Build to Last

Annual Report and Accounts 2016

Balfour Beatty

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The transformation of Balfour Beatty is well underway

Group Chief Executive's review
p04

Performance review by segment

What we have been doing in 2016
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Acting responsibly to protect and enhance the physical and social environment

Building a sustainable business
p33

Front cover image: The Lighthouse

We transformed the historic Lighthouse building in London into a modern office space, preserving a range of important architectural features that included the original façade and the iconic lighthouse itself.

2016 progress

Build to Last

"The transformation of Balfour Beatty is well underway. We have returned the Group to profit and significantly exceeded our Build to Last Phase One targets. We have upgraded leadership, processes and controls while continuing to invest in the Group's unique strengths. As a result, we have improved not just the quality of our order book but our customer satisfaction scores."

Leo Quinn, Group Chief Executive

Lean

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

£173m

Net cash excluding non-recourse borrowings[2]

Expert

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

58%

Average employee satisfaction

Trusted

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

91%

Average customer satisfaction rating

Safe

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

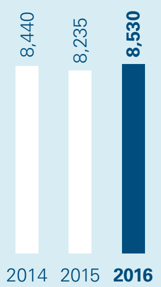
0.22

Lost Time Injury Rate, excluding international JVs

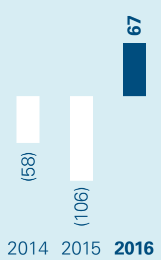
Highlights

The Group has presented financial performance measures which are considered most relevant to the Group and used to manage the Group's performance. An explanation of these measures and appropriate reconciliations to statutory measures are provided on pages 44 to 48.

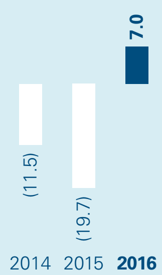
Continuing underlying revenue[1] £m



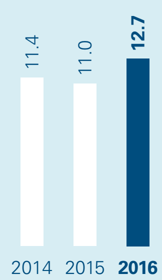
Continuing underlying (loss)/profit from operations (PFO) £m



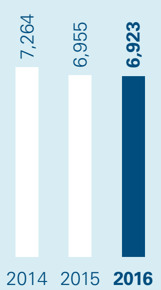
Continuing underlying (loss)/earnings per share (EPS) Pence



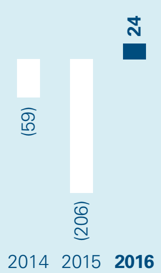
Order book[1] £bn



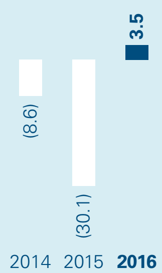
Statutory revenue £m



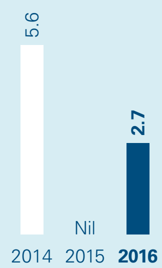
Statutory (loss)/profit for the year £m



Statutory EPS Pence



Dividends per share Pence



1 Including share of joint ventures and associates.
2 A reconciliation of the Group's net cash measure to the statutory measure is provided on page 47.

Chairman's introduction

Restoring Balfour Beatty to strength

Philip Aiken AM
Chairman

The 2016 results demonstrate that the Build to Last transformation programme is delivering positive change and we now have a solid foundation for future profitable growth.

By focusing on our selected markets, we have been winning new business on improved terms, the legacy issues which have held back the Group are being steadily worked through and we have maintained one of the strongest balance sheets in the sector. Importantly, for many shareholders, we reinstated payment of a dividend.

The UK and US Governments have both stated their commitment to significant additional improvements to core infrastructure; our clients are supportive of our transformation and we have a talented and dedicated workforce. We also have the confidence that our strengths are now underpinned by the improved governance and controls which have been put in place during the first phase of Build to Last.

Performance

Balfour Beatty has maintained its disciplined approach to bidding for, and winning, new business. This involves ensuring that work we take on is of the type we want to do, in the geographies that we have chosen to concentrate. In short, this is about bidding for long-term profitable work rather than chasing revenue growth.

As a result – underlying revenue for 2016 is up 4% in absolute terms, at constant exchange rates (CER) there is a 3% reduction. Nevertheless, the year-end order book stands at £12.7 billion – a rise of 15% (4% at CER) over the course of the year.

The year also saw the business return to profit after two years of heavy losses. Underlying profit from operations was £67 million (statutory profit from operations £15 million). Whilst the UK construction business made a loss for the full year, the division made a modest profit in the second half, demonstrating the positive trend required as we enter 2017.

Once again, our Investments portfolio continued to perform strongly, delivering both cash and profit to the Group, whilst maintaining the value of the asset portfolio.

The benefits of the Build to Last transformation programme are visible in the financial performance of the Group. As the benefits of the simplified structure, upgraded management and improved systems and controls continue to work through, I am confident that the performance of the Group will continue on this trajectory.

Markets

The strengthening of Balfour Beatty's operational processes coincides with the governments in our core markets, the UK and US, laying out plans for wide-scale investment in improved infrastructure.

The UK Government has reaffirmed its commitment to HS2 and new nuclear power stations in addition to a general increase in infrastructure spending announced in the Autumn Statement. The Group is working constructively with industry bodies and the UK Government to identify and manage any direct challenges caused by the UK's exit from the European Union. At this stage we have not seen an impact on the building market; however we remain vigilant to respond to any changes in market conditions.

In the US, the new administration has highlighted infrastructure repairs and improvements as one of its priorities, building on the US$305bn of spending authorised by the Fixing America's Surface Transportation (FAST) Act.

In both the UK and the US, we continue to see growing opportunities for our Investments business to finance and deliver projects both in the private and public sectors.

The Board

It is with great sadness that I report, Graham Roberts, who had served on the Board since 2009, passed away in July. Graham was a highly valued colleague and I would like to place on record my thanks to him and our condolences to his family.

Maureen Kempston Darkes will be retiring from the Board at the AGM. Maureen has served since July 2012 and chairs our Safety and Sustainability Committee and I thank her for her service.

We are in the middle of our Board renewal phase and are looking in the coming months to the appointment of up to three new non-executive Directors. I consider the balance of the disciplines and diversity on the Board to be most important and believe a well-structured Board is essential in setting the agenda for the Group's future.

Our people

As we have seen from the progress that has been made by Balfour Beatty during 2016, this is a period of immense change within the business. This can only be achieved due to the hard work and dedication of so many of our colleagues. As I visit sites in the UK and US, I am continually delighted to see the enthusiasm and dedication of our team as they strive to deliver amazing projects for our clients.

On behalf of the Board I would like to thank all of our employees for the commitment they have again shown this year.

Much of the work that Balfour Beatty undertakes is inherently dangerous. So it is crucial that at every level in our business we look to understand and mitigate the risks. Our objective is to reduce accidents to zero. Where incidents occur they are fully investigated and steps are taken to avoid repetition. We understand our safety responsibilities to everyone that Balfour Beatty comes into contact with – workers, subcontractors, suppliers, clients and members of the public. We do all we can to ensure that everyone is kept safe.

During the year, five people were killed whilst working on Balfour Beatty's projects: one in each of the UK and US and three in the Far East. I use this letter to formally send condolences to their families on behalf of the Board. However, I recognise that words are inadequate to express our regret that five families are living with the consequences of bereavements. Each of these deaths is a reminder as to why we must never cease to make our industry safer.

Dividend

This year has demonstrated continued progress in restoring Balfour Beatty to financial strength. The Build to Last Phase One targets of £200 million cash in and £100 million cost out have been comfortably exceeded. In addition we have a growing order book. As a result the Board were able to reinstate a dividend at the half year and commit to a progressive dividend policy. We have recommended a final dividend of 1.8p, bringing the total dividend for the year to 2.7p.

Conclusion

As you read this Annual Report, you will be able to see evidence of the positive change which is happening across the Group. Whilst there remains much to be done in order to get Balfour Beatty to its full potential and to finally put all the legacy challenges behind us, your company enters 2017 better positioned than has been the case for many years.

Philip Aiken AM
Chairman

> "By focusing on our selected markets, we have been winning new business on improved terms, the legacy issues which have held back the Group are being steadily worked through and we have maintained one of the strongest balance sheets in the sector.
>
> **Philip Aiken AM**
> Chairman

Group Chief Executive's review

Transforming the business

"
The Group's results for 2016 demonstrate that the fundamental changes made under Build to Last are driving positive and sustainable improvements.

Leo Quinn
Group Chief Executive

The Group's results for 2016 demonstrate that the fundamental changes made under Build to Last are driving positive and sustainable improvements. Balfour Beatty has returned to profit, while increasing both the value and the quality of its order book through disciplined bidding. The £200 million cash in and £100 million cost out targets have been delivered – enabling the Board to reinstate the dividend as promised – and were significantly exceeded by the end of Phase One.

The Build to Last transformation programme launched at the start of 2015 addresses Balfour Beatty's performance with all stakeholders – customers and suppliers, employees and subcontractors, investors and communities. Targets were set against four objectives: building a business which is Lean, Expert, Trusted and Safe. The first phase – a 24-month self-help plan – has just delivered its goals, tackling the root causes of previous poor performance in order to provide a strong platform for future profitable growth.

In UK construction, the Group met its year-end target, with 90% of the legacy projects having reached practical completion and over 70% having reached financial completion. Importantly, the UK construction business reported an underlying profit from operations in the second half of the year.

By 2014 Balfour Beatty had become overly complex following more than a decade of acquisition-led forced growth. There was an overall lack of leadership and strategic direction. Operationally, project bidding and delivery lacked standard processes and internal systems and controls were weak with little focus on cash management. A federated culture had resulted in layers of unnecessary cost and a tendency for elements of the business to compete with one another. Inevitably, performance had deteriorated not only financially but in terms of customer and employee satisfaction.

The decisions and actions taken under Build to Last were often, in themselves, simple and straightforward. However, taken early and in combination, they are now transforming Balfour Beatty. The introduction of new standardised disciplines has strengthened governance and transparency. The upgrade in leadership and the Group's simplified structure, with shared back office functions, have enabled the business units to focus on their core markets while benefiting from a more competitive cost base. Stronger finance and IT systems have helped drive leaner management of cash and spending, and better project visibility. Overall, the ability to forecast, manage and control performance has been greatly enhanced and customer satisfaction has risen significantly. A more unified culture is beginning to develop, with increased collaboration starting to leverage the Group's strengths.

Strategically, this provides the framework for the Group to enter its second two-year phase of Build to Last with confidence. In each business we will build carefully on the positive trajectory to date. The Group will apply appropriate criteria to invest in people and capabilities of our Construction Services and Support Services businesses to grow earnings, and in the assets of our Investments portfolio to grow overall returns. In this way the Group intends to drive value, achieving industry-standard margins by the end of 2018 and thereafter market-leading performance in its third phase of Build to Last.

Leo Quinn
Group Chief Executive

Group at a glance

Building the essentials of everyday life

Infrastructure is the backbone of the economy and society. Everyone relies on energy, water, communications, transport and buildings.

Balfour Beatty finances, develops, builds and maintains the infrastructure that underpins daily life, supports communities and enables economic growth.

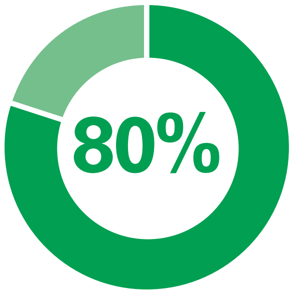
Together with our partners and supply chain of small and large firms, we know how to deliver innovative, efficient and highly complex infrastructure projects with the highest levels of quality, safety and technical expertise. We integrate with customers and local supply chains, and work with local communities.

Throughout this report, the Group has presented performance measures which are considered most relevant to the Group and are used to measure the Group's performance on a day-to-day basis. 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. These measures are also used internally to assess business performance in its budgeting process and when determining compensation. An explanation of the Group's performance measures and appropriate reconciliations to its statutory measures is provided on pages 44 to 48.

Readers of the Annual Report and Accounts are encouraged to review the Group's Financial Statements in their entirety.

Construction Services

The Construction businesses in the UK and the US, and joint ventures (JV) in the Middle East* and Far East, are top tier and all operate across the infrastructure and building sectors.



Total revenue^

£9.6bn
2015: £7.9bn
Order book^

£6,852m
2015: £6,388m
Underlying revenue^

£(23)m
2015: £(229)m
Underlying loss from operations^

£(57)m
2015: £(280)m
Statutory loss from operations

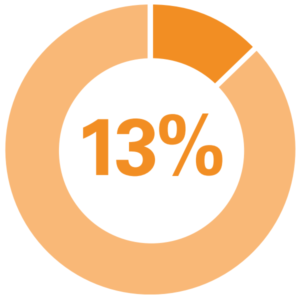
What we do

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

Construction Services p18

Support Services

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



Total revenue^

£3.1bn
2015: £3.1bn
Order book^

£1,103m
2015: £1,259m
Underlying revenue^

£34m
2015: £24m
Underlying profit from operations^

£22m
2015: £11m
Statutory profit from operations

What we do

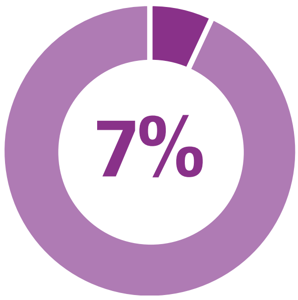
- Install, upgrade and maintain water, gas and electricity networks
- Highways network management, operation and maintenance
- Rail renewals

Support Services p24

^ From continuing operations including share of joint ventures and associates, before non-underlying items.
* Balfour Beatty sold its interests in Dutco Balfour Beatty and BK Gulf to its joint venture partner on 1 March 2017.

Infrastructure Investments

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



Total revenue^

£1.22bn
2015: £1.24bn
Directors' valuation

£575m
2015: £588m
Underlying revenue^

£115m
2015: £161m
Underlying profit before tax^

£109m
2015: £151m
Statutory profit before tax

What we do

- Develop and finance both public and private infrastructure projects around the world
- Operate a portfolio of long-term infrastructure projects

Infrastructure Investments p27

Portfolio valuation

The Group continued to make substantial investments into the portfolio, with £65 million of cash invested into projects in 2016.

Directors' valuation of the Investments portfolio p30

Portfolio valuation December 2016

Value by sector

Sector	2016 No. projects	(2015) No. projects	**2016 £m**	2015 £m
Roads	13	(13)	**366**	412
Healthcare	4	(4)	**140**	137
Schools	–	(7)	**–**	76
Student accommodation	4	(5)	**63**	69
OFTOs	3	(3)	**46**	40
Waste & biomass	4	(4)	**57**	40
Other	5	(4)	**35**	28
UK total	33	(40)	**707**	802
US military housing	21	(21)	**438**	355
Healthcare & other PPP	3	(2)	**9**	5
Student accommodation	6	(6)	**38**	26
Residential housing	6	(4)	**28**	18
North America total	36	(33)	**513**	404
BBIP fund			**–**	38
Total	69	(73)	**1,220**	1,244

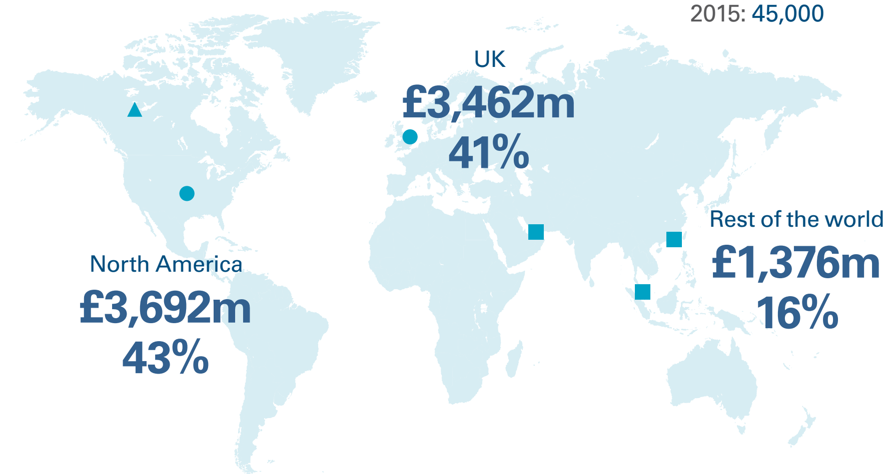
£8,530m
2015: £8,235m
Revenue including share of joint ventures and associates^

£6,923m
2015: £6,955m
Statutory revenue

Revenue by region including share of joint ventures and associates^

- ● Major operations
- ▲ Other significant operations
- ■ Joint ventures

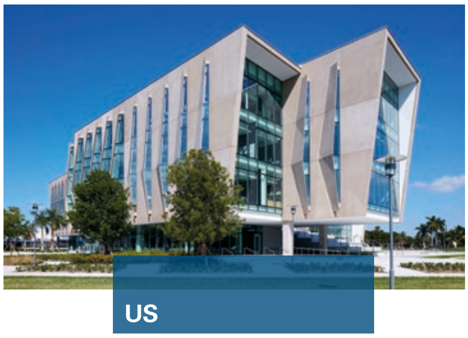
Employees worldwide (Group + 100% overseas JVs)
43,000
2015: 45,000



Market review

Positive infrastructure drivers across key markets

Medium-term outlook



	UK	US
2016 market growth	**Infrastructure** **Flat – some growth** Flatter market after strong growth in 2015. **Building** **Flat – some decline** Flat overall but uncertainty caused some sectors to slow.	**Infrastructure** **Flat – some growth** Gradual pick up of activity as funding environment seemed clearer. **Building** **Growth** Growth in several sectors, tempered by election uncertainty.
Medium-term market outlook	**Infrastructure** **Strong growth** Large pipeline of major infrastructure projects – timing of these is key. Infrastructure spend may be used as economic stimulus. **Building** **Flat** Building market will correlate with economic growth. Some risk from Brexit.	**Infrastructure** **Growth** Federal funding certainty, local bonds and new administration pledges point to increased activity. **Building** **Growth** Particular hotspots expected in commercial and office construction. Risk from global or US specific economic slowdown.
Balfour Beatty prospects	**Infrastructure** Balfour Beatty's construction, services and investments businesses are well positioned for major schemes, regulatory spending uplift and the potential revival in Private Finance Initiative (PFI) activity. **Building** Increased selectivity in regional business to drive higher quality project portfolio.	**Infrastructure** Leading position in rail transit and target states. Able to capitalise on trend to design/build and increasing use of public-private partnerships (PPP). **Building** Increased selectivity to drive higher quality project portfolio.

Far East

Building and infrastructure

Flat
Delays in infrastructure spending offset by building market in Hong Kong.

Building and infrastructure

Growth
Strong infrastructure pipeline and residential drivers in Hong Kong.

Risks of further delays to infrastructure projects and the effect of China slow down.

Building and infrastructure

Well positioned for next batch of major infrastructure projects in Hong Kong.

Highlights

Positive infrastructure drivers remain in all key markets:

- population growth (especially in areas such as US sunbelt)
- urbanisation
- ageing infrastructure
- historical underinvestment

Some risk to UK building market post EU referendum

See principal risk p60

Increased selectivity in growing markets will enable Balfour Beatty to drive performance improvement

How we create value

The environment we operate in

External market

- Infrastructure markets in the UK and US are buoyant with positive drivers

See Market review p08-09

Internal performance

- Operational recovery is well underway. Build to Last is gaining traction and has delivered Phase One targets

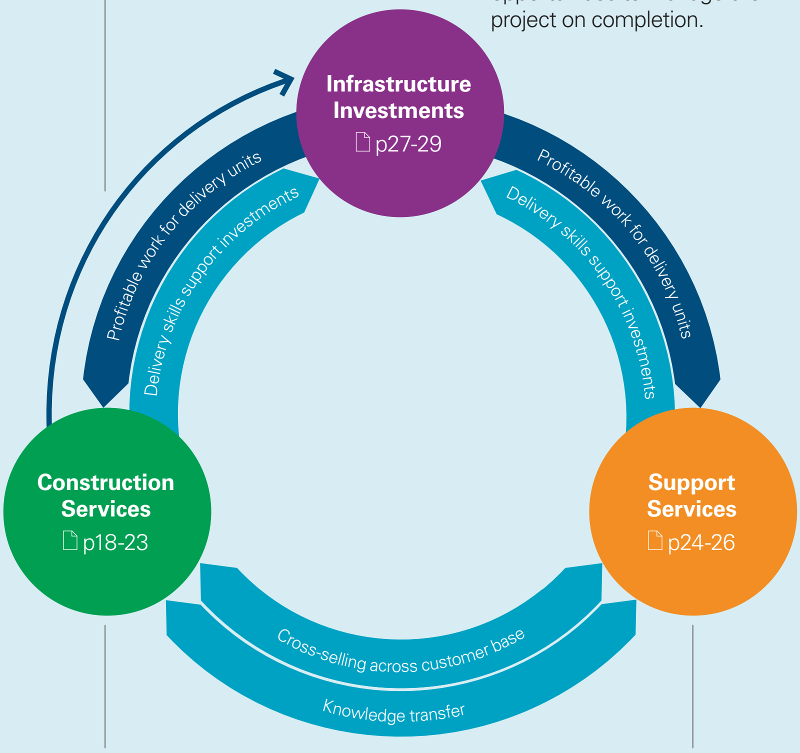
See Our priorities p12-17

- Our key value lever remains increasing margins to industry standard and then leveraging our scale to achieve market-leading margins
- The current portfolio is well positioned in the right markets and with real synergies between business units

How our Group works together

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

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



Represents 80% of our revenue, and is responsible for the design, engineering and construction across the most complex infrastructure and building projects.

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

Why our customers choose us

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

Read more on p36, p39-41

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

Read more on p37-38

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

Read more on p14

Innovation
Creative solutions on projects and services allows us to increase productivity, resulting in savings and benefits.

Read more on p33-35

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

Read more on p104-184

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

Major project capabilities
We have the necessary expertise and credentials in successfully delivering the largest projects in infrastructure and buildings.

Output for stakeholders

Investors
Return on investment through share price growth and dividends.

Customers
Value delivered to customers through disciplined contracting processes whilst leading in innovation and always operating safely.

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

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

Community
Productivity benefits from enhanced infrastructure; jobs and other societal benefits from projects being delivered.

Build to Last

A transformation programme returning Balfour Beatty to strength

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

Improved efficiency means smarter working, elimination of waste and creating a Lean supply chain to deliver better value for our customers. This allows us to invest in developing our expertise. Having the finest Experts allows us to extend what we are capable of building and drives improvements in everything we do; this means our customers can Trust us to deliver on all that we promise, including safety. Safety is never compromised. We Build to Last.

Lean

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

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

Read more on p14-15

Our KPIs

£173m
2015: £163m
Net cash excluding non-recourse borrowings

£67m
2015: £(106)m
Underlying profit/(loss) from operations

Expert

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

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

Read more on p15-16

Our KPI

58%
2015: 60%
Average employee satisfaction

Trusted

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

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

Read more on p16-17

Our KPI

91%
2015: 82%
Average customer satisfaction rating

Safe

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

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

Read more on p17

Our KPI

0.22
2015: 0.24
Lost Time Injury Rate, excluding international JVs

Our priorities

Build to Last continued

Balfour Beatty launched its Build to Last transformation programme in early 2015 as a framework to drive continuous improvement for all stakeholders against four goals – Lean, Expert, Trusted and Safe – as measured by cash flow and profits from operations, employee engagement, customer satisfaction and Zero Harm.

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

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

Lean

– Deliver value to customers by improving operational efficiency and eliminating waste right through the supply chain.
– The Group metric is cash flow and underlying profit from operations – in Phase One, delivering £200 million of cash in and £100 million of cost out in the first 24 months.

Group net cash at 31 December 2016 was £173 million, a £10 million improvement on 2015.

Overall in Phase One the Group exceeded the £200 million cash in target: cash flow in 2016 was £439 million better than in 2014, excluding the proceeds from the sale of Parsons Brinckerhoff. This is the result of the continuing focus on tight management of cash and working capital, improvements to financial systems and controls, employee training and aligning incentives to deliver better performance.

A new Group financial consolidation system has been introduced and the process to transfer data from the ERP system to the consolidation system has been automated, building on the progress made in 2015. Improved weekly cash flow performance reconciliations are leading to significant improvement in the business' ability to forecast cash flow, enabling more effective management of draw-down of the Company's debt facility.

Further progress was made on the £60 million of annualised cost savings achieved in 2015. By the end of 2016, £123 million of annualised savings (compared to 2014) had been achieved, exceeding the £100 million target. The business continues to exploit opportunities to make further savings through standardisation and leaning out processes.

Savings have been driven by simplifying the business, including creating unified back office operations, eliminating waste, standardising working practices and moving the culture of the organisation to encourage and reward efficient practices. During 2016:

– The US construction and infrastructure businesses have been brought together under a single leader with back office functions (IT, legal, finance etc.) unified to provide high-quality, efficient support (in a similar model to that deployed in the UK during 2015) and leadership across the business has been upgraded;
– The IT service which had previously been delivered through a sub-optimal outsourcing agreement was successfully brought back in-house. This continues to deliver a more responsive and efficient IT operation with annualised savings of approximately £5 million;
– The Site Mobilisation Hub was introduced for all UK contract start-ups in the summer. By centralising and standardising this process, resources can be efficiently redeployed from one job to the next. This reduces wastage, cost and delays caused by sites not being operationally ready. At the same time, project managers are freed up to focus on their project rather than site set-up. The Hub has engaged with 445 projects, of which 45 mobilisations have now been delivered, all on time and to budget or better, achieving significant savings;
– Framework agreements have been developed with a shortlist of preferred design consultants with the express aims of strengthening business relationships and providing greater consistency in the way that design services are provided, reducing cost and delivering greater value to customers;
– The US strategic procurement group established over 40 national agreements with suppliers selected on their ability to deliver superior products and services to all major US geographies, as well as offer highly competitive pricing; and
– Further progress has been made in rationalising the property portfolio, bringing business units together in shared offices, thus aiding collaboration, reducing floor space requirements by 35% and providing more productive working environments. Over the first two years of Build to Last, UK property costs have been cut by approximately 25%.

The Group has made considerable progress in simplifying its portfolio with the disposal of non-strategic businesses, in order to focus on its core markets:

- Balfour Beatty Infrastructure Partners, an independently managed infrastructure fund business focusing on secondary opportunities, was disposed of to Wafra Investment Advisory Group, Inc;
- Balfour Beatty Investments' sole project in Australia was sold and Balfour Beatty staff and pipeline transferred to Infrared;
- Balfour Resource Group, a healthcare facilities planning consultancy that became part of Balfour Beatty through the Centex acquisition, was sold to management;
- The sale of Balfour Beatty's share of its Indonesian joint venture, Balfour Beatty Sakti, to its joint venture partner;
- In early 2017, Balfour Beatty's entire share of its Middle Eastern joint ventures, Dutco Balfour Beatty and BK Gulf, were sold to its joint venture partner; and
- Following completion of the sole rail maintenance contract in Chile, the decision was taken to wind up that business.

Expert

- Ensure that Balfour Beatty is attracting, retaining and motivating employees to enable it to offer customers the best engineering, design, project management and delivery capabilities.
- The Group metric is average employee satisfaction.

Quality of leadership is the number one factor in driving a world-class organisation. During 2016, the Group built on its progress in 2015 by further upgrading the quality of senior management, particularly through promotion.

In addition to the unification of the US businesses described in the previous section: in the UK, Engineering Services and Engineering Construction were brought together under the banner of Balfour Beatty Kilpatrick and a unified leadership; and a new leadership team was put in place in the UK Power business.

The model of centralised support functions (HR, IT, finance etc) as first rolled out in the UK continues to provide higher service levels to the business compared to the previous devolved model, whilst continuing to outperform with respect to re-engineering process and reducing cost.

During the year, further work has been completed to build communities of practice for key skills across the business. These communities allow the sharing of best practice across the Group and provide opportunities for career development to the staff involved.

- A Group-level Project Management Academy has been developed, aligned to international standards through an accredited training programme, to provide a common approach to professional development and practice. This initiative provides clarity on the competence level required for each project manager (PM) role and provides an Assignment Database to match PM competence to contract risk and complexity, greatly enhancing the probability of a successful outcome for customers.
- Building on the success of the Project Management Competency Assessment carried out across all levels of Balfour Beatty's project management employees, work is underway to extend the assessment process into several key Alliances.
- A new strategic approach to bidding and winning key business has been introduced to co-ordinate major opportunities which straddle business units, in order to ensure that Balfour Beatty has a unified and compelling offer. Business Acquisition Method training has been rolled out to 200 employees across the UK and US businesses, introducing a common and systematic approach to winning business. The new training programme boosts estimating skills and improves the quality of proposals, reducing the risk of underbidding.
- A similar focus on the commercial expertise within the business has enabled better sharing of best practice and a forum for senior commercial professionals to identify training and development opportunities. As a result an extensive programme of training has commenced to give the Commercial team the skills to work more productively with customers on more collaborative forms of contract.

During 2016, Balfour Beatty made significant progress towards becoming a digitally empowered business. Development of staff capabilities such as the training of six new drone pilots, a digital surveying team with full laser scanning service, a high-end visualisation team and a significant increase in BIM support have all led to an increase in quality, a leaner approach and a safer working environment. As a result of Balfour Beatty's investment in BIM, in 2016 it became one of the first companies to receive the British Standards Institute's BIM Kitemark, an accolade only three other companies have achieved. The Group also achieved another first during the year by winning the V3 Digital Technology Leaders Award for best Public Sector Project in partnership with Southampton Council.

2016 also saw global collaboration in the fields of Virtual Reality and construction robotics, utilising skills from the UK, US and Hong Kong. Both technologies are vital to the future of Balfour Beatty as an industry leader.

Our priorities
Build to Last continued

Expert continued

Training and retaining staff remain critical to the long-term success of Balfour Beatty and is therefore a central tenet of Build to Last. A new redeployment tool was introduced during the year to identify appropriate opportunities for staff when their current project concludes, keeping skilled workers in the business and reducing redundancy and recruitment costs.

Two leadership development programmes have been launched, with 50 delegates in 2016. One works with the leadership teams to actively improve and measure the culture and climate they create in their business. The second identifies high-potential employees to join a 12-month programme to develop their management skills and capabilities and their transition to leadership roles.

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.

Balfour Beatty believes that employers are best placed to determine and train their required future capabilities and therefore must take the lead by making a long-term commitment to invest in the next generation workforce.

For this reason, Balfour Beatty belongs to and is sponsoring The 5% Club, an employer-led organisation whose members commit to striving to achieve 5% of their UK workforce in 'earn and learn' positions within five years of joining.

During 2016 Balfour Beatty recruited 114 apprentices and 110 graduate trainees. The percentage of the workforce in 'earn and learn' positions at year end stood at 4.3%, a slight reduction on the 2015 number as a result of an unusually high level of recruitment to these positions in the previous two years, where participants have now been appointed into mainstream roles. Balfour Beatty's aspiration remains to reach 5% or above.

My Contribution is the mechanism which directly engages all staff in Build to Last by enabling employees to suggest and drive changes in the business to help deliver on Build to Last's Lean, Expert, Trusted and Safe goals. In 2016, 3,114 ideas for business benefits were logged by Balfour Beatty employees, of which 417 were progressed as projects and delivered with financial savings of £19 million and over 230,000 hours of time savings.

For the second year a company-wide employee engagement survey was carried out. This is the first time that all the necessary questions have been asked which allows for Balfour Beatty's performance to be benchmarked against other businesses by Best Companies. Balfour Beatty's employee engagement score was 626.4, which is regarded by Best Companies as demonstrating good levels of employee engagement. Response rate for the survey at 67% was up on the 2015 survey (61%). The Group employee satisfaction score for 2016 was 58% (2015: 60%).

People

Balfour Beatty's strategic priority is to invest to attract, retain and develop the best employee and subcontractor talent.

Trusted

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

Customer satisfaction is achieved by doing what we say we will do. Balfour Beatty continued to win landmark contracts in all its selected markets with the order book up 15% (4% at CER) at £12.7 billion.

During 2015, the 8-Gated Lifecycle was introduced across Balfour Beatty. In 2016, the framework has been further refined with the addition of a 'make or buy' decision step to promote greater use of internal capabilities. Internal reviews of the bidding Gates (1-4) across all UK and US business units demonstrate compliance with all new processes. As a result of the early qualification Gates (1-2) there has been a sharp reduction in the value of work tendered and lost. The UK win rate for 2016 was almost double that of 2015.

To further enhance the control and rigour of the Gated Lifecycle, a secure web-based platform effectively digitises the governance and document control through all stages and gates of acquiring contracts and delivering projects. This Digital Briefcase was released at the end of 2016 and is now installed across UK business units with over 500 key users and approvers trained and utilising the functionality successfully.

Within the industry there continues to be a strong dependence on joint ventures to execute major projects. A key area of focus going forward will be to ensure the Group can exercise the same degree of governance and control in these instances as it is gaining through its Build to Last transformation on sole projects.

The rationalisation, upgrade and standardisation of the ERP systems continues. The use of data analytics and automated risk scoring is now fully embedded in both UK Regional Construction and Balfour Beatty Kilpatrick where the majority of legacy losses have previously been recorded. Following a successful pilot in 2016 this is now being rolled out across buildings and civils in the US in conjunction with a simplification of their associated legacy system architecture. This now provides management with consistent and timely information in regards to project performance (Project on a Page) based on an increasingly broadening balanced scorecard of metrics. Looking forwards, with further planned improvements and development, it is expected that integrating multiple key operational data sources in 2017 will maximise the ability to influence project performance at the earliest possible stage.

A major review of the Business Management System (BMS) was undertaken in 2016 to create a single refreshed and improved system across all UK businesses. The BMS provides guidance and rules about how Balfour Beatty delivers tasks. The new system includes offline access and simplified access to information. The BMS will continue to be improved throughout the year and will define how the Group manages and delivers activities.

During the year 2,107 customer satisfaction reviews were carried out, primarily in the UK. The Group customer satisfaction average was 91% (2015: 82%). Scores in the UK were generally significantly higher than those in the US.

Safe

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

Many of the activities carried out by Balfour Beatty can be, by their nature, potentially dangerous. It is therefore essential that the health, both physical and mental, and safety of employees, and those who come into contact with Balfour Beatty, including subcontractors and the general public, are always Balfour Beatty's first priority.

Health and Safety takes a risk-based approach to identify and prioritise action plans, focused on communicating the Zero Harm vision, leadership, learning and sharing, clear co-ordinated governance, supply chain engagement, health and safety by design (including offsite modular assembly), simplifying and improving management systems and processes, training and competence, behavioural safety, innovation, recognition and reward, clear performance indicators and locally sponsored initiatives. Group initiatives are proactive and evidence-based and include quarterly campaigns and Group-wide stand downs. In 2016 fatal risk groups were reviewed with leadership at managing director level and initiatives taken to increase skills and awareness, improve performance and promote employee and supply chain engagement.

Each week senior management report and consider any accident 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.

In May 2016, a Balfour Beatty company was sentenced in connection with its conviction and guilty plea to breaches of Section 3 of the Health & Safety at Work Act 1974 and related health and safety regulations. The HSE prosecution was in relation to a fatality on the Heysham Power Station project in Lancashire on 14 April 2010. Balfour Beatty received a fine of £2.6 million. The fine was judged on the basis of the new sentencing guidelines published by the Department of Justice and demonstrates the increasingly heavy financial consequences for failures to meet the necessary safety and environmental standards.

Safety is monitored through a combination of leading and lagging performance indicators. The Group Lost Time Incident Rate excluding international joint ventures fell to 0.22 (2015: 0.24), however, very regrettably there were a number of serious incidents which resulted in a total of five fatalities, one in each of the UK and US and three in the Far East.

Chamberlain Halls of Residence, Birmingham, UK

This £42 million contract for the University of Birmingham delivered the new 'Chamberlain Halls' halls of residence. Works involved the demolition of the Eden Tower and the construction of a new 20-storey tower, together with three linear 'finger' buildings situated along Church Road in Edgbaston. Modular systems, ground engineering and BIM modelling were all provided by in-house Balfour Beatty teams.

What we have been doing in 2016

Construction Services

Total revenue^

£9.6bn
2015: £7.9bn

Order book^

£6,852m
2015: £6,388m

Underlying revenue^

£5,612m
2015: £5,411m

Statutory revenue

£(23)m
2015: £(229)m

Underlying loss from operations^

£(57)m
2015: £(280)m

Statutory loss from operations

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

Eastwick and Sweetwater housing development, London, UK
The Eastwick and Sweetwater housing development will deliver 1,500 homes and supporting infrastructure.

Financial review

Construction Services made significant progress in 2016. The order book increased from £7.9 billion to £9.6 billion. Underlying revenue increased from £6.4 billion to £6.9 billion, and although the business still reported underlying losses from operations of £23 million the trajectory is positive.

