Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE FULL-YEAR ENDED 31 DECEMBER 2017

14 March 2018

Strong results demonstrate delivery of Build to Last transformation

Highlights

- Underlying profit from operations more than doubled to £196m (2016: £69m)
- All earnings-based businesses materially improved profit from operations
- Average net cash £42m (2016: £46m net debt); year end net cash £335m (2016: £173m)
- M25 partial sales in line with strategy to maximise value from Investments portfolio
- Directors' valuation of Investment portfolio unchanged at £1.2bn
- Rebased, higher quality order book of £11.4bn, in line with half year
- Recommended final dividend of 2.4 pence per share; full year 3.6 pence per share (2016: full year 2.7 pence)
- Balfour Beatty remains on track for industry-standard margins in second half of 2018

(£ million unless otherwise specified)	2017		2016[4]	
	Underlying[3]	Statutory	Underlying[3]	Statutory
Revenue[1,2]	8,234	6,916	8,215	6,923
Profit from operations[2] (PFO)	196	148	69	17
Pre-tax profit[2]	165	117	62	10
Post-tax profit	143	168	48	24
Basic earnings per share[6]	20.9p	24.7p	7.2p	3.5p
Dividends per share		3.6p		2.7p

	2017	2016[4]
Order book[1,2,3]	£11.4bn	£12.4bn
Directors' valuation of Investments portfolio[5]	1,244	1,220
Net cash – recourse	335	173
Net borrowings – non-recourse[7]	(305)	(233)

Leo Quinn, Group Chief Executive, commented, "These results clearly demonstrate that our Build to Last programme is transforming Balfour Beatty. The Group has been repositioned to drive sustainable growth in profits, underpinned by a strong balance sheet. It has the right culture and capabilities to capitalise on the rising tide of infrastructure spend in our chosen markets.

"As a result of Build to Last, and the governance and controls now in place, we remain on track to achieve industry-standard margins in the second half of 2018. In the medium term, we are building a Group capable of delivering market-leading performance."

Notes:

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

[2] from continuing operations

[3] before non-underlying items (Note 8)

[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

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

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

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

Investor and Analyst enquiries:

Angus Barry
Tel. +44 (0)20 7216 6824
angus.barry@balfourbeatty.com

Media enquiries:

Louise McCulloch
Tel. +44 (0)20 7216 6846
louise.mcculloch@balfourbeatty.com

Investor and Analyst presentation:

A presentation to investors and analysts will be made at the Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED at 09:00 (UK time) on 14 March 2018. There will be a live webcast of this presentation on: www.balfourbeatty.com/webcast

2017 FULL-YEAR RESULTS ANNOUNCEMENT

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GROUP CHIEF EXECUTIVE'S REVIEW

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.

BUILD TO LAST

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

In **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.

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 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.

In **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).

RESULTS OVERVIEW AND OUTLOOK

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

Throughout this report, Balfour Beatty has presented financial performance measures which are used to manage the Group's performance. These financial performance measures are chosen to provide a balanced view of the Group's operations and are considered useful to investors as these measures provide relevant information on the Group's past or future performance, position or cash flows. These measures are also aligned to measures used internally to assess business performance in the Group's budgeting process and when determining compensation. An explanation of the Group's financial performance measures and appropriate reconciliations to its statutory measures are provided in the Measuring Our Performance section. Non-underlying items and the results from discontinued operations are the causes of the differences between underlying and statutory profitability. Additionally, underlying revenue includes the Group's share of revenue in joint ventures and associates and is presented on a continuing operations basis.

The Group has presented its 49% interests in its Middle East joint ventures as discontinued operations in 2017, with comparatives restated accordingly.

As previously advised, Rail construction is now included within UK Construction, with comparatives restated accordingly.

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.

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 8)

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

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.

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

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 a change in discount rate methodology.

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 previously not recognised by the Group under the previous revenue standards. Early adoption of IFRS 15 would have resulted in an immaterial impact on the Group's income statement for the year ended 31 December 2017.

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:

	Target
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.

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

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.

