
DFW 5 – Madison Parkway, LLC	10	Infrastructure investment
DFW 5 – Round Grove, LLC	10	Infrastructure investment
DFW 5 – Wimberly, LLC	10	Infrastructure investment
DFW 5 – Wimbledon Oaks, LLC	10	Infrastructure investment
DFW 5 Holdings, LLC	10	Infrastructure investment
FDWR Parent LLC	10	Infrastructure concession
Fort Bliss/White Sands Missile Range Housing LP (ii)	10	Infrastructure concession
Fort Carson Family Housing LLC	10	Infrastructure concession
Fort Detrick/Walter Reed Army Medical Center Housing LLC	10	Infrastructure concession
Fort Eustis/Fort Story Housing LLC	10	Infrastructure concession
Fort Gordon Housing LLC	10	Infrastructure concession
Fort Hamilton Housing LLC	10	Infrastructure concession
Fort Jackson Housing LLC	10	Infrastructure concession
Lackland Family Housing, LLC (i)	100	Infrastructure concession

Name of undertaking	% held by the Group	Principal activity
Leonard Wood Family Communities, LLC	10	Infrastructure concession
Nesbit Palisades, LLC	15	Infrastructure investment
Northeast Housing LLC	10	Infrastructure concession
Northern Group Housing, LLC (i)	100	Infrastructure concession
Park Place (Foley) Owner, LLC	50	Infrastructure investment
Southeast Housing LLC	10	Infrastructure concession
Summer Trace (Gulf Shores) Owner, LLC	50	Infrastructure investment
Stewart Hunter Housing LLC	10	Infrastructure concession
TBB Evergreen Commons, LLC	15	Infrastructure investment
TBB Evergreen Holdings, LLC	15	Infrastructure investment
TBB Evergreen Park, LLC	15	Infrastructure investment
TBB Evergreen Terrace, LLC	15	Infrastructure investment
Vandenberg Housing LP (i)(ii)	100	Infrastructure concession
Western Group Housing, LP (i)(ii)	100	Infrastructure concession
West Point Housing LLC	10	Infrastructure concession
Windscape (Daphne) Owner, LLC	50	Infrastructure investment

Notes:

(i) The Group evaluated each of its interests in the military housing projects to determine if the associated entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts were evaluated when determining which party or parties had control over the activities that most significantly impact a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not control or jointly control them and therefore the entities have been accounted for as associated undertakings.

(ii) Partnership interests held.

Unaudited Group five-year summary

	2017 £m	2016[2] £m	2015[2] £m	2014[2] £m	2013[2] £m
Income					
Revenue including share of joint ventures and associates	**8,264**	8,368	8,262	8,616	8,723
Share of revenue of joint ventures and associates	**(1,348)**	(1,445)	(1,307)	(1,352)	(1,235)
Group revenue from continuing operations	**6,916**	6,923	6,955	7,264	7,488
Underlying profit/(loss) from continuing operations	**196**	69	(74)	(43)	140
Underlying net finance costs	**(31)**	(7)	(17)	(22)	(15)
Underlying profit/(loss) before taxation	**165**	62	(91)	(65)	125
Amortisation of acquired intangible assets	**(9)**	(9)	(10)	(11)	(17)
Other non-underlying items	**(39)**	(43)	(66)	(213)	(163)
Profit/(loss) from continuing operations before taxation	**117**	10	(167)	(289)	(55)
Taxation on profit/(loss) from continuing operations	**45**	(8)	(7)	3	(4)
Profit/(loss) from continuing operations after taxation	**162**	2	(174)	(286)	(59)
Profit from discontinued operations after taxation	**6**	22	(32)	227	24
Profit/(loss) for the year attributable to equity holders	**168**	24	(206)	(59)	(35)
Capital employed					
Equity holders' funds	**1,056**	757	826	1,227	1,033
Liability component of preference shares	**103**	100	98	96	94
Net non-recourse borrowings – infrastructure concessions	**305**	233	365	445	354
Net (cash)/borrowings – other	**(335)**	(173)	(163)	(219)	66
	1,129	917	1,126	1,549	1,547

	2017 Pence	2016[2] Pence	2015[2] Pence	2014[2] Pence	2013[2] Pence
Statistics					
Underlying earnings/(loss) per ordinary share from continuing operations*	**20.9**	7.2	(15.0)	(9.4)	14.4
Basic profit/(loss) per ordinary share from continuing operations	**23.7**	0.2	(25.5)	(41.8)	(8.4)
Diluted profit/(loss) per ordinary share from continuing operations	**23.4**	0.2	(25.5)	(41.8)	(8.4)
Proposed dividends per ordinary share	**3.6**	2.7	–	5.6	14.1
Underlying profit/(loss) from continuing operations before net finance costs including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	**2.4%**	0.8%	(0.9)%	(0.5)%	1.6%

Notes
* Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group's underlying trading performance.
2 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

Shareholder information

Financial calendar

	2018
19 April	Ex-dividend date for final 2017 ordinary dividend
20 April	Final 2017 ordinary dividend record date
24 May	Annual General Meeting
24 May	Ex-dividend date for July 2018 preference dividend
25 May	July 2018 preference dividend record date
1 July	Preference dividend payable
6 July	Final 2017 ordinary dividend payable
15 August*	Announcement of 2018 half-year results
4 October*	Ex-dividend date for interim 2018 ordinary dividend
5 October*	Interim 2018 ordinary dividend record date
22 November	Ex-dividend date for January 2019 preference dividend
23 November	January 2019 preference dividend record date
30 November*	Interim 2018 ordinary dividend payable
	2019
1 January	Preference dividend payable

Note
* Provisional date.