Progress continued to be made on returning the business to profitability, with the second half seeing a £37 million underlying profit, after the loss of £60 million in the first half. Included within the £37 million profit in the second half, UK construction continued its recovery as it returned to a £2 million underlying profit from operations.

Despite the increase in order book, the construction business continued to be more selective in the work that it bid, through increased bid margin thresholds, improved risk frameworks and better contract governance. Following the introduction of the Gated Lifecycle there has been a much narrower range of outcomes as a direct result of the tighter, more effective control environment. In addition, there has also been a shift towards a lower risk contract portfolio. Approximately 45% of the value of new UK regional orders won in 2016 were two-stage tender projects. This represented a material increase on 2015 with two-stage tenders generally replacing standard project contracts.

Underlying revenue increased by 7% to £6,852 million (2015: £6,388 million), 1% decrease at CER. Underlying revenues in the UK fell by 6% as forecast, as improved bidding disciplines and selectivity adopted in 2015 resulted in lower levels of contracts in previous problem areas. This was more than offset by an underlying revenue increase of 11% in the US (2% decrease at CER) and a 21% increase in the Far East (8% increase at CER).

The underlying loss was £23 million (2015: £229 million) as underlying profits in the US (£33 million) were offset by losses in the UK (£64 million). The losses in the UK, caused by historical contracts which are still being traded through to completion, are substantially lower than the prior year, and in the second half of 2016, UK construction continued its positive trajectory as it delivered an underlying profit from operations of £2 million.

The order book increased by 22% (5% at CER) due to growth in both the UK and the US core markets. The UK order book increased by 11% to £2.1 billion, despite the more disciplined and selective approach to bidding. The US order book increased by 34% (10% at CER) due to strong levels of order intake, such as the Caltrain rail corridor electrification contract. The Far East order book increased by 25% (14% at CER) with a number of notable awards during the year including the redevelopment of Somerset House, Hong Kong.

Across the construction portfolio there remain a small number of long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes could result in a materially positive or negative swing to profitability and cash flow. In the UK, the majority of these contracts are within the Major Projects business unit. Outside the UK, the Group still has a number of significant contracts in Hong Kong where the range of potential outcomes could result in a materially positive or negative swing to profitability.

Construction Services	2016 Rev[1,2] £m	2016 PFO[2] £m	2016 Order book[1,2] £bn	2015 Rev[1,2] £m	2015 PFO[2] £m	2015 Order book[1,2] £bn
US	**3,427**	**33**	**5.5**	3,097	(22)	4.1
UK	**1,894**	**(64)**	**2.1**	2,024	(187)	1.9
Rail	**249**	**(1)**	**0.2**	274	(5)	0.2
Overseas JVs						
– Far East	**967**	**11**	**1.5**	796	19	1.2
– Middle East	**315**	**(2)**	**0.3**	197	(34)	0.5
Underlying	**6,852**	**(23)**	**9.6**	6,388	(229)	7.9
Non-underlying[3]	**153**	**(34)**	**0.0**	209	(51)	0.2
Total	**7,005**	**(57)**	**9.6**	6,597	(280)	8.1

1 Including share of joint ventures and associates.
2 From continuing operations.
3 Non-underlying items (Note 10).
A reconciliation of the Group's performance measures to its statutory results is provided in the Measuring Our Performance section.

Operational review

UK

£1,894m underlying revenue^
£2.1bn order book^

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

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

During the year, the business continued to simplify. Engineering Construction and Engineering Services (mechanical and electrical engineering) merged in August 2016, with the new business rebranded as Balfour Beatty Kilpatrick, led by a new managing director and standardised on a single ERP system. Within Regional, the number of live projects continued to fall from around 400 at December 2015 to around 250 by December 2016. Over 150 of the current live projects have been through the Gated Lifecycle process.

Underlying revenue in the UK fell by 6% to £1,894 million (2015: £2,024 million), predominantly due to a decline in the Regional construction business. The UK business continued to be more selective in the work that it bid, through increased bid margin thresholds, improved risk frameworks and better contract governance. The Group qualified out nearly £7 billion worth of projects in 2016, whilst at the same time almost doubling the win rate.

What we have been doing in 2016

Construction Services continued

Thames Tideway, London, UK

Balfour Beatty is working in a three-way joint venture on the £416 million West section of the Thames Tideway Tunnel project. Two new tug boats are being used to haul barges up and down the Thames carrying materials to the work sites and will assist with the removal of spoil from the tunnel excavation.

Despite the focus on improving the quality of new orders, the UK order book increased by 11% to £2.1 billion (2015: £1.9 billion) following a number of notable awards including: a contract to widen a 10-mile stretch of the existing A14; a contract to upgrade baggage screening and handling systems for Heathrow airport; the main construction works for The Madison Tower, a 53-storey residential building in Canary Wharf; and construction of engineering and training facilities at RAF Marham in Norfolk.

The underlying loss from the UK construction business was £64 million (2015: £187 million), representing an improvement from the prior year. The loss in the period was caused by three main factors: additional losses incurred on historical contracts; lower overhead absorption due to the lower revenue base; and newer projects not being progressed to a stage where it is appropriate to begin to recognise gross margin.

There is a positive trajectory, with the £64 million underlying loss from operations in 2016 split between a £66 million loss in the first half and a £2 million profit in the second half of the year.

The business is continuing to manage historical problem contracts through to completion. At the 2015 half year 89 historical contracts were identified that had a material negative impact on profitability and cash. As at the end of December 2016, and in line with previous guidance given, 90% of these projects were at practical completion (60% at end December 2015) with over 70% at financial completion. Four of the remaining nine contracts are expected to reach practical completion in 2017, with the remainder in 2018.

The Group is working constructively with industry bodies and the UK Government to identify and manage any direct 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.

In 2016, the Major Projects business successfully completed the complex engineering transformation of the former London Olympic stadium, to allow West Ham United FC to start using the multi-purpose venue in time for the new football season. Work was also completed on the upgrade to Junction 30 of the M25 in Essex.

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. At the Thames Tideway Tunnel work has commenced on the 6-kilometre 'West' section which runs from Acton to Wandsworth. In Highways, material ongoing work includes the conversion of the M3 Motorway (J2–J4) into a Smart Motorway and the construction of dual carriageways for the A21 between Tonbridge and Pembury, the Aberdeen Western Peripheral Route and the Norwich Northern Distributor Road.

Notable new contract awards in the period include a £146 million construction package to widen a critical and complex 10-mile stretch of the existing A14 and a contract to build an energy from waste facility for Gloucestershire County Council. Included within awarded but not contracted (ABNC), the Highways business has been selected to deliver a Smart Motorway package to upgrade sections of the M6 and M4 (J3–J12). Additionally, a contract from Highways England for the construction of a proposed lorry area near the M20, worth up to £130 million, has been awarded but is currently under consultation.

The Major Projects business continues to pursue a number of major infrastructure opportunities across core transportation and energy markets. Over the next few years High Speed 2 (HS2) rail, new nuclear power stations at Hinkley Point C and Wylfa and the third runway at Heathrow airport will all contribute to the Government's investment in infrastructure target, which is forecast to rise to over 1% of GDP by 2020-21.

The proposed HS2 rail route will connect London, Birmingham, Leeds and Manchester with total estimated costs of over £50 billion. Balfour Beatty and VINCI are in a joint venture pursuing work on HS2, utilising the expertise acquired by both companies on High Speed 1, VINCI's involvement on the €8 billion Tours-Bordeaux high-speed rail project in France, and Balfour Beatty's extensive work on transport networks across the UK and overseas. Balfour Beatty VINCI were unsuccessful in tendering for the enabling works packages during the year, but the joint venture has recently tendered for four major civil engineering works packages (two in the Central section, two in the North section), with contract awards expected in 2017. In addition, the highways market continues to provide good growth opportunities following the Government's commitment of £15 billion to Highways England in order to deliver the first Roads Investment Strategy.

The Regional business is organised into four regions and Balfour Beatty Kilpatrick, following the merger of Engineering Construction and Engineering Services in August 2016.

- Regional Construction: four regions (Scotland, North & Midlands, South and London) providing public and private customers with locally delivered, flexible and fully integrated civil and building services.
- Balfour Beatty Kilpatrick: heavy mechanical and electrical (M&E) installations and building services.

As a result of the focus on bidding for contracts with increased margins and more favourable contract terms, the Regional 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. As a result, the total number of live jobs in the Regional business has reduced from over 400 at December 2015 to approximately 250 at December 2016. Over 150 of the current live projects have been through the Gated Lifecycle process.

In 2016, the Regional business successfully completed the A1 improvement scheme where lane capacity was increased from two lanes to three lanes in each direction from the Metro Centre to Coal House junction. Other key milestones included the completion of the Kent bound platform at the new Abbey Wood Crossrail station and the North Ayrshire community hospital. Material ongoing projects include the Kennedy Street student accommodation project in Glasgow, Clyde and Pen y Cymoedd windfarms, Redwood luxury retirement village for Audley and the renovation and new build scheme at No. 1 Palace Street in St James', London.

The Regional business had a number of landmark successes in 2016. Notable new contract awards in the period included:

- £170 million contract to upgrade baggage screening and handling systems for Heathrow airport;
- £150 million contract to deliver the main construction works of The Madison Tower, a 53-storey residential building in Canary Wharf, London;

Madison Tower, London, UK

Balfour Beatty has been awarded a £150 million contract by LBS Properties to deliver the main construction works of The Madison Tower in Canary Wharf, London. Following its initial £1 million pre-construction services agreement in 2016, the main construction contract will see Balfour Beatty deliver this 53-storey landmark tower to include 423 residential apartments, residents' lounge and business facilities.

What we have been doing in 2016
Construction Services continued

- £82 million contract to build engineering and training facilities at RAF Marham in Norfolk, in readiness for the arrival of the UK's first F-35 Lightning aircraft in 2018;
- £47 million contract to deliver a 1,350 pupil academy on behalf of Hub North Scotland and Aberdeen City Council; and
- Having previously delivered 2,520 units across five Central London student accommodation schemes, the latest contract with Urbanest is a £42 million development in Vauxhall, London.

Following its reorganisation, Balfour Beatty Kilpatrick has been awarded a contract in excess of £20 million for the mechanical and electrical services for a pharmaceutical research and innovation facility being built in Hull. The Government's approval for Hinkley Point C formalised the selection of a 50:50 joint venture between Balfour Beatty and NG Bailey for the £460 million power station electrical package. The work will deliver the critical infrastructure to power the station, including cabling totalling over 3,000 kilometres in length, fire and environmental sealing and specialist packages associated with data acquisition and plant control.

The Regional business also continues to secure a number of significant 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 2016, the Group was awarded a £35 million contract to deliver the first phase of the Perth Transport futures project and a £14 million contract to deliver the second phase of the Almond Bank flood defence scheme.

Included within 'awarded but not contracted', Balfour Beatty has been selected as construction partner on Manchester University's flagship project, the £350 million Engineering Campus development and has also been awarded the Eastwick and Sweetwater residential development project.

The Regional business continues to pursue a number of opportunities across its core defence, education, health, residential-led neighbourhoods, student accommodation and transportation markets.

US

£3,427m underlying revenue^
£5.5bn order book^

Underlying revenues in the US grew by 11% in the period (2% decline at CER) and the order book increased by 34% (10% increase at CER). The business reported an underlying profit from operations for the year of £33 million (2015: £22 million loss), as the US returned to profitability following a number of write-downs in the prior year.

The underlying operating profit margin at 1.0% is at the low end of the Group's Build to Last Phase Two target of 1%-2% for US construction, as the effects of legacy contracts trade out, but the trajectory is positive and market conditions are considered favourable.

The US business continued to drive operational focus and business simplification. The general building business and the infrastructure business have now been united under a single leader, which further develops and complements the move to a leaner organisational structure. The business has been refocused on certain 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. In the US approximately 85% of revenues are generated from the general building market, with the infrastructure market (rail, road and water) accounting for the remaining 15%.

In the building business, underlying revenues were up 12% (stable at CER). The order book increased by 30% (5% at CER), as the business continued to see strong order intake, notwithstanding the improved bidding disciplines. The business remains focused on working with repeat customers, in known geographies where it can deliver value. It has therefore intentionally withdrawn from bidding on

Caltrain, US
Balfour Beatty was awarded a $697 million contract to undertake electrification of the 52-mile Caltrain rail corridor between San Francisco and San Jose, laying the foundations for the future operation of high speed trains. This is the largest contract secured by Balfour Beatty in the US.

most stick frame multi-family housing, in order to switch to better quality revenues in core markets such as office, education, hospitality, residential and healthcare.

Notable awards in the period included a US$276 million contract for a 42-storey mixed-use residential project in downtown San Francisco; a US$199 million contract for a mixed-used development in Dallas, comprising a 20-storey office tower and a second 34-storey tower with 253 residential units; a US$196 million contract in Washington for the construction of two 12-storey office towers to be built on top of an existing platform; a US$126 million contract for Ohlone College, in California, for the development of three new multi-storey academic core buildings that will house classrooms, laboratories, offices, conference rooms and a library; a US$110 million contract to construct four new elementary schools and renovate a fifth school for the Highland Park Independent School District in Texas; a US$99 million contract for the BPM Real Estate Group in downtown Portland to construct a 19-storey office and hotel development; and a US$84 million contract to build a luxury mixed-use residential tower in midtown Atlanta.

In the infrastructure business, underlying revenues were up 4% (8% down at CER). The order book increased 38% (12% up at CER) following the notable award of a US$697 million contract for the electrification of the 52-mile Caltrain rail corridor between San Francisco and San Jose, laying the foundations for the operation of high-speed trains from 2020. This award leverages expertise demonstrated in constructing the extension of Regional Transport District's light-rail line across Denver's south-east suburbs, which was successfully opened in April 2016.

The infrastructure business continues to pursue design-build and alternative delivery projects in its key rail, highway and water markets to reflect ongoing changes in procurement trends in the marketplace.

Even before the election of the new President, 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 guaranteed 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 public 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$30 billion of education bonds in California, US$190 billion multi-state transportation bonds), and potentially an increase in US private public partnership schemes.

Rail

£249m underlying revenue^

£0.2bn order book^

Underlying revenue in the rail business fell by £25 million to £249 million (2015: £274 million). Underlying losses in the year were £1 million (2015: £5 million) as the business continued to be impacted by poor contract performance on a small number of historical rail projects. The order book was stable at £0.2 billion. Given the materiality of the segment, future reports will include Rail within UK construction.

International

£1,282m underlying revenue^

£1.8bn order book^

Underlying revenue in the Group's Hong Kong and Singapore joint venture, Gammon Construction, increased by 21% (8% at CER), due to growth in major building projects including the construction of seven towers at the TW5 Cityside residential property development, 33 Tong Yin Street (residential towers and retail areas) and the conversion of the ex-government Murray building into a hotel.

Underlying profit from operations in the region reduced to £11 million (2015: £19 million) as new contracts are yet to meet the required revenue recognition milestones. In Hong Kong there are a number of significant contracts where the range of potential outcomes could result in a materially positive or negative swing to profitability.

The order book grew by 25% (14% at CER), following the award of a number of notable major building projects: a HK$4 billion contract for the redevelopment of Somerset House into a 48-storey office building; a HK$2.6 billion contract for a residential development project for 12 residential towers and five four-storey houses, which together will provide 857 new homes; and a HK$1.6 billion contract for the construction of the Lee Garden Three Project, which will include 20 floors of office space atop a five-level retail podium.

In the Middle East, underlying revenue increased to £315 million (2015: £197 million). However, the business continued to make underlying losses, £2 million in the year (2015: £34 million), reflecting the challenging nature of the region. In early 2017, Balfour Beatty sold the Group's entire share in Dutco Balfour Beatty and BK Gulf, for a total cash consideration of £11 million, to its joint venture partner. As part of the transaction, the local partner assumed responsibility for Balfour Beatty's guarantees of bonding obligations in the joint ventures.

Since the start of 2015, Balfour Beatty has exited the Middle East, Indonesia and Australia in order to focus on its chosen markets, in the UK, US and Far East.

What we have been doing in 2016

Support Services

Total revenue^

£3.1bn
2015: £3.1bn

Order book^

£1,103m
2015: £1,259m

Underlying revenue^

£1,076m
2015: £1,234m

Statutory revenue

£34m
2015: £24m

Underlying profit from operations^

£22m
2015: £11m

Statutory profit from operations

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

Windfarm, Scotland, UK
Balfour Beatty has more than a century's worth of experience in delivering challenging infrastructure projects in Scotland, such as the Whitelee windfarm.

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 division reduced by 12% to £1,103 million (2015: £1,259 million), due to the phasing of contract and regulatory cycles. However, underlying profit from operations increased to £34 million (2015: £24 million), as the 3.1% (2015: 1.9%) underlying profit from operations margin in 2016 returned Support Services to the bottom end of the Build to Last Phase Two industry-standard margin target of 3%-5%.

The order book was stable at £3.1 billion (2015: £3.1 billion) as growth in transportation was largely offset by a decline in utilities.

Operational review

Underlying utilities revenue reduced by 6% to £590 million, with power transmission and distribution down 10% and gas and water down 3%. The utilities order book reduced by 10%, with power transmission and distribution down 13% and gas and water down 9%.

Volumes in power transmission and distribution saw a decline in cabling and distribution network operator works, with 2015 also having significant one-off repair works in offshore transmission.

Support Services	**2016**	2015
Order book[1] (£bn)	**3.1**	3.1
Revenue[1] (£m)	**1,103**	1,259
Profit from operations[2] (£m)	**34**	24
Non-underlying items (£m)	**(12)**	(13)
Statutory profit from operations (£m)	**22**	11
Margin[1,2] (%)	**3.1%**	1.9%

1 Including share of joint ventures and associates.
2 Before non-underlying items (Note 10).
A reconciliation of the Group's performance measures to its statutory results is provided in the Measuring Our Performance section.

The power business has undertaken a significant restructure and cost removal during 2016, including the internal appointment of a new managing director, along with several other senior changes. The business has also focused on qualifying out 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.

In March 2016, power transmission and distribution was awarded contracts worth £35 million by Scottish Hydro Electric for the design and construction of the Bhlaraidh and Beinnuen wind farms connections project near Fort Augustus, in Scotland. Most of the project was successfully delivered during 2016.

In November 2016, the power business was awarded a £120 million contract by ElecLink Ltd to install two 50-kilometre electricity cables between France and Great Britain through the Channel Tunnel. This will be the first ever installation of a High Voltage Direct Current (HVDC) interconnector in a live rail tunnel environment.

Track partnership

The Rail business was awarded a £170 million two-year extension to its Track Partnership contract with London Underground, to deliver essential track renewal work across the London Underground network.

What we have been doing in 2016

Support Services continued

The slight reduction in gas and water underlying revenue was caused by the dip in the UK water regulatory cycle between the completion of Asset Management Period 2010-2015 (AMP5) and new contracts continuing to mature under AMP6 (2015-2020). The reduction in the order book was as expected, given the progress of the AMP6 delivery cycle. Many water contracts are extended over multiple AMP periods and the Group has already started to engage on the AMP7 planning cycle.

In 2016, gas and water secured an extension, through to 2020, to the gas transmission and distribution contract worth £130 million for Bord Gais, in Ireland, and also won a £38 million water treatment scheme for South West Water. The delivery of key and complex schemes remains on track. Gas and water expect a peak volume year in 2017, as it represents the middle of the current AMP6 cycle.

Underlying transportation revenues reduced by 18% to £513 million, due to expected volume declines from rail and highways. Underlying rail revenues were lower following the completion of a rail grinding contract in the prior year. Underlying highways revenues declined due to lower capital spend on a number of contracts for Highways England and completion of the contract for Area 4 during the period.

The transportation order book grew by 14%, due to strong order intake in rail and from local authorities. The rail business was awarded a £170 million two-year extension to its Track Partnership contract with London Underground, to deliver essential track renewal work across the network. In local authorities Balfour Beatty was awarded a £245 million seven-year highways maintenance contract for Coventry City Council, Solihull Metropolitan Borough Council and Warwickshire County Council. This unique collaborative arrangement will deliver better value for money, improved service resilience and flexibility in services. Additionally the Group was awarded a £55 million two-year extension by West Sussex County Council to continue its highways maintenance and improvement scheme works and Connect Roads signed a £36 million, 10-year extension to its Balfour Beatty Major Projects Highway Services contract to deliver the essential maintenance works on the A50. The contract covers a 56-kilometre section of the A50 between Stoke and Derby which acts as a strategic east to west link between the M1 and M6.

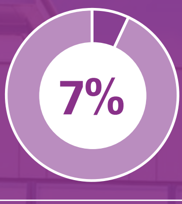
In September, the Group acquired Omnicom Engineering Ltd. Omnicom complements Balfour Beatty's existing rail technology business by bringing remote surveying hardware and software to enhance the Group's Digital Rail strategy.

West Sussex County Council

Balfour Beatty was awarded a £55 million two-year extension by West Sussex County Council to continue its highways maintenance and improvement scheme works.

What we have been doing in 2016

Infrastructure Investments



Total revenue^

£1.22bn
2015: £1.24bn

Directors' valuation

£575m
2015: £588m

Underlying revenue^

£235m
2015: £310m

Statutory revenue

£115m
2015: £161m

Underlying profit before tax^

£109m
2015: £151m

Statutory profit before tax

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

Holyrood Student Accommodation, Edinburgh, Scotland, UK
Balfour Beatty delivered the £110 million Holyrood Student Accommodation block for the University of Edinburgh. The works comprised of eight individually designed buildings, eight accommodation types at 10 price-points. The accommodation types include: cluster flats, residence halls, twin rooms, studios, en-suite/non en-suite rooms, garden rooms and large rooms.

What we have been doing in 2016

Infrastructure Investments continued

Financial review

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

During the year Investments made significant progress in simplifying its operations by exiting Balfour Beatty Infrastructure Partners (BBIP), an infrastructure fund run at arm's length and focused on secondary opportunities, and exiting from the Australian market. In total 16 assets were either sold or part sold in the period, with all transactions either at, or above, the Directors' valuation.

Underlying profit from operations at £89 million (2015: £132 million) was lower than the prior year, predominantly due to a reduction in profit on disposals as a different mix of assets was sold. Despite an increase in proceeds to £189 million (2015: £145 million) the reduction in profit on disposals reflected the accounting profile of the assets sold in 2016. Pre-disposals underlying operating profit decreased to £24 million (2015: £37 million) due to lost income from previous disposals. Net interest income remained broadly consistent year on year at £26 million (2015: £29 million). The lower underlying profit from operations resulted in a lower profit before tax at £115 million (2015: £161 million).

Infrastructure Investments	**2016 £m**	2015 £m
Pre-disposals operating profit[1]	**24**	37
Profit on disposals[1]	**65**	95
Profit from operations[1]	**89**	132
Net interest income from PPP concessions[2]	**26**	29
Profit before tax[1]	**115**	161
Non-underlying items	**(6)**	(10)
Statutory profit before tax	**109**	151

1 Before non-underlying items (Note 10).
2 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.

North Ayrshire Hospital, Irvine, Scotland, UK
Balfour Beatty recently completed a new £46 million hospital for NHS Ayrshire & Arran in Irvine, Scotland. The local community now benefits from a 206-bed patient-centred and flexible healthcare facility.

Operational review

The Investments business continued to grow with four wins on new projects where equity will be invested, comprising: three private rental housing projects and one data centre project. In addition, the Investments business was appointed as third-party manager on two fee-based projects located in Pennsylvania and Florida. In these fee-based projects no equity will be invested.

In the private rented and regeneration sector, the North American business continues to expand and successfully acquired a stake in two private rental housing projects in Mobile, Alabama and Atlanta, Georgia. The Mobile portfolio consists of three properties totalling 320 units and the Atlanta property consists of 437 units. Balfour Beatty Communities will perform property management services for the properties, leveraging its existing capabilities. In the UK the business acquired its first private development site at Manchester New Cross. This project will provide a number of units to the private rented housing sector and construction is expected to begin following financial close in 2017. The Investments business also won a data centre project in Ontario, Canada. The project is located on the Canadian Forces Base in Borden, Ontario and covers the design and construction, financing and maintenance for a new 10,000m^2 data centre.

Financial close was reached on seven projects: a primary care centres project in Ireland; a student accommodation project in Glasgow; an offshore transmission project in the North Sea; an energy from waste facility in Gloucestershire; the two US private rental housing projects; and the data centre in Canada. Five projects have not yet reached financial close.

The Investments business continued to make substantial equity investments in the portfolio, with £65 million invested in the period (2015: £102 million), of which £8 million was invested in the BBIP infrastructure fund before its sale.

Interests in 16 assets were sold in the period, seven of which were partial sales, generating total book gains on disposal of £65 million (2015: £95 million from four assets).

The Investments business continues to see significant opportunities for future investment in its core geographic markets in the UK and North America, across its existing market sectors and as it continues to grow into new adjacent sectors. The business continues to monitor both the US and UK PPP markets for opportunities, especially following the recent announcements regarding PF2 in the UK and by the new administration in the US.

Private rental housing community in Mobile, Alabama, US

Balfour Beatty Communities performs property management services for its private rental housing portfolio consisting of over 5,500 units throughout the US by leveraging its existing capabilities. Windscape Apartments is one of three properties managed by Balfour Beatty Communities in the Mobile, Alabama market.

Directors' valuation of the Investments portfolio

We continued to make substantial investment into the portfolio

Overview

The Directors' valuation was broadly maintained at £1,220 million (2015: £1,244 million) despite material disposals in the period, as the number of projects in the portfolio decreased from 73 to 69. Two of these projects, Houston Baptist University in Texas and West Florida University, were won in previous years and have now been included in the project count at December 2015.

The Group continued to make substantial investments, with £65 million invested in new and existing projects. This reflected continued success in targeted sectors with four new projects included in the Directors' valuation for the first time.

The business continued its strategy of realising value through recycling equity from mature, operationally proven assets, whilst preserving interests in strategic projects that offer opportunities to the wider Group. 16 investments were sold or part sold during the year, including the Group's interest in the fund managed by Balfour Beatty Infrastructure Partners (BBIP). In total these sales generated £189 million in proceeds. All sales were transacted either at, or above, the Directors' valuation. Cash yield from distributions amounted to £64 million (2015: £82 million). The portfolio again generated cash flow to the Group net of investment.

The methodology used for the Directors' valuation is unchanged, producing a valuation that more closely 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.

1 Two of these projects were won in previous years and have now been included in the project count at December 2015.

Portfolio valuation December 2016

Value by sector

Sector	2016 No. projects	(2015) No. projects	**2016 £m**	2015 £m
Roads	13	(13)	**366**	412
Healthcare	4	(4)	**140**	137
Schools	–	(7)	**–**	76
Student accommodation	4	(5)	**63**	69
OFTOs	3	(3)	**46**	40
Waste & biomass	4	(4)	**57**	40
Other	5	(4)	**35**	28
UK total	33	(40)	**707**	802
US military housing	21	(21)	**438**	355
Healthcare & other PPP	3	(2)	**9**	5
Student accommodation	6	(6)	**38**	26
Residential housing	6	(4)	**28**	18
North America total	36	(33)	**513**	404
BBIP fund			**–**	38
Total	69	(73)[1]	**1,220**	1,244

Portfolio valuation December 2016

Value by phase

Stage	2016 No. projects	(2015) No. projects	**2016 £m**	2015 £m
Operations	49	(46)	**1,059**	952
Construction	15	(20)	**134**	218
Preferred bidder (developer)	5	(7)	**27**	36
BBIP			**–**	38
Total	69	(73)[1]	**1,220**	1,244

Portfolio valuation December 2016

Value by income type

Income type	2016 No. projects	(2015) No. projects	**2016 £m**	2015 £m
Availability	25	(30)	**572**	652
Demand – operationally proven (2+ years)	32	(31)	**498**	428
Demand – early stage (less than 2 years)	12	(12)	**150**	126
BBIP fund			**–**	38
Total	69	(73)[1]	**1,220**	1,244

UK portfolio

In 2016 £57 million of equity investment was made in projects across the portfolio: in the student accommodation project at Aberystwyth University; the Ayrshire & Arran community hospital; the regeneration development at Eastwick & Sweetwater; and waste projects at Gloucester and Welland. One new project, a property development at New Cross in Manchester, has been added to the UK portfolio.

Demand for high-quality infrastructure investments in the secondary market remained strong and the Group took advantage of this through further sales of mature assets. Investor appetite for yield in the ongoing, low interest rate environment continues unabated and pricing in the secondary market is therefore expected to remain strong for the foreseeable future.

Interests in 16 assets were sold in the period, seven of which were partial sales, generating total proceeds of £189 million. The business sold its entire 50% interest in the Wollongong project in Australia, a 30% interest in the M1/A1 project (where the Group retains a 20% interest), a 40% interest in the Humber Gateway OFTO (where the Group retains a 20% interest), its entire interest in the BSF portfolio comprised of seven schools projects and an 80% interest in five street lighting projects (where the Group retains a 20% interest). The Group's interest in Balfour Beatty Infrastructure Partners (BBIP), which was included in the Directors' valuation but not as a line item in the project total, was sold during the year. All disposals were either at, or above, the Directors' valuation.

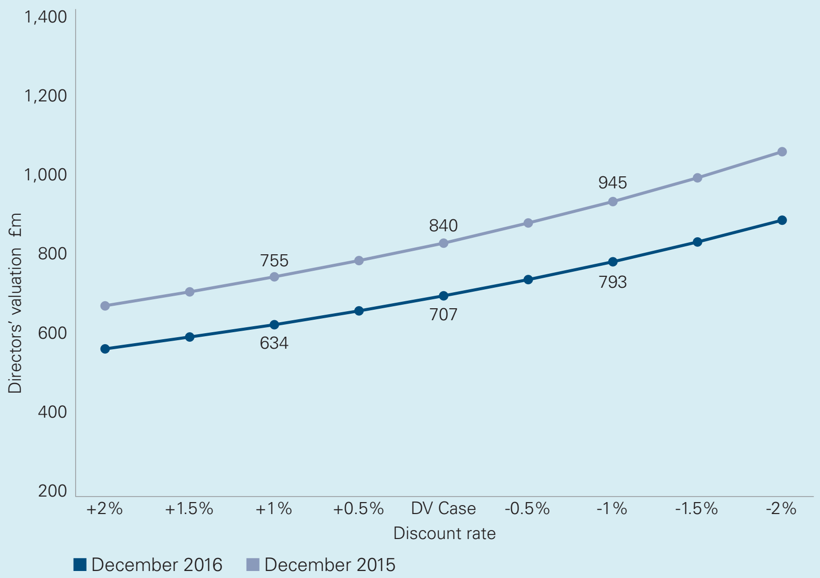
Operational performance movements resulted in a £27 million reduction in value. The most significant components of this were lower inflation, lower forecast deposit interest rates, and an increase in the assumed tax burden for potential purchasers. The operational movement reflects lower inflation in 2016 followed by a step-up in 2017 before reaching a 3% long-term assumption in 2018. The change to interest rates incorporates a lowering of the long-term rate to 2% as a consequence of the Bank of England's 0.25% reduction in base rates in the second half of 2016. In line with government announcements in the year the corporation tax rate has been further reduced from a long-term rate of 18% to 17% from April 2020.

Discount rates applied to the UK portfolio range between 7% and 14% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.3% (2015: 8.3%). The impact of selling mature assets has been offset by a number of investments moving from construction to operations phase. A 1% change in discount rate would change the value of the UK portfolio by approximately £80 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 increased 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.

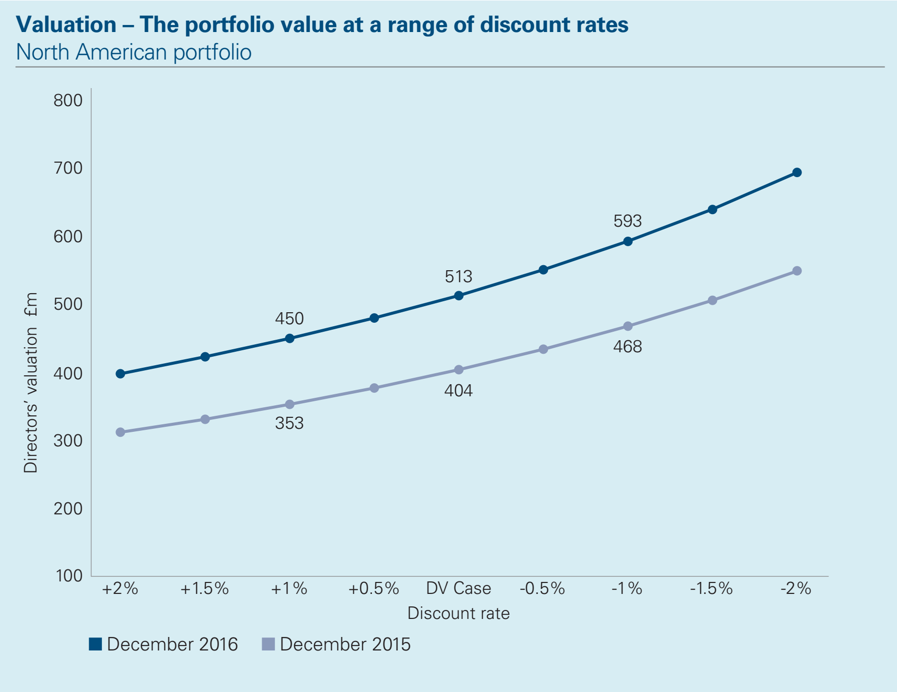
Following on from the OECD BEPS project's recommendations on the tax deductibility of interest expense in 2015, HM Treasury and HM Revenue and Customs issued their consultation on policy design and implementation in May 2016 and published detailed draft legislation in early 2017. The draft legislation preserves the concept of the public infrastructure exemption put forward by the OECD and also includes other helpful measures to protect such projects. The proposals and their application are complex and remain subject to further review, but the initial assessment is that the impact on the Directors' valuation will not be material. Balfour Beatty will remain engaged with the UK Government to clarify and evaluate the impact of the draft legislation.

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



Directors' valuation of the Investments portfolio

We continued to make substantial investment into the portfolio continued



North American portfolio

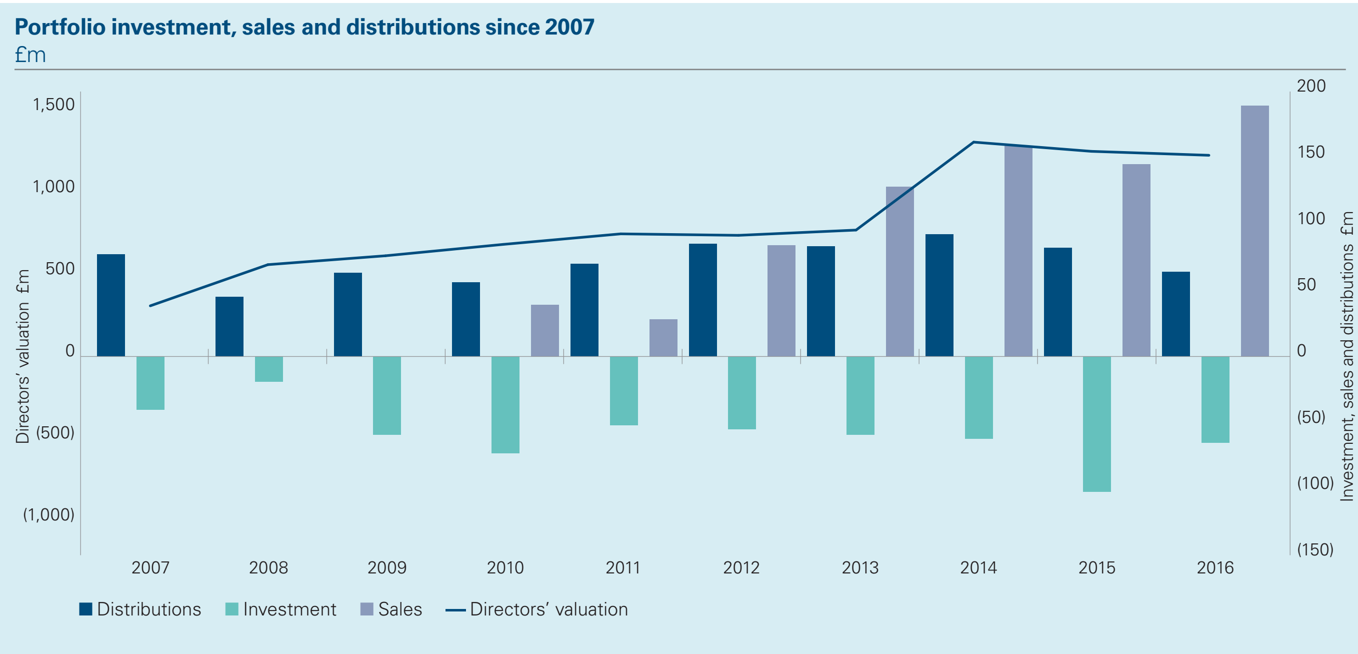
In 2016, the business won three projects, two investments in residential housing developments at Mobile in Alabama and Atlanta in Georgia and a PPP data centre in Borden, Canada. In addition, a second phase of the project at University of Texas, Dallas has been included in the Directors' valuation.