Construction Services	2017				2016[4]			
	Rev[1,2]	PFO[2]	PFO[2]	Order book[1,2]	Rev[1,2]	PFO[2]	PFO[2]	Order book[1,2]
	£m	£m	%	£bn	£m	£m	%	£bn
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 includes share of joint ventures and associates

[2] from continuing operations

[3] before non-underlying items (Note 8)

[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.

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

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; and
- 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.

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; and
- Balfour Beatty Kilpatrick: heavy mechanical and electrical (M&E) installations and building services.

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

Within Regional, in line with the Group's strategy, the 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.

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 a new student accommodation project 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; and
- £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

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.

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 foot 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 foot of amenity space in Washington DC; and
- 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; and
- 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

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; and
- 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.

SUPPORT SERVICES

Financial review

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

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.

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 PFO margin[3] (%)	3.9%	3.1%

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

[3] before non-underlying items (Note 8)

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

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; and

- 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.

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; and
- £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.

INFRASTRUCTURE INVESTMENTS

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).

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 8)

[+] 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.

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.

Directors' valuation

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.

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**

[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

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 (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

Value by phase

Phase	2017 (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

Value by income type

Income type	2017 (2016) No. projects		**2017 £m**	2016 £m
Availability based	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

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.

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.

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.

OTHER FINANCIAL ITEMS

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.

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.

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.

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; and
- 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.

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 this announcement with the aim of providing transparency and clarity on the measures adopted internally to assess performance.

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

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

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

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

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

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

Readers are encouraged to review this announcement in its entirety.

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

Underlying profit from operations (PFO)

Underlying PFO is presented before finance 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 announcement when reporting performance, both in absolute terms and also in comparison to earlier years:

Statutory measures

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

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 102 to 109 of the Annual Report and Accounts 2017.

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

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

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

Further details of these non-underlying items are provided in Note 8.

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

	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

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**

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	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	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 explained, 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 6 and Note 7.

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 of opening and closing figures for each month through the period.

The average net cash/borrowings measure excludes non-recourse cash and debt and the liability component of the Company's preference shares, and this performance measure shows average net cash of £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).

h) Directors' valuation of the Investments portfolio

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

The Directors have valued the Investments portfolio at £1.24 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*	**–**	(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**	710
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: ▪ historical cost; ▪ amortised cost; and ▪ fair value	**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 Directors' valuation section, the Directors' valuation is calculated using discounted cash flows. In deriving these cash flows, assumptions have been made and different discount rates used which are updated at each valuation date.

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

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

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

i) Constant exchange rates (CER)

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

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

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).

Forward-looking statements

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

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

Group Income Statement

For the year ended 31 December 2017

	Notes	2017 Underlying items[1] £m	2017 Non-underlying items (Note 8) £m	2017 Total £m	2016[2] Underlying items[1] £m	2016[2] Non-underlying items (Note 8) £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	14	**(1,340)**	**(8)**	**(1,348)**	(1,433)	(12)	(1,445)
Group revenue		**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	20.2	**86**	**–**	**86**	65	–	65
Amortisation of acquired intangible assets	8	**–**	**(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	14	**59**	**–**	**59**	57	1	58
Profit/(loss) from operations		**196**	**(48)**	**148**	69	(52)	17
Investment income	6	**42**	**–**	**42**	75	–	75
Finance costs	7	**(73)**	**–**	**(73)**	(82)	–	(82)
Profit/(loss) before taxation		**165**	**(48)**	**117**	62	(52)	10
Taxation	9	**(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 (Note 8).

[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	10	**23.7**	0.2
- discontinued operations	10	**1.0**	3.3
	10	**24.7**	3.5
Diluted earnings per ordinary share			
- continuing operations	10	**23.4**	0.2
- discontinued operations	10	**1.0**	3.3
	10	**24.4**	3.5
Dividends per ordinary share proposed for the year	11	**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.