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state your registered address and, if available, your shareholder reference number. Please write to:

Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone: 0871 664 0300 from the UK. Calls cost 12p per minute plus your phone company's access charge. If you are outside the UK, please call +44 (0)371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can email: enquiries@linkgroup.co.uk.

They can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; record the death of a shareholder.

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). The Registrars can provide a dividend mandate form. A dividend reinvestment plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at www.balfourbeatty-shares.com.

International payment service

Shareholders outside the UK may elect to receive dividends direct into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars on +44 (0)371 664 0391 (from outside the UK) or 0871 664 0385 from the UK. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

Shareholder information on the internet and electronic communications

Our website www.balfourbeatty.com provides a range of information about the Company, our people and businesses and our policies on corporate governance and corporate responsibility. It should be regarded as your first point of reference for information on any of these matters. The share price can also be found there.

You can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to: view your holdings and indicative share price and valuation; view movements on your holdings and your dividend payment history; register a dividend mandate to have your dividends paid directly into your bank account; change your registered address; sign up to receive e-communications or access the online proxy voting facility; and download and print shareholder forms.

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: Shareportal@caslink.co.uk.

Unsolicited telephone calls

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports on the Company.

If you receive any unsolicited investment advice:

- always ensure the firm is on the Financial Conduct Authority (FCA) Register and is allowed to give financial advice before handing over your money. You can check via www.fsa.gov.uk/register/home.do
- double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. If there are no contact details on the FCA Register or you are told that they are out of date, or if you have any other doubts, call the FCA Consumer Helpline on 0800 111 6768
- if you are approached about a share scam, please visit the FCA's ScamSmart website at www.fca.org.uk/scamsmart where you can access information about the various types of scam, including share and boiler room fraud, see the FCA's Warning List and reports on firms about whom consumers have expressed concerns. Alternatively, you can call the FCA Consumer Helpline (see above). If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong
- you should also report any approach to Action Fraud, who are the UK's national fraud reporting centre at www.actionfraud.police.uk, or by calling 0300 123 2040.

Shareholder information continued

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £27m has been given to more than 2,600 charities.

The relevant share transfer form may be obtained from the Registrars. For more information visit www.sharegift.org.

Share dealing services

Link Asset Services (a trading name of Link Market Services Trustees Limited) provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, telephone: 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate. Lines are open between 8.00 am – 4.30 pm, Monday to Friday excluding public holidays in England and Wales. Alternatively, you can log on to www.linksharedeal.com.

Link Market Services Trustees Limited is authorised and regulated by the Financial Conduct Authority and is also authorised to conduct cross border business within the EEA under the provisions of the EU Markets in Financial Instruments Directive.

London Stock Exchange Codes

The London Stock Exchange Daily Official List (SEDOL) codes are: Ordinary shares: 0096162. Preference shares: 0097820.

The London Stock Exchange ticker codes are: Ordinary shares: BBY; Preference shares: BBYB.

Capital gains tax (CGT)

For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

Consolidated tax vouchers

Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank accounts. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars. A copy of the consolidated tax voucher may be downloaded from the Share Portal at www.balfourbeatty-shares.com.

Enquiries

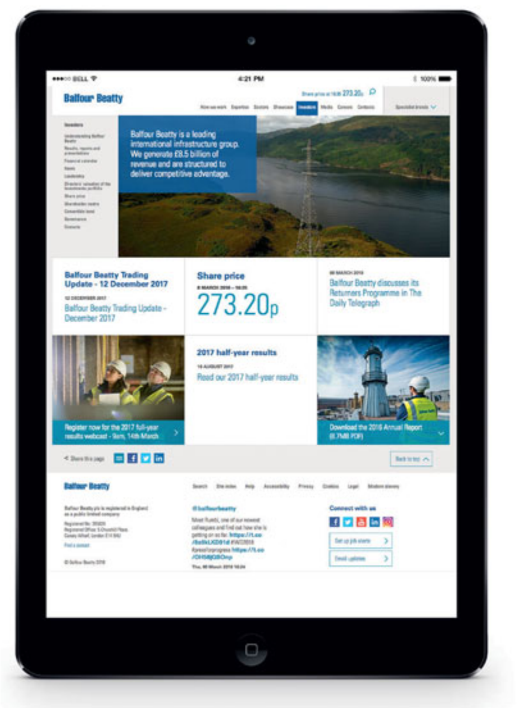
Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

Balfour Beatty plc Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU. Registered in England Number 395826.

Forward-looking statements

This document 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 report 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, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal risks on pages 51 to 56 of this document.

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 document 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 document. No statement in the document 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.



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