Operational performance movements resulted in an £88 million increase in the value of the portfolio, of which £85 million was due to the fall in the value of sterling.

Discount rates applied to the North American portfolio range between 7.5% and 10%. The implied weighted average discount rate is 8.2% (2015: 8.2%) and a 1% change in the discount would change the value of the North American portfolio by approximately £72 million.

Movement in value 2015-2016 £m

	2015	Equity invested	Distributions received	Sales proceeds	Unwind of discount	New project wins	Gain on sales	Operational performance gains (inc. FX movements)	**2016**
UK	840	57	(40)	(189)	59	–	7	(27)	**707**
North America	404	8	(24)	–	31	6	–	88	**513**
Total	1,244	65	(64)	(189)	90	6	7	61	**1,220**



Building a sustainable business

Creative solutions driven by innovation

A value-led business that operates safely and ethically. Balfour Beatty acts responsibly to protect and enhance the physical and social environment in which it operates.

Innovation, research and development

Innovation plays an important role in creating additional value for Balfour Beatty's customers and ultimately the Group. Innovation is driven by Balfour Beatty people, working in collaboration with customers, joint ventures and the supply chain, and internally across the business. The examples below illustrate how the Group has used creative solutions on its projects and services, to deliver savings and benefits to customers.

My Contribution – ideas from our people

As a specific stream of the Build to Last programme the Group-wide My Contribution initiative was launched in H2 2015 and is now embedded in the business. My Contribution encourages staff to share ideas and solutions.

Integration of the EZiCat cable avoidance tool was initiated through My Contribution to avoid service strikes. Improved safety and savings of £250,000 resulted in our Area 10 contract being awarded the Chartered Institution of Highways & Transportation NW 2016 Safety Project of the Year and it is now used by other contractors.

Digital Balfour Beatty

The Group is integrating and combining digital technologies to create a Digital Balfour Beatty which results in better project outcomes throughout the project lifecycle.

Applications have been developed both in-house and with small and medium-sized enterprises (SMEs) which work in other sectors:

– A mobile application that allows safety observations to be made on site using any mobile device. This also allows the recording and disseminating of best practice and areas of improvement. It is accessible on all mobile platforms and is being adopted across the whole business.

– Current roll-out of an application that captures all utility service mapping from all the different providers at the touch of a button.

The Group is improving the capture, storage, accessibility and distribution of information, at bid stage, throughout project delivery and into the asset lifecycle. Expert knowledge of information sharing and database configuration is a differentiator, as evidenced by the adoption of Balfour Beatty information management systems on the wider A14 Cambridge to Huntingdon programme. The vision and drive to introduce various mobile information sharing applications and contract administration software adds value to the business.

Collaboration has been improved by harnessing technology. Initiated and co-ordinated by the US business, colleagues across the globe collaborated together during a 24-hour Virtual Reality (VR) 'storm' – a rapid collaborative sharing session. A dozen work teams across multiple time zones and continents – including the Group's businesses in Asia, Europe and North America – advanced their understanding of VR capabilities and shared their experiences with each other. The storm started early morning in Hong Kong, engaged India, then transferred to teammates in the UK at mid-day and ended in the US late in the day. In a 24-hour cycle it made Balfour Beatty's large company feel small – the 'perfect storm'.

People capability

Balfour Beatty has led the delivery of over £2 million of Innovate UK research grants, delivering cutting edge technology that builds a competitive advantage and potential step change in productivity in design and construction. Balfour Beatty worked in partnership with University College London spin-off start-up, 3D Repo, to develop an open-source platform for managing and optimising design during tenders. Innovate UK feedback was: "Balfour Beatty delivered an exemplary project – a leading example of how large organisations collaborate with small enterprises to deliver cutting edge innovation."

The Group is in the final phase of delivering an Innovate UK project that uses machine learning to provide insight on the root causes of waste in construction and provides a technical solution to reducing waste proactively in the design phase.

Building a sustainable business
Creative solutions driven by innovation continued

Visualisations
Creating a Balfour Beatty 4D Manual for construction.

Silver Jubilee Bridge, Halton, UK
Balfour Beatty has developed its own in-house specialist scanning teams that use the latest software to capture existing historic structures for future maintenance works.

The Balfour Beatty UK Build to Last Expert individual winner in 2016 led the production of a 3D model at an early stage of the Aberdeen Airport Terminal Transformation Phase 1 project which resulted in the award of the £10 million Phase 1 contract, and negotiations are in progress for Phase 2.

The Balfour Beatty India design team has grown to a 55-strong technical team of experts. Specific specialisations include the production of detailed 4D visualisations for many different areas of the business worldwide to maintain programmes, delivery and customer satisfaction and engage the whole team.

Innovation

Balfour Beatty harnesses innovation that delivers value and efficiencies, improves safety, develops engineering capability and increases the pace of delivery. The Group is involved with a large number of industry bodies sharing knowledge and learning within the industry.

Direct involvement with industry groups such as i3P (Infrastructure Industry Innovation Platform) and Crossrail's Innovate18 provide a platform for Balfour Beatty to influence the industry and share knowledge with peers.

In Hong Kong, Gammon became the first company to bring Exoskeleton technology to the Hong Kong construction market. Improving operative endurance and reducing the likelihood of injuries, this technology is helping to address the challenges of an ageing workforce and redefine the limits of operative capability.

On Highway projects laser scanning, mobile ground penetrating radar, and 4D visualisations have been used. In the Highways Services sector the Group has developed the use of drones for bridge inspections and is focusing on ways to use them for ecological inspections.

Balfour Beatty has developed its own in-house laser scanning teams and capabilities to service the whole of the UK business. These teams deliver true 'as-is' models of existing infrastructure to inform the design, and then create the true 'as-built' to inform the asset management on completion of a project, integrating laser scanning with Building Information Modelling (BIM).

Regular online forums across the Group's business allow developments to be shared.

Modular construction is being taken from one sector to another. Using the knowledge gained from delivering mechanical and electrical installations in the buildings sector, Balfour Beatty has developed, patented and fabricated modular subsurface roadside infrastructure pods in-house, and is now trialling them to speed up installation of technology on the UK SMART motorways programme.

Using 4D visualisations, a Balfour Beatty Manual has been created for construction: a full 4D visualisation of critical and repeat activities which has enhanced peer reviews of critical activities and enabled simple and clear communication across all stakeholders.

In Power Transmission and Distribution a new skycradle system has been developed to support cables on overhead powerlines when they are being replaced. This eliminates working at height and is a first in the industry.

Value engineering

We have developed a value engineering management system (VE) which outlines how we will meet the savings mandated by the UK Government for centrally procured projects.

On the Norwich Northern Distributor Road, we achieved nearly a 20% saving through our VE process. The business ran VE workshops jointly with the client and designers, and generated over 100 ideas which were scored against the criteria of viability, cost saving and schedule creating a shortlist of more than 20 ideas that were implemented.

2016 Hong Kong Awards for Industries

Kevin O'Brien (Executive Director, Gammon) receives the Innovation and Creativity Grand Award.

Collaboration with universities

Balfour Beatty continues its collaboration with world-leading research establishments, including Bristol University (systems engineering), Liverpool John Moores University (condition monitoring), Sheffield University (smart buildings), University College London (UCL; future leaders in infrastructure, radar and 3D Repo), Manchester University (overhead line structures and composite crossarms), and Loughborough University (accounting for whole-life carbon emissions from highways maintenance contracts), Cambridge University (e-luminate – merging art, music and light), and Queen's University Belfast (resource efficiency through BIM).

Partnerships have also been established with UCL via an Honorary Research Associate post awarded to a member of the Digital Transformation team which supports the research of digital impact on business models in delivering social and economic infrastructure. A member of that team was invited to join the Chartered Institute of Building's Innovation and Research Panel which sets the innovation and research agenda and funding focus for industry and academia.

Balfour Beatty provides guest lecturers on BIM and Construction Economics to UCL, University of Middlesex, Abertay University and Ulster University for their BIM management courses.

Awards

Balfour Beatty undertakes a wide variety of works and is recognised by many diverse industry awards for the breadth of the work it undertakes.

Ground Engineering was awarded Project of the Year at the UK Ground Engineering Awards 2016. The award was for the unique works to stabilise a landslide in Lyme Regis, ensuring the work did not impact on the area's UNESCO World Heritage Site status and ecological requirements of Natural England. The £13.5 million works included the construction of a 400m wave wall and walkway built below the landslide areas, and the stabilisation of the major slope to ensure the protection of 480 homes.

Highway Services won the Best Public Sector Digital Project at the V3 Digital Technology Leaders Awards 2016. Working with Southampton City Council, Balfour Beatty used live data to analyse traffic flows to alleviate congestion, specifically around major events such as Southampton Football Club matches. Balfour Beatty's joint submission 'Shaping Southampton through Digital Excellence' was the culmination of five years of investment and continuous improvement in digital technologies, in partnership with Southampton City Council, to drive greater customer satisfaction and more efficient operational delivery. The judges praised the project as: "an excellent example of exactly how councils should be looking at using technology, visualisations and data to improve the services they offer to their citizens and a model that other councils should look at when considering implementing similar strategies."

Gammon has been awarded the Innovation and Creativity Grand Award at the 2016 Hong Kong Awards for Industries. The award attributes to the effective strategy of Build to Order Full Modular Mechanical Electrical Plant (MEP) Construction. Important features of this strategy solution include off-site standardisation of MEP module design, weldless assembly and the extensive specialisation possibilities offered by the build to order model. The concept is effective in increasing productivity, improving the work environment, raising general safety levels and addressing the labour shortage that is facing the construction industry.

Gammon has already used and will use this solution in many other high-profile projects, including the China Mobile Network Centre, the Global Switch Data Centre and the Murray Building.

Building a sustainable business

Focused on a safe and ethical place of work

Health and safety

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

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

Group initiatives, linked to the Zero Harm calendar are proactive and evidence-based. These include quarterly campaigns and Group-wide stand downs on key topics. In 2016 these included work at height, interfaces between people and plant and treating health like safety.

Many parts of Balfour Beatty's business achieved millions of hours incident free, demonstrating that Zero Harm is achievable. Group-wide leading and lagging key performance indicators trended positively, with particularly strong performance in the UK. The Group's Lost Time Injury Rate (LTIR) improved from 0.32 to 0.31, 0.24 to 0.22 excluding the Group's international joint ventures.

Central to sustainable delivery of Zero Harm is Balfour Beatty's Making Safety Personal (MSP) programme, based around four simple golden rules. In 2015 the focus was engagement through workforce observations, which achieved a dramatic increase and this trend has continued in 2016. In 2016 the Group piloted and launched the MSP 1 foundation programme for everyone on making safe choices and an MSP 4 leadership programme.

Balfour Beatty's industry-leading commitment to treating health like safety focuses on eliminating occupational disease and ill health. In the UK, Balfour Beatty is a founder and active member of the Health in Construction Leadership Group (HCLG). In 2016 the HCLG brought industry leaders, clients and contractors, together in a ground-breaking summit – Committing Construction to a Healthier Future.

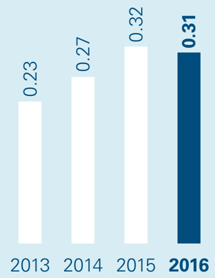
The business continued to win awards for its health and safety performance. In the UK, the Sellafield Silo Maintenance Facility team won RoSPA's Order of Distinction and clients award for safety. Balfour Beatty won several national awards too such as the National Joint Utilities Group to support visually impaired members of the community navigate around utility street works. In the US, the Group received the national AGC Safety Award for its outstanding safety record in Highways.

Employee survey results across the Group rated consistently highly on health and safety questions, a strong indicator of engagement.

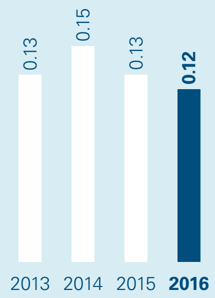
Sadly, despite these positive improvements, five workers lost their lives across the Group in 2016, one in the UK, one in the US and three in the Gammon joint venture in Hong Kong/Singapore. Three of the workers were subcontractors, two were direct employees.
Each fatal accident is subject to a thorough investigation and a detailed review by the Group Chief Executive and further review by the Safety and Sustainability Committee to ensure lessons are promulgated across the business and wider industry. Lessons from the UK fatality involving plant have resulted in industry-wide improvements in the understanding and application of the hierarchy of risk controls.

In 2017 the Group will continue its relentless focus on health and safety within the business and working with the wider industry.

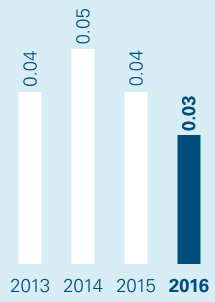
The Group's Lost Time Incident Rate (LTIR)



Accident Frequency Rate (AFR)



Major injury rate



Building a sustainable business

Developing the best talent

People and leadership

In 2015 the Group set out its people strategy based on inspiring people to excel as part of the Group's transformation programme – Build to Last. This delivered significant successful results and continued to be the foundation of the 2016 people plan. As part of the Build to Last transformation, Balfour Beatty continues to improve and enhance systems, policies and procedures. This has included simplifying the number of core UK policies from 200 down to 50 and reducing the number of payrolls by 60%, as well as other system changes such as creating an onboarding portal to enhance the joining experience for new employees.

During 2016 Balfour Beatty has invested in training and development of employees, through the Balfour Beatty Academy, and developed new strategic and business-specific programmes.

These training and development programmes operate within the context of a Group-wide talent review process, which ensures consistent methodology and visibility of talent, so that succession planning, leadership training and development interventions are applied in the most effective way possible by leveraging the Group's scale.

The first Group-wide employee engagement survey was completed in 2015 and followed up with a number of actions following the survey results. A second Group-wide survey was held in 2016 using Best Companies again in order to provide consistency in measurement and benchmarking against other companies. Employee engagement remains a key focus, to support and enhance business performance and Balfour Beatty has been awarded 'Ones to Watch' status under the Best Companies Index.

Emerging talent

The 5% Club works with UK employers and key influencers to inspire, educate and retain a growing number of apprentices, sponsored students and graduates through 'earn and learn' placements. The goal of The 5% Club is to increase the employment and career prospects of today's youth and equip the UK with the skilled workforce it needs to safeguard Britain's economy.

Members pledge to work towards having a minimum of 5% of their employees in 'earn and learn' positions – apprentices, sponsored students and graduate trainees – within five years of joining.

Balfour Beatty has been a member of The 5% Club since December 2013, and was the first in the infrastructure industry to join.

Group Chief Executive Leo Quinn has personally donated £40,000, equivalent to 5% of his salary, to secure the ongoing work of The 5% Club and committed to underwrite up to £100,000 of costs while wider fundraising gets underway.

The proportion of the UK workforce in 'earn and learn' positions has increased from 3.1% in 2014, to 4.3% in 2016.

In 2016, the Group recruited 110 graduates and 114 apprentices across the UK, and current plans are seeing the business move towards the 5% target.

The Group's UK businesses are also supporting nearly 200 people studying part-time at local colleges and universities.

Balfour Beatty continues to lead a consortium on behalf of the sector to support government reforms on apprenticeships for the construction industry, gaining approval of 14 new Apprenticeships Standards for craft and technical/professional job roles and aiming for delivery to start in September 2017.

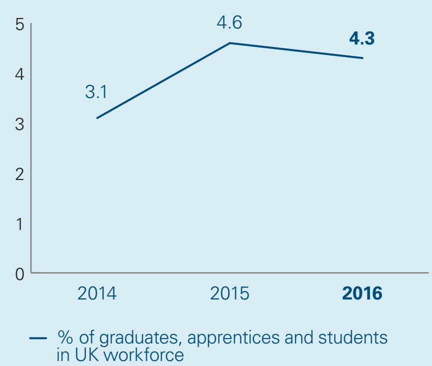
Upskilling the UK's infrastructure workforce

The Balfour Beatty Academy continues to provide a range of management, leadership and professional-level technical development programmes as a focus for the Group's UK activities and aims to ensure co-ordinated and cost-effective development in line with its Build to Last goals.

During 2016: investment continued into key training initiatives; over 230 places were occupied on one of the Group's commercial management modules; 70 senior win business staff attended the high-value selling programme and an additional 35 were trained on a new programme of business acquisition methodology that the Academy is collaborating on with colleagues from the US business; another 100 people started their APM project management qualification journey; 240 people attended negotiation skills training and over 290 people attended a programme to develop their people management skills. To complement Balfour Beatty's portfolio, additional offerings in the project management suite were developed, as were programmes to enhance leadership, diversity and inclusion, and client-focused work-winning, which were piloted in 2016 ready for 2017 launch.

Balfour Beatty works in partnership with The Prince's Trust, which trains unemployed young people through its Get into Construction programme. Over the last five years, 400 young people completed this programme, learning while working on Balfour Beatty sites. About 70% of these people gained employment with the Group directly or with its supply chain.

Emerging talent



Building a sustainable business

Developing the best talent continued

Diversity and inclusion

Leo Quinn, Group Chief Executive, is the Board-level sponsor for diversity and inclusion. In 2016, the Board established a steering committee to govern the strategic activities across the UK and to track progress against a new three-year blueprint. This blueprint serves to outline the key deliverables and metrics necessary to attract diverse talent and create a more inclusive working environment. Each strategic business unit produces a plan to align with the overarching strategy to ensure that diversity and inclusion activities are embedded to meet local employee and customer needs.

In 2016, four new Affinity Networks were launched to enable employee groups to network, share information and gain support. The aim of these networks is to improve individual and organisational understanding of the different aspects of diversity and inclusion, in addition to supporting the Group's strategy to be a great place to work. In 2016, Balfour Beatty's longstanding LGBT network secured the Civil Engineering Contractors Association (CECA) award for 'Inspiring Change in the Workplace' in recognition of their work, which offers confidential support to LGBT employees and their 'allies'. Balfour Beatty was one of the first infrastructure companies to set up an LGBT professional network and is proud to be represented in the 2016 Financial Times' Top 50 Future LGBT Leaders list. The network, which has doubled its membership in two years, has over 100 members spanning the UK and the US, ranging from senior sponsorship to frontline construction workers.

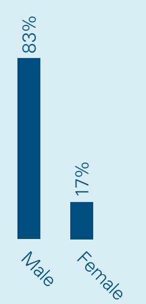
Given that the proportion of female employees has reduced in recent years with the disposals of Balfour Beatty WorkPlace in 2013 and Parsons Brinckerhoff in 2014, a strategic priority for the Group is to increase the number of females across the business, particularly in middle and senior management roles. The Women in Business network has recently developed a new three-day career development programme specifically designed to support women in accelerating their careers which will be rolled out across the organisation in 2017, following a successful pilot. A new Returners' Programme, which provides career placements to women who have been on a career break of two years or more, was also launched in 2016. Through this programme, women will gain invaluable support and mentoring to support their pursuit of permanent employment.

Balfour Beatty has diversified its supply chain, spending more than 40% of total spend with SMEs over each of the last four years. The percentage spend with Social Enterprises has doubled, and since 2014, a year-on-year increase in percentage spend with female-owned businesses has been delivered (0.11% in 2014, 2% in 2015 and 3.37% in 2016). In recognition of delivering a diverse culture across its supply chain, Balfour Beatty was awarded Minority Supplier Development UK's Inclusive Procurement award for 2016.

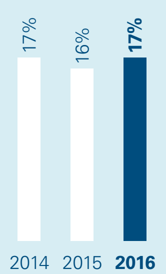
To enhance the Group's diversity and inclusion offering, strategic partnerships are in place with WISE, the Leonard Cheshire Disability Society, Business in the Community and Stonewall. Balfour Beatty is also a signatory to the Armed Forces Corporate Covenant and progressed to Silver Award winners in 2016.

The Group remains committed to investing in industry-leading people throughout a period of considerable change. It is this commitment and the continued engagement of employees that will provide the foundations for Balfour Beatty's recovery and future growth.

Group gender balance



Female employees across the workforce



At 31 December 2016	Male	Female	Total	% Male	% Female
Board	6	1	7	86	14
Senior management[1]	94	25	119	79	21
Directors of subsidiaries	248	32	280	89	11
Group	18,103	3,726	21,829	83	17

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

Building a sustainable business

Driving integrity across the business

Business Integrity

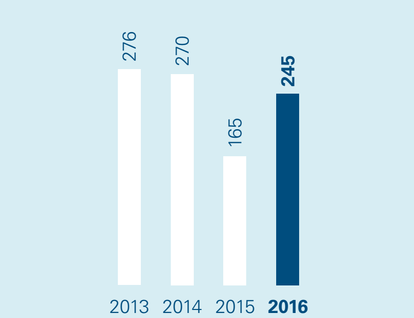
Balfour Beatty has a well-developed Business Integrity programme which was originally launched in 2009. The programme adopts a behaviours-based approach to ensure that the Group's culture enables people to make the right choices and empowers them to speak up where others have not. In 2016, the whole programme and its effectiveness were evaluated and a number of initiatives updated and re-launched:

- the Code of Conduct has been updated and launched as a website (www.balfourbeattycodeofconduct.com). As a result, the Code is now available on phones, tablets and laptops so everyone can access and understand what is expected of them
- a new online assessment has been created to evaluate a person's understanding of the Code of Conduct and what is expected of them, which will inform the training they receive. Previously a standard training programme was mandatory and effectiveness measured through completion rates
- training for on-site operatives was relaunched and forms part of the Site Mobilisation Hub so that sites start with the right Business Integrity resources and support
- several manual processes are being automated to make better use of technology. This will ensure that processes are followed in a consistent manner and decisions taken will be documented and available in a uniform way. Examples include the annual compliance declaration and the due diligence process undertaken when working with new clients or partners. Technology also enables the better collection of data which can be shared to improve behaviour and mitigate risk.

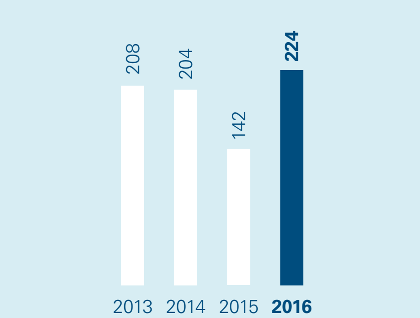
All of the improvements made to the programme are designed to make it more accessible and compliance with it easy to understand and implement. The embedding of the programme through the usual channels of training, workshops and constant communication also continued during the year.

In addition to improvements in the programme, the Business Integrity function also increased the team to ensure all in-scope cases are investigated in a timely manner. Investigating cases and taking appropriate action are key to reinforcing the behaviours expected of everyone and supporting those who raise concerns.

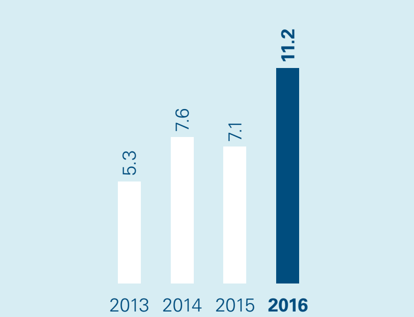
Speak Up Helpline cases Number



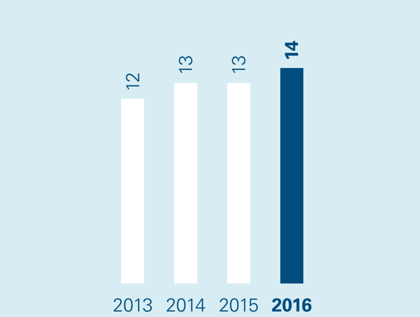
Speak Up Helpline cases (excluding HR grievances) Number



Cases per 1,000 employees (Balfour Beatty) Number



Cases per 1,000 employees (global benchmark) Number



Speak up

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

There has been an increase in the total number of reported cases in 2016 compared with 2015, which reflects the benefits of reinvigorating the programme. There has also been an increase in the number of cases per 1,000 employees.

Areas of focus in 2017

The implementation of the changes to the Business Integrity programme will continue in 2017 with a particular focus on technology. The benefits of the changes made in 2016 are borne out in the increased awareness of the Code of Conduct and the numbers feeling empowered to challenge. However, there is still a significant amount of work to do to ensure the programme is fully embedded throughout the Group in a consistent manner.

Modern slavery

Modern slavery is a brutal form of organised crime in which people are treated as commodities and exploited for criminal gain. The International Labour Organisation estimates that 21 million men, women and children are working in conditions of modern slavery, including trafficked persons. The vast majority of these people are in the supply chains of legitimate industries. Balfour Beatty is committed to working within the business and its supply chain to ensure a proactive approach is taken to tackling hidden labour exploitation and eliminating these practices. Further details of the Company's approach to modern slavery and its Modern Slavery Act transparency statement for 2016 can be accessed here:

www.balfourbeatty.com/services/modern-slavery

Building a sustainable business

Using Our Blueprint to drive sustainability performance

Environmental performance

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

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

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

The Group has continued to automate the collection of sustainability data by investing in software and developing in-house solutions. This has improved the completeness and accuracy of environmental performance data such as its Scope 1 and 2 emissions.

Standards

Sustainability is an integral part of modern infrastructure projects: public sector customers require conformance to standards such as BREEAM, LEED®, BEAM, ESTIDAMA, Green Mark, and CEEQUAL and these are important to planning authorities. Meeting these standards has resulted in a £2.2 billion revenue on green infrastructure projects in 2016. The Group's certifications in this area and its technical knowledge improve the whole life performance of customers' built assets.

Scope 1 and 2 carbon emissions

The Group has seen a decrease in carbon emissions intensity in 2016 compared to 2015 from 35.2 tonnes of CO_2 equivalent (CO_2e)/£m revenue to 30.1 tonnes of CO_2e/£m revenue. Since establishing the baseline in 2010, tonnes of CO_2e/£m revenue have dropped by 27% from 41.5 tonnes of CO_2e/£m revenue to 30.1 tonnes of CO_2e/£m revenue.

The Group's total CO_2e figure for Scope 1 and 2 emissions, has dropped by 53,841 tonnes of CO_2e (15%) from 357,983 tonnes of CO_2e to 304,142 tonnes of CO_2e over the same period.

Over the last year the energy management unit has made significant progress in reducing energy and fuel consumption and associated Scope 1 and 2 emissions.

Balfour Beatty's 2020 goal is to achieve a 50% reduction per £ million revenue of its Scope 1 and 2 emissions (against a 2010 baseline).

Achievement of this target will mean reduced operating costs and therefore improved value to customers and shareholders. Additionally, a number of customers have expressed an intention to prequalify contractors on the basis of their carbon performance in the future.

Gammon Construction, the Group's joint venture in Hong Kong/Singapore, accounts for approximately 37% of the Group's Scope 1 and 2 emissions. In 2014, it became the first construction company in Hong Kong to be awarded the CarbonCare® Label that covers all of its operations in Hong Kong (except joint venture projects). This is in addition to the ISO 14064-1 international standard for quantifying and reporting greenhouse gas (GHG) emissions it holds. Its Scope 1 and 2 GHG emissions are independently verified by SGS.

www.balfourbeatty.com/showcase

GHG reporting and assurance

Balfour Beatty's GHG emissions are reported in accordance with the UK Government's GHG reporting requirements covering all six Kyoto gases.

The Group uses the operational control approach under the GHG Protocol Corporate Accounting and Reporting Standard as at 31 December 2016 to report emissions from its operations around the world. However, Balfour Beatty has chosen not to report against the market-based approach. Even though Balfour Beatty does procure significant amounts of renewable electricity, the average DEFRA conversion factors have been used for carbon reporting purposes in order not to detract from reducing energy intensive operations.

Balfour Beatty's energy consumption in MWh is shown on page 41 to allow readers to make more informed comparisons of its energy use.

Although Balfour Beatty's Scope 1 and 2 CO_2e emissions dropped by 2% (6,726 tonnes) over the period from 2015 to 2016, the number of MWh of energy dropped by approximately 1% (10,736 MWh for energy).

This difference can be explained by the fact that different fuels have different carbon conversion factors, with some fuels attracting greater carbon conversion factors than others. Furthermore, the MWh table does not include fugitive emissions.

The Energy Use table illustrates that there has been a greater switch towards biofuel blends for petrol and diesel accompanied by a reduction in both mineral petrol and diesel.

Balfour Beatty's Scope 1 and 2 CO_2e emissions include emissions from assets that are otherwise not referred to across the rest of the financial statements such as energy provided by landlords or clients that Balfour Beatty does not pay for.

	Absolute tonnes of CO_2e				
	Base year 2010	2013	2014	2015	**2016**
Scope 1	283,821	249,021	221,679	238,685	**222,485Δ**
Scope 2	74,162	73,155	71,208	72,183	**81,657Δ**
Total Scope 1 and 2 carbon emissions	357,983	322,176	292,887	310,868	**304,142Δ**
Total Scope 1 and 2 carbon emissions per £m revenue	41.5	30.3	30.2	35.2	**30.1**

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

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

Δ Included with KPMG's limited assurance scope.

The Group has determined and reported the emissions it is responsible for within this boundary and does not believe there are any material omissions. The Group uses the UK Government's carbon conversion factors that were updated in 2016 to calculate its emissions into equivalent tonnes of carbon dioxide (CO_2e) and the IEA's September 2016 set of international conversion factors for electricity (Scope 2) except for the UK where the UK Government's conversion factors were used as they are more up to date.

The Group has removed the Scope 1 and 2 data for Sakti, Dutco Balfour Beatty and BK Gulf from the original 2010 baseline and subsequent years.

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

www.balfourbeatty.com/IIA

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

– interviewing management responsible for the data
– agreeing a selection of the data to the corresponding source documentation at business unit level
– performing analytical procedures over the aggregated data at Balfour Beatty Group level.

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

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

www.balfourbeatty.com/GHSS

CDP

The Group is committed to addressing climate risk and reducing the lifetime emissions of the assets it builds, as evidenced by its performance in the global evaluation standard, the Climate Disclosure Project (CDP), where a B rating was achieved in 2016, compared to the Construction and Engineering average rating of C.

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

Energy use

Fuel	2014	2015	MWh 2016
Electricity	130,597	169,678	**142,477**
Heat and steam	1,476	2,603	**4,561**
5% petrol blend	32,786	11,933	**53,096**
Natural gas	11,620	18,169	**22,085**
Industrial gases	7,014	2,828	**6,193**
5% biodiesel blend	376,807	476,488	**477,401**
Gas oil (Red diesel)	227,731	288,143	**292,501**
100% mineral diesel	85,944	20,025	**16,636**
100% mineral petrol	47,056	44,795	**12,939**
LPG	149	185	**571**
Biodiesel	30	0	**410**
E85 petrol	42	5,479	**58**
CNG	5	1	**2**
Boiler fuel	374	921	**1,582**
Total	921,631	1,041,248	**1,030,512**

Building a sustainable business

Engaging local communities

Community engagement

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

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

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

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

Community investment through charitable fundraising

The Balfour Beatty Building Better Futures Charitable Trust was formed in 2009 to help the most disadvantaged young people in society.

Through a mix of employee fundraising and financial support provided by the Company, the Trust currently supports three charities: Barnardo's, Coram and The Prince's Trust.

In 2016, employees raised over £66,000 through the Building Better Futures fundraising activity programme. An additional £18,000 was raised by employees for charities separately. The Company matched this funding with an additional contribution and donated a total of £100,000 to the Trust.

To help tackle youth unemployment and the skills gap in the construction sector, many of Balfour Beatty's programmes have been focused on improving employment opportunities and employability of individuals.

- Since 2006, the Trust has helped transform the lives of nearly 4,000 young people by working together with The Prince's Trust.
- Since 2013 the Trust has contributed £136,000 to support Barnardo's work with unemployed young people; helping over 1,300 young people to gain new skills, qualifications and stable work.
- Since 2010, the Trust has contributed over £420,000 to Coram. This has funded three of Coram's vital services for children and young people. With Balfour Beatty's support– Coram has helped 26 children to find their 'forever family' through Coram Adoption; provided art and music therapy to 144 children helping them to overcome trauma; and enabled 40,138 vulnerable schoolchildren to experience Coram's interactive health education programme.

In 2016, 48 Balfour Beatty employees took to the saddle and raised over £203,000 for charitable causes, of which £86,000 (including matched funding from the Company) was directed to the Balfour Beatty Charitable Trust. The Deloitte Ride Across Britain route covered an impressive 969 miles, beginning in Land's End and finishing in John O'Groats.

Balfour Beatty completed its support for the London Youth Games in 2016, facilitating another record year of participation for young people in London, with 139,786 taking part. Balfour Beatty staff again played a key role among 4,173 volunteers and supported the successful delivery of the Games. Since Balfour Beatty started sponsoring the Games in 2006, participant numbers have increased fivefold.

This has brought multiple benefits, including engaging employees in volunteering, helping customer relationships and supporting communities in and around London where Balfour Beatty operates.

The US construction business contributed over US$450,000 to charitable causes in 2016. Some of the organisations receiving donations are:

- Make-A-Wish Foundation
- Sharefest
- Habitat for Humanity
- Juvenile Diabetes Research Foundation
- Carpenter's Shelter
- Kay Yow Cancer Fund
- United Way
- Urban Ministry Center.

Deloitte Ride Across Britain

Balfour Beatty employees took to the saddle and raised over £203,000 for charitable causes.

In California, Balfour Beatty team mates co-hosted the fourth annual Golf Classic that raised more than US$110,000 for the Sharefest 2016 Workday. The annual Sharefest event mobilises thousands of volunteers throughout Los Angeles County to complete tangible work projects that change the quality of life for its residents. Since its inception in 2013, Balfour Beatty's Golf Classic outing has raised more than US$360,000 to support annual Workday activities.

For Make-A-Wish® Foundation's Walk for Wishes event in Georgia, the Balfour Beatty team in Atlanta raised over US$65,000 for children in Georgia who have been afflicted with life-threatening illnesses.

In Texas, Balfour Beatty continued with its High School Mentoring Program that started in 2009. The programme enhances the educational and professional development experience of high school students in the Dallas/Fort Worth area by raising the awareness of professional opportunities within the construction industry. Through one-on-one mentoring relationships, Balfour Beatty facilitates sustainable academic enrichment, encourages leadership, and provides exposure to the construction industry. Since inception, the programme has hosted numerous High School interns, awarded several scholarships for students pursuing careers in construction management and sponsored college interns. Offers are extended to interns with successful internships upon graduation.

In 2016, staff from Gammon Construction took part in a total of 116 community events in Hong Kong, mainland China and Singapore and raised over HK$1.9 million through sponsorships and charitable donations. Many of the community focused events promoted health and wellbeing including Gammon being the title sponsor of the 'China Coast Marathon' and participating in 'Swim for a Million', both in aid of the Community Chest of Hong Kong.

Staff also participated in the Hong Kong Federation of Trade Unions' Occupational Safety and Health walkathon for injured workers, and the Central Rat Race in aid of mental health charity, Mindset, as well as the annual three-day Gammon Walkathon 2016 to raise funds for people with learning disabilities. In 2016, Gammon was recognised by the Hong Kong Council of Social Services as a 'Caring Company' for over 10 years.

Taxation

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

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

The Group manages tax affairs in a proactive manner that seeks to maximise shareholder value. However, it does not enter into artificial arrangements that lack commercial purpose in order to secure a tax advantage. If a position is uncertain the Group may obtain third-party advice in order to gain clarity or support for a particular stance or approach. The aim is to ensure full compliance with all statutory obligations and as a consequence attempt to minimise risk wherever possible.

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

The Group makes a major contribution to the tax revenues of governments in the numerous territories in which it operates. For example, the Group's tax contribution extends significantly beyond corporation tax and the collection of substantial amounts of income tax and includes the payment of significant employer social security contributions.

Measuring our performance

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

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

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Measuring the Group's performance

The following measures are referred to in this Annual Report 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 the 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 112 to 118.

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

Performance measures

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

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

a) Order book

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

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

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

b) Underlying performance

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

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

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

The results of Rail Germany and certain legacy ES contracts have been treated as non-underlying items as the Group is committed to exiting these parts of the business.