Group Statement of Comprehensive Income

For the year ended 31 December 2017

	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	**242**	**4**	**246**	(121)	1	(120)
Tax on above	**(37)**	–	**(37)**	2	–	2
	205	**4**	**209**	(119)	1	(118)
Items which will subsequently be reclassified to the income statement						
Currency translation differences	**(30)**	**(18)**	**(48)**	51	41	92
Fair value revaluations – PPP financial assets	**3**	**60**	**63**	27	10	37
– cash flow hedges	**4**	**11**	**15**	(16)	(92)	(108)
– available-for-sale investments in mutual funds	**3**	**–**	**3**	1	–	1
Recycling of revaluation reserves to the income statement on disposal^	**–**	**(85)**	**(85)**	(17)	9	(8)
Tax on above	**–**	**(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	**293**	**19**	**312**	(106)	40	(66)
Attributable to						
Equity holders			**312**			(67)
Non-controlling interests			**–**			1
Total comprehensive income/(loss) for the year			**312**			(66)

^ Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.

Group Statement of Changes in Equity

For the year ended 31 December 2017

	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves £m	Retained profits/ (losses) £m	Non-controlling interests £m	Total £m
At 1 January 2016	345	65	22	196	144	54	4	830
Total comprehensive income/(loss) for the year	–	–	–	40	44	(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	191	(50)	5	762
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**19**	**(20)**	**313**	**–**	**312**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(20)**	**–**	**(20)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(69)**	**–**	**69**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**6**	**1**	**–**	**7**
Reserve transfers relating to joint venture and associate disposals	**–**	**–**	**–**	**(21)**	**–**	**21**	**–**	**–**
Minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Convertible bonds repurchase	**–**	**–**	**–**	**–**	**(2)**	**2**	**–**	**–**
At 31 December 2017	**345**	**65**	**22**	**113**	**175**	**336**	**10**	**1,066**

Group Balance Sheet
At 31 December 2017

	Notes	**2017 £m**	2016 £m
Non-current assets			
Intangible assets – goodwill	12	**874**	937
– other	13	**281**	225
Property, plant and equipment		**157**	181
Investment properties		**46**	36
Investments in joint ventures and associates	14	**531**	628
Investments		**39**	45
PPP financial assets		**163**	163
Trade and other receivables	15	**216**	180
Retirement benefit assets	17	**156**	–
Deferred tax assets		**52**	54
Derivative financial instruments		**1**	3
		2,516	2,452
Current assets			
Inventories and non-construction work in progress		**107**	101
Due from construction contract customers		**377**	380
Trade and other receivables	15	**899**	1,066
Cash and cash equivalents – infrastructure concessions	19.3	**135**	7
– other	19.3	**833**	762
Current tax receivable		**8**	8
Derivative financial instruments		**2**	1
		2,361	2,325
Total assets		**4,877**	4,777
Current liabilities			
Due to construction contract customers		**(535)**	(542)
Trade and other payables	16	**(1,542)**	(1,752)
Provisions		**(194)**	(147)
Borrowings – non-recourse loans	19.3	**(8)**	(47)
– other	19.3	**(268)**	(56)
Current tax payable		**(15)**	(18)
Derivative financial instruments		**(5)**	(6)
		(2,567)	(2,568)
Non-current liabilities			
Trade and other payables	16	**(157)**	(151)
Provisions		**(98)**	(126)
Borrowings – non-recourse loans	19.3	**(432)**	(193)
– other	19.3	**(230)**	(533)
Liability component of preference shares		**(103)**	(100)
Retirement benefit liabilities	17	**(124)**	(231)
Deferred tax liabilities		**(70)**	(80)
Derivative financial instruments		**(30)**	(33)
		(1,244)	(1,447)
Total liabilities		**(3,811)**	(4,015)
Net assets		**1,066**	762
Equity			
Called-up share capital		**345**	345
Share premium account		**65**	65
Special reserve		**22**	22
Share of joint ventures' and associates' reserves		**113**	184
Other reserves		**175**	191
Retained profits/(losses)		**336**	(50)
Equity attributable to equity holders of the parent		**1,056**	757
Non-controlling interests		**10**	5
Total equity		**1,066**	762

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]	19.1	**62**	(132)
	– non-underlying	19.1	**(21)**	(15)
- discontinued operations		19.1	**–**	–
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		**16**	20
	- other		**53**	23
Interest received – infrastructure concessions			**9**	19
Interest received – other[#]			**12**	13
Acquisition of businesses, net of cash and cash equivalents acquired		20.1	**(3)**	(6)
Purchases of:	- intangible assets – infrastructure concessions		**(76)**	(6)
	- intangible assets – other		**(5)**	(5)
	- property, plant and equipment – infrastructure concessions		**–**	(14)
	- property, plant and equipment – other		**(20)**	(27)
	- investment properties		**(3)**	(32)
	- other investments		**(1)**	(1)
Investments in and long-term loans to joint ventures and associates			**(30)**	(37)
PPP financial assets cash expenditure			**(1)**	(31)
PPP financial assets cash receipts			**15**	39
Disposals of:	- investments in joint ventures – infrastructure concessions	20.2	**103**	155
	- investments in joint ventures – other		**3**	2
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions		**4**	17
	- subsidiaries net of cash disposed, separation and transaction costs – other		**36**	14
	- property, plant and equipment		**11**	9
	- other investments		**8**	5
Net cash from investing activities			**131**	157
Cash flows from financing activities				
Purchase of ordinary shares			**(2)**	(4)
Proceeds from:	- other new loans – infrastructure concessions	19.4	**212**	65
	- other new loans – other	19.4	**–**	52
Repayments of:	- loans – infrastructure concessions	19.4	**(4)**	(25)
	- loans – other	19.4	**(52)**	(1)
Repurchase of convertible bonds		19.4	**(21)**	–
Ordinary dividends paid		11	**(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		19.2	**968**	768

[1] Before non-underlying items (Note 8).
[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.

Notes to the financial statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2017. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 13 March 2018, does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2017 accounts; the report is unqualified, did not draw attention to any matters by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements for the Group that comply with IFRS in March 2018.

2 Going concern

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

3 Accounting policies

3.1 Adoption of new and revised standards

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

- 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.

3 Accounting policies continued

3.2 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 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 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 previously not recognised by the Group under the previous revenue standards. IFRS15 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.

3 Accounting policies continued

3.2 Accounting standards not yet adopted by the Group 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.

3.3 Judgements and key sources of estimation uncertainty

The Group's principal judgements and key sources of estimation uncertainty are set out in Note 2.27 of the Annual Report and Accounts 2017.

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.

4 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)%

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 8).

5 Segment analysis continued

5.1 Total Group continued

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 8).
[2] Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.

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

* Includes non-operating items and current working capital.

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

5 Segment analysis continued

5.1 Total Group

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.

	Construction Services 2016 £m	Support Services 2016 £m	Infrastructure Investments 2016 £m	Corporate activities 2016 £m	Total 2016 £m
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	**5**	**9**	**–**	**6**	**20**
Capital expenditure on investment properties	**–**	**–**	**3**	**–**	**3**
Capital expenditure on intangible assets	**–**	**–**	**82**	**5**	**87**
Depreciation	**13**	**8**	**3**	**5**	**29**
Gain on disposals of interests in investments (Note 20.2)	**–**	**–**	**86**	**–**	**86**

	2016 £m	2016 £m	2016 £m	2016 £m	2016 £m
Capital expenditure on property, plant and equipment	17	3	14	7	41
Capital expenditure on investment properties	–	–	32	–	32
Capital expenditure on intangible assets	–	5	6	–	11
Depreciation	14	11	2	3	30
Gain on disposals of interests in investments	–	–	65	–	65

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**

	2016 £m	2016 £m	2016[2] £m	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.

5 Segment analysis continued

5.2 Infrastructure Investments

Underlying profit from operations[1]	Group 2017 £m	Share of joint ventures and associates+ (Note 14) 2017 £m	Total 2017 £m	Group 2016 £m	Share of joint ventures and associates+ (Note 14) 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

+ 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 (Note 8).