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

b) Underlying performance continued

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

Reconciliation of 2016 statutory results to performance measures

	2016 statutory results £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 £m
Continuing operations									
Revenue including share of joint ventures and associates (performance)	**8,683**	–	–	–	–	(3)	(150)	–	**8,530**
Share of revenue of joint ventures and associates	**(1,760)**	–	–	–	–	–	12	–	**(1,748)**
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	**56**	–	–	(1)	–	–	–	–	**55**
Profit/(loss) from operations	**15**	14	9	30	(8)	6	(1)	2	**67**
Investment income	**75**	–	–	–	–	–	–	–	**75**
Finance costs	**(82)**	–	–	–	–	–	–	–	**(82)**
Profit/(loss) before taxation	**8**	14	9	30	(8)	6	(1)	2	**60**
Taxation	**(8)**	(4)	(3)	–	–	–	3	–	**(12)**
Profit/(loss) for the year from continuing operations	**–**	10	6	30	(8)	6	2	2	**48**
Profit for the year from discontinued operations	**24**	–	–	–	(24)	–	–	–	**–**
Profit for the year	**24**	10	6	30	(32)	6	2	2	**48**

Reconciliation of 2016 statutory results to performance measures by segment

Profit/(loss) from operations	2016 statutory results £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 £m
Segment									
Construction Services	**(57)**	12	3	19	(5)	6	(1)	–	**(23)**
Support Services	**22**	1	–	11	–	–	–	–	**34**
Infrastructure Investments	**83**	–	6	–	(3)	–	–	3	**89**
Corporate activities	**(33)**	1	–	–	–	–	–	(1)	**(33)**
Total	**15**	14	9	30	(8)	6	(1)	2	**67**

Measuring our performance

Providing clarity on the Group's alternative performance measures continued

Reconciliation of 2015 statutory results to performance measures

	2015 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Other restructuring costs £m	IT assets impairment £m	Gains on disposal £m	Results of ES £m	Results of Rail Germany £m	Other £m	2015 performance measures £m
Continuing operations										
Revenue including share of joint ventures and associates (performance)	**8,444**	–	–	–	–	–	(30)	(179)	–	**8,235**
Share of revenue of joint ventures and associates	**(1,489)**	–	–	–	–	–	–	18	–	**(1,471)**
Group revenue (statutory)	**6,955**	–	–	–	–	–	(30)	(161)	–	**6,764**
Cost of sales	**(6,798)**	–	–	–	–		38	151		**(6,609)**
Gross profit	**157**	–	–	–	–	–	8	(10)	–	**155**
Gain on disposals of interests in investments	**95**	–	–	–	–	–	–	–	–	**95**
Amortisation of acquired intangible assets	**(10)**	–	10	–	–	–	–	–	–	**–**
Other net operating expenses	**(468)**	23	–	9	17	(16)	–	13	19	**(403)**
Group operating profit/(loss)	**(226)**	23	10	9	17	(16)	8	3	19	**(153)**
Share of results of joint ventures and associates	**44**	–	–	–	–	–	–	3	–	**47**
Profit/(loss) from operations	**(182)**	23	10	9	17	(16)	8	6	19	**(106)**
Investment income	**52**	–	–	–	–	–	–	–	–	**52**
Finance costs	**(69)**	–	–	–	–	–	–	–	–	**(69)**
Profit/(loss) before taxation	**(199)**	23	10	9	17	(16)	8	6	19	**(123)**
Taxation	**(7)**	–	(4)	(2)	–	–	–	2	–	**(11)**
Loss for the year from continuing operations	**(206)**	23	6	7	17	(16)	8	8	19	**(134)**
Loss for the year from discontinued operations	–	–	–	–	–	(1)	–	–	–	**(1)**
Profit/(loss) for the year	**(206)**	23	6	7	17	(17)	8	8	19	**(135)**

Reconciliation of 2015 statutory results to performance measures by segment

Profit/(loss) from operations	2015 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Other restructuring costs £m	IT assets impairment £m	Gains on disposal £m	Results of ES £m	Results of Rail Germany £m	Other £m	2015 performance measures £m
Segment										
Construction Services	**(280)**	14	4	9	9	(16)	8	6	17	**(229)**
Support Services	**11**	6	–	–	7	–	–	–	–	**24**
Infrastructure Investments	**122**	–	6	–	–	–	–	–	4	**132**
Corporate activities	**(35)**	3	–	–	1	–	–	–	(2)	**(33)**
Total	**(182)**	23	10	9	17	(16)	8	6	19	**(106)**

c) Underlying profit before tax

As mentioned on page 44, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

		2016 £m	2015 £m
Underlying profit from operations (section (b) and Note 5)		**89**	132
Add:	Subordinated debt interest receivable+	**29**	24
	Interest receivable on PPP financial assets+	**21**	24
Less:	Non-recourse borrowings finance cost+	**(24)**	(19)
Underlying profit before tax		**115**	161
Non-underlying items (section (b) and Note 5)		**(6)**	(10)
Statutory profit before tax		**109**	151

+ Refer to Note 8 and Note 9.

d) Underlying earnings per share

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

Reconciliation from statutory EPS to performance EPS

	2016 Pence	2015 Pence
Statutory earnings/(loss) per ordinary share	**3.5**	(30.1)
Less: earnings from discontinued operations	**(3.5)**	(0.1)
Statutory loss per ordinary share from continuing operations	**–**	(30.2)
Amortisation of acquired intangible assets	**0.9**	0.8
Other non-underlying items	**6.1**	9.7
Underlying earnings/(loss) per ordinary share from continuing operations (performance)	**7.0**	(19.7)

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

The Group uses a revenue measure which is inclusive of its share of revenue generated from its JVAs. As the Group uses revenue as a measure of the level of activity performed by the Group 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 debt/cash reconciliation

	2016 statutory £m	Adjustment £m	2016 performance £m	2015 statutory £m	Adjustment £m	2015 performance £m
Total cash within the Group	**769**	(7)	**762**	**666**	(20)	**646**
Cash and cash equivalents – infrastructure concessions	**7**	(7)	**–**	**20**	(20)	**–**
– other	**762**	–	**762**	**646**	–	**646**
Total debt within the Group	**(929)**	340	**(589)**	**(966)**	483	**(483)**
Borrowings – non-recourse loans	**(240)**	240	**–**	**(385)**	385	**–**
– other	**(589)**	–	**(589)**	**(483)**	–	**(483)**
Liability component of preference shares	**(100)**	100	**–**	**(98)**	98	**–**
Net (debt)/cash	**(160)**	333	**173**	**(300)**	463	**163**

Measuring our performance

Providing clarity on the Group's alternative performance measures continued

g) Average net cash/borrowings

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

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

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

h) Directors' valuation of the Investments portfolio

The Group uses a different methodology to assess the value of its Investments portfolio. As described on pages 30 to 32 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 £1.2 billion at the year end. 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.

i) Constant exchange rates (CER)

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

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

2016 statutory growth compared to performance growth

	Construction Services								
	UK	US	Rail	Gammon	Middle East	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)									
2016 statutory	1,896	3,330	386	–	–	5,612	1,076	235	6,923
2015 statutory	2,050	2,931	430	–	–	5,411	1,234	310	6,955
Statutory growth (%)	(8)%	14%	(10)%	–	–	4%	(13)%	(24)%	–%
2016 performance+	1,894	3,427	249	967	315	6,852	1,103	575	8,530
2015 performance retranslated+	2,024	3,500	276	897	222	6,919	1,264	616	8,799
Performance CER growth (%)	(6)%	(2)%	(10)%	8%	42%	(1)%	(13)%	(7)%	(3)%
Order book (£bn)									
2016	2.1	5.5	0.2	1.5	0.3	9.6	3.1	–	12.7
2015	1.9	4.1	0.2	1.2	0.5	7.9	3.1	–	11.0
Growth (%)	11%	34%	–	25%	(40)%	22%	–	–	15%
2016	2.1	5.5	0.2	1.5	0.3	9.6	3.1	–	12.7
2015 retranslated	1.9	5.0	0.2	1.4	0.6	9.1	3.1	–	12.2
CER growth (%)	11%	10%	–	7%	(50)%	5%	–	–	4%

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

Chief Financial Officer's review

Repositioning Balfour Beatty for profitable growth

Philip Harrison
Chief Financial Officer

Results for the year

	2016	2015
Revenue from continuing operations		
– underlying including joint ventures and associates	**£8,530m**	£8,235m
– statutory	**£6,923m**	£6,955m
Pre-tax profit/(loss) from continuing operations		
– underlying	**£60m**	£(123)m
– statutory	**£8m**	£(199)m
Post-tax profit/(loss) from discontinued operations		
– underlying	**£nil**	£(1)m
– statutory	**£24m**	£nil
Basic earnings/(loss) per share		
– underlying	**7.0p**	(19.8)p
– statutory	**3.5p**	(30.1)p

Group financial summary

In 2016, the Group returned to both underlying and statutory profitability. On an underlying basis, order book, revenue, profit from operations, earnings and net cash all improved year-on-year as the progress made with Phase One of Build to Last translated into improved financial metrics.

Underlying revenue increased by 4% to £8,530 million (2015: £8,235 million). Underlying revenue at constant exchange rates (CER) fell by 3% as the Group continued with its more disciplined and selective approach to bidding. Statutory revenue, which excludes joint ventures and associates, was £6,923 million (2015: £6,955 million).

Construction Services underlying revenue was up 7% at £6,852 million (2015: £6,388 million) as growth in the US offset an expected decline in the UK; underlying revenue at CER fell by 1%. Support Services underlying revenue declined 12% at £1,103 million (2015: £1,259 million) due to the phasing of contract and regulatory cycles.

The Group returned to profitability in 2016 with underlying profit from operations at £67 million (2015: £106 million loss). Statutory profit from operations improved from a loss of £182 million to a profit of £15 million primarily driven by the increase in underlying profit and a reduction in non-underlying costs.

Infrastructure Investments continued to deliver excellent results with underlying profit from operations of £89 million (2015: £132 million), including the benefit of £65 million of profits from investment disposals (2015: £95 million). Support Services rebounded to more normal levels, compared to the prior year, with underlying profit from operations of £34 million (2015: £24 million). Underlying loss from operations in Construction Services reduced to £23 million (2015: £229 million loss), where losses in the UK of £64 million (2015: £187 million loss) were only partially offset by profits in the US of £33 million (2015: £22 million loss).

Chief Financial Officer's review

Repositioning Balfour Beatty for profitable growth continued

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In 2016, the Group returned to both underlying and statutory profitability.

Philip Harrison
Chief Financial Officer

The half-yearly contribution of the Group's £67 million underlying profit from operations was £5 million in the first half, with £62 million in the second half of the year. Infrastructure Investments, Support Services and Construction Services all reported underlying profit from operations in the second half of 2016, with UK construction continuing its positive trajectory as it returned to underlying profitability, a modest £2 million in the second half of the year.

Net finance costs decreased to £7 million (2015: £17 million) predominantly due to a £19 million gain on foreign currency deposits. The taxation charge on underlying profits increased to £12 million (2015: £11 million).

Underlying profit after tax for the year at £48 million (2015: £135 million loss) 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 £24 million (2015: £206 million loss).

The order book increased by 15% to £12.7 billion (2015: £11.0 billion), up 4% at CER, despite the more disciplined and selective approach to bidding. Additionally, the quality of the order book improved as the business increased bid margin thresholds and focused on jobs where the Group can deliver value.

The improved order book was predominantly due to Construction Services at £9.6 billion (2015: £7.9 billion), with increases in all material geographical regions: UK construction up 11%; US construction up 10% at CER; and Far East construction up 14% at CER. The Support Services order book was stable at £3.1 billion (2015: £3.1 billion).

Non-underlying items

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

Non-underlying items from continuing operations before tax of £52 million were charged to the income statement in 2016. Items included £25 million of costs related to the reassessment of potential liabilities on historical health and safety breaches, following new sentencing guidelines, and £14 million of restructuring costs incurred relating to the Group's Build to Last transformation programme which was launched in early 2015.

In 2016, the Group also commissioned a revised independent actuarial report on its historical exposure to industrial disease related liabilities. As a result, the Group has increased its provision with a £14 million charge to the income statement in the year. Other non-underlying items included amortisation of acquired intangible assets of £9 million, the profits from Rail Germany of £1 million, and losses resulting from legacy ES contracts of £6 million. The non-underlying charges recognised in 2016 were partially offset by a £9 million gain following the release of all remaining provisions relating to Trans4m Ltd (Trans4m). Trans4m went into creditors' voluntary liquidation on 27 June 2016.

Taxation

The Group's underlying profit before tax from continuing operations for subsidiaries of £5 million (2015: £170 million loss) resulted in an underlying tax charge of £12 million (2015: £11 million). The tax charge principally arises due to significant non-recognition of deferred tax assets on losses incurred in the year. In addition tax is levied at the subsidiary level for US and Canada joint ventures and associates, rather than within the share of joint ventures and associates.

Discontinued operations

In 2016, Balfour Beatty reached a settlement with the purchaser of Parsons Brinckerhoff (PB), the Group's former professional services business disposed in October 2014, in relation to outstanding tax matters and indemnities. The Group received an additional £9 million as a result of the settlement. Provisions in relation to these matters have been released, resulting in an overall non-underlying gain to the Group of £24 million.

Earnings per share

Underlying earnings per share from continuing operations was 7.0 pence (2015: 19.7 pence loss), which along with a non-underlying loss per share from continuing operations of 7.0 pence (2015: 10.5 pence loss) resulted in earnings per share from continuing operations of nil pence (2015: 30.2 pence loss). Statutory earnings per share was 3.5 pence (2015: 30.1 pence loss).

Cash flow performance

The total cash movement in the period resulted in a £10 million increase to the Group's net cash position, excluding non-recourse net borrowings, to £173 million. This compares to a decrease in the Group's net cash position of £56 million in 2015. The increase in net cash was driven by proceeds from investment disposals and favourable US dollar foreign exchange movements, partly offset by new investments in infrastructure assets, negative operating cash flows, working capital movements and pension deficit payments.

Operating cash flows, before movements in working capital and pension deficit payments, improved to an outflow of £58 million (2015: £247 million outflow). This reduced outflow is predominantly as a result of the improved financial performance from Construction Services. Working capital had an outflow of £48 million (2015: £178 million inflow) and pension deficit payments were an outflow of £41 million (2015: £66 million). Total cash used in operations before tax was £147 million (2015: £135 million), a decline of £12 million compared to the prior year. Currency translation differences on net cash generated a positive movement of £30 million (2015: £12 million negative).

The total cash movement in the period excluding Parsons Brinkerhoff (PB) proceeds resulted in a £1 million increase in the Group's net cash position. This represented an £82 million improvement on 2015, and a £439 million improvement on 2014 – an excellent performance against the Build to Last Phase One target of £200 million cash flow improvement versus 2014.

Cash flow performance	2016 £m	2015 £m
Operating cash flows[1]	**(58)**	(247)
Working capital	**(48)**	178
Infrastructure Investments		
– Disposal proceeds	**189**	145
– New investments	**(65)**	(102)
Pension deficit payments	**(41)**	(66)
Other	**33**	36
Cash inflow/(outflow)	**10**	(56)
Cash inflow/(outflow) excl. PB net proceeds	**1**	(81)
Opening net cash[2]	**163**	219
Movements in the year	**10**	(56)
Closing net cash[2]	**173**	163

1 Before pension deficit payments.
2 Excluding infrastructure concessions (non-recourse) net debt.
On statutory basis the Group reported net debt of £160 million at 31 December 2016 (2015: £300 million net debt).

Working capital

In 2015, there were large working capital inflows of £178 million as a result of the focus on all areas of working capital management and risk contingencies booked against legacy contracts. In 2016, the cash outflow on legacy contracts has been lower than anticipated, which resulted in a lower than expected working capital outflow of £48 million. The Group is still in a materially favourable (negative) working capital position following the completion of Build to Last Phase One.

The continued focus on reducing inventory and work in progress (WIP) balances generated a working capital inflow of £42 million. Movements in the Group's due from / due to construction contract customers' balances, which reflect the net unbilled contract position and traded profit and loss for each individual construction contract, generated a working capital inflow of £36 million. This inflow was mainly derived from an improvement in billing, offset by an outflow of cash expenditure on contract losses from prior years.

Trade and other payables generated a £60 million outflow partially as a result of the expected cash outflows on historical loss-making jobs. Trade and other receivables generated an outflow of £134 million, due to more efficient billing of construction contract amounts, an increase in mature projects leading to higher retentions and also a reflection of the large receipts into the business in December 2015.

Provisions generated a working capital inflow of £68 million primarily due to additional provisions taken on defects, health and safety breaches and industrial disease related liabilities.

Including the impact of foreign exchange and disposals in the year, favourable working capital increased to £894 million at December 2016 (2015: £890 million).

Working capital flows	2016 £m	2015 £m
Inventory & WIP	**42**	27
Construction contract balances	**36**	308
Trade & other payables	**(60)**	(236)
Trade & other receivables	**(134)**	74
Provisions	**68**	5
Working capital (outflow)/ inflow[1]	**(48)**	178

1 Excludes impact of foreign exchange and disposals.

Pensions

The Group's balance sheet includes aggregate deficits of £231 million (2015: £146 million) for pension schemes. The increase in pension deficit in the year is largely due to a reduction in long-term interest rates and a contraction in credit spreads. Although the scheme obligations increased, the hedging programmes put in place offset a significant element of this change with an increase in scheme assets.

A formal triennial funding valuation of the Balfour Beatty Pension Fund (BBPF) was carried out as at 31 March 2016. The Company and the trustees agreed the key commercial principles of the plan for the BBPF to reach self-sufficiency during 2027 (some three years earlier than previously planned). Balfour Beatty will make cash contributions totalling £182 million over the next eight years; under the previous agreement cash contributions totalled £376 million over the same period. These payments include contributions related to the Scottish Limited Partnership (SLP) structure established in 2015. The Company will also transfer additional assets into the SLP worth up to £87 million by 2019. The Company has agreed to amend the existing dividend sharing mechanism such that if the dividend cover ratio falls below 3x in 2016, 2.5x in 2017 or 2x from 2018 onwards, funding to the BBPF will be accelerated.

The Group also completed the formal triennial funding valuation for the Railways Pension Scheme carried out as at 31 December 2013. As a result, the Group agreed to make ongoing fixed deficit contributions of £6 million per annum which should reduce the deficit to zero by 2031. The triennial funding valuation as at 31 December 2016 is now underway.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2016 increased to £937 million (2015: £844 million), primarily relating to movements in foreign exchange rates. Impairment reviews have been carried out, and none of the carrying values have been impaired.

In light of the significant, albeit reduced, losses incurred within the UK construction business in 2016 the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in the related cash-generating units and concluded that it is not the case. The stabilisation and recovery of the Group's UK construction business to more normal levels of performance is, however, a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

Banking facilities

Balfour Beatty's committed banking facility totals £400 million. The purpose of this syndicated revolving credit facility is to provide liquidity from a set of core relationship banks to support ongoing activities. The Company completed its refinancing in December 2015 with the facility extending through to 2018. In November 2016, £375 million of the facility was extended until December 2019. A further one-year extension, through to 2020, is available, subject to bank approval. At 31 December 2016, £350 million of this facility was undrawn.

Chief Financial Officer's review

Repositioning Balfour Beatty for profitable growth continued

Net cash/borrowings

The Group's net cash position at 31 December 2016, excluding non-recourse net borrowings, was £173 million (2015: £163 million). Average net debt during the year at £46 million (2015: £3 million net cash), was ahead of expectations. Non-recourse net borrowings, held in wholly-owned infrastructure concessions, reduced to £233 million (2015: £365 million). The balance sheet also includes £100 million (2015: £98 million) for the liability component of the preference shares. Statutory net debt at 31 December 2016 was £160 million (2015: £300 million).

Outlook

Build to Last is a long-term transformation programme designed to deliver superior returns for all stakeholders from a Group which is Lean, Expert, Trusted and Safe.

As a result of the actions taken during the 24-month self-help phase, Balfour Beatty now has a solid platform on which to build. The Group exceeded its Phase One financial targets with £439 million cash in (Target: £200 million) and £123 million cost out (Target: £100 million).

Over the next 24 months, Phase Two, the Group expects each of its Construction Services and Support Services businesses to continue their positive trajectory to reach industry-standard margins.

Specifically, for these earnings-based businesses the underlying profit margin from operations targets for Build to Last Phase Two are as follows:

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

For Investments, which is an asset-based business, during Phase One there were 20 partial or full disposals from the portfolio, all of which were at or above the Directors' valuation. The liquidity which this provided to the Group was an integral part of the self-help Phase One of Build to Last.

As Balfour Beatty's financial performance continues its positive trajectory, the Group will have greater flexibility over the timing of the sale of infrastructure assets. During Phase Two of Build to Last, the Group will continue to sell these assets timed to maximise value to shareholders. There are not expected to be material disposals in the first half of 2017.

The trading environment in the Group's core UK and US markets remains positive. In the UK, government policy is helping to drive a strong pipeline of major infrastructure projects in transport and energy. In the US, the new administration has made infrastructure one of its key priorities. This positive market backdrop supports the Group's commitment to be more selective, targeting contracts with improved profitability and cash flow dynamics.

By 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

The Board took the decision to suspend the dividend in 2015, to ensure balance sheet strength was maintained during the initial stages of Build to Last. Following the demonstrable progress made by the Group in the first year of the transformation programme and in the expectation of further solid and measurable improvements, it was decided to reinstate the dividend at an appropriate level in 2016.

Following the 0.9 pence per share dividend declared at the half year, the Board is recommending a final dividend of 1.8 pence per share, giving a total recommended dividend for the year of 2.7 pence per share. The Board recognises the importance of dividends to shareholders and anticipates a progressive dividend policy going forward.

Financial risk factors and going concern

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

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2016, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

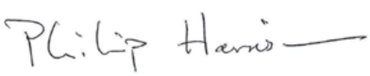
The Group is forecasting to remain within its banking covenants during 2017. While recognising that there can be no absolute certainty, the Directors believe that these covenant tests will be met.

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

- the Group has a strong order backlog
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had net cash balances of £173 million at 31 December 2016
- the Group's committed bank facility totals £400 million, of which £350 million was undrawn at 31 December 2016.

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

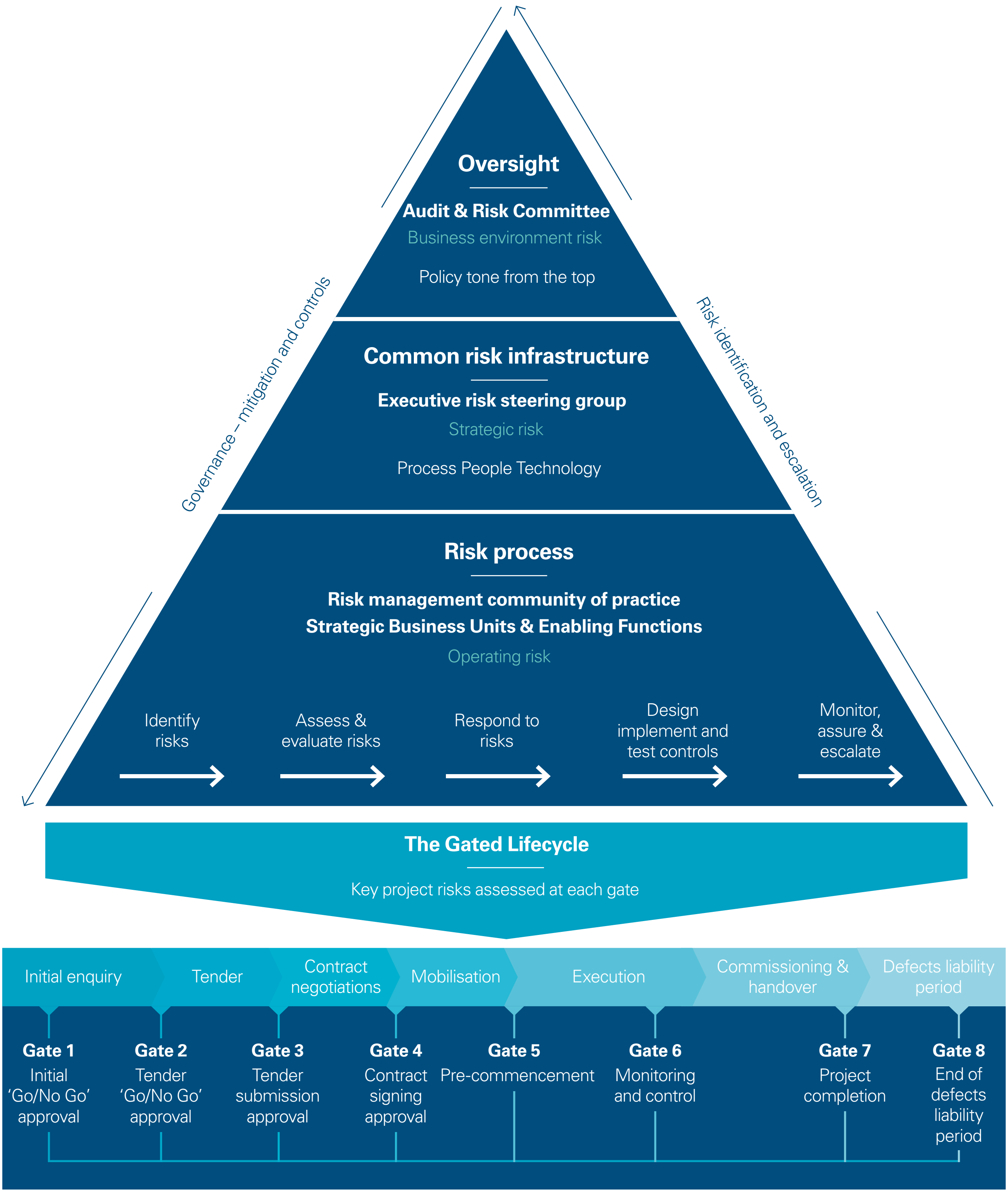
To appreciate the prospects for the Group as a whole, the complete Annual Report and Accounts 2016 needs to be read.



Philip Harrison
Chief Financial Officer

Risk management framework

Strengthening our risk management culture



Risk management framework

Strengthening our risk management culture continued

Significant steps were taken throughout 2016 to continue the evolution of the Group's risk management processes. These actions included enhancements to risk assessment, leading to increased understanding of the principal risks and opportunities faced by the business and provided the context for more informed decision making across the Group.

The Group recognises that consistent and effective risk management is vital to the delivery of its strategic development and business objectives.

Oversight

Consistent with the requirements of the UK Corporate Governance Code, the Board has overall responsibility for risk management and determines the nature and extent of the principal risks to be taken as well as assessing the effectiveness of the risk management and internal control systems that are in place to mitigate impacts.

The main area of focus in 2016 was to build on the existing risk management framework and to increase the visibility of risk to senior leadership and the wider business as well as aligning the way in which assessment of risk is undertaken.

Common risk infrastructure

The Executive Risk Steering Group reports directly to the Group Chief Executive and has oversight of and monitors the effectiveness of the Company's risk management process. Members of the steering group act as the executive sponsor for risk management within their business and functions and as such are in a position to directly influence custom and practice. In 2016 this steering group has overseen a comprehensive review and redrafting of the Group Risk Register which has been reviewed by the Audit and Risk Committee on behalf of the Board and will drive business improvements throughout 2017.

Risk process

A Group-wide Risk Management Community of Practice (CoP) is in place to provide cross-functional and business perspective on the practical implementation of risk management and provide practitioner level input to the Group Risk Register. Additionally the CoP provides a forum for sharing best practice, knowledge and collaboration on risk management across the functions and businesses.

A comprehensive training programme has been undertaken throughout the UK business during 2016. This has raised risk consciousness across the organisation and allowed risk management to be built into activities from project pursuit, through design, delivery and completion.

Assessment

The Gated Lifecycle remains central to Balfour Beatty's risk management process with a mandatory assessment of risk and risk appetite being made at each review gate.

Work continues on the roll-out of project manager training delivered through the Balfour Beatty Academy, increased cascade and promotion of minimal commercial expectations and continued adherence to Group commercial policies and process.

"The Group recognises that consistent and effective risk management is vital to the delivery of its strategic development and business objectives.

Risk appetite

The ongoing development of Balfour Beatty's risk management processes has included an evaluation of the Group's willingness to take risks based on informed decision making in order to meet strategic priorities.

The Group's risk appetite has been set in the context of the interaction between risk assessment processes and Balfour Beatty's ability to mitigate and exert control over existing and emerging risks.

Risk appetite within any organisation must be dynamic. Changes to the business environment and the Group's strategic priorities will require a reassessment of tolerances. The tone and direction for any such revision is led by the Board and implemented by senior leaders and practitioners to ensure it is embedded in critical business processes.

Strategic priority – Build to Last

Lean

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

Risk appetite
Balfour Beatty is committed to the transformation programme.

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

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

The Group's risk appetite for efficiency is moderate.

Transformation programme
Read more on p62

Supply chain
Read more on p63

Legacy pension liabilities
Read more on p65

Expert

Ensure we have the best engineering and project management capabilities.

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

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

The Group has a moderate appetite for expert risk.

Economic environment
Read more on p60

People
Read more on p61

Transformation programme
Read more on p62

Trusted

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

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

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

Work winning
Read more on p57

Project execution
Read more on p58

Data governance
Read more on p59

Transformation programme
Read more on p62

Financial strength
Read more on p62

Business conduct
Read more on p64

Legal and regulatory
Read more on p64

Safe

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

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

The Group's appetite for safety risk is zero.

Health and safety
Read more on p56

Transformation programme
Read more on p62

Assessing our risks

The Board has made a robust assessment of the principal risks which the Group faces, the controls in place to remove or mitigate these risks and also whether these risks represent new, increased or decreased threats. The assessment of these risks and controls is part of the ongoing management of the business.

The principal risks that could adversely impact the Group's profitability and ability to achieve its strategic objectives are set out below. In addition, the Chief Financial Officer's review starting on page 49 includes discussion on financial risk factors and going concern.

Health and safety

No change to risk

Owner:
Safety and Sustainability Committee

Build to Last pillar:
Safe

Risk description

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

Causes

Some common themes where health and safety risks have arisen are recognised and communicated, including:

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

What impact it might have

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

How it is mitigated

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

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

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

Training programmes (including behavioural) are in place.

Zero Harm action plans continue to be implemented.

Work winning

Decreased risk

Owner:
Group Tender and Investment Committee

Build to Last pillar:
Trusted

Risk description

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

Causes

Inaccuracy in:

- assumptions behind investment decisions
- costs versus scope calculations
- project duration estimates
- assessment of the impact of inflation
- contract management
- negotiation of terms
- Quick Qualifier assumptions
- assessment of customers' liquidity/credit worthiness
- assessment of joint venture partners.

What impact it might have

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

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

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

How it is mitigated

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

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

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

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

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

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

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

Principal risks

Assessing our risks continued

Project execution

No change to risk

Owner:
Group management

Build to Last pillar:
Trusted

Risk description

Failure to deliver projects at the required specification on time and on budget to meet the expectations of customers and minimise the risk of defect liability.

Causes

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

- unrealistic programming targets
- unrealistic progress assessments and cost to complete judgements
- optimistic claims recovery assumptions
- incomplete visibility and appreciation of scale of commercial judgements
- inaccurate and/or incomplete cost and value data or failure to analyse and report correctly, which could arise due to poor training, lack of supervision, lack of accountability or fear of reporting bad news.

What impact it might have

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

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

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

How it is mitigated

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

Consistent application of strong commercial management and contract administration processes.

Targeted recruitment of key staff within project delivery teams and senior management, together with ongoing and focused training of staff.

Gateway process embedded within each business and held on the Business Management System (BMS, see page 17) to increase accuracy and consistency within project delivery.

Project delivery teams encouraged to 'Get Left' in Gated Lifecycle process to increase integration within the work winning strategy.

Increased rigour at Gate 5 onwards, including direct senior management oversight and challenge.

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

The My Contribution initiative has delivered a significant number of local level improvements in project delivery including efficiencies in service level agreements, greater use of BIM technology and resource allocation. A strong pipeline of ideas will be assessed across 2017 to drive further improvements.

Balfour Beatty Academy providing focused training.

Quality culture, appropriate resource, competencies and accountabilities to be embedded in the business to support drive for defect-free delivery at all levels.

Professional indemnity cover in place to provide further safeguards.

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

Data governance and cybersecurity

Increased risk

Owner:
Group management

Build to Last pillar:
Trusted

Risk description

Breach of data protection laws and/or key company data or other confidential information is lost, stolen or compromised.

Causes

Failure to correctly assess and prepare for:

- the increased threat of cybercrime and/or the requirements of the revised Data Protection Act
- malicious intent and/or targeted attack
- breakdown of key security software or management system.

What impact it might have

Crystallisation of this risk has the potential for:

- a reduction or loss of competitive advantage (including loss of intellectual property)
- a negative impact on customer relationships including loss of confidence
- exposure to fines or prosecution (ie Data Protection Act)
- disruption to business operations
- reputational damage in the wider marketplace
- exclusion from bidding opportunities.

How it is mitigated

Dedicated Data Protection Officers embedded throughout the business to ensure pertinent information cascade including data classification guidance.

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

All data is stored in secure data centres with frequent synchronisation of data between live and standby data centres.

Use of up-to-date anti-virus and encryption software.

Only approved software is installed on Group hardware and portable data storage devices.

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

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

Principal risks

Assessing our risks continued

Uncertainty within our economic environment

Increased risk

Owner:
The Board

Build to Last pillar:
Expert

Risk description

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

Causes

The business may not be effective in managing the uncertainty surrounding the terms of the UK's exit from the EU or anticipating or assessing broader national or market events and developments. Failure to plan for any potentially negative impacts, or to capture any opportunities that may be presented could lead to:

- cash pressures for customers and suppliers
- wider than expected fluctuations in inflation
- increased competition (eg in the UK from foreign investors acquiring competitors)
- increased supply chain risks (eg solvency, people and materials)
- reduced revenue or pressure on margins.

What impact it might have

Any significant changes in the level or timing of customer spending or investment plans could adversely impact the Group's strategy, business model, revenue or profitability in the short or medium term. Such changes could arise from changes in government policy or customers' failure to secure financing for future projects or for future stages of existing projects.

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

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

How it is mitigated

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

The Group is actively monitoring the potential impacts of the UK exiting the EU including potential market stimulation by the UK Government, freedom of movement, finance costs, exchange rates and commodity prices. A dedicated Group-wide forum is in place for this purpose and a key strategy document (Infrastructure 2050) has been shared with the UK Government and wider industry.

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

People

Static risk

Owner:
The Board

Build to Last pillar:
Expert

Risk description

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

Causes

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

What impact it might have

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

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

How it is mitigated

Balfour Beatty Academy in place to provide professional development and knowledge sharing opportunities to ensure employees feel valued and specialisms are recognised.

Strengthening of the Learning and Development and Talent teams.

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

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

Change management initiatives are well embedded within the business and aligned to the Build to Last transformation programme.

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

Recruitment, retention and succession plans are measured and regularly reviewed across all parts of the business.

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

Principal risks

Assessing our risks continued

Embedding the transformation programme

No change to risk

Owner:
The Board

Build to Last pillar:
All

Risk description

The traction gained in embedding the policies, process, and practices of Build to Last is lost and potential benefits are not realised.

Causes

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

Failing to embed this culture could result from:

– ineffective communication plans
– inadequate resourcing (financial, physical and people)
– employee fatigue with change programme and loss of focus owing to a perceived high number and frequency of new initiatives
– new systems and processes being used without appropriate controls being in place and/or tested.

What impact it might have

Failure to build fully upon the foundations of Build to Last could result in the Group's ability to return to sustained profit and viability being jeopardised.

How it is mitigated

The success of Build to Last is a strategic priority for the Group and is being led by the Group Chief Executive.

The programme is being delivered in several phases and required controls and resources have been well considered.

Controls include:

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

Financial strength

No change to risk

Owner:
The Board

Build to Last pillar:
Trusted

Risk description

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

Causes

Failure to manage financial risks and the financial resources of the Group that underpin its ability to:

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

What impact it might have

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

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

How it is mitigated

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

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

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

Supply chain

No change to risk

Owner:
Group management

Build to Last pillar:
Lean

Risk description

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

Causes

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

What impact it might have

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

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

How it is mitigated

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

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

A simplified but more frequent assessment of all suppliers and subcontractors, to ensure compliance with all requirements Balfour Beatty commit to, using Achilles and internal assessment tools.

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

My Contribution programme to generate ideas for more effective procurement and resourcing.

Upgrading of skills across the procurement process.