6 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

7 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 17)		**6**	4
		73	82

8 Non-underlying items

	2017 £m	2016 £m
Items (charged against)/credited to profit		
8.1 Continuing operations		
8.1.1 Trading results of Rail Germany (including £2m (2016: £10m) of other net operating expenses)	**–**	1
8.1.2 Results of certain legacy ES contracts	**–**	(6)
8.1.3 Amortisation of acquired intangible assets	**(9)**	(9)
8.1.4 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 on 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)
8.1.5 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)
8.1.6 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)
8.2 Discontinued operations		
8.2.1 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)

Continuing operations

8.1.1 Rail Germany was reclassified from discontinued operations in 2014 and has continued to be presented as part of the Group's non-underlying items within continuing operations. In 2017, the remaining parts of Rail Germany generated a £nil profit or loss before tax (2016: £1m profit before tax).

8.1.2 The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts in non-underlying items. These contracts were classified as non-underlying items in 2014 as the performance of these contracts was linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work. Construction on these contracts has now completed. These contracts resulted in a £nil profit or loss to the Group in 2017 (2016: £6m loss).

8 Non-underlying items continued

Continuing operations

8.1.3 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).

8.1.4.1 The Group launched its Build to Last transformation programme in February 2015. The transformation programme is aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies. As a result of this programme, restructuring costs of £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.

8.1.4.2 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.

8.1.4.3 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 20.2.2. In 2016, an impairment of £3m was recognised on land held at Blackpool Airport. These losses have been included in the Infrastructure Investments segment.

8.1.4.4 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 20.2.3. This gain on disposal has been included in the Construction Services segment.

8.1.4.5 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.

8.1.4.6 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.

8 Non-underlying items continued

Continuing operations continued

8.1.4.7 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.

8.1.4.8 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.

8.1.4.9 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.

8.1.4.10 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.

8.1.4.11 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.

8.1.5 Refer to Note 8.1.4.7.

8.1.6.1 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.

8.1.6.2 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 17. 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.

8.1.6.3 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).

8 Non-underlying items continued

Discontinued operations

8.2.1.1 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 20.2.1.

8.2.1.2 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.

9 Income taxes

Continuing operations[x]	**Underlying Items**[1] **2017 £m**	**Non-underlying items (Note 8) 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 on profits for the year at 19.25% (2016: 20%)	**2**	**2**	**4**	(1)
– adjustments in respect of previous periods	**(1)**	**–**	**(1)**	(6)
	1	**2**	**3**	(7)
Non-UK current tax				
– current tax on profits for the year	**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 (Note 8).

The Group has recognised £68m of tax credits within non-underlying in the year. Refer to Notes 8.1.6.1 to 8.1.6.3.

9 Income taxes continued

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 14), 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).

10 Earnings per ordinary share

		2017		2016[2]
Earnings	**Basic £m**	**Diluted £m**	Basic £m	Diluted £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 m	**Diluted m**	Basic m	Diluted m
Weighted average number of ordinary shares	**680**	**688**	680	684

Earnings per share	**Basic pence**	**Diluted pence**	Basic pence	Diluted 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.

11 Dividends on ordinary shares

	2017		2016	
	Per share pence	**Amount £m**	Per share pence	Amount £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.

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2017	1,110	(173)	937
Currency translation differences	**(48)**	**2**	**(46)**
Disposal of Blackpool Airport	**(4)**	**4**	**–**
Disposal of Heery International Inc	**(21)**	**4**	**(17)**
At 31 December 2017	**1,037**	**(163)**	**874**

	2017		2016	
Carrying amounts of goodwill by cash-generating unit	**£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	

12 Intangible assets – goodwill continued

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

			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.

13 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2017	495	(270)	225
Currency translation differences	**(26)**	**17**	**(9)**
Additions	**87**	**–**	**87**
Removal of fully amortised intangible asset	**(1)**	**1**	**–**
Charge for the year	**–**	**(22)**	**(22)**
At 31 December 2017	**555**	**(274)**	**281**

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

14 Joint ventures and associates

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

^ Including Singapore.
[1] Before non-underlying items (Note 8).

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.

14 Joint ventures and associates continued

	2016					
			Infrastructure Investments			
	Construction Services[2,+] £m	Support Services £m	UK^ £m	North America £m	Total £m	Total[2] £m
Income statement – continuing operations[2]						
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 Dutco Balfour Beatty LLC and BK Gulf LLC as this is presented within provisions.