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

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

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

Principal risks

Assessing our risks continued

Business conduct/ compliance

No change to risk

Owner:
The Board

Build to Last pillar:
Trusted

Risk description

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

Causes

- Corruption
- Bribery
- Fraud/false claims
- Unfair competition
- Human rights abuses, such as child and other labour standards generally, illegal workers, human trafficking and modern slavery
- Unethical treatment of and by the supply chain
- Other emerging ethical risks
- Risk of ethics and values being compromised when times are tough, not just in high-risk markets.

What impact it might have

Failure by the Group, or employees and third parties acting on its behalf or in partnership, to observe the highest standards of integrity and conduct could result in litigation, civil and/or criminal penalties, debarment and reputational damage.

How it is mitigated

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

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

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

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

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

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

Legal and regulatory

No change to risk

Owner:
The Board

Build to Last pillar:
Trusted

Risk description

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

Causes

Failure to adapt to changes in applicable laws affecting the Group's businesses.

Such changes may include:

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

What impact it might have

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

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

How it is mitigated

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

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

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

Legacy pension liabilities

No change to risk

Owner:
The Board

Build to Last pillar:
Lean

Risk description
The Group remains exposed to significant defined benefit pension risks.

Causes
The size of the Group's legacy pension obligations is largely related to the investment performance of the assets held in the pension funds, net of the change in the value of the funds' liabilities. The latter are typically related to changes in the long-term outlook for interest rates, inflation and life expectancy.

The size of the obligations could also be adversely influenced by intervention from regulators or legislators.

What impact it might have
Failure to manage these risks adequately could lead to the Group being exposed to significant additional liabilities.

How it is mitigated
The Group constructively engages with the trustees of the pension funds to ensure that the funds' assets and liabilities are managed in a way which reduces the likelihood of an unexpected cost to the Company.

Following the successful conclusion of the 2016 actuarial valuation, the trustees of the Group's main UK fund have agreed to hedge in excess of 80% of its exposure to interest rate and inflation movements.

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

Viability statement
In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three-year period to 31 December 2019. The Directors consider this period to be appropriate because this is the period aligned to the current order book or for which there is a good pipeline of potential new projects. This period also allows greater certainty over the forecasting assumptions used in labour and material pricing, skills and availability. Consequently, the Group performs its medium-term planning over three years.

In its assessment of the viability of the Group, the Directors have considered the need to be successful in implementing the Group's Build to Last programme and focus on strategic priorities of Lean, Expert, Trusted and Safe detailed on pages 12 to 17, as well as each of the Group's principal risks and uncertainties detailed on pages 56 to 65. The Directors have considered the impact of a number of severe but plausible scenarios, based on the Group's principal risks, which would result in a reduction in revenue, a reduction in margin, an increase in operating costs and a slowdown in the Group's investments disposal programme. The Directors have also considered the Group's income and expenditure projections, the Group's projected cash position, bank facilities and their maturity profile and covenants, the borrowing powers allowed under the Company's Articles of Association and the fact that the Group's PPP investments comprise reasonably realisable securities which can be sold to meet funding requirements if necessary.

Based on the Group's processes for monitoring operating costs, managing Group performance, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period until 31 December 2019.

Our 2016 Strategic Report, from pages 1 to 65, was approved by the Board on 15 March 2017.

Philip Harrison
Chief Financial Officer

Chairman's introduction

"Sound governance is central to achieving our objectives. The Group is on course to deliver on our specific targets for this year.

Philip Aiken AM
Chairman

Leadership

We ensure a collective responsibility to challenge strategy, performance and accountability to ensure every decision is in the best interests of the Company's shareholders.

Read more about the Board's leadership p68

Effectiveness

We continually evaluate the balance of skills and experience of the Board to ensure we have the right people in place with the right induction programme to enable effective leadership.

Read more about the Board's effectiveness p71

Accountability

All decisions are discussed in the context of the risks involved, with a robust and dynamic process in place.

Read more about the Board's accountability p75

Remuneration

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

Read more about the Board's remuneration policy p84

Compliance with the Code

The UK Corporate Governance Code 2014 (the Code) is the standard applying to good corporate governance practice in the UK and the Listing Rules require listed companies to disclose whether they have complied with the provisions of the Code (www.frc.org.uk).

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

> Present a fair, balanced and understandable assessment of the Group.

Leadership
The Board is collectively responsible for setting and upholding high standards of corporate governance including the way the Group conducts its business, its approach to ethical matters, and the definition of acceptable risk in delivering the Group's strategy and value creation for its shareholders. It is committed to providing effective leadership by ensuring that those governance principles are adhered to throughout the Group, supported by an effective framework of systems and controls which define clearly delegations of authority and accountabilities.

In my report last year I referred to the appointment of a new leadership team at both Board and executive level. The process of upgrading the executive leadership has continued through 2016. It is however with great sadness that I have to mention the untimely death on 1 July 2016 of Graham Roberts who for many years chaired the Audit and Risk Committee. The breadth of skills represented on the Board however facilitated a smooth transition of responsibility for that important role to Stephen Billingham.

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

Maureen Kempston Darkes, who has served as a Director since July 2012 and chair of the Safety and Sustainability Committee, will not be seeking re-election at the AGM this year. We are actively engaged in recruiting three Directors, two of whom will replace Maureen and Graham.

Each of the Directors brings skills and experiences which enhance the quality of debate in the boardroom and in the case of the Directors provides additionally, guidance and challenge to the executive Directors. The Directors believe that the Board provides effective leadership. Details of the Directors are set out on pages 68 and 69.

Diversity
In seeking to recruit new Directors with relevant experience, we ask search firms to identify suitable female candidates. We do not however believe in gender quotas, preferring to appoint individuals based on merit. Diversity and inclusion are key components of our talent management and development programmes, details of which can be found on the website balfourbeatty.com.

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

Remuneration
The remuneration policy was last approved by shareholders at the 2014 AGM. At the AGM in May 2017, we will revert to shareholders with proposed changes. Details of the revised remuneration policy and how we intend to operate that policy in 2017 can be found in the Remuneration report on pages 84 to 99.

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

Philip Aiken AM
Chairman

Leadership
Board of Directors

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

Other than Maureen Kempston Darkes, all of the Directors in office on 15 March 2017 will seek re-election at the AGM in accordance with the Code.

Other Directors who held office during the year were:

Graham Roberts who was a non-executive Director until 1 July 2016.

From 13 January 2016, as part of an agreed review of Committee memberships:

- Iain Ferguson rejoined the Audit and Risk Committee
- Leo Quinn joined the Safety and Sustainability Committee
- Maureen Kempston Darkes left the Nomination Committee
- Stuart Doughty left the Remuneration Committee and joined the Nomination Committee.

From March 2016, Stephen Billingham was appointed acting chairman of the Audit and Risk Committee while Graham Roberts stepped back for reasons of health. Stephen's appointment was made permanent with effect from 1 July 2016.

Philip Aiken AM (68)
Chairman

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

2 3 4

Leo Quinn (60)
Group Chief Executive

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

2 3 5 6

Maureen Kempston Darkes (68)
Non-executive Director

Appointed a Director in 2012. She joined General Motors Corporation in 1975 and held a number of progressively senior roles during her time with the business, culminating in her appointment as group vice-president for General Motors' Latin America, Africa and Middle East operations. She retired from General Motors in 2009. She has a portfolio of non-executive directorships including Brookfield Asset Management, Canadian National Railways, Enbridge Inc, Irving Oil Company and Schlumberger. She is a member of the Canadian Government's Science, Technology and Innovation Council.

2 4

Dr Stephen Billingham (58)
Non-executive Director

Appointed a Director in June 2015. He is chairman of Anglian Water Group Ltd, chairman of Punch Taverns plc and chairman of Urenco Ltd. He has over three decades of business and management experience, including 11 years with the Company under its former name, BICC plc. He was group finance director (CFO) of British Energy Group plc and of WS Atkins plc.

1

Philip Harrison (56)
Chief Financial Officer

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

5 6

Iain Ferguson CBE (61)
Non-executive Senior Independent Director

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

1 2 3 4

Stuart Doughty CMG (73)
Non-executive Director

Appointed a Director in April 2015. He has over 45 years' experience in the civil engineering, construction and infrastructure sectors, and was chief executive of Costain Group PLC between 2001 and 2005. This followed executive positions in Welsh multi-utility Hyder plc, Alfred McAlpine plc and Tarmac Construction, where he represented the company on the Channel Tunnel board, following 20 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, and as chairman of Silverdell Plc, Somero Plc and Beck and Pollitzer Limited.

1 2 3

Board Committees code:

1 Audit and Risk
2 Safety and Sustainability
3 Nomination
4 Remuneration
5 Group Tender and Investment
6 Finance and General Purposes
Chair

Board balance

Chairman	1
Executive Directors	2
Non-executive Directors	4

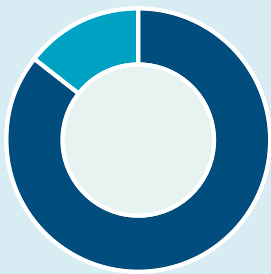
Board tenure

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

Board balance

Male	6
Female	1

Board geography



UK	6
Americas	1

Leadership continued

BOARD

Audit and Risk Committee	Nomination Committee	Safety and Sustainability Committee	Group Tender and Investment Committee	Remuneration Committee
Monitors and reviews the integrity of the financial statements, the relationship with the external auditor, and the Group's internal operational procedures and risk management process.	Reviews the composition and balance of the Board to ensure the right structure and skills are in place to deliver the strategy.	Monitors health and safety practices across the organisation to mitigate against harm to employees, and ensures other key sustainability issues such as integrity are reviewed at Board level.	Assesses the viability and pricing of major tenders, and monitors and approves key capital expenditure to ensure adequate returns.	Determines the pay of the executive Directors, and oversees overall remuneration policy, strategy and implementation.
Read more p75	Read more p78	Read more p78	Read more p79	Read more p84

GROUP CHIEF EXECUTIVE

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

Roles

Summaries of the roles of the Chairman, the Group Chief Executive and the Senior Independent Director are as follows:

Chairman – Philip Aiken

- Ensuring effective strategic planning is undertaken by the executive Directors
- Ensuring corporate governance is properly maintained
- Formally appraising the performance of the Group Chief Executive and reviewing with the Group Chief Executive his views on the performance of the other executive Directors
- Providing leadership to the Board
- Acting as senior ambassador for the Company
- Considering Board balance, composition and succession
- Ensuring the smooth operation of the Board and its Committees
- Providing effective communication between the Board and its shareholders.

Group Chief Executive – Leo Quinn

- Strategy development and the stewardship of physical, financial and human resources
- Group operational and financial performance
- Executive leadership
- Health, safety and environmental performance
- Corporate values and ethics
- Objective setting for the senior management team
- Organisational structure, succession and talent management
- Major capital expenditure prioritisation and allocation of resources
- Consideration of acquisitions, disposals and financing
- Stakeholder management.

Senior Independent Director – Iain Ferguson

- Acting as chairman of the Board if the Chairman is conflicted
- Acting as a conduit to the Board for the communication of shareholders' concerns if other channels are not appropriate
- Ensuring that the Chairman is provided with effective feedback on his performance.

Board and Committee meetings

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

Details of the number of meetings of the Board and its Committees held during the year and attendance of Directors thereat are set out on page 71. Outside the formal schedule of meetings, the non-executive Directors met without the executive Directors present on a number of occasions. Meetings are normally held at one of the Company's London offices.

All non-executive Directors receive papers for every Committee meeting and where not a member, have an open invitation to attend any Committee meeting. A number of the Directors took this opportunity during the year.

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

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

Effectiveness

Directors' independence

At its meeting in January 2017, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them continues to be independent.

A non-exhaustive list of the key strengths of the Directors is set out in the table below. Details of their service agreements, emoluments and share incentives are shown in the Remuneration report starting on page 84.

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

Responsibility and delegation

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

- determining the Group's strategic direction
- approving annual budgets and financial reporting, including the annual and half-year results and interim management statements
- approving interim, and recommending final, dividends
- approving major acquisitions, disposals and capital expenditure
- ensuring the necessary financial and human resources are in place to achieve objectives and review management performance
- setting the Company's values and ethical standards
- approving policies and systems for risk management and assurance.

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

www.balfourbeatty.com/investors

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

Directors – significant strengths

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

Board and Committee meetings attendance

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

Director	Board (8)	Audit and Risk (4)	Nomination (3)	Safety and Sustainability (3)	Remuneration (5)
Philip Aiken	8		3	3	5
Stephen Billingham	8	4			
Stuart Doughty	8	4	3	3	
Iain Ferguson	8	4	3	3	5
Philip Harrison	8				
Maureen Kempston Darkes	8			3	5
Leo Quinn	8		3	3	
Graham Roberts	1	0	1		1

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships). Non-attendance at meetings was due to illness. In each case, where the Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman, or the Committee chair, as appropriate.

Effectiveness continued

Further information about the work of each of the Board's Committees may be found on pages 75 to 79 and pages 84 to 99.

Board development

Induction

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

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

Professional development

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

Board evaluation

Introduction

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

2016 evaluation

All Board members were requested to complete a questionnaire, the responses to which were reviewed and summarised by the Company Secretary and the Chairman. The emerging key themes were discussed with each Director individually, and presented to the Board for discussion in November 2016.

The survey was tailored to the specific circumstances of Balfour Beatty and covered the composition, expertise and dynamics of the Board, the Board's management of time, the support afforded to the Board, the Board's oversight of strategy, risk and human resources, and priorities for change. The responses to the survey were unattributed.

Key conclusions from the evaluation

Overall ratings across most of the areas on which views were canvassed, showed an improvement year on year. The non-executive Directors continue to enhance their understanding of the business, including by making regular visits to project sites throughout the UK and overseas and are individually and collectively involved in project reviews. An additional item has been added to the Board agenda to provide the non-executive Directors with an opportunity to give timely, verbal reports on their site visits and project reviews. The Board also committed to undertake at least one visit to the US each year, combining a series of presentations by the US leadership team with site visits.

Code of Conduct
For a copy see
www.balfourbeattycodeofconduct.com/

National Museum of the Marine Corps

Risk management and internal control

Risk management

Effective risk management underpins the delivery of the Group's objectives and is an essential element of meeting the requirements of the UK Corporate Governance Code. By identifying and managing risk, the business is better able to protect its reputation, ensure long-term viability and generate sustainable shareholder value. Balfour Beatty identifies key risks at an early stage and applies mitigations within a strong internal control environment to eliminate them or mitigate their impact and likelihood to an acceptable level. For more information, refer to pages 53 to 65.

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

Roles and responsibilities

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

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

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

Effectiveness continued

Risk management process

Balfour Beatty's risk management policy requires that all business units ensure that effective controls are established and implemented for the management of risk.

Identified risk events, their causes and possible consequences are recorded in risk registers, together with assessments of their likelihood and potential business impact. The controls in place to manage each risk event are assessed for effectiveness and, if required, additional actions are developed to bring exposure within the Group's risk appetite. Each risk is allocated to a specific risk owner who is given the responsibility to manage the risk and its controls within an agreed timeframe.

For new projects, an assessment of risk forms a key part of the work winning Gates (1–4) within the Gated Lifecycle process (page 53) and risks are continuously assessed as projects evolve and progress.

Additionally the Board sets and regularly reviews delegated authority levels which act as triggers for matters requiring senior management or Board approval. In relation to work winning, this means that projects above a certain value, or those that import particular uncertainties such as a move into new markets, require approval by the Group Tender and Investment Committee.

Reporting structures ensure that risks are monitored continually, mitigation plans are reviewed and significant exposures are escalated – from project level through the appropriate business unit review stages and, as appropriate, to Group senior management.

Further improvements to the risk management framework have been made throughout 2016 including significant strengthening to the process of assessing, managing and reporting risk. This progress is detailed on pages 53 to 55. Increased rigour within risk management will continue in 2017 with renewed focus on risk impact quantification and escalation. These enhancements alongside the ongoing co-ordination between project, contract and business level risk analysis continue to drive risk awareness and culture.

Internal control

The Board has ultimate responsibility for the Group's risk management systems and internal control, and regularly reviews their effectiveness.

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

Central to the Group's systems of internal control are its processes and framework for risk management. These align with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and were in place throughout 2016 and up to the date of signing this report.

Guidance and policies have been issued and are continuously monitored to provide an interlinked and comprehensive internal control environment. Such topics include but are not limited to:

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

These systems are extended, as soon as possible and as appropriate, to all businesses joining the Group.

The Group also has an independent internal audit function that executes a risk-based programme of audit throughout the entire Group. All audit reports are shared with relevant business leaders in addition to being scrutinised by the Audit and Risk Committee (see pages 75 to 77).

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

The Board continued to assess the effectiveness of the risk management processes and internal controls during 2016 and to the date of this report. Such assessment is based on reports made to the Board, the Audit and Risk Committee and the Safety and Sustainability Committee, including:

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

Principal risks

The principal risks that could adversely impact on the Group's profitability and ability to achieve its strategic objectives are set out on pages 56 to 65.

Accountability

"The Audit and Risk Committee plays a key role in overseeing the Group's financial reporting and risk management processes. We are committed to ensuring that the Group's financial reporting is accurate, high-quality and clear, to allow shareholders to properly understand the Group's performance and financial position.

Stephen Billingham
Chairman of the Audit and Risk Committee

Audit and Risk Committee

Main responsibilities

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

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

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

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

Summary of activities in 2016

In 2016, the Committee's work programme focused on a number of significant issues and other accounting judgements where the Committee believed the highest level of judgement was required and with the highest potential impact on the Group's financial statements. Further information is set out on page 76. The Committee's standing agenda items comprised reports on:

- accounting, financial and regulatory issues
- review of non-audit work carried out by the external auditors, and their fees
- risk management activities and compliance
- implementation of and progress against the Group Internal Audit Plan.

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

Fair, balanced and understandable

Following the introduction of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Board has been mindful of the continuing need to provide a balanced and comprehensive analysis of the Company's development and performance during the year and the position at the year end, including the use of alternative performance measures. The Audit and Risk Committee has assisted in achieving this objective by reviewing proposals for the internal procedures to be applied in preparing the Annual Report.

Viability statement

Following the revision to the UK Corporate Governance Code published in September 2014, the Audit and Risk Committee has assisted in reviewing the viability of the Group over the longer term as part of its assessment of the Group's risks.

See page 65 for further details

Accountability continued

Significant issues and other accounting judgements	
Revenue and margin recognition	Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports and met with management, the Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements.
Carrying value of goodwill and other intangibles	The judgement largely relates to the assumptions underlying the value in use of the cash-generating units, primarily the achievement of the three-year strategic plan and the macroeconomic assumptions (such as discount rates) underpinning the valuation process. The Committee received reports from management outlining the impairment model and the assumptions used; in addition, the external auditor provided detailed written reports in this area.
Going concern and viability statement	In order to satisfy itself that the Company has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's viability statement, cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the Annual Report. More details on going concern and the viability statement are contained on pages 52 and 65.
Non-underlying items	The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.
Provisions	The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.
Retirement benefits	The key judgement relates to the assumptions underlying the valuation of the retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.
Deferred tax assets	The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.
Directors' valuation of the Investments portfolio	The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Areas of focus in 2017
In 2017, the Committee will continue to address the topics on its standing agenda as well as continuing to undertake reviews of the risk management and assurance practices across the Group on a rolling programme. The Committee will also continue to receive any necessary training in order to broaden and refresh the skills and knowledge of its members. The Committee will also focus on the Group's progress on the implementation of IFRS 15 Revenue from Contracts with Customers and the impact of this new standard to the Group's results.

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

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

External auditor independence and effectiveness

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

Non-audit work

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

- it audits its own work
- it makes management decisions on behalf of the Group
- it acts as advocate for the Group
- a mutuality of interest is created.

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

During 2016, there were fees of £0.5 million (2015: £0.7 million) paid to the external auditor for non-audit services. 2016 non-audit services primarily related to the half-year review. Audit fees for 2016 were £2m. Further details of the 2016 amounts are included in Note 6.2 of the accounts.

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

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

45% by value of non-audit related work provided by international accounting firms in 2016 was carried out by firms other than KPMG.

Annual assessment of the audit process

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

A detailed assessment of the external audit process and the effectiveness of the external auditor, together with any identified improvement recommendations, is prepared each year. Each strategic business unit within the Group is required to evaluate the performance of the assigned external audit team and to compare that performance against the previous year. This assessment has taken into account the issues which have been raised during 2016.

The external auditor's annual transparency report for the year ended 31 May 2016 was reviewed. This was prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 made by the Professional Oversight Board of the Financial Reporting Council.

External auditor rotation

As reported last year, KPMG were selected as the Company's auditor for the year ending 31 December 2016, following a competitive tender process, and were duly appointed at the AGM on 19 May 2016. The external auditors are required to rotate the lead partner every five years. Such changes are carefully planned to ensure business continuity without undue risk or inefficiency. KPMG's lead partner will complete his first year in May 2017.

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

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

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

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

Accountability continued

> The role of the Committee is to monitor the structure and composition of the Board, including responsibility for recommending Board appointments, and to consider the strategy, processes and plans for senior executive recruitment, the Group's succession planning and talent management.
>
> **Philip Aiken**
> Chairman of the Nomination Committee

Nomination Committee

Summary of activities in 2016

During 2016 and into 2017, the Committee's programme of work included the commencement of recruitment processes for the appointment of three new non-executive Directors.

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

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

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

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

Areas of focus in 2017

In January 2017, the Committee received a comprehensive presentation on the succession and development plans for the Group's senior leadership team and discussed succession plans for the Board. The implications of the business strategy for senior executive recruitment and the impact on the Group's succession planning are also areas which the Committee will consider during the year. It will continue to monitor the appropriateness of the composition of the Board.

> The role of the Committee is to drive greater focus on the safety culture within the business through the Zero Harm programme and to review the sustainability performance of the Group.
>
> **Maureen Kempston Darkes**
> Chairman of the Safety and Sustainability Committee

Safety and Sustainability Committee

Summary of activities in 2016

In addition to the standard agenda items designed to provide the Committee with objective reporting of absolute and relative performance against agreed KPIs, during the year the Committee has overseen the establishment of leading Group-wide safety indicators and the update of the Group's sustainability strategy, Our Blueprint.

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

The Committee has also overseen the merger of the UK Health and Safety function with the UK Environment and Sustainability function. This has facilitated the development of a more effective and collaborative way of working throughout the Group's UK operations. This has been supported by additional training of health, safety, environment and sustainability practitioners as part of an ongoing development programme to build expertise and flexibility.

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

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

The Committee also engaged with key customers to identify opportunities for greater collaboration and joint working.

Areas of focus in 2017

In 2017, the Committee will continue to focus on the key areas of health and safety by design, supervision and treating health like safety as well as measuring performance against Our Blueprint and the Zero Harm action plan.

Leo Quinn
Group Chief Executive

Group Tender and Investment Committee

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

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

Any member may convene a meeting of the Committee to discuss any of the tender reviews in more detail. In addition to those members of the Committee most relevant for the consideration of each proposed tender, meetings are attended by key members of the bid team concerned and their strategic business unit leaders. Minutes of all meetings are made available to all Directors.

Finance and General Purposes Committee

Summary of role
The Committee is chaired by the Group Chief Executive or, in his absence, by the Chief Financial Officer.

Its principal purpose is to approve various routine banking and treasury matters and matters relating to share capital.

A summary of the business conducted at the meetings is provided to all Directors.

Directors' report – other disclosures

Business and financial review
The Chairman's introduction on pages 2 and 3, the Group Chief Executive's review on pages 4 and 5, the market and strategic reviews on pages 8 to 17, the performance review on pages 18 to 29, the section entitled Building a sustainable business on pages 33 to 43 and the Chief Financial Officer's review on pages 49 to 52, are incorporated by reference into the Directors' report.

Corporate governance
The Governance section on pages 66 to 99, including the Compliance with the Code statement on page 66, forms part of the Directors' report.

Results and dividends
The results for the year are shown in the audited financial statements presented on pages 104 to 184 and are explained more fully in the Chairman's introduction, the performance review and the Chief Financial Officer's review.

An interim dividend of 0.9p per ordinary share was approved by the Board on 16 August 2016 and a final dividend of 1.8p per ordinary share will be recommended at the Annual General Meeting, giving a total dividend per ordinary share of 2.7p for 2016 (2015: nil). Preference dividends totalling 10.75p per preference share were paid in 2016 (2015: 10.75p (gross)).

The Directors continued to offer the dividend reinvestment plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service.

Innovation, research and development
Information concerning innovation, research and development is set out on pages 33 to 35 and forms part of the Directors' report disclosures.

Branches
As the Group is a global business, there are activities operated through branches in certain jurisdictions.

Share capital and shareholders
Details of the share capital of the Company as at 31 December 2016, including the rights attaching to each class of share, are set out in Note 29 on page 156. During the year ended 31 December 2016, no ordinary or preference shares were repurchased for cancellation. 23,628 ordinary shares were issued in 2016 following the exercise of options held under the Company's savings-related share option scheme.

At 31 December 2016, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2016 to purchase through the market 68,973,961 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2017 AGM or on 1 July 2017.

Throughout the year, all the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report. There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the Articles of Association and the prevailing law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

No person has special rights of control over the Company's share capital and all issued shares are fully paid.

As at 31 December 2016, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its ordinary share capital.

	Number of ordinary shares held	Percentage of ordinary shares held
Causeway Capital Management LLC	62,408,448	9.05
Prudential plc	42,969,270	6.22
Schroder Investment Management Limited	34,711,704	5.03
Norges Bank	34,459,262	4.99
Newton Investment Management Limited	31,347,697	4.54
Invesco Limited	29,102,945	4.21
Kames Capital Plc	26,433,207	3.83

Since 1 January 2017, the Company has received further notifications that Kames Capital Plc's interest has fallen below 3% and has therefore ceased to be notifiable and that Norges Bank's interest has reduced to 3.87%.

Auditor
KPMG LLP has indicated its willingness to continue as auditor to the Company and a resolution for their re-appointment will be proposed at the 2017 AGM.

Articles of Association

The Company has not adopted any special rules regarding the appointment and replacement of Directors or the amendment of the Articles of Association, other than as provided under UK company law.

Relations with shareholders

The Board attaches great importance to maintaining good relationships with all shareholders and ensures that shareholders are kept informed of significant Company developments.

The Company continued its programme of communication with institutional investors and sell-side analysts throughout 2016. Presentations of the half-year and annual results were made in accordance with the practice of previous years.

Through the year, approximately 75 one-on-one and group meetings were held at regular intervals with institutional shareholders (2015: approximately 102). Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during road shows in London, Scotland and North America.

This communication programme will be maintained and expanded where appropriate, subject to the constraints of regulation and practice. The 2017 investor relations programme will focus on ensuring investors and the analyst community understand the Group, its operations and strategy, and that institutions continue to be given the opportunity to meet with management.

Care is exercised to ensure that any price sensitive information is released to all shareholders at the same time in accordance with UK Listing Authority requirements.

Executive Directors report regularly to the Board on meetings or other contact with shareholders or their representatives. The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman and the Senior Independent Director and through the regular reports to the Board, they are kept fully aware of the views of the larger shareholders in the Company and the investment community generally.

The Board continues to retain the services of independent external corporate and investor relations consultants who provide advice on the relationship between the Company and its institutional investors.

Further information on the Company's investor relations programme can be found at:

www.balfourbeatty.com/investors

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders.

The chairs of the Board Committees attend the AGM each year along with the other Directors and are available to answer questions from shareholders. The circular setting out the Notice of the 2017 AGM provides a detailed explanation of the business to be transacted and includes contact details which shareholders can use to make any comments or ask any questions concerning the AGM.

The website is regarded by the Company as an important source of information on the Group, including financial press releases, shareholder documentation, annual and half-year results presentations and the terms of reference of the principal Board Committees. The Company's website continues to be developed to ensure it remains a principal source of information on the Group and its activities.

Political donations

At the AGM held in May 2016, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2017 AGM.

In the US and Canada, corporate political contributions totalling £195,290 were made by business units during 2016 (2015: £35,000). Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct.

Corporate responsibility

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 33 to 43.

The Group's published policies on health and safety, the environment, business conduct and ethics remain in place and are subject to regular reviews.

Greenhouse gas emissions

Details of emissions during the year and the actions which the Group is taking to reduce them are set out on pages 40 and 41 and form part of the Directors' report disclosures.

Directors' report – other disclosures continued

Employment

The Balfour Beatty Group operates across a number of geographies and end markets. However, there are key principles in the design and practice of employment policy that are applicable across the Group. These are to:

- provide a safe, open, inclusive and challenging environment that attracts and retains the best people
- enable all employees to perform at their best and realise their full potential, assisted by appropriate training and career development
- communicate the strategy of the Group, the objectives of each respective business and the role and objectives of each employee within that business
- actively consult with all employees and engage in a participating environment that fosters the exchange of best practice and collaboration
- provide market competitive pay and benefits that reward both individual and collective performance
- ensure that all job applicants receive fair treatment, regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
- ensure that all employees similarly receive fair treatment throughout their career
- provide a working environment of respect and free from harassment.

Information concerning employee diversity is set out on page 38 and forms part of the Directors' report disclosures.

Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible and is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential, consistent with all other employees.

The Company also operates an all employee Share Incentive Plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders. Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants.

Information concerning the performance of the Group and the Company's share price is provided to all employees via the Company's website.

Events after the reporting date

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. The sale subsequently completed on 1 March 2017.

Change of control provisions

The Group's bank facility agreements contain provisions that, on 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control of the Company and cancel all commitments under the agreement concerned.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty on a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

The Group's US private placement arrangements require the Company, promptly upon becoming aware that a change of control of the Company has occurred (and in any event within 10 business days), to give written notice of such fact to all holders of the notes and make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest.

The Group's convertible bond arrangements provide that the holder of bonds can require the Company to redeem its bonds following a change of control of the Company at their principal amount, together with accrued interest. The Company is required to notify the bond holder within 14 days of a change of control.

Some other commercial agreements, entered into in the normal course of business, include change of control provisions.

The Group's share and incentive plans include usual provisions relating to change of control, as do the terms of the Company's cumulative convertible redeemable preference shares.

There are no agreements providing for compensation for the Directors or employees on a change of control.

Financial instruments

The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are detailed in Note 38 on pages 167 to 171.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in its financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In light of the work undertaken by the Audit and Risk Committee reported in greater detail on pages 75 to 77 and the internal verification and approval process which has been followed this year, the Directors are able to state that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Statements of Directors as to disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

David Mercer
General Counsel and Company Secretary

15 March 2017

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Registered in England Number 395826

Remuneration report

Chairman of Remuneration Committee introduction

> 2016 was another year of strong cash performance when overall the Group made significant progress as the Board continued to deal with legacy issues, as reflected in executive Directors' remuneration out-turns.
>
> **Iain Ferguson**
> Chairman of the Remuneration Committee

2016 was a busy year for the Committee as we undertook a full review of our executive Director reward strategy, tools and practices, to ensure that they support fully the next stage of the Group's transformation. The resultant revised Remuneration Policy will be presented for approval by shareholders at the 2017 AGM.

I am pleased to present the Directors' Remuneration report for 2016, which is divided into two sections, the Policy Report and the Annual Report, the former being subject to the triennial binding vote, and the latter being subject to an advisory vote, at the 2017 AGM.

Link to strategy

The primary objectives of our remuneration policy are to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders.

Summary of activities in 2016

Reward for 2016

In respect of 2016, the annual bonus payments for the executive Directors reflect the performance of the Group – cash performance was strong, as was the personal performance of both executive Directors; however, profit performance, whilst showing a marked improvement, did not achieve the threshold payment level. The Group Chief Executive and the Chief Financial Officer received annual bonus payments of 47.5% and 47.1% of the maximum available respectively.

The TSR performance conditions relating to the 2014 PSP which measured performance over the three years ended 31 December 2016 were not achieved and so those awards lapsed in full for the former executive Directors in March 2017.

Areas of focus in 2017

Subject to shareholder support at the 2017 AGM, the Committee will focus on the implementation of the revised Remuneration Policy as the Group enters the next stage of its transformation and seeks to return to delivering industry-level margins.

Remuneration policy for 2017

The Committee's review of the remuneration policy concluded that the current policy remains broadly appropriate, subject to minor changes to the incentive arrangements and to provide some flexibility for the Committee to select performance metrics in line with the evolving Company strategy. In considering the proposed increases in annual bonus maximum, the Committee has taken into account the importance, during the current stage of the Group's transformation, of ensuring there is sufficient focus and reward for delivering the shorter-term 'recovery' based objectives. Then, as the Group moves to more of a 'steady-state' operating model, we will need to provide a focus on achieving annual results which deliver sector-leading performance. In considering the revised remuneration packages of the executive Directors, the Committee has taken into account the significant milestones that have been achieved in the Group's transformation as a result of the performance of the individual Directors.

In summary, the key changes to support the next stage of the Group's transformation are:

- the annual bonus maximum opportunity for both executive Directors will increase from 120% to 150% of salary; 50% of any bonus will continue to be paid in Company shares which are deferred for three years
- the Chief Financial Officer's long-term incentive award, currently 150% of salary, will increase to 175%. The Group Chief Executive's long-term incentive award will remain at the current level of 200% of salary
- to increase the minimum share ownership guideline for the Group Chief Executive and the Chief Financial Officer from 100% of salary to 200% and 150% of salary respectively
- providing flexibility to enable the Committee to select performance measures for the annual bonus and long-term incentive award that remain aligned with the evolving strategy of the Company, with at least 70% of the annual bonus to be based on financial metrics.

I am pleased to report that our discussions with major investors in relation to the revised Remuneration Policy have been positive and we hope that we can count on the support of shareholders for these important changes.

Conclusion

The Committee will continue to engage with major shareholders to ensure that executive remuneration remains appropriate as the Board takes its responsibility to engage with investors seriously. The Committee believes that the remuneration actions taken in 2016, and those proposed for 2017, are in the best interest of the Company and its shareholders.

Iain Ferguson
Chairman of the Remuneration Committee

Directors' remuneration policy report

The policy will be presented to shareholders at the AGM on 18 May 2017 for approval by binding vote.

Policy overview

The Committee, on behalf of the Board, determines the Company's remuneration policy and the remuneration packages of the executive Directors of the Company and the Chairman. In setting the remuneration policy, the Committee takes into account a number of factors, including:

- general trends in pay and conditions throughout the Group
- the positioning of remuneration levels against the external market
- the balance between fixed and variable pay – more specifically, variable pay should form a significant but not disproportionately high level of potential remuneration
- the strategy of the business
- the views of investors and their representative bodies.

In setting the overall remuneration policy, general trends and average increases throughout the Group are taken into account when setting executive Directors' reward packages. A key feature for the executive Directors is that a higher proportion of their remuneration package is delivered through performance-related pay, which has a greater linkage to the results of the Group. The areas covered in this Policy Report comprise:

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Consideration of shareholders' views

The Committee considers feedback from shareholders received at each AGM, and any feedback from additional meetings or from published investor guidelines, as part of any review of executive remuneration. In addition, the Committee engages proactively with shareholders and will ensure that shareholders are consulted in advance, where any material changes to the remuneration policy and implementation of that policy are proposed. Indeed, major investors were consulted in advance of the publication of the revised Remuneration Policy.

Consideration of employment conditions elsewhere in the Group

In determining the remuneration of the Company's Directors, the Committee takes into account the general trends in pay and conditions across the Group as a whole. Whilst employees have not been consulted formally on executive pay, due in part to the diverse geographic disposition of the Group, the Committee seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken. These are focused for the most part on market competitiveness, business performance and personal performance.

In practice, the remuneration policy for executive Directors is more heavily weighted towards variable pay than for other employees, so that a significant proportion of their remuneration is dependent on Company performance. For employees below Board level, variable pay represents a lower proportion of their total remuneration, which is driven by market comparators and general performance.

Directors' remuneration policy report continued

Summary of executive Directors' remuneration policy

The following table sets out a summary of each element of the executive Directors' remuneration packages, their link to the Company's strategy, the policy for how these are operated, the maximum opportunity and a description of any relevant performance metrics.