1 Before non-underlying items (Note 8).

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

15 Trade and other receivables

	2017 £m	2016 £m
Current		
Trade receivables	**536**	653
Less: provision for impairment of trade receivables	**(7)**	(7)
	529	646
Due from joint ventures and associates	**23**	58
Due from joint operation partners	**25**	7
Contract retentions receivable+	**185**	242
Accrued income	**18**	17
Prepayments	**35**	36
Due on disposals	**63**	–
Other receivables	**21**	60
	899	1,066
Non-current		
Due from joint ventures and associates	**38**	25
Contract retentions receivable+	**173**	151
Due on disposals	**4**	–
Other receivables	**1**	4
	216	180
Total trade and other receivables	**1,115**	1,246

+ Including £352m (2016: £390m) construction contract retentions receivable.

16 Trade and other payables

	2017 £m	2016 £m
Current		
Trade and other payables+	**833**	936
Accruals	**604**	701
Deferred income	**1**	15
VAT, payroll taxes and social security	**68**	73
Advance payments on contracts	**16**	4
Due to joint ventures and associates	**11**	11
Dividends on preference shares	**6**	6
Due on acquisitions	**3**	3
Due on disposals (Note 20.2.8)	**–**	3
	1,542	1,752
Non-current		
Trade and other payables	**120**	110
Accruals	**19**	20
Due to joint ventures and associates	**7**	7
Due on acquisitions	**11**	14
	157	151
Total trade and other payables	**1,699**	1,903

+ Included within the Group's trade and other payables balance is £0.2m (2016: £2.6m) relating to payments due to suppliers who are on supply chain finance arrangements. The Group settles these amounts in accordance with standard supplier payment terms, normally 30 days.

17 Retirement benefit liabilities

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

The investment strategy of the 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.

17 Retirement benefit liabilities continued

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

		2017		2016
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
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

	Number	**Number**	Number	Number
Total number of defined benefit members	**29,949**	**3,036**	31,032	3,077

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		2016
	Average life expectancy at 65 years of age		Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.9**	**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

17 Retirement benefit liabilities continued

Amounts recognised in the Balance Sheet

	2017				2016			
	Balfour Beatty Pension Fund £m	**Railways Pension Scheme £m**	**Other schemes^ £m**	**Total £m**	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Other schemes^ £m	Total £m
Present value of obligations	**(3,512)**	**(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
Assets/(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.

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.

Movements in the retirement benefit liabilities for the year		2017 £m
At 1 January 2017		(231)
Currency translation differences		**2**
Current service cost		**(6)**
Interest cost		**(102)**
Interest income		**96**
Actuarial movements	– on obligations from changes in discount rate methodology	**123**
	– on obligations from reassessing the difference between RPI and CPI	**(25)**
	– on obligations from changes to other financial assumptions	**(69)**
	– on obligations from changes in demographic assumptions	**44**
	– on obligations from experience gains	**21**
	– on assets	**148**
Contributions from employer	– regular funding	**2**
	– ongoing deficit funding	**25**
Benefits paid		**4**
At 31 December 2017		**32**

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 BBPF includes a defined contribution section with 13,534 members at 31 December 2017 (2016: 13,290 members) with £43m (2016: £44m) of contributions paid from continuing operations and charged in the income statement in respect of this section. The total net pension cost recognised in the income statement in respect of employee service for defined benefit and defined contribution schemes was £52m (2016: £48m).

18 Share capital

During the year ended 31 December 2017, 0.6m (2016: 1.6m) ordinary shares were purchased for £1.7m (2016: £3.9m) by the Group's employee discretionary trust to satisfy awards under the Company's equity-settled share-based payment arrangements.

19 Notes to the statement of cash flows

19.1 Cash generated from/(used in) operations	Continuing operations: Underlying items[1] 2017 £m	Continuing operations: Non-underlying items (Note 8) 2017 £m	Discontinued operations 2017 £m	Total 2017 £m	Total 2016 £m
Profit/(loss) from operations	**196**	**(48)**	**6**	**154**	39
Share of results of joint ventures and associates	**(59)**	**–**	**(1)**	**(60)**	(56)
Depreciation of property, plant and equipment	**28**	**–**	**–**	**28**	30
Depreciation of investment properties	**1**	**–**	**–**	**1**	–
Amortisation of other intangible assets	**13**	**9**	**–**	**22**	21
Impairment of IT intangible assets	**–**	**–**	**–**	**–**	1
Pension deficit payments	**(25)**	**–**	**–**	**(25)**	(41)
Pension fund settlement gain	**–**	**–**	**–**	**–**	(1)
Movements relating to share-based payments	**9**	**–**	**–**	**9**	7
Profit on disposal of investments in infrastructure concessions	**(86)**	**–**	**–**	**(86)**	(65)
Net gain on disposal of other businesses	**–**	**(17)**	**(5)**	**(22)**	(32)
Profit on disposal of property, plant and equipment	**(6)**	**–**	**–**	**(6)**	(5)
Impairment of land relating to Blackpool Airport	**–**	**–**	**–**	**–**	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 (Note 8).

19.2 Cash and cash equivalents	2017 £m	2016 £m
Cash and deposits	**717**	605
Term deposits	**116**	157
Cash balances within infrastructure concessions	**135**	7
Bank overdrafts	**–**	(1)
	968	768

19 Notes to the statement of cash flows continued

19.3 Analysis of net cash/(borrowings)

	2017 £m	2016 £m
Cash and cash equivalents, excluding overdrafts and cash balances within infrastructure concessions	**833**	762
Bank overdrafts	**–**	(1)
US private placement	**(259)**	(285)
Liability component of convertible bonds	**(226)**	(240)
Loans under committed facilities	**–**	(50)
Other loans	**(13)**	(12)
Finance leases	**–**	(1)
	335	173
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2062	**(440)**	(240)
Infrastructure concessions cash and cash equivalents	**135**	7
	(305)	(233)
Net cash/(borrowings)	**30**	(60)

19.4 Analysis of movement in borrowings

2017	Infrastructure concessions non-recourse project finance £m	US private placement £m	Convertible bonds £m	Loans under committed facilities £m	Other £m	Total £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)**

2016	Infrastructure concessions non-recourse project finance £m	US private placement £m	Convertible bonds £m	Loans under committed facilities £m	Other £m	Total £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	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. 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.

20 Acquisitions and disposals

20.1 Current and prior year acquisitions

There were no material acquisitions in 2017.

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.

20.2 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
20.2.1	1 March 2017	Dutco Balfour Beatty LLC & BK Gulf LLC^	49%	**11**[#]	**(6)**[+]	**–**	**–**	**–**	**5**
20.2.2	12 September 2017	Regional & City Airports (Blackpool) Holdings Ltd*	100%	**4**	**(5)**	**–**	**–**	**–**	**(1)**
20.2.3	27 October 2017	Heery International Inc*	100%	**43**	**(21)**	**6**	**(10)**	**–**	**18**
20.2.4	21 & 29 December 2017	Connect Plus (M25) Holdings Ltd^	20%	**165**[a]	**(164)**[&]	**85**	**–**	**86**	**–**
				223	**(196)**	**91**	**(10)**	**86**	**22**

* Subsidiary.
^ Joint venture.
[+] Net assets disposed include loan receivables due to Balfour Beatty plc 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 15.
[a] 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.

20.2.1 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.

20.2.2 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.

20.2.3 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.

20.2 Current year disposals continued

20.2.4 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 15. This consideration was subsequently received on 23 February 2018 following completion of the disposal to Equitix. Refer to Note 24.

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.

20.2.5 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.

21 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.

22 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 15 and 16 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.

22 Related party transactions continued

Transactions with non-Group members continued

	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.

23 Principal risks and uncertainties

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

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Annual Report and Accounts 2016.

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

Skills shortages within construction have been a challenge for several years. The UK's decision to leave the European Union with the potential for reduction in free movement of people is likely to exacerbate the situation at a time when demand for skilled workers will increase given the pipeline of projects due to start in the coming years.

24 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 8.

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 liability component of the bonds on maturity in December 2018 amounts to £213.7m.

24 Events after the reporting date continued

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 20.2.4. 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.