Element of pay	Purpose and link to Company's strategy	How operated in practice
Base salary	To attract and retain high-calibre individuals. To provide a competitive salary relative to comparable companies in terms of size and complexity.	Salaries are reviewed and set annually in July. The Committee considers remuneration levels in companies of comparable market capitalisation, revenue and industry sector. In addition, a key reference point for salary increases is the average increase across the general workforce (with the exception of promotions or significant changes in responsibility). Salaries are paid monthly in cash.
Benefits	To aid retention and to remain competitive in the marketplace. In addition, medical benefits are provided to minimise disruption due to absence.	Private medical and life assurance may be provided. A car and fuel card or car allowance are offered. Other benefits may be provided as appropriate.
Pension	To remain competitive in the marketplace.	Executive Directors can elect either to: – participate in the defined contribution (DC) section of the Group's pension fund. Executive Directors must make contributions of 5% of base salary (up to an earnings cap), with the Company contributing 20% of base salary (up to the cap). On earnings above the cap, executive Directors receive a salary supplement; or – receive a salary supplement in lieu of a pension.
Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)	To motivate executive Directors and incentivise the achievement of key business performance targets over the financial year without encouraging excessive risk taking. Managing risk is critical, particularly given the nature of the Company's business. To facilitate share ownership and provide further alignment with shareholders.	50% of any payment is normally deferred into shares for three years. Clawback and malus may apply in the event of material misconduct and/or material misstatement or error of financial results. Participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares.
Performance Share Plan (PSP)	To incentivise and reward delivery of long-term performance linked to the business strategy. To facilitate share ownership and provide further alignment with shareholders. To aid retention.	PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year. Awards normally vest on the third anniversary of grant, subject to performance. Clawback and malus may apply in the event of material misconduct and/or material misstatement or error of financial results. Participants also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares.
Shareholding guidelines	To align the interests of executive Directors with those of shareholders.	Executive Directors are expected to accumulate a shareholding in the Company's shares to the value of 200% and 150% of base salary for the Group Chief Executive and the Chief Financial Officer respectively. Executive Directors are expected to retain at least 50% of shares (net of tax) which vest from awards made under the PSP and DBP until the target shareholding is attained.

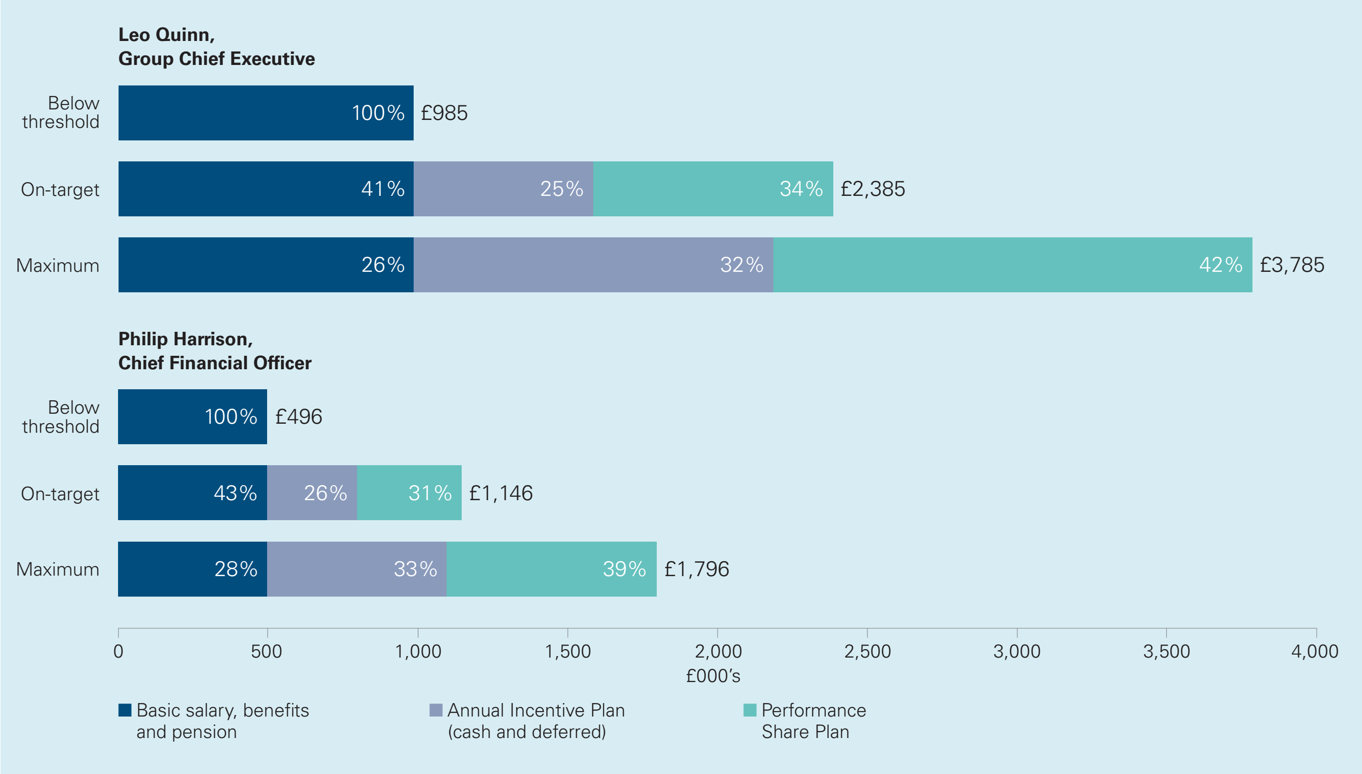
Executive Directors may also participate in all-employee share schemes up to prevailing HMRC limits.

Maximum opportunity	Performance metrics
There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role. Current salary levels are disclosed on page 92.	A number of factors are considered, notably market competitiveness, business and personal performance.
The maximum opportunity for medical benefits is cover for the executive Director and his or her family. Life assurance cover, car or car allowance and any other benefits are based on market norms.	None
Executive Directors who participate in the Group's pension fund benefit from a pension contribution of 20% of base salary up to the earnings cap and a salary supplement of 20% of base salary in excess of the cap. If a salary supplement is taken in lieu of a pension contribution, this is equivalent to 20% of base salary.	None
Maximum annual incentive opportunity is 150% of base salary.	The Committee will select performance measures for the annual bonus that are aligned with the evolving strategy of the Company. A minimum 70% weighting is based on financial metrics. Measures are reviewed each year and may be varied as appropriate to reflect the Company's strategy.
The limit in the rules of the PSP is 200% of base salary which will be applied to the Group Chief Executive. Other than in exceptional circumstances, the normal limit for other executive Directors will be 175% of base salary.	Performance measures will be set on an annual basis to reflect the Company's strategy. A minimum of 30% of any award will be based on relative total shareholder return (TSR), with the balance being based on other financial targets. Targets will normally be measured over a three-year performance period. There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance.
–	None

Directors' remuneration policy report continued

Remuneration scenarios for executive Directors

The charts below provide estimates for the potential future remuneration based on the proposed remuneration policy for the two executive Directors. Potential outcomes are based on three performance scenarios: minimum, on-target and maximum.



Notes
1 Salary levels are based on those applying from 1 January 2017. These salaries will be reviewed in July 2017.
2 The value of benefits receivable for 2017 has been estimated. Cash allowance in lieu of pension is 20% of base salary.
3 The on-target level of AIP is taken to be 50% of the maximum AIP opportunity (150% of salary for executive Directors), of which 50% is paid in cash and 50% is deferred in shares under the DBP.
4 The on-target level of vesting under the PSP is taken to be 50% of the face value of the award at grant (200% of salary for the Group Chief Executive and 175% of salary for the Chief Financial Officer). The executive Directors' buyout awards, as agreed as part of their joining arrangements, are not reflected in the above charts as these are not part of the ongoing remuneration policy.
5 The maximum level of AIP and vesting under the PSP is taken to be 100% of the AIP opportunity and 100% of the face value of the PSP awards at grant.
6 No share price appreciation or dividend awards have been assumed for the DBP shares and the PSP awards.

Recruitment and promotion policy for executive Directors

To ensure the ongoing leadership continuity of the Group, the Company will seek the appointment of high-calibre executives, either by external appointment or internal promotion. The remuneration package for a new executive Director would be set in accordance with the terms of the Company's remuneration policy at the time of appointment and take into account the scope and complexity of the role, the experience of the individual, the prevailing market rate for that experience and the importance and immediacy of securing that candidate.

The salary would be set at a level, based on the principles above, to secure the most appropriate candidate but paying no more than is necessary and in the best interests of the Company and its shareholders. The AIP potential would be limited to 150% of salary, and grants under the PSP may be up to the plan maximum of 200% of salary. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards were consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal executive Director appointment, any remuneration awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Service agreements and payments for loss of office for executive Directors

It is the Company's policy that executive Directors should have contracts with an indefinite term, which can be terminated on one year's notice by the Company and six months' notice by the executive Director.

In accordance with the UK Corporate Governance Code, all executive Directors submit themselves for re-election at the AGM.

In the event of termination, the following principles will apply:

Provision	Detailed terms
Notice period	12 months by the Company, six months by the executive Director. In the event of termination by the Company 'for cause' the executive Director would not be entitled to notice of termination under his or her contract of employment or to any payment in lieu of notice.
Notice payments	If any existing contract was terminated by the Company (other than for cause), it would be liable to pay an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period, subject to mitigation and including any period of garden leave. The Company may elect to make payment in lieu of any unexpired period of notice comprising salary and a cash sum in lieu of benefits. The Company reserves the right to apply mitigation to any notice payment (or payment in lieu of notice) for example, by making phased payments where appropriate for the balance of any notice period, against which earnings from new employment are offset.
Remuneration entitlements	Pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below). In all cases, performance targets would apply.
Change of control	There are no provisions for enhanced termination payments in the event of change of control of the Company.
Incidental expenses and other payments	The Company may meet relocation and other incidental expenses on termination of employment, for example relocation expenses, the fees of legal or other professional advisers, and accrued but untaken holiday. It may also elect to continue to provide certain benefits rather than making payment in lieu of the benefit in question.

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, awards will not be forfeited on cessation of employment and, subject to the satisfaction of the relevant performance conditions, will vest under the normal vesting schedule, being reduced pro-rata to reflect the proportion of the performance period actually served. However, the Remuneration Committee has discretion to determine that PSP awards vest at cessation and/or to amend time pro-rating. Outstanding DBP awards will lapse on cessation of employment, except in certain good leaver circumstances prescribed by the plan rules when DBP awards will vest in full on the date of cessation.

External appointments of executive Directors

The Committee recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. Executive Directors are permitted to have one external appointment, from which fees may be retained with the approval of the Board.

Directors' remuneration policy report continued

Appointment of non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. All non-executive Directors are appointed for a term of three years. In accordance with the UK Corporate Governance Code, all non-executive Directors submit themselves for re-election at the AGM.

Element of pay	Purpose and link to Company's strategy	How operated in practice	Maximum opportunity
Non-executive Director fees	To attract and retain high-quality and experienced non-executive Directors.	The Chairman is paid an annual fee and the non-executive Directors are paid an annual base fee and additional responsibility fees for the role of Senior Independent Director or for chairing a Board Committee. Non-executive Directors based outside Europe receive a travel allowance for each visit made on Company business to the UK, or to any other country (excluding their home country). Fee levels are normally reviewed annually in July. The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes. The Company will pay any reasonable business-related expenses (including tax thereon where determined as a taxable benefit).	As per executive Directors, there is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive director market and for the broader employee population, but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role.

The appointment letters for non-executive Directors may be terminated with three months' notice (six months' notice for the Chairman) by either party and contain no provision for payment in the event of termination.

Annual report on remuneration

This part of the Remuneration report sets out how the remuneration policy will be applied over the year ending 31 December 2017 and how it was implemented over the year ended 31 December 2016. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The detailed information about the Directors' remuneration, set out on pages 92 to 99 (excluding the performance graph on page 98), has been audited by the Company's independent auditor, KPMG LLP.

The areas covered in this Annual Report on Remuneration comprise:

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Annual report on remuneration continued

Implementation of the remuneration policy for the year ending 31 December 2017

Base salaries

The annual base salary review date is 1 July for executive Directors. Current base salaries for the executive Directors are as follows:

	1 July 2015 £	**1 July 2016 £**	% increase
Leo Quinn	800,000	**800,000**	0.0%
Philip Harrison	400,000	**400,000**	0.0%

The normal review date for executive Directors' base salaries is 1 July, but it was agreed that neither would receive an increase in 2016. The next salary review date is 1 July 2017.

Performance targets for the AIP in 2017

For 2017, the AIP for the executive Directors will be a maximum bonus of 150% of base salary (subject to shareholder approval of the revised Remuneration Policy) based on the achievement of three performance measures:

- profit before tax (40%)
- cash (35%)
- strategic business and personal objectives (25%).

The Committee will ensure that the targets continue to be set at a stretching level particularly given the higher incentive opportunity proposed for 2017 as part of the revised Remuneration Policy. The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in Balfour Beatty shares.

While the Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in next year's Annual Report on Remuneration.

Performance targets for PSP awards granted in 2017

Subject to shareholder approval of the revised Remuneration Policy, the Group Chief Executive will be granted a PSP award over shares worth 200% of salary and the Chief Financial Officer 175% of salary. Consistent with the approach adopted in 2015 and 2016, the PSP awards to be granted in 2017 will be based on the achievement of three performance measures:

- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2017, the start of the performance period. There is no vesting for ranking below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
- EPS (33.3%) – the Company's EPS over the three-year performance period
- cash (33.3%) – cash remains critical as a long-term performance measure during the Company's transformation.

As at the date of publication of this Remuneration report, the Committee had not finalised the EPS and cash performance targets for the PSP awards to be granted in 2017. These EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement issued immediately following the grant of the PSP award and in the Remuneration report for 2017.

Non-executive Directors

As detailed in the Policy Report, the Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. A summary of current fees is as follows:

	1 July 2015 £	**1 July 2016 £**	% increase
Chairman	270,000	**270,000**	0%
Base fee	56,000	**56,000**	0%
Senior Independent Director fee	10,000	**10,000**	0%
Committee chair fee	10,000	**10,000**	0%

For non-executive Directors based outside Europe, the travel allowance for each overseas visit made on Company business remains at £2,500.

Where the Chairman or Senior Independent Director is also the chair of a Committee, he or she receives no committee chair fee.

Remuneration received by Directors for the year ended 31 December 2016

The table below sets out the Directors' remuneration for the year ended 31 December 2016 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2015.

	Year	Base salary and fees[1,2] £	Taxable benefits[3,4] £	Pension cash allowance £	Annual incentive cash £	Annual incentive deferred shares £	Long-term incentives £	Other £	Total £
Executive Directors									
Philip Harrison	**2016**	**400,000**	**14,449**	**80,000**	**112,992**	**112,992**	**–**	**–**	**720,433**
	2015	233,333	8,506	46,667	65,800	65,800	–	–	420,106
Leo Quinn	**2016**	**800,000**	**29,250**	**160,000**	**228,000**	**228,000**	**–**	**–**	**1,445,250**
	2015	800,000	30,870	160,000	225,600	225,600	–	2,052,902	3,494,972
Former executive Directors									
Duncan Magrath[5]	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	177,195	5,513	31,079	43,600	–	–	373,351	630,738
Andrew McNaughton[6]	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	–	–	–	–	–	–	265,852	265,852
Peter Zinkin[7]	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	106,179	2,697	21,236	34,050	–	–	–	164,162
Non-executive Directors									
Philip Aiken	**2016**	**270,000**	**1,688**	**–**	**–**	**–**	**–**	**–**	**271,688**
	2015	206,654	–	–	–	–	–	–	206,654
Stephen Billingham	**2016**	**64,333**	**–**	**–**	**–**	**–**	**–**	**–**	**64,333**
	2015	37,333	–	–	–	–	–	–	37,333
Stuart Doughty	**2016**	**56,000**	**–**	**–**	**–**	**–**	**–**	**–**	**56,000**
	2015	42,000	–	–	–	–	–	–	42,000
Iain Ferguson	**2016**	**66,000**	**–**	**–**	**–**	**–**	**–**	**–**	**66,000**
	2015	66,000	774	–	–	–	–	–	66,774
Maureen Kempston Darkes[8]	**2016**	**66,000**	**2,573**	**–**	**–**	**–**	**–**	**–**	**68,573**
	2015	76,000	3,309	–	–	–	–	–	79,309
Former non-executive Directors									
Robert Amen[9]	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	68,500	3,839	–	–	–	–	–	72,339
Steve Marshall[10]	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	62,690	1,706	–	–	–	–	–	64,396
Graham Roberts[11]	**2016**	**33,000**	**57**	**–**	**–**	**–**	**–**	**–**	**33,057**
	2015	66,000	–	–	–	–	–	–	66,000

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors.
2 In practice, the base salary paid to Leo Quinn was reduced due to his participation in the Company's Share Incentive Plan. The salary reduction in 2016 was £1,800.
3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for the Director and his immediate family and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for the Director only and received a car allowance of £14,000 per annum.
4 Philip Aiken, Maureen Kempston Darkes and Graham Roberts received taxable travel expenses which are shown in the taxable benefits column.
5 Duncan Magrath ceased to be a Director on 8 May 2015.
6 Andrew McNaughton ceased to be a Director on 3 May 2014.
7 Peter Zinkin ceased to be a Director on 26 March 2015.
8 Maureen Kempston Darkes' fees shown for 2015 include £10,000 in respect of travel allowances for meetings attended in 2015. None were paid in 2016.
9 Robert Amen stepped down from the Board effective 31 December 2015.
10 Steve Marshall stepped down from the Board effective 26 March 2015.
11 Graham Roberts died on 1 July 2016. Fees were paid to 30 June 2016 including a payment as chairman of the Audit Committee.

Annual report on remuneration continued

AIP awards for the year ended 31 December 2016

For 2016, the AIP for the executive Directors was a maximum bonus of 120% of base salary based on the achievement of three performance measures:

– profit before tax (51%)
– cash (25%)
– strategic business and personal objectives (24%).

The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares.

AIP objective			Actual	Maximum (% of salary)	Actual (% of salary)	Payable in cash (% of salary)	Payable in shares (% of salary)
Profit before tax and non-underlying items	Threshold Target Maximum	£81.0m £101.3m £111.4m	£60m	61.2	0	0	0
Group Total Cash Flow	Threshold Target Maximum	£(144)m £(120)m £(108)m	£10m[1]	30.0	30.0	15.0	15.0
Strategic business and personal objectives as agreed by the Remuneration Committee (details below)	Remuneration Committee assessment of achievement		Group Chief Executive 93.75%	28.8	27.0	13.5	13.5
			Chief Financial Officer 92.0%	28.8	26.5	13.25	13.25
			Total – Group Chief Executive	120.0	57.0	28.5	28.5
			Total – Chief Financial Officer	120.0	56.5	28.25	28.25

1 Although the Group total cash flow was impacted positively by foreign exchange and disposals, the Committee has verified that the out-turn would have been at maximum even without these impacts and is satisfied that the achievement is a result of strong underlying performance.

Performance against the 2016 AIP strategic business and personal objectives as it relates to the executive Directors was:

	Group Chief Executive		Chief Financial Officer	
Examples of achievement against key strategic objectives	**Weight %**	**Out-turn %**	**Weight %**	**Out-turn %**
Lean: exceeded targets of £200m cash in and £100m cost out	25.0	25.0	20.0	20.0
Expert: strengthened leadership cadre; improved retention and talent pipeline	25.0	25.0	20.0	16.0
Trusted: improved control environment; implemented clearer, consistent project reporting	25.0	25.0	20.0	18.0
Safe: improved performance against a range of leading and lagging safety performance indicators	25.0	18.75	10.0	8.0
Build to Last: successful triennial pension valuation agreement with trustees; agreed strategy for interest/dividend levels	–	–	30.0	30.0
Total	100.0	93.75	100.0	92.0

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of the profit performance and determined that the above payments are appropriate given the Group's strong cash performance and the personal performance of the executive Directors. The profit performance issues largely relate to legacy contracts. The executive Directors have, in the opinion of the Committee, made significant progress to close out the legacy contracts and to create the foundations for a sustainable business.

Vesting of PSP awards for the year under review

The PSP awards granted on 31 March 2014 were based on a performance period for the three years ended 31 December 2016. The performance conditions were comparative Total Shareholder Return against two different comparator groups. 25% of each part of the award would vest for median performance increasing to 100% of each part of the award vesting for upper quartile performance or above.

Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting %
Total Shareholder Return (50% of award)	TSR against a group of construction and professional services companies	TSR ranking	5.5 or above	3.0 or above	6.6	0
Total Shareholder Return (50% of award)	TSR against the 94 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	47.5 or above	24.0 or above	59.2	0
					Total vesting	0

As disclosed in the 2015 Remuneration Report, two former executive Directors at the time of the grant of the 2014 PSP award had a pro-rated number of shares preserved at cessation of employment, subject to the achievement of the original performance criteria (Duncan Magrath and Peter Zinkin, who left employment with the Company on 8 May 2015 and 31 August 2015 respectively). Details of vesting of the PSP awards with performance periods ending in the year under review for the former executive Directors are therefore as follows:

Executive	Type of award	Number of shares at grant	Pro-rata shares preserved on leaving	Number of shares to vest	Number of shares to lapse	Value of vesting shares
Duncan Magrath	2014 conditional	211,162	93,850	–	93,850	–
Peter Zinkin	2014 conditional	220,105	122,281	–	122,281	–

The 2014 PSP awards for Duncan Magrath and Peter Zinkin were scheduled to formally lapse on 31 March 2017. However, as the performance conditions were measured to 31 December 2016, the Committee was able to consider performance and lapse the awards effective 11 January 2017.

Outstanding share awards

				Maximum number of shares subject to award				
Name of Director	Share award	Date granted	At 1 January 2016	Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2016	Exercisable and/ or vesting from
Philip Harrison	PSP[1,2,5]	26 June 2015	295,857	–	–	–	**295,857**	26 June 2018
	PSP [3,4,5,6]	13 April 2016	–	254,885	–	–	**254,885**	13 April 2019
	DBP[7,8,10,11,12]	31 March 2016	–	26,143	–	–	**26,143**	31 March 2019
	Share buyout[13]	11 June 2015	30,831	–	–	–	**30,831**	31 December 2016
	Share buyout[13]	11 June 2015	61,662	–	–	–	**61,662**	31 December 2017
Leo Quinn	PSP[1,2,5]	26 June 2015	788,954	–	–	–	**788,954**	26 June 2018
	PSP [3,4,5,6]	13 April 2016	–	679,694	–	–	**679,694**	13 April 2019
	DBP[7,8,10,11,12]	26 June 2015	193,280	627	–	–	**193,907**	26 June 2018
	DBP[7,8,10,11,12]	31 March 2016	–	89,636	–	–	**89,636**	31 March 2019
	Share buyout[13]	2 January 2015	604,256	–	–	–	**604,256**	2 January 2017
	Share buyout[13]	2 January 2015	1,208,511	–	–	–	**1,208,511**	2 January 2018

1 2015 PSP award: The award is subject to three performance targets over a three-year performance period commencing 1 January 2015, except for Leo Quinn's award which has a measurement period for the TSR part of the three years to 14 October 2017. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–150 by market capitalisation in the FTSE All Share Index, no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. Net Debt part (33.3% weighting), no vesting unless 2017 year-end Net Debt is less than £(150)million, 25% vesting of this part at £(150)million, rising to full vesting at £nil. EPS part (33.3% weighting), no vesting unless 2017 EPS is 14p, 25% vesting of this part at 14p, rising to full vesting at 21p.

2 The 2015 PSP award used a share price of 202.8p to calculate the number of shares awarded, being the average middle market price of ordinary shares in the Company for the 10 dealing dates before Leo Quinn joined the Company on 2 January 2015. The closing middle market price of ordinary shares on the date of the award was 243.0p.

3 2016 PSP award: Details of this award are set out on page 96.

4 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 249.2p for the 2013 award, 301.9p for the 2014 and 235.4p for the 2016 award. The closing middle market price of ordinary shares on the date of the awards was 244.9p, 299.6p and 238.3p respectively.

5 All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc.

6 On 13 April 2016, for all participants in the PSP, a maximum of 3,768,644 conditional shares were awarded which are exercisable on 13 April 2019.

7 All DBP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.

8 The initial DBP awards made in 2014, March 2015, June 2015 and 2016 will vest on 31 March 2017, 31 March 2018, 26 June 2018 and 31 March 2019 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).

9 The initial DBP awards made in 2013 vested on 31 March 2016. The closing middle market price of ordinary shares in the Company on the vesting dates was 254.6p.

10 The shares subject to the DBP awards made on 31 March 2013, 31 March 2014, 31 March 2015, 26 June 2015 and 31 March 2016 were purchased at average prices of 234.85p, 301.9p, 241.0p, 245.0p and 252.5p respectively.

11 On 31 March 2016, for all participants in the DBP, a maximum of 651,306 conditional shares were awarded which will normally be released on 31 March 2019. On 6 October 2016, a further 4,676 conditional shares were awarded in lieu of entitlements to the interim 2016 dividend.

12 For the initial DBP awards made in 2014, 2015 and 2016, the shares awarded on 6 October 2016 (in lieu of the interim 2016 dividend) were allocated at the average price of 277p.

13 The share buyout awards were granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. The awards compensate each of Leo Quinn and Philip Harrison for incentive awards which were forfeited on leaving their previous employers. Further details of these awards are set out on pages 96 and 97. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.

14 The closing market price of the Company's ordinary shares on 31 December 2016 was 268.2p. During the year, the highest and lowest closing market prices were 295.1p and 190.8p respectively.

Annual report on remuneration continued

PSP awards granted during the year

On 13 April 2016, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Leo Quinn	Conditional	200% of salary of £800,000	235.4p	679,694	£1,600,000	25%	31 December 2018	13 April 2019
Philip Harrison	Conditional	150% of salary of £400,000	235.4p	254,885	£599,999	25%	31 December 2018	13 April 2019

The performance condition for 33.3% of the award (the TSR Part) will measure the Company's Total Shareholder Return performance relative to the TSR performance of a comparator group of companies comprising the constituents of the FTSE 51–150 (excluding investment trusts) as at the start of the measurement period. The measurement period for the TSR Part is the three financial years to 31 December 2018.

No portion of the TSR Part will vest unless the Company's TSR performance at 31 December 2018 ranks at least equal to median TSR performance of the comparator group, at which point 25% of the TSR Part will vest, rising on a straight-line basis to full vesting for the Company's TSR performance ranking at upper quartile or better.

The performance condition applying to a separate 33.3% of the award (the Net Debt Part) will measure the Company's net debt at the end of the measurement period comprising the three financial years to 31 December 2018.

No portion of the Net Debt Part will vest unless the Company's net debt at the 2018 financial year end is less than £(75) million. Were net debt to be £(75) million or less but more than £0 million, 25% to 50% of the Net Debt Part would vest on a straight-line between such levels. Were net debt to be £0 million or less, between 50% and 100% of the Net Debt Part would vest on a straight-line basis for net cash between £nil and £50 million.

The performance condition applying to a separate 33.3% of each award (the EPS Part) will measure the Company's underlying earnings per share (EPS) performance at the end of the measurement period comprising the three financial years to 31 December 2018.

No portion of the EPS Part will vest unless the Company's EPS for the 2018 financial year is 20p, at which point 25% of the EPS Part will vest, rising on a straight-line basis to full vesting for the Company's EPS being 27p or more.

Executive Directors' recruitment terms

Leo Quinn

As part of his recruitment arrangements and as fully disclosed in the 2014 and 2015 Remuneration reports, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer.

Outstanding at year end is a conditional share award over 1,812,767 Balfour Beatty plc shares granted on 2 January 2015 which will vest in two tranches:

- 604,256 shares (one-third of the award) will vest on the second anniversary of grant subject to share price targets tested at the end of the two-year period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p. No vesting for this part of the award will take place for an average share price of less than 222p
- 1,208,511 shares (two-thirds of the award) will vest on the third anniversary of grant subject to share price targets tested at the end of the three-year period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p
- in addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The above share-based buyout award lapses in the event of voluntary resignation or termination for cause prior to the respective vesting dates. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro-rating at the time of cessation.

In relation to the first tranche of 604,256 shares, on 13 March 2017 the Remuneration Committee reviewed the end average share price of 274.34p at 2 January 2017 against the target range, indicating vesting at 70.12% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 70.12% of the award (423,704 shares) will be permitted to vest on 16 March 2017 when the Company enters an open period.

Philip Harrison

As part of his recruitment arrangements, the Company agreed to compensate Philip Harrison for share awards which were forfeited upon leaving his previous employer. The performance targets are consistent with the awards granted to Leo Quinn at the start of 2015.

The Company granted a conditional share award over 92,493 Balfour Beatty plc shares on 11 June 2015 which will vest in two tranches:

- 30,831 shares (one-third of the award) will vest on 31 December 2016 subject to share price targets tested at the end of the period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p. No vesting for this part of the award will take place for an average share price of less than 222p
- 61,662 shares (two-thirds of the award) will vest on 31 December 2017 subject to share price targets tested at the end of the period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p
- in addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The share buyout award lapses in the event of voluntary resignation or termination for cause prior to the respective vesting dates. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro-rating at the time of cessation.

In relation to the first tranche of 30,831 shares, on 13 March 2017 the Remuneration Committee reviewed the end average share price of 274.01p at 31 December 2016 against the target range, indicating vesting at 69.83% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 69.83% of the award (21,529 shares) will be permitted to vest on 16 March 2017 when the Company enters an open period.

Payments to past Directors

There were no payments to past executive Directors during 2016.

Statement of Directors' shareholdings and share interests

The interests of the Directors and connected persons (including, amongst others, members of the Director's immediate family) in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below:

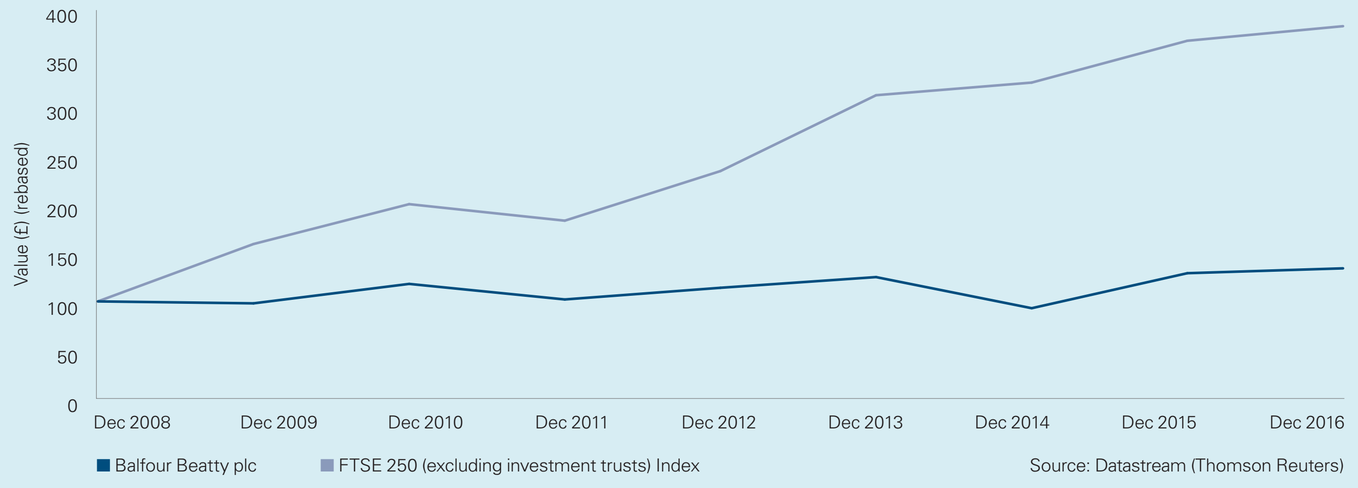
Directors	Beneficially owned at 1 January 2016[1,2]	Beneficially owned at 31 December 2016[2,3,4]	Outstanding PSP awards	Outstanding DBP awards	Outstanding share buyout awards	Beneficially owned at 31 December 2016 as a % of base salary at 31 December[5] 2016	Guideline met[6]
Philip Harrison	6,349	6,349	550,742	26,143	92,493	4.3%	No
Leo Quinn	162,675	486,127	1,468,648	283,543	1,812,767	163.0%	Yes
Philip Aiken	10,000	15,000					
Stephen Billingham[7]	11,350	23,580					
Stuart Doughty	–	–					
Iain Ferguson	55,000	55,000					
Maureen Kempston Darkes	7,000	7,000					
Graham Roberts	15,000	15,000					

1 Or date of appointment, if later.
2 Includes any shares held in the Company's all-employee Share Incentive Plan.
3 Or date of stepping down from the Board, if earlier.
4 As at 15 March 2017, there have been no changes to the above other than an increase in respect of ordinary shares held in the Share Incentive Plan for Leo Quinn by 165 shares and a market purchase by Stuart Doughty of 4,550 ordinary shares at a price of 271.2p on 10 February 2017.
5 The closing market price of the Company's ordinary shares as at 31 December 2016 (268.2p) was used to calculate the value of shares beneficially owned.
6 The executive Directors are required to hold shares in the Company worth 100% of base salary and must retain no fewer than 50% of the shares, net of taxes, vesting under the DBP and PSP until the required shareholding is met. Subject to the approval of shareholders at the 2017 AGM, the revised Remuneration Policy requires that the Group Chief Executive and Chief Financial Officer have share ownership guidelines of 200% and 150% of salary respectively.
7 Stephen Billingham was also interested in 34,612 and 36,070 redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2016 and 31 December 2016, respectively.

Annual report on remuneration continued

Performance graph

As in previous reports, the Remuneration Committee has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, and have been calculated using 30 trading day average values.



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last eight financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ended 31 December							
	2009	2010	2011	2012	2013	2014	2015	**2016**
Total remuneration[1]	£1,617,233	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568	£1,442,070	**1,445,250**
AIP (%)[2]	60.4%	69.6%	65.3%	40.2%	21.0%	0%	47.0%	**47.5%**
PSP (%)	50%	18.4%	0%	0%	0%	0%	0%	**0%**

1 The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures for 2015 onwards relate to Leo Quinn.
2 Andrew McNaughton did not qualify for any 2014 AIP.

Percentage change in Group Chief Executive's remuneration compared with all UK employees

The table below shows the percentage change in the Group Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2015 and 31 December 2016, compared with the percentage increase in the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator.

	2015	**2016**	% change
Salary for year ended 31 December			
Group Chief Executive (£000)	800	**800**	0%
All UK employees (£m)	683	**668**	(2)%
Benefits for year ended 31 December			
Group Chief Executive (£000)	191	**189**	(1)%
All UK employees (£m)	34	**36**	6%
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000)	451	**456**	1%
All UK employees (£m)	26	**17**	(34)%
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	1,442	**1,445**	0%
All UK employees (£m)	743	**721**	(3)%

Relative importance of spend on pay, dividends and underlying pre-tax profit

The following table shows the Company's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit:

	2015	**2016**	% change
Staff costs (£m)[1]	1,157	**1,201**	4%
Dividends (£m)	0	**6**	100%
Underlying pre-tax profit/(loss) (£m)[2]	(124)	**60**	148%

1 Staff costs include base salary, benefits and bonuses for all Group employees in continuing and discontinued operations (excluding joint ventures and associates).
2 Underlying pre-tax profit/(loss) is from continuing and discontinued operations.

Directors' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2016. The executive Directors were in receipt of a cash allowance in lieu of pension equivalent to 20% of base salary as disclosed in the Directors' Remuneration table on page 93.

External appointments of executive Directors

Leo Quinn acted as a non-executive director of Betfair Group plc until 2 February 2016 and received and retained fees of £10,231 during 2016.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code. No member of the Committee has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. During the year under review, the members of the Committee were as follows:

- Iain Ferguson (Committee chair)
- Philip Aiken
- Stuart Doughty
- Maureen Kempston Darkes
- Graham Roberts.

Stuart Doughty stepped down from the Committee on 13 January 2016 as part of a general review of committee membership by the Board. Graham Roberts was a member of the Committee until his death on 1 July 2016.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed
- New Bridge Street (a trading name of Aon plc) (NBS).

NBS has been appointed as external independent executive remuneration advisers by the Committee and has provided a range of advice to the Committee during the year, including:

- in support of the Remuneration Policy review, NBS provided analysis of market practice and advice on remuneration approaches for consideration by the Committee and in relation to the views of shareholders and their representative bodies
- assistance with the drafting of the Remuneration report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards and the share buyout awards.

Neither NBS nor any part of Aon plc provided any other services to the Company during the year under review. Total fees paid to NBS in respect of its services to the Committee were £62,206 (2015: £45,871).

NBS is a signatory to the Remuneration Consultants' Code of Conduct. The Committee is satisfied that the advice that it receives from NBS is objective and independent.

Statement of shareholder voting at AGM

At the AGM on 19 May 2016, the resolution to approve the Remuneration report received the following votes from shareholders:

	Total number of votes	**% of votes cast**
For	505,921,427	96.8%
Against	16,545,062	3.2%
Total votes cast	522,466,489	100%
Abstentions	136,870	–

By order of the Board

Iain Ferguson
Chairman of the Remuneration Committee

15 March 2017

Independent auditor's report to the members of Balfour Beatty plc

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Balfour Beatty plc for the year ended 31 December 2016 set out on pages 104 to 184.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the IAS Regulation.

Overview

Materiality: Group financial statements as a whole	£10m 20% of normalised Group profit before tax from continuing operations
Coverage	99% of Group profit before tax
Risks	Contract accounting Goodwill impairment

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

The risk

Contract accounting
£6.2 billion
(2015: £5.9 billion)

Refer to page 76 (Audit and Risk Committee Report), page 114 (Principal accounting policies – Note 2.5 Construction and service contracts) and pages 117-118 (Judgements and key sources of estimation uncertainty – Note 2.27a Revenue and margin recognition).

Subjective estimate
For the majority of its contracts, the Group recognises revenue and profit on the stage of completion based on the proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total costs of the contract at completion.

The recognition of revenue and profit therefore relies on estimates in relation to the forecast total costs on each contract. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and adjusted where appropriate.

The revenue on contracts may also include variations and claims. Variations and claims are recognised on a contract-by-contract basis when the Group's negotiations have reached a stage such that it is probable that the customer will accept the claim and the amount can be measured reliably. In certain circumstances recoveries from insurers are also included in forecasts where sufficient progress has been made to meet accounting recognition requirements. Therefore there is a high degree of risk and associated management judgement in estimating the amount of revenue and associated profit to be recognised by the Group up to the balance sheet date and changes to these estimates could give rise to material variances.

Our response

Our procedures included:

- **Tests of detail**: using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the detailed project review papers from the Group to support the estimates made and challenged the judgements underlying those papers with senior operational, commercial and financial management;
- **Historical comparisons**: evaluating the financial performance of contracts against budget and historical trends;
- **Site visits**: completing site visits to certain higher risk or larger value contracts, physically inspecting the stage of completion of individual projects and identifying areas of complexity through observation and discussion with site personnel;
- **Benchmarking assumptions**: challenging the Group's judgement in respect of forecast contract out-turn, contingencies, settlements and the recoverability of contract balances via agreement to third-party certifications and confirmations and with reference to our own assessments, historical outcomes and industry norms;
- **Customer correspondence scrutiny**: analysing correspondence with customers around variations and claims and considering whether this information is consistent with the estimates made by the Group;
- **Insurer correspondence scrutiny**: analysing correspondence and meeting minutes with insurers around recognised insurance claims and considering whether this information supports the position taken on the contract;
- **Test of detail**: inspecting selected contracts for key clauses; identifying relevant contractual mechanisms such as pain/gain shares, design bonuses, liquidated damages and success fees and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements;
- **Our sector experience**: assessing whether the amounts recognised in the financial statements resulting from the estimates and assumptions made represent a balanced view of the risks and opportunities pertinent to the contract cash positions;
- **Our sector experience**: considering whether provisions against contracts sufficiently reflect the level of risk by challenging the Group's judgement in this area with reference to our own assessments.

The risk	Our response
Goodwill impairment £937 million; 2015: £844 million Refer to page 76 (Audit and Risk Committee Report), pages 115-116 (Principal accounting policies – Note 2.12 Intangible assets, Note 2.16 Impairment of assets) and pages 130-131 (Note 14 Intangible assets – goodwill). **Forecast-based valuation** The Group's balance sheet includes goodwill. The risk is that the goodwill allocated to cash-generating units (CGU) is not recoverable and should be impaired. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgement areas for our audit. The Group annually carries out an impairment assessment of goodwill using a value-in-use model which is based on the net present value of the forecast earnings of the cash-generating unit. This is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts. Given the relative size of the goodwill in the Group balance sheet, in particular with regard to the UK Regional and Engineering Services CGU, which remains loss making, relatively small changes in the above assumptions could give rise to material changes in the assessment of the carrying value of goodwill.	Our procedures included: – **Assessing methodology**: considering the consistency and appropriateness of the allocation of businesses and related goodwill balances into CGUs; – **Benchmarking assumptions**: considering the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy, current order book, and wider macroenvironment conditions; – **Our sector experience**: challenging the assumptions used in the calculation of the discount rates used by the Group, including comparisons with external data sources and by involving our own valuation specialist to assist us in evaluating the valuation methodologies used by the Group, as well as the discount rate assumptions applied; – **Sensitivity analysis**: performing our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and margins to identify areas on which to focus our procedures; and – **Assessing transparency**: considering the adequacy of the Group's disclosures including disclosure of sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflecting the risks inherent in the valuation of goodwill.

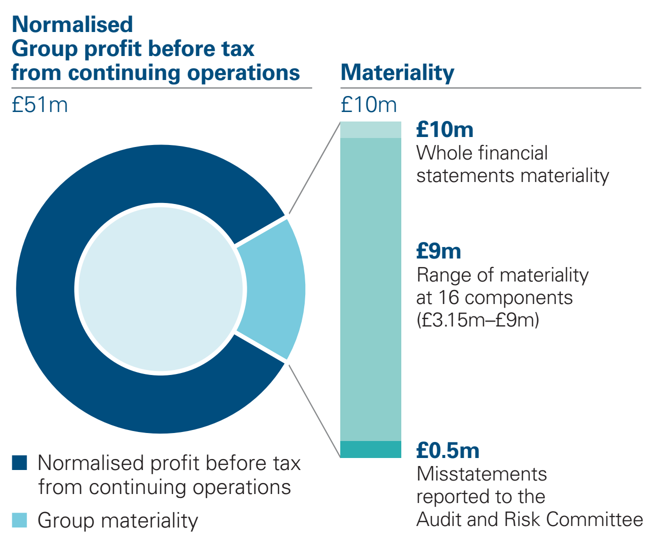
3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £10.0 million, determined with reference to the benchmark of Group profit before tax from continuing operations of £60 million normalised to take into account items that are considered one-off or exceptional in the year as disclosed in Note 10, but not including an adjustment for the amortisation of acquired intangible assets of £9 million, of which it represents 20%.

Due to the volatility in the Group's results in recent financial years, as part of our materiality assessment we also considered the scale of the business, the level of judgement and precision within the Group's key accounting judgements, as well as how the level of materiality compares to other relevant benchmarks such as revenue, of which it represents 0.1% and total assets, of which it represents 0.2%, where they provide more consistent measures year-on-year than Group profit before tax.

We report to the Audit and Risk Committee any corrected and uncorrected identified misstatements exceeding £0.5 million in addition to other identified misstatements that warrant reporting on qualitative grounds.

Of the Group's 16 reporting components, 11 were subject to an audit for Group reporting purposes, 2 to specified risk-focused audit procedures and 3 to reviews. The components for which we performed specified risk-focused procedures were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed. The specified audit procedures were performed over fixed assets 2 components and inventory 1 component.



Independent auditor's report to the members of Balfour Beatty plc continued

The components for which we performed a review of financial information were not individually significant enough to require an audit for Group reporting purposes but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. Together, the audits cover 96% of Group revenue, 93% of Group profit before tax and 94% of Group total assets. Including the components subject to specified procedures or review, coverage was 100% of Group revenue, 99% of Group profit before tax and 100% of Group total assets. As part of the audit we performed procedures on the items excluded from normalised Group profit before tax.

The Group operates one shared service centre in Newcastle, United Kingdom, the outputs of which are included in the financial information of the reporting components it services. Therefore it is not a separate reporting component. The service centre is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at each reporting component to address the audit risks not covered by the work performed over the shared service centre.

The Group audit team instructed component auditors, and the auditors of the shared service centre, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £3.15 million to £9.0 million, having regard to the mix of size and profile of the Group across the components. The work on 15 of the Group's 16 components was performed by the component auditors with the review of financial information on one of the components being performed by the Group audit team.

In 2016, the Group audit team visited nine components in the United Kingdom, United States, United Arab Emirates and Hong Kong. Telephone conference meetings were held with these component auditors and the majority of the others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in detail.

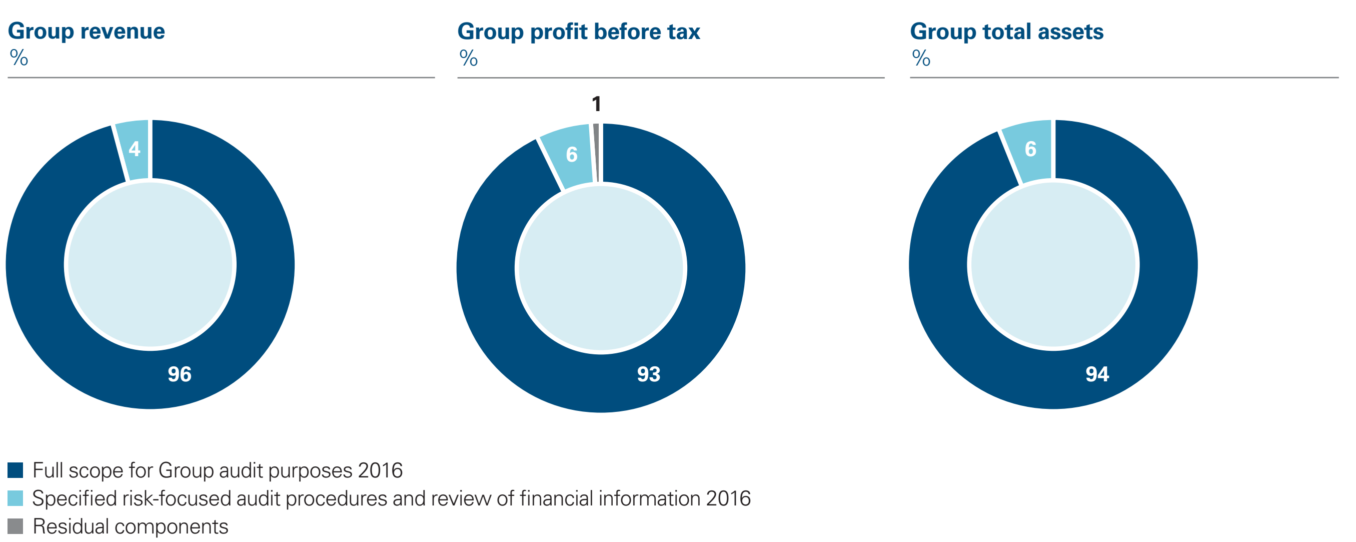
4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.



5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement in relation to Balfour Beatty plc's longer-term viability on pages 53 to 65, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2019; or
- the disclosures in the Chief Financial Officer's review on page 52 concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit and Risk Committee Report on pages 75 to 77 does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 52 and 65, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 66 relating to the Company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 83, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stephen Wardell
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, 15 Canada Square, London E14 5GL

15 March 2017

KPMG

Group Income Statement

For the year ended 31 December 2016

	Notes	2016 Underlying items[1] £m	2016 Non-underlying items (Note 10) £m	2016 Total £m	2015 Underlying items[1] £m	2015 Non-underlying items (Note 10) £m	2015 Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**8,530**	**153**	**8,683**	8,235	209	8,444
Share of revenue of joint ventures and associates	18.2	**(1,748)**	**(12)**	**(1,760)**	(1,471)	(18)	(1,489)
Group revenue	4	**6,782**	**141**	**6,923**	6,764	191	6,955
Cost of sales		**(6,503)**	**(136)**	**(6,639)**	(6,609)	(189)	(6,798)
Gross profit		**279**	**5**	**284**	155	2	157
Gain on disposals of interests in investments	32.2/32.3	**65**	**–**	**65**	95	–	95
Amortisation of acquired intangible assets	15	**–**	**(9)**	**(9)**	–	(10)	(10)
Other net operating expenses		**(332)**	**(49)**	**(381)**	(403)	(65)	(468)
Group operating profit/(loss)		**12**	**(53)**	**(41)**	(153)	(73)	(226)
Share of results of joint ventures and associates	18.2	**55**	**1**	**56**	47	(3)	44
Profit/(loss) from operations	6	**67**	**(52)**	**15**	(106)	(76)	(182)
Investment income	8	**75**	**–**	**75**	52	–	52
Finance costs	9	**(82)**	**–**	**(82)**	(69)	–	(69)
Profit/(loss) before taxation		**60**	**(52)**	**8**	(123)	(76)	(199)
Taxation	11	**(12)**	**4**	**(8)**	(11)	4	(7)
Profit/(loss) for the year from continuing operations		**48**	**(48)**	**–**	(134)	(72)	(206)
Profit/(loss) for the year from discontinued operations		**–**	**24**	**24**	(1)	1	–
Profit/(loss) for the year		**48**	**(24)**	**24**	(135)	(71)	(206)
Attributable to							
Equity holders		**48**	**(24)**	**24**	(135)	(71)	(206)
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit/(loss) for the year		**48**	**(24)**	**24**	(135)	(71)	(206)

1 Before non-underlying items (Notes 2.10 and 10).

	Notes	2016 Pence	2015 Pence
Basic earnings/(loss) per ordinary share			
– continuing operations	12	**–**	(30.2)
– discontinued operations	12	**3.5**	0.1
	12	**3.5**	(30.1)
Diluted earnings/(loss) per ordinary share			
– continuing operations	12	**–**	(30.2)
– discontinued operations	12	**3.5**	0.1
	12	**3.5**	(30.1)
Dividends per ordinary share proposed for the year	13	**2.7**	–

Commentary on the Group Income Statement*

Total pre-tax profit from continuing operations for 2016 was £8m, which is inclusive of a non-underlying loss of £52m. The total profit after tax including discontinued operations was £24m.

Background

The Group Income Statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the statement of comprehensive income. The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The income statement shows the revenue and results of continuing operations. The post-tax results shown within discontinued operations represent the residual gain on the disposal of Parsons Brinckerhoff (PB).

The Group has continued to present the remaining parts of Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. Following the various disposals of parts of Rail Germany in 2015 and 2016, the Group is winding down its remaining operations in Rail Germany with the last remaining contract expected to reach completion in 2018.

In addition to this, in 2014, the performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work was included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group. The Group continues to present the results from these legacy contracts within non-underlying and will continue to do so until these contracts reach completion, inclusive of any claims recovery. Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group.

Revenue

Revenue from continuing operations including non-underlying items, joint ventures and associates increased by 3% to £8,683m from £8,444m in 2015.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 49 to 52.

Commentary on the Group Income Statement continued

Gain on disposal of investments

The Group continued its programme of realising accumulated value in the Investments portfolio and generated income by disposing of interests in Connect M1-A1 Holdings Ltd (the Group continues to hold a 20% stake), Living & Learning Unit Trust, BSF Schools and five of its streetlighting projects (the Group continues to hold 20% interests) resulting in a net underlying gain of £65m after recycling losses of £1m from reserves to the income statement.

Share of results of joint ventures and associates

Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

This share increased by £8m to £55m before non-underlying items, largely due to a decrease in losses incurred by the Group's Middle East joint ventures.

Underlying profit from continuing operations

Underlying profit from continuing operations increased to £67m from a £106m loss in 2015. This is primarily driven by significantly reduced contract losses in the UK and US construction businesses as the Group continued to be more selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and better contract governance. Support Services and Infrastructure Investments continued to deliver excellent operating results, including the benefit of £65m of gains from investment disposals.

Non-underlying items

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

Non-underlying items from continuing operations of £52m before tax were charged to the income statement. These comprised amortisation of acquired intangible assets of £9m, trading profits from Rail Germany of £1m, losses resulting from legacy ES contracts of £6m and other loss items of £38m.

Significant other non-underlying items included £14m of restructuring costs incurred relating to the Group's Build to Last transformation programme which was launched in early 2015. As a result of a reassessment of potential liabilities on historical health and safety breaches following new sentencing guidelines introduced and the settlement of other historical claims, the Group revised its legal provisioning levels resulting in a £25m expense in the year. This has been presented as non-underlying because its size would otherwise distort the underlying performance achieved by the Group and the events giving rise to these expenses occurred in prior years.

In 2016, the Group commissioned a revised independent actuarial report on its exposure to industrial disease related liabilities. As a result of the findings within this report, the Group has increased its provision held with respect to industrial disease related claims giving rise to a £14m charge to the income statement in the year.

Non-underlying items continued

The non-underlying charges recognised in 2016 were partially offset by a £9m gain following the release of all remaining provisions relating to Trans4m Ltd (Trans4m). Trans4m went into creditors' voluntary liquidation on 27 June 2016.

Net finance cost

Net finance cost of £7m in the year represents a decrease from £17m in 2015 mainly due to a £19m gain on foreign currency deposits in the year.

Taxation

The Group's underlying profit before tax from continuing operations for subsidiaries of £5 million (2015: £170 million loss) resulted in an underlying tax charge of £12 million (2015: £11 million). The tax charge principally arises due to significant non-recognition of deferred tax assets on losses incurred in the year. In addition tax is levied at the subsidiary level for US and Canada joint ventures and associates, rather than within the share of joint ventures and associates.

Discontinued operations

In 2016, the Group reached a settlement with the purchaser of Parsons Brinckerhoff (PB), the Group's former professional services business disposed in October 2014, in relation to outstanding tax matters and indemnities. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters have been released, resulting in an overall non-underlying gain to the Group of £24m.

Earnings per share

Basic earnings per share from continuing operations was nil (2015: 30.2p loss) as a result of significant improvements in the Group's UK and US construction businesses as discussed above. Including the results from discontinued operations, the Group generated a basic earnings per share of 3.5p (2015: 30.1p loss). Underlying earnings per share from continuing operations was 7.0p (2015: 19.7p loss).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 49 to 52.

Group Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 Group £m	2016 Share of joint ventures and associates £m	2016 Total £m	2015 Group £m	2015 Share of joint ventures and associates £m	2015 Total £m
(Loss)/profit for the year		**(32)**	**56**	**24**	(250)	44	(206)
Other comprehensive loss for the year							
Items which will not subsequently be reclassified to the income statement							
Actuarial (losses)/gains on retirement benefit liabilities	30.1	**(121)**	**1**	**(120)**	(86)	(4)	(90)
Tax on above	30.1	**2**	**–**	**2**	15	–	15
		(119)	**1**	**(118)**	(71)	(4)	(75)
Items which will subsequently be reclassified to the income statement							
Currency translation differences	30.1	**51**	**41**	**92**	29	3	32
Fair value revaluations – PPP financial assets	30.1	**27**	**10**	**37**	(13)	(170)	(183)
– cash flow hedges	30.1	**(16)**	**(92)**	**(108)**	8	21	29
– available-for-sale investments in mutual funds	30.1	**1**	**–**	**1**	–	–	–
Recycling of revaluation reserves to the income statement on disposal*	32.2/32.3	**(17)**	**9**	**(8)**	(15)	(5)	(20)
Tax on above	30.1	**(1)**	**15**	**14**	1	33	34
		45	**(17)**	**28**	10	(118)	(108)
Total other comprehensive loss for the year		**(74)**	**(16)**	**(90)**	(61)	(122)	(183)
Total comprehensive (loss)/income for the year	30.1	**(106)**	**40**	**(66)**	(311)	(78)	(389)
Attributable to							
Equity holders				**(67)**			(389)
Non-controlling interests				**1**			–
Total comprehensive loss for the year	30.1			**(66)**			(389)

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

Commentary on Group Statement of Comprehensive Income*

Total comprehensive loss for 2016 was £66m comprising a total profit after tax including discontinued operations of £24m and other comprehensive loss after tax of £90m.

Background

The Group Statement of Comprehensive Income is presented on a total Group basis combining continuing and discontinued operations. Other comprehensive income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement.

Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit liabilities are increases or decreases in the present value of the pension liability because of:

- differences between the previous actuarial assumptions and what has actually occurred; or
- changes in actuarial assumptions used to value the obligations.

Actuarial losses for the Group including joint ventures and associates increased from £90m loss in 2015 to £120m loss in 2016. Refer to Note 28.

Items which will subsequently be reclassified to the income statement

Currency translation differences

The Group operates in a number of countries with different local currencies. Currency translation differences arise on translation of the balance sheet and results from the local functional currency into the Group's presentational currency, sterling.

Fair value revaluations – PPP financial assets

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related fair value movements recognised in OCI. During the year, there was a decrease in gilt rates resulting in a fair value gain including joint ventures and associates of £37m being taken through OCI (2015: £183m loss).

Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in the Group's Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements. The fair value of derivatives changes in response to prevailing market conditions. During the year, LIBOR decreased resulting in a fair value loss on the interest rate swaps including joint ventures and associates of £108m being recognised in OCI (2015: £29m gain).

Recycling of reserves to the income statement on disposal

Fair value gains and losses and currency translation differences recognised in OCI are transferred to the income statement upon disposal of the asset and therefore on disposal of Infrastructure Investments' concessions and other businesses, £8m profit including joint ventures and associates was recycled to the income statement through OCI and is included in the gain on disposal.

There is no associated tax on the amounts recycled to the income statement.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 49 to 52.

Group Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves (Note 18.6) £m	Other reserves (Note 30.1) £m	Retained profits/ (losses) £m	Non-controlling interests £m	Total £m
At 1 January 2015		345	64	23	340	140	315	3	1,230
Total comprehensive (loss)/income for the year	30.1	–	–	–	(78)	5	(316)	–	(389)
Joint ventures' and associates' dividends	18.1	–	–	–	(69)	–	69	–	–
Issue of ordinary shares	29.1	–	1	–	–	–	–	–	1
Movements relating to share-based payments		–	–	–	–	(1)	(12)	–	(13)
Minority interest	30.1	–	–	–	–	–	–	1	1
Reserve transfers relating to joint venture and associate disposals	18.6	–	–	–	(13)	–	13	–	–
Other transfers		–	–	(1)	16	–	(15)	–	–
At 31 December 2015		345	65	22	196	144	54	4	830
Total comprehensive (loss)/income for the year	30.1	**–**	**–**	**–**	**40**	**44**	**(151)**	**1**	**(66)**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Joint ventures' and associates' dividends	18.1	**–**	**–**	**–**	**(43)**	**–**	**43**	**–**	**–**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**3**	**1**	**–**	**4**
Reserve transfers relating to joint venture and associate disposals	18.6	**–**	**–**	**–**	**(9)**	**–**	**9**	**–**	**–**
At 31 December 2016		**345**	**65**	**22**	**184**	**191**	**(50)**	**5**	**762**

Commentary on Group Statement of Changes in Equity*

Total equity holders' funds of £757m at 31 December 2016 decreased by 8% primarily due to movements in other comprehensive income.

Background

The Group Statement of Changes in Equity includes the total comprehensive income attributable to equity holders of the Company and non-controlling interests and also discloses transactions which have been recognised directly in equity and not through the income statement.

Dividends

The Board reinstated the dividend, declaring an interim dividend of 0.9p in August 2016 which was paid in December 2016. The Board is recommending a final dividend of 1.8p.

Joint ventures' and associates' dividends

Dividends of £43m were received in the year from joint ventures and associates (JVA) resulting in a transfer of this amount between JVA reserves and Group retained profits.

Special reserve

A special reserve of £185m was created in 2004 as a result of cancelling £181m of share premium and cancelling the £4m capital redemption reserve in Balfour Beatty plc. This was approved by the court and becomes distributable to the extent of future increases in share capital and share premium, of which £nil occurred in 2016 (2015: £1m).

Other reserves

Other reserves comprise: the equity components of the preference shares of £18m (2015: £18m) and convertible bonds £26m (2015: £26m); the hedging reserves £(30)m (2015: £(58)m); PPP financial assets revaluation reserve £25m (2015: £58m); currency translation reserve £135m (2015: £87m) and other reserves £17m (2015: £13m).

Other reserve transfers relating to joint venture and associate disposals

On disposal of JVAs, retained profits relating to these businesses are transferred from the JVA reserves to the Group's retained profits.

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves (Note 30.2) £m	Retained profits £m	Total £m
At 1 January 2015		345	64	23	118	581	1,131
Total comprehensive income for the year	30.2	–	–	–	–	36	36
Issue of ordinary shares	29.1	–	1	–	–	–	1
Movements relating to share-based payments		–	–	–	(2)	(14)	(16)
Other transfers		–	–	(1)	–	1	–
At 31 December 2015		345	65	22	116	604	1,152
Total comprehensive loss for the year	30.2	**–**	**–**	**–**	**–**	**(18)**	**(18)**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Movements relating to share-based payments		**–**	**–**	**–**	**6**	**(2)**	**4**
At 31 December 2016		**345**	**65**	**22**	**122**	**578**	**1,132**

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 49 to 52.

Balance Sheets

At 31 December 2016

	Notes	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current assets					
Intangible assets – goodwill	14	**937**	844	**–**	–
– other	15	**225**	222	**–**	–
Property, plant and equipment[2]	16	**181**	163	**–**	–
Investment properties[2]	17	**36**	4	**–**	–
Investments in joint ventures and associates	18	**628**	671	**–**	–
Investments	19	**45**	44	**1,698**	1,671
PPP financial assets	20	**163**	402	**–**	–
Trade and other receivables	23	**180**	114	**2**	4
Deferred tax assets	27	**54**	58	**–**	–
Derivative financial instruments	38	**3**	–	**–**	–
		2,452	2,522	**1,700**	1,675
Current assets					
Inventories and non-construction work in progress	21	**101**	144	**–**	–
Due from construction contract customers	22	**380**	379	**–**	–
Trade and other receivables	23	**1,066**	885	**1,471**	1,645
Cash and cash equivalents – infrastructure concessions	26	**7**	20	**–**	–
– other	26	**762**	646	**167**	50
Current tax receivable		**8**	4	**5**	12
Derivative financial instruments	38	**1**	1	**1**	1
		2,325	2,079	**1,644**	1,708
Total assets		**4,777**	4,601	**3,344**	3,383
Current liabilities					
Due to construction contract customers	22	**(542)**	(472)	**–**	–
Trade and other payables	24	**(1,752)**	(1,700)	**(1,771)**	(1,724)
Provisions	25	**(147)**	(126)	**–**	–
Borrowings – non-recourse loans	26	**(47)**	(22)	**–**	–
– other	26	**(56)**	(13)	**(50)**	(160)
Current tax payable		**(18)**	(20)	**–**	–
Derivative financial instruments	38	**(6)**	(11)	**(1)**	(1)
		(2,568)	(2,364)	**(1,822)**	(1,885)
Non-current liabilities					
Trade and other payables	24	**(151)**	(130)	**(3)**	(8)
Provisions	25	**(126)**	(80)	**–**	(2)
Borrowings – non-recourse loans	26	**(193)**	(363)	**–**	–
– other	26	**(533)**	(470)	**(285)**	(236)
Liability component of preference shares	29	**(100)**	(98)	**(100)**	(98)
Retirement benefit liabilities	28	**(231)**	(146)	**–**	–
Deferred tax liabilities	27	**(80)**	(53)	**(2)**	(2)
Derivative financial instruments	38	**(33)**	(67)	**–**	–
		(1,447)	(1,407)	**(390)**	(346)
Total liabilities		**(4,015)**	(3,771)	**(2,212)**	(2,231)
Net assets		**762**	830	**1,132**	1,152
Equity					
Called-up share capital	29	**345**	345	**345**	345
Share premium account	30	**65**	65	**65**	65
Special reserve	30	**22**	22	**22**	22
Share of joint ventures' and associates' reserves	30	**184**	196	**–**	–
Other reserves	30	**191**	144	**122**	116
Retained profits	30	**(50)**	54	**578**	604
Equity attributable to equity holders of the parent		**757**	826	**1,132**	1,152
Non-controlling interests	30	**5**	4	**–**	–
Total equity		**762**	830	**1,132**	1,152

2 Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

On behalf of the Board

Leo Quinn
Director

Philip Harrison
Director

15 March 2017

Commentary on the Group Balance Sheet*

Total assets of £4.8bn were 4% more than last year. Total liabilities of £4.0bn increased by 6%, resulting in an overall decrease in net assets of 8%. The decrease is primarily driven by actuarial losses on retirement benefit liabilities of £120m and fair value losses on the Group's cash flow hedges of £108m, offset by fair value gains on the Group's PPP financial assets of £37m and currency translation gains of £93m.

Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2016. In accordance with IAS 1 Presentation of Financial Statements and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the Group does not re-present the prior year balance sheet for assets held for sale or disposals.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2016 increased to £937m (2015: £844m). The increase was primarily relating to currency translation differences. The Group has conducted impairment reviews on its goodwill balance at the year end and has concluded that it was fully recoverable.

Investments in joint ventures and associates

Investments in joint ventures and associates have decreased to £628m in 2016 from £671m in 2015 primarily due to the disposal of the Infrastructure Fund.

PPP financial assets

The £239m decrease in PPP financial assets is principally driven by the sale of 80% of the Group's interest in five streetlighting projects. As a result, the Group no longer consolidates these five streetlighting projects as subsidiaries, and the Group has accounted for its remaining 20% interests as joint ventures. The Group recognised an underlying gain of £11m as a result of this sale.

Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 111.

Provisions are discussed in the working capital commentary and in detail in Note 25.

Borrowings

Borrowings excluding non-recourse loans

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

The Group completed its refinancing in December 2015 with the new facility extending though to 2018. In November 2016, £375m of the facility was extended until 2019. A further one-year extension through to 2020 of the whole £400m facility is available, subject to bank approval. At 31 December 2016, £350m of this facility was undrawn.

The Group's borrowings include recourse borrowings to the Group arising from certain Infrastructure Investment projects in North America amounting to £12m (2015: £10m).

Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain construction and infrastructure concessions projects.

At 31 December 2016, the Group's share of non-recourse net borrowings amounted to £1,806m (2015: £2,014m), comprising £1,573m (2015: £1,649m) in relation to joint ventures and associates as disclosed in Note 18.2 and £233m (2015: £365m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 26.

Retirement benefit liabilities

The Group's balance sheet includes retirement benefit liabilities of £231m (2015: £146m) representing deficits in the Group's pension schemes. These liabilities increased primarily due to actuarial losses on pension scheme obligations. Refer to Note 28 for further details.

Any surplus of deficit contributions would be recoverable by way of a refund as the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the schemes have been settled.

Other

In addition to the liabilities on the balance sheet, in the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities, commonly referred to as bonds. These bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. They are customary or mandatory in many of the markets in which the Group operates. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from the Company. As at 31 December 2016, contract bonds in issue by financial institutions under uncommitted facilities covered £4.0bn (2015: £3.4bn) of the contract commitments of the Group.

Equity commitments

During 2016, the Group invested £65m (2015: £102m) in a combination of equity and shareholder loans to Infrastructure Investments' project companies and at the end of the year had committed to provide a further £131m from 2017 onwards, inclusive of £56m expected for projects at preferred bidder stage. £33m of this is expected to be invested in 2017, as disclosed in Note 39(f).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 49 to 52.

Group Statement of Cash Flows

For the year ended 31 December 2016

	Notes	Group 2016 £m	Group 2015 £m
Cash flows used in operating activities			
Cash used in:			
– continuing operations – underlying[1]	31.1	**(132)**	(84)
– non-underlying	31.1	**(15)**	(54)
– discontinued operations	31.1	**–**	3
Income taxes received		**11**	6
Net cash used in operating activities		**(136)**	(129)
Cash flows from investing activities			
Dividends received from joint ventures and associates:			
– infrastructure concessions	18.5	**20**	45
– other	18.5	**23**	24
Interest received – infrastructure concessions	18.5	**19**	16
Interest received – other		**20**	5
Acquisition of businesses, net of cash and cash equivalents acquired	32.1	**(6)**	(3)
Purchases of:			
– intangible assets – infrastructure concessions	15	**(6)**	(23)
– intangible assets – other	15	**(5)**	(20)
– property, plant and equipment – infrastructure concessions[2]	16	**(14)**	(9)
– property, plant and equipment – other	16	**(27)**	(27)
– investment properties[2]	17	**(32)**	(4)
– other investments	19	**(1)**	(2)
Investments in and long-term loans to joint ventures and associates	18.5	**(37)**	(79)
Capital repayment from infrastructure concession joint venture	18.5	**–**	7
Short-term loans to joint ventures and associates	18.5	**–**	(11)
Loans repaid from joint ventures and associates	18.5	**–**	2
PPP financial assets cash expenditure	20	**(31)**	(75)
PPP financial assets cash receipts	20	**39**	30
Disposals of:			
– investments in joint ventures – infrastructure concessions	18.5/32	**155**	104
– investments in joint ventures – other	18.5/32	**2**	21
– subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions	32.2.11	**17**	23
– subsidiaries net of cash disposed, separation and transaction costs – other	32.2.11	**14**	16
– property, plant and equipment		**9**	7
– other investments	19	**5**	10
Net cash from investing activities		**164**	57
Cash flows from financing activities			
Purchase of ordinary shares	30.3	**(4)**	(17)
Proceeds from:			
– issue of ordinary shares	29.1	**–**	1
– other new loans – infrastructure concessions	31.3	**65**	79
– other new loans – other	31.3	**52**	–
Repayments of:			
– loans – infrastructure concessions	31.3	**(25)**	(11)
– loans – other	31.3	**(1)**	(1)
Ordinary dividends paid	13	**(6)**	–
Interest paid – infrastructure concessions		**(24)**	(19)
Interest paid – other		**(48)**	(32)
Preference dividends paid		**(12)**	(11)
Net cash used in financing activities		**(3)**	(11)
Net increase/(decrease) in cash and cash equivalents	31.3	**25**	(83)
Effects of exchange rate changes		**80**	1
Cash and cash equivalents at beginning of year		**663**	727
Net decrease in cash within assets held for sale		**–**	18
Cash and cash equivalents at end of year	31.2	**768**	663

1 Before non-underlying items (Notes 2.10 and 10).

2 Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

Commentary on the Group Statement of Cash Flows*

Cash and cash equivalents increased by 16% during the year to £768m. Cash used in operating activities deteriorated by 5% to £136m.

Background

The Group Statement of Cash Flows shows the cash flows from operating, investing and financing activities during the year.

Working capital

Working capital includes: inventories and non-construction work in progress; amounts due to and from construction contract customers; operating trade and other receivables; operating trade and other payables; and operating provisions. Where the net working capital balance is in an asset position, ie the inventory and receivables balances are greater than the payables and provisions, this is referred to as unfavourable/positive working capital. Where this is not the case, this is referred to as favourable/negative working capital.

Working capital movements

The movement of the individual working capital balances on the balance sheet will not be reflective of the underlying movement of working capital due to the balance sheet being affected by foreign currency movements.

Working capital movements are disclosed in Note 31.1.

Inventories and non-construction work in progress

During 2016, underlying inventories and non-construction work in progress decreased by £42m for continuing operations due to the Group's continued focus on reducing these balances.

Amounts due from/to construction contract customers

Movements in the Group's underlying due from/to construction contract customers balances, which reflect the net unbilled contract position and traded profit and loss for each individual construction contract generated an underlying working capital inflow of £46m (2015: inflow of £297m). The inflow was mainly derived from an improvement in billing, offset by the flow of cash from contract losses recognised in prior years.

Operating trade and other receivables

During 2016, there was a £121m increase in underlying operating trade and other receivables for continuing operations, this is caused by quicker billing of construction contract amounts, an increase in retentions as projects mature and also a reflection of the large receipts into the business in December 2015.

Operating trade and other payables

During 2016, there was a £53m decrease in underlying operating trade and other payables for continuing operations as a result of the expected cash outflows on historical loss making jobs.

Provisions

During 2016, there was a £4m increase in underlying operating provisions for continuing operations as a result of additional provisions taken on defects.

Cash used in operations

Underlying cash used in continuing operations of £132m (2015: £84m) comprised a profit from operations of £67m (2015: £106m loss), a working capital outflow of £82m (2015: £179m inflow) and includes the following significant adjustment items: share of results of joint ventures and associates £55m (2015: £47m), depreciation charges of £29m (2015: £33m), pension deficit payments of £41m (2015: £66m) and gain on disposals of investments in infrastructure concessions of £65m (2015: £95m).

Non-underlying cash used in continuing operations of £15m (2015: £54m) was impacted by a loss from operations of £52m (2015: £76m) and a working capital inflow of £34m (2015: £5m outflow), after adjusting for the following non-cash items: an £8m gain on disposal of businesses (2015: £13m), a depreciation charge of £1m (2015: £2m) relating to Rail Germany, a £3m impairment of land relating to Blackpool airport (2015: £4m impairment of goodwill) and an amortisation charge of £9m (2015: £10m) on acquired intangible assets.

Cash flows from investing activities

The Group received dividends of £43m (2015: £69m) from joint ventures and associates during the year.

During the year, the Group incurred additional spend on intangible assets of £11m (2015: £43m) of which £6m (2015: £23m) related to the construction spend on the Edinburgh student accommodation and £5m (2015: £20m) related to software and other intangible assets. The £41m (2015: £36m) property, plant and equipment purchased during the year comprised: capitalisation of the cost relating to constructing Phase 2 of the student accommodation in Iowa of £14m (2015: £9m); the purchase of land of £10m (2015: £6m) and the purchase of plant and equipment of £17m (2015: £21m). Cash paid towards investment properties was £32m (2015: £4m), primarily in relation to the construction of Kennedy Street student accommodation.

The Group disposed of interests in ten infrastructure concession joint ventures during the year for £155m (2015: £104m). In addition the Group disposed of 80% of its interest in five streetlighting projects for £17m, net of cash disposed (2015: £23m (100% disposal of subsidiary)). The Group also received £14m (2015: £16m) on the disposal of other subsidiaries comprising: £9m in relation to the disposal of Parsons Brinckerhoff and £5m on the disposal of parts of Rail Germany.

During the year, the Group incurred cash expenditure of £31m (2015: £75m) and received cash receipts of £39m (2015: £30m) relating to PPP financial assets.

Cash flows from financing activities

The Group made further drawdowns on its non-recourse borrowings of £65m (2015: £79m) mainly to finance the construction of assets within its infrastructure portfolio. Drawdowns on recourse borrowings were £52m (2015: £nil).

Preference dividends of £12m (2015: £11m) were paid in the year.

Total interest payments amounted to £72m (2015: £51m) during the year of which £24m (2015: £19m) related to infrastructure concessions and £48m (2015: £32m) related to the US private placement, convertible bonds and recourse borrowings drawn down by the Group.

Cash and cash equivalents

Cash and cash equivalents increased from £663m to £768m.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 49 to 52.

Notes to the Financial Statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on page 52 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 2016.

The financial statements have been prepared under the historical cost convention, except as described under Note 2.26. The functional and presentational currency of the Company and the presentational currency of the Group is sterling.

The separate financial statements of the Company are presented as required by the Companies Act 2006 (the Act). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2016 the Company has undergone transition from reporting under IFRS to FRS 101 as issued by the Financial Reporting Council.

On adoption of FRS 101, no significant impacts from any changes in accounting policies have been noted, and no transition adjustments were required on the prior year financial statements. Therefore the opening balance sheet on transition has not been presented. No presentational changes were required to the Company balance sheet.

Except as noted below, the Company's accounting policies are consistent with those described in the Group's consolidated financial statements. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, related party transactions and comparative information. Where required, equivalent disclosures are given in the consolidated financial statements.

In addition to the application of FRS 101, the Company has taken advantage of Section 408 of the Act and consequently its statement of comprehensive income (including the profit and loss account) is not presented as part of these accounts.

2 Principal accounting policies

2.1 Accounting standards

Adoption of new and revised standards

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

- Amendments to the following standards:
  - IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
  - IAS 1 Disclosure Initiative
  - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
  - IAS 16 and IAS 41: Agricultural: Bearer Plants
  - IAS 27 Equity Method in Separate Financial Statements
  - IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
  - Improvements to IFRSs (2012–2014).

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

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2016:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendments to the following standards:
  - IAS 7 Disclosure Initiative
  - IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
  - 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 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  - Clarifications to IFRS 15 Revenue from Contracts with Customers
  - IFRIC 22 Foreign Currency Transactions and Advance Consideration
  - Improvements to IFRSs (2014–2016).

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

The requirements of IFRS 9 in issue as at 31 December 2016 are being assessed and might result in the Group's PPP financial assets being reclassified from 'available-for-sale', which is a category that no longer exists under the new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. Assuming the Group adopts the fair value through profit or loss option, movements in the fair value of PPP financial assets will no longer be recognised in other comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings. The effect within the Group's reserves would be a transfer of £25m from PPP financial asset reserves to retained earnings. The effect within the share of joint ventures' and associates' reserves would be a transfer of £227m from PPP financial asset reserves to retained earnings.

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014 and will be effective for accounting periods beginning on or after 1 January 2018. The new standard will replace existing accounting standards, and provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the company expects to be entitled to receive. The standard also updates revenue disclosure requirements.

The Group has commenced its impact assessment, which involves carrying out a systematic review of all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date. The results of this assessment will drive the Group's choice of transition option albeit it is likely that the Group will adopt this standard prospectively. The Group intends to disclose the impact of the new standard on its 2016 results in the 2017 interim financial statements.

2 Principal accounting policies continued

2.1 Accounting standards continued

Accounting standards not yet adopted by the Group continued

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 Group has chosen not to adopt any of the above standards and interpretations earlier than required.

2.2 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are consolidated from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition.

The interest of non-controlling equity holders is stated at the non-controlling equity holders' proportion of the fair value of the assets and liabilities recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less direct costs of the transaction and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (ie reclassified to profit or loss or transferred directly to retained earnings).

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its individual assets and obligations for its individual liabilities.

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control or joint control.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The Group may elect to measure some of its investments in associates at fair value through profit or loss in accordance with IAS 39 where the investment is held by a Group entity which meets the classification of a venture capital organisation, in which case the investment will be marked to market with movements being recognised in the income statement. The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return. Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Joint operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

Notes to the Financial Statements continued

2 Principal accounting policies continued

2.3 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Significant exchange rates used in the preparation of these financial statements are shown in Note 3.

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date. Currency translation differences arising are transferred to the Group's foreign currency translation reserve and are recognised in the income statement on disposal of the underlying investment.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward foreign exchange contracts. Refer to Note 2.25(c) for details of the Group's accounting policies in respect of such derivative financial instruments.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales based taxes, after eliminating revenue within the Group.

Revenue is recognised as follows:

- revenue from construction and service activities represents the value of work carried out during the year, including amounts not invoiced
- revenue from manufacturing activities is recognised when title has passed
- interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount
- dividend income is recognised when the equity holder's right to receive payment is established.

2.5 Construction and service contracts

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date.

Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract. Estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. Management continually review the estimated final out-turn on contracts, and in certain limited cases, assess recoveries from insurers, and make adjustments where necessary.

No margin is recognised until the outcome of the contract can be estimated with reasonable certainty.

Provision is made for all known or expected losses on individual contracts once such losses are foreseen.

Revenue in respect of variations to contracts and incentive payments is recognised when it is probable it will be agreed by the customer. Revenue in respect of claims is recognised when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the probable amount can be measured reliably.

Profit for the year includes the benefit of claims settled in the year on contracts completed in previous years.

2.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision maker and therefore the segmental disclosures provided in Note 5 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into three reportable segments which reflect the nature of the services provided by the Group. A description of each reportable segment is provided in Note 5. Further information on the business activities of each reportable segment is set out on pages 18 to 29.

Working capital is the balance sheet measure reported to the chief operating decision maker. The profitability measure used to assess the performance of the Group is underlying profit from operations.

Segment results represent the contribution of the different segments after the allocation of attributable corporate overheads. Transactions between segments are conducted at arm's-length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable. Non-recourse net borrowings are directly attributable to Infrastructure Investments and therefore not included within Corporate activities.

Major customers are defined as customers contributing more than 10% of the Group's external revenue.

2.7 Pre-contract bid costs and recoveries

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written off are deferred and amortised over the life of the contract.

For construction and services projects, the relevant contract is the construction or services contract respectively. With respect to PPP projects, an assessment is made as to which contractual element the pre-contract costs relate to, in order to determine the relevant period for amortisation. The relevant contract is that which gives rise to a financial or intangible asset, which is either the construction contract or the contract which transferred the asset to the project.

2.8 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

2.9 Finance costs

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method.

2 Principal accounting policies continued

2.10 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will not affect the absolute amount of the results for the period and the trend of results. Underlying items are items before non-underlying items.

Non-underlying items include:

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

These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group.

The results of Rail Germany and certain legacy ES contracts have been included as non-underlying. Refer to Note 5.

2.11 Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also accounted for within equity. Current tax is based on the profit for the year.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.12 Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and other businesses, joint ventures and associates and represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written off or discount arising on acquisition credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation charges in respect of software and Infrastructure Investments intangibles are included in underlying items.

c) Research and development

Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits
- the development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure associated with bringing the asset to its operating location and condition.

2.14 Investment property

The Group classifies land and buildings which it holds to generate capital appreciation and/or to earn rental income as investment property. The Group has chosen to state its investment properties at cost less accumulated depreciation and impairment losses.

Notes to the Financial Statements continued

2 Principal accounting policies continued

2.15 Leasing

Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease, and depreciation is provided accordingly. The liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant effective rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2.16 Impairment of assets

Assets that have an indefinite useful life (such as goodwill arising on acquisitions) are reviewed at least annually for impairment. Other intangible assets and property, plant and equipment are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

2.17 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Available-for-sale investments are measured at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Held to maturity investments are measured at amortised cost.

2.18 Assets held for sale and discontinued operations

Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Held for sale assets are measured at the lower of their carrying amount on classification as held for sale or fair value less costs to sell.

A component of the Group is presented as a discontinued operation if it has either been disposed of or is classified as held for sale and it is a separate major line of business or geographic operation or the proposed sale is part of a single co-ordinated plan to dispose of a single separate major line of business or geographical operation. When classified as a discontinued operation, income statement performance is reported in summary form outside continuing operations and comparative figures are restated.

2.19 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost includes an appropriate proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.20 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts.

2.21 Trade payables

Trade payables are not interest bearing and are stated at cost.

2.22 Provisions

Provisions for insurance liabilities retained in the Group's captive insurance arrangements, legal claims, defects and warranties, environmental restoration, onerous leases, and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability.

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

2.23 Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Premiums payable on settlement or redemption and direct issue costs are included in the carrying amount of the instrument and are charged to the income statement on an accruals basis using the effective interest method together with the interest payable.

2.24 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution retirement and other long-term employee benefit schemes, the majority of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the scheme assets. Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled. Implementation of the draft Amendment to IFRIC 14 when it becomes effective will not affect this accounting.

2 Principal accounting policies continued

2.25 Share-based payments

Employee services received in exchange for the grant of equity-settled awards are charged to the income statement on a straight-line basis over the vesting period, based on the fair values of the awards at the date of grant.

The credits in respect of the amounts charged are included within separate reserves in equity until such time as the awards are exercised, when the shares are transferred to employees.

2.26 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Classification of financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

b) Cumulative convertible redeemable preference shares and convertible bonds

The Company's cumulative convertible redeemable preference shares and the Group's convertible bonds are compound instruments, comprising a liability component and an equity component. The fair value of the liability components was estimated using the prevailing market interest rates at the dates of issue for similar non-convertible instruments. The difference between the proceeds of issue of the preference shares and convertible bonds and the fair value assigned to the respective liability components, representing the embedded option to convert the liability components into the Company's ordinary shares, is included in equity.

The interest expense on the liability components is calculated by applying applicable market interest rates for similar non-convertible debt prevailing at the dates of issue to the liability components of the instruments. The difference between this amount and the dividend/interest payable is included in the carrying amount of the liability component and is charged to the income statement on an accrual basis together with the dividend/interest payable.

c) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 38.

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently re-measured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (OCI). Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded in the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the balance sheet are recognised in the income statement as they arise.

d) PPP concession companies

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets.

In the construction phase, income is recognised by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, income is recognised by allocating a proportion of total cash receivable over the life of the project to service costs by means of a deemed rate of return on those costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method, giving rise to interest income.

Due to the nature of the contractual arrangements, the projected cash flows can be estimated with a high degree of certainty.

In the construction phase, the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in OCI. Amounts originally recognised in OCI are transferred to the income statement upon disposal of the asset.

2.27 Judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may differ from these judgements, estimates and assumptions.

The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group as at 31 December 2016 are discussed below.

All of the below are both judgements and estimates made by the Group apart from the classification of non-underlying items which is an item that requires judgement only.

a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in Notes 2.4 and 2.5, are central to how the Group values the work it has carried out in each financial year.

These policies require forecasts to be made of the outcomes of long-term construction services and support services contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

Notes to the Financial Statements continued

2 Principal accounting policies continued

2.27 Judgements and key sources of estimation uncertainty continued

Across Construction Services there remain a small number of long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes in future financial periods could result in a materially positive or negative swing to underlying profitability and cash flow. In the UK, the majority of these contracts are within Major Projects. Outside the UK, this primarily relates to a number of significant contracts in Hong Kong where the range of potential outcomes could result in a materially positive or negative swing to profitability. The majority of these claims are expected to reach commercial settlement by 2018.

b) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures. This may involve a significant amount of judgement as tax legislation can be complex and open to different interpretation. Management uses both in-house and external tax experts and previous experience when assessing tax risks. Where actual tax liabilities differ from the provisions, adjustments are made which can have a material impact on the Group's profit for the year.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised. Refer to Note 27.

c) Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying items or non-underlying items requires judgement. A total non-underlying loss after tax of £24m (2015: £71m) was charged to the income statement for the year ended 31 December 2016. Refer to Note 10.

d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash-generating unit and the application of a suitable discount rate in order to calculate the present value. A nominal growth rate, based on real GDP growth plus CPI inflation, is used to calculate a terminal growth multiple in accordance with the Gordon Growth Model. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash-generating unit. The carrying value of goodwill at 31 December 2016 was £937m (2015: £844m). Refer to Note 14.

e) Available-for-sale financial assets

At 31 December 2016, £2,292m (2015: £2,638m) of PPP financial assets constructed by the Group's subsidiary, joint venture and associate companies were classified as available-for-sale financial assets. In the operational phase the fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates is used from 2.3% to 8.3% (2015: 3.61% to 5.10%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. Refer to Note 38.2.

A £37m gain was taken to other comprehensive income in 2016 (2015: £183m loss) and a cumulative fair value gain of £349m had arisen on these financial assets as a result of market-related movements in the fair value of these financial assets at 31 December 2016 (2015: £441m gain).

f) Recoverable value of recognised receivables

The Group has recognised trade receivables with a carrying value of £647m (2015: £495m). The recoverability of trade receivables is regularly reviewed in the light of the available economic information specific to each receivable and specific provisions are recognised for balances considered to be irrecoverable. Refer to Note 23.

g) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 December 2016 of £273m (2015: £206m). Refer to Note 25.

h) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 28, including tables showing the sensitivity of the pension scheme obligations and assets to different actuarial assumptions.

At 31 December 2016, the retirement benefit liabilities recognised on the Group's balance sheet were £231m (2015: £146m). The effects of changes in the actuarial assumptions underlying the schemes' obligations and discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2016, the Group recognised net actuarial losses of £120m in equity (2015: £90m losses), including its share of the actuarial gains and losses arising in joint ventures and associates.

3 Exchange rates

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

Average rates

£1 buys	2016	2015	Change
US$	**1.35**	1.53	(11.8)%
HK$	**10.51**	11.84	(11.2)%
Euro	**1.23**	1.37	(10.2)%

Closing rates

£1 buys	2016	2015	Change
US$	**1.23**	1.48	(16.9)%
HK$	**9.57**	11.43	(16.3)%
Euro	**1.17**	1.36	(14.0)%

4 Revenue

Continuing operations	Group 2016 £m	Group 2015 £m
Revenue from the provision of services*	**6,884**	6,920
Revenue from manufacturing activities	**11**	14
Proceeds from sale of development land	**28**	21
Total revenue	**6,923**	6,955
Investment income (Note 8)	**75**	52
Total revenue and investment income	**6,998**	7,007

* Includes IAS 11 construction contract revenue of £6,173m (2015: £5,870m).

Notes to the Financial Statements continued

5 Segment analysis

Reportable segments of the Group:

- Construction Services – activities resulting in the physical construction of an asset
- Support Services – activities which support existing assets or functions such as asset maintenance and refurbishment
- Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, schools, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment also includes the Group's housing development division.

The Group has continued to present the remaining parts of Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. Following the various disposals of parts of Rail Germany in 2015 and 2016, the Group is winding down its remaining operations in Rail Germany with the last remaining contract expected to reach completion in 2018.

In 2014, the performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work was included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group. The Group continues to present the results from these legacy contracts within non-underlying and will continue to do so until these contracts reach completion, inclusive of any claims recovery. Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group.

5.1 Total Group

Income statement – performance by activity from continuing operations	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total	Rail Germany	Certain legacy ES contracts	Total
	2016 £m	2016 £m	2016 £m	2016 £m	2016 £m	2016 £m	2016 £m	2016 £m
Revenue including share of joint ventures and associates	6,852	1,103	575	–	8,530	150	3	8,683
Share of revenue of joint ventures and associates	(1,381)	(27)	(340)	–	(1,748)	(12)	–	(1,760)
Group revenue	5,471	1,076	235	–	6,782	138	3	6,923
Group operating profit/(loss)^	(50)	33	62	(33)	12	1	(6)	
Share of results of joint ventures and associates	27	1	27	–	55	–	–	
Profit/(loss) from operations^	(23)	34	89	(33)	67	1	(6)	
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	(57)	22	83	(33)	15			
Investment income					75			
Finance costs					(82)			
Profit before taxation					8			

^ Presented before non-underlying items for underlying operations (Notes 2.10 and 10).

5 Segment analysis continued
5.1 Total Group continued

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

^ Presented before non-underlying items for underlying operations (Notes 2.10 and 10).

Assets and liabilities by activity	**Construction Services 2016 £m**	**Support Services 2016 £m**	**Infrastructure Investments 2016 £m**	**Corporate activities 2016 £m**	**Total 2016 £m**
Due from construction contract customers	**247**	**133**	**–**	**–**	**380**
Due to construction contract customers	**(492)**	**(50)**	**–**	**–**	**(542)**
Inventories and non-construction work in progress	**30**	**47**	**24**	**–**	**101**
Trade and other receivables – current	**882**	**93**	**45**	**46**	**1,066**
Trade and other payables – current	**(1,421)**	**(218)**	**(57)**	**(56)**	**(1,752)**
Provisions – current	**(126)**	**(5)**	**(3)**	**(13)**	**(147)**
Working capital from continuing operations*	**(880)**	**–**	**9**	**(23)**	**(894)**

* Includes non-operating items and current working capital.

Total assets	**2,306**	**476**	**1,080**	**915**	**4,777**
Total liabilities	**(2,534)**	**(322)**	**(449)**	**(710)**	**(4,015)**
Net assets/(liabilities)	**(228)**	**154**	**631**	**205**	**762**

Assets and liabilities by activity	Construction Services 2015 £m	Support Services 2015 £m	Infrastructure Investments 2015 £m	Corporate activities 2015 £m	Total 2015 £m
Due from construction contract customers	234	145	–	–	379
Due to construction contract customers	(426)	(46)	–	–	(472)
Inventories and non-construction work in progress	51	67	26	–	144
Trade and other receivables – current	687	104	59	35	885
Trade and other payables – current	(1,343)	(240)	(59)	(58)	(1,700)
Provisions – current	(92)	(7)	(7)	(20)	(126)
Working capital from continuing operations*	(889)	23	19	(43)	(890)

* Includes non-operating items and current working capital.

Total assets	1,983	524	1,339	755	4,601
Total liabilities	(2,141)	(326)	(586)	(718)	(3,771)
Net assets/(liabilities)	(158)	198	753	37	830

Notes to the Financial Statements continued

5 Segment analysis continued
5.1 Total Group continued

Other information – continuing operations	**Construction Services**	**Support Services**	**Infrastructure Investments**	**Corporate activities**	**Total**
	2016 £m	**2016 £m**	**2016 £m**	**2016 £m**	**2016 £m**
Capital expenditure on property, plant and equipment (Note 16)	**17**	**3**	**14**	**7**	**41**
Depreciation (Note 16)	**14**	**11**	**2**	**3**	**30**
Gain on disposals of interests in investments (Note 32.2)	**–**	**–**	**65**	**–**	**65**

Other information – continuing operations	Construction Services	Support Services	Infrastructure Investments[2]	Corporate activities	Total[2]
	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m
Capital expenditure on property, plant and equipment[2] (Note 16)	14	12	10	–	36
Depreciation (Note 16)	16	16	2	1	35
Gain on disposals of interests in investments (Note 32.2)	–	–	95	–	95

2 Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

Performance by geographic destination – continuing operations	**United Kingdom**	**United States**	**Rest of world**	**Total**
	2016 £m	**2016 £m**	**2016 £m**	**2016 £m**
Revenue including share of joint ventures and associates	**3,465**	**3,533**	**1,685**	**8,683**
Share of revenue of joint ventures and associates	**(202)**	**(104)**	**(1,454)**	**(1,760)**
Group revenue	**3,263**	**3,429**	**231**	**6,923**
Non-current assets excluding financial assets and deferred tax assets	**948**	**919**	**140**	**2,007**

Performance by geographic destination – continuing operations	United Kingdom	United States	Rest of world	Total
	2015 £m	2015 £m	2015 £m	2015 £m
Revenue including share of joint ventures and associates	3,843	3,238	1,363	8,444
Share of revenue of joint ventures and associates	(185)	(170)	(1,134)	(1,489)
Group revenue	3,658	3,068	229	6,955
Non-current assets excluding financial assets and deferred tax assets	1,060	764	80	1,904

Major customers
Included in Group revenue are revenues from continuing operations of £1,359m (2015: £1,305m) from the US Government and £1,324m (2015: £1,426m) from the UK Government, which are the Group's two largest customers. These revenues are included in the results across all three reported segments.

5.2 Infrastructure Investments

Underlying profit from operations[1]	**Group 2016 £m**	**Share of joint ventures and associates (Note 18.2)+ 2016 £m**	**Total 2016 £m**	Group 2015 £m	Share of joint ventures and associates (Note 18.2)+ 2015 £m	Total 2015 £m
UK^	**6**	**14**	**20**	3	30	33
North America	**16**	**13**	**29**	17	8	25
Infrastructure Fund	**–**	**–**	**–**	–	3	3
Gain on disposals of interests in investments	**65**	**–**	**65**	95	–	95
	87	**27**	**114**	115	41	156
Bidding costs and overheads	**(25)**	**–**	**(25)**	(24)	–	(24)
	62	**27**	**89**	91	41	132
Net assets/(liabilities)						
UK^	**261**	**334**	**595**	410	405	815
North America	**117**	**146**	**263**	146	112	258
Infrastructure Fund	**–**	**–**	**–**	–	38	38
Infrastructure	**6**	**–**	**6**	9	–	9
	384	**480**	**864**	565	555	1,120
Infrastructure Investments central functions	**–**	**–**	**–**	(2)	–	(2)
Non-recourse borrowings net of associated cash and cash equivalents (Note 26)	**(233)**	**–**	**(233)**	(365)	–	(365)
Total Infrastructure Investments net assets	**151**	**480**	**631**	198	555	753

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Singapore and Australia.
1 Before non-underlying items (Notes 2.10 and 10).

6 Profit/(loss) from operations

6.1 Profit/(loss) from continuing operations is stated after charging/(crediting)

	2016 £m	2015 £m
Research and development costs	**2**	2
Depreciation of property, plant and equipment	**30**	35
Amortisation of intangible assets	**21**	25
Net charge/(release) of trade receivables impairment provision	**2**	(3)
Impairment of property, plant and equipment	**3**	6
Impairment of inventory	**1**	4
Impairment of intangible assets	**1**	17
Profit on disposal of property, plant and equipment	**(5)**	(1)
Cost of inventory recognised as an expense	**152**	176
Exchange gains and losses	**–**	1
Auditor's remuneration	**2**	4
Short-term hire charges for plant and equipment	**68**	83
Other operating lease rentals	**42**	51

6.2 Analysis of auditor's remuneration – continuing and discontinued operations

	2016+ £m	2015 £m
Services as auditor to the Company	**0.5**	1.1
Services as auditor to Group subsidiaries	**1.5**	2.8
Total audit fees	**2.0**	3.9
Audit-related assurance fees	**0.4**	0.3
Taxation advisory fees	**–**	0.2
Corporate finance fees	**–**	0.2
Other assurance fees	**0.1**	–
Total non-audit fees	**0.5**	0.7
Total fees in relation to audit and other services	**2.5**	4.6

+ The 2015 auditor's remuneration for statutory audit services and audit-related assurance fees relate to amounts paid to Deloitte LLP. The 2016 amounts relate solely to fees paid to KPMG LLP.

7 Employee costs

7.1 Group

Employee costs during the year	2016 £m	2015 £m
Wages and salaries	**1,201**	1,157
Underlying redundancy costs	**–**	4
Non-underlying redundancy costs (Note 10.1.4.1)	**9**	13
Social security costs	**97**	127
Pension costs (Note 28)	**48**	50
Share-based payments (Note 33)	**7**	5
	1,362	1,356

Average number of Group employees	2016 Number	2015 Number
Construction Services	**13,974**	14,368
Support Services	**6,841**	7,311
Infrastructure Investments	**1,524**	1,509
Corporate	**111**	128
Continuing operations	**22,450**	23,316

At 31 December 2016, the total number of Group employees was 21,829 (2015: 23,123).

Detailed disclosures of items of remuneration, including those accruing under the Company's equity-settled share-based payment arrangements can be found within the Remuneration Policy report on pages 84 to 99.

7.2 Company

The Company did not have any employees and did not incur any employee costs in the year (2015: £nil). Balfour Beatty Group Employment Ltd, which was established in February 2013, remains the employing entity for the Balfour Beatty Group's UK employees.

Notes to the Financial Statements continued

8 Investment income

Continuing operations	2016 £m	2015 £m
Subordinated debt interest receivable	**29**	24
Interest receivable on PPP financial assets	**21**	24
Gain on foreign currency deposits	**19**	–
Other interest receivable and similar income	**6**	4
	75	52

9 Finance costs

Continuing operations		2016 £m	2015 £m
Non-recourse borrowings	– bank loans and overdrafts	**24**	19
Preference shares	– finance cost	**12**	11
	– accretion	**2**	2
Convertible bonds	– finance cost	**5**	5
	– accretion	**7**	6
US private placement	– finance cost	**13**	11
Other interest payable	– committed facilities	**4**	5
	– letter of credit fees	**3**	3
	– other finance charges	**8**	4
Net finance cost on pension scheme assets and obligations (Note 28.2)		**4**	3
		82	69

10 Non-underlying items

	2016 £m	2015 £m
Items (charged against)/credited to profit		
10.1 **Continuing operations**		
10.1.1 Trading results of Rail Germany (including £10m (2015: £13m) of other net operating expenses)	**1**	(3)
10.1.2 Results of certain legacy ES contracts	**(6)**	(8)
10.1.3 Amortisation of acquired intangible assets	**(9)**	(10)
10.1.4 Other non-underlying items:		
– Build to Last transformation costs	**(14)**	(23)
– 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 sale of Balfour Beatty Infrastructure Partners	**3**	–
– impairment of land/goodwill relating to Blackpool Airport	**(3)**	(4)
– gain on disposal of Signalling Solutions Ltd	**3**	16
– gain/(loss) on disposal and impairment of parts of Rail Germany	**2**	(10)
– pension fund settlement gain	**1**	3
– restructuring costs relating to Heery and Rail Germany	**–**	(9)
– cost of implementing the shared service centre in the UK	**–**	(8)
– impairment of IT intangible asset	**–**	(17)
Total other non-underlying items from continuing operations	**(39)**	(52)
	(53)	(73)
10.1.5 Share of results of joint ventures and associates:		
– release of Trans4m provisions on liquidation	**1**	–
– Rail Germany	**–**	(3)
Non-underlying items credited/(charged) to share of results of joint ventures and associates	**1**	(3)
Charged against profit/(loss) before taxation from continuing operations	**(52)**	(76)
10.1.6 Tax on items above	**4**	4
Non-underlying items charged against profit/(loss) for the year from continuing operations	**(48)**	(72)
10.2 **Discontinued operations**		
10.2.1 Other non-underlying items:		
– gain on disposal of Parsons Brinckerhoff	**24**	5
– loss on disposal of Rail Italy	**–**	(4)
Credited to profit/(loss) before taxation from discontinued operations	**24**	1
10.2.2 Tax on items above	**–**	–
Non-underlying items credited to profit/(loss) for the year from discontinued operations	**24**	1
Charged against profit/(loss) for the year	**(24)**	(71)

Continuing operations

10.1.1 Rail Germany was reclassified from discontinued operations in 2014 and has continued to be presented as part of the Group's non-underlying items within continuing operations. Refer to Note 5. In 2016, the remaining parts of Rail Germany generated a profit before tax excluding share of joint ventures and associates of £1m (2015: £3m loss before tax).

10.1.2 The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts in non-underlying items. These contracts were classified as non-underlying items in 2014 as the performance of these contracts was linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work. Refer to Note 5. These contracts resulted in a loss before tax for the Group of £6m in 2016 (2015: £8m). No tax credit has been recognised on this loss.

10.1.3 The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £6m (2015: £6m); customer relationships £3m (2015: £3m); and brand names £nil (2015: £1m). These have been included as non-underlying items as they relate to costs arising on acquisition of businesses.

The charge was recognised in the following segments: Construction Services £3m (2015: £4m) and Infrastructure Investments £6m (2015: £6m).

10.1.4.1 The Group launched its Build to Last transformation programme in February 2015. The transformation programme is aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies. As a result of this programme, restructuring costs of £14m were incurred in 2016 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.

In 2015, the Group incurred restructuring costs of £23m relating to: Construction Services £14m; Support Services £6m; and Corporate £3m. These restructuring costs comprise: redundancy costs £13m; external advisers £5m; property-related costs £1m; and other restructuring costs £4m.

Notes to the Financial Statements continued

10 Non-underlying items continued

Continuing operations continued

10.1.4.2 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 has revised its legal provisioning levels relating to these items, recognising an expense of £25m. This has been presented as non-underlying because its size would otherwise distort the underlying financial performance achieved by the Group and the events giving rise to these expenses occurred in prior years.

The charge was recognised in the following segments: Construction Services £13m and Support Services £12m.

10.1.4.3 In 2016, the Group has released all remaining provisions relating to Trans4m Ltd (Trans4m) amounting to £9m, £1m of which has been recognised at the joint venture level. Trans4m was an equal joint operation between Balfour Beatty and three other partner shareholders and was contracted to Metronet as part of the London Underground PPP. The provisions were originally recorded in non-underlying items in 2007. Trans4m went into creditors' voluntary liquidation on 27 June 2016.

The credit was recognised in the following segments: Construction Services £8m and Support Services £1m.

10.1.4.4 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 has increased its provision held with respect to industrial disease related liabilities, resulting in a £14m charge to the income statement. This has been presented as non-underlying because its size would otherwise distort the underlying financial performance achieved by the Group and the events giving rise to these liabilities occurred in prior years. The entire charge was recognised within Construction Services.

10.1.4.5 In 2016, the Group disposed of its interest in Balfour Beatty Infrastructure Partners, comprising its 17.8% interest in the Infrastructure Fund and 100% interest in the fund's advisor. Initial consideration of £48m was received, resulting in a gain of £3m to the Group. Refer to Notes 32.2.4 and 32.2.5.

10.1.4.6 In 2016, an impairment of £3m was recognised on land held at Blackpool Airport. The land was originally held in connection with the Group's former operation of the airport. In 2015, goodwill amounting to £4m in relation to Blackpool Airport was fully written down.

10.1.4.7 On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Ltd (SSL) for a cash consideration of £18m, resulting in a £16m gain in 2015. In 2016, additional consideration received resulted in a further gain of £2m being reported. In addition to this, a £1m pension settlement gain arose as a result of transferring pension liabilities relating to the employees of SSL to the new employer. This gain was recognised within Construction Services.

10.1.4.8 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. Refer to Note 32.2.7. This sale resulted in a £2m gain as a result of recycling of foreign currency reserves. The related assets disposed were impaired by £11m in 2015 to reflect the value of the agreed consideration. £4m of that impairment was recognised at the joint venture level. Refer to Note 10.1.5.2.

In 2015, the Group disposed of other parts of Rail Germany to the Rhomberg Sersa Rail Group for a cash consideration of £9m resulting in a £3m loss in 2015. Refer to Notes 32.3.1 and 32.3.4.

10.1.4.9 A settlement gain of £1m (2015: £3m) was recognised in relation to commutation options offered by the Balfour Beatty Pension Fund since 2014. Refer to Note 28.

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

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

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

10.1.4.11 In 2015, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £8m.

10.1.4.12 In 2015, an impairment charge of £17m was recorded to write down intangible assets in relation to costs capitalised in the transformation of the Group's UK IT estate from a federated to a more centralised model. Refer to Note 15.

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

10.1.5.1 Refer to Note 10.1.4.3.

10.1.5.2 In 2016, the joint venture within Rail Germany generated a trading gain of £nil for the Group (2015: £1m gain). In addition to this, in 2015, a £4m impairment charge was recognised on the joint venture following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. Refer to Note 10.1.4.8.

10.1.6 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £4m comprising: £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 (2015: £4m comprising: £2m charge on the results of Rail Germany; £4m credit on amortisation of acquired intangible assets; and £2m credit on other non-underlying items).

10 Non-underlying items continued

Discontinued operations

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

Subsequently in 2016, the Group reached a settlement with the purchaser of PB in relation to outstanding tax matters and indemnities. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters have been released, resulting in an overall gain to the Group of £24m. Refer to Note 32.2.10.

10.2.1.2 On 11 March 2015, as part of the ongoing process to exit the Mainland European rail businesses, the Group disposed of Rail Italy for a cash consideration of £5m, resulting in a £4m loss being recognised in the year. Refer to Note 32.3.3.

10.2.2 The non-underlying items credited to profit from discontinued operations gave rise to a tax charge of £nil (2015: £nil).

11 Income taxes

11.1 Income tax expense

Continuing operations[x]	Underlying items[1] 2016 £m	Non-underlying items (Note 10) 2016 £m	Total 2016 £m	Total 2015 £m
Total UK tax	**2**	**–**	**2**	15
Total non-UK tax	**10**	**(4)**	**6**	(8)
Total tax charge/(credit)	**12**	**(4)**	**8**	7
UK current tax				
– current tax on profits for the year at 20% (2015: 20.25%)	**(1)**	**–**	**(1)**	3
– adjustments in respect of previous periods	**(6)**	**–**	**(6)**	(5)
	(7)	**–**	**(7)**	(2)
Non-UK current tax				
– current tax on profits for the year	**1**	**2**	**3**	4
– adjustments in respect of previous periods	**(9)**	**(1)**	**(10)**	(5)
	(8)	**1**	**(7)**	(1)
Total current tax	**(15)**	**1**	**(14)**	(3)
UK deferred tax				
– origination and reversal of temporary differences	**9**	**–**	**9**	8
– adjustments in respect of previous periods	**3**	**–**	**3**	4
– UK corporation tax rate change	**(3)**	**–**	**(3)**	5
	9	**–**	**9**	17
Non-UK deferred tax				
– origination and reversal of temporary differences	**13**	**(5)**	**8**	(12)
– adjustments in respect of previous periods	**5**	**–**	**5**	5
	18	**(5)**	**13**	(7)
Total deferred tax	**27**	**(5)**	**22**	10
Total tax charge/(credit) from continuing operations	**12**	**(4)**	**8**	7

x Excluding joint ventures and associates.
1 Before non-underlying items (Notes 2.10 and 10).

The standard rate of corporation tax in the UK was 20% during the year. The rate will be reduced to 19% with effect from 1 April 2017, with a further reduction to 17% from 1 April 2020. These changes were all substantively enacted prior to the end of the year. The net impact of these rate changes was a £3m credit (2015: £5m charge) to the income statement and a £nil charge (2015: £2m) to equity.

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 18.2), except where tax is levied at the Group level.

In addition to the Group tax charge, tax of £16m is credited (2015: £49m) directly to other comprehensive income, comprising: a deferred tax credit of £1m for subsidiaries (2015: £16m); and a deferred tax credit in respect of joint ventures and associates of £15m (2015: £33m). Refer to Note 30.1.

11 Income taxes continued

11.1 Income tax expense continued

The UK Government has confirmed its intention to introduce restrictions on the utilisation of brought forward tax losses from 1 April 2017. This legislation has not yet been substantively enacted and hence has not been taken into account in assessing the recognition of UK deferred tax assets at 31 December 2016. Pending finalisation of this legislation, its impact on both tax expense and cash tax payable in future periods will continue to be assessed.

11.2 Income tax reconciliation

Continuing operations	2016 £m	2015 £m
Profit/(loss) before taxation	**8**	(199)
Less: share of results of joint ventures and associates	**(56)**	(44)
Loss before taxation	**(48)**	(243)
Add: non-underlying items charged excluding share of joint ventures and associates	**53**	73
Underlying profit/(loss) before taxation and the results of joint ventures and associates[1]	**5**	(170)
Tax on profit/(loss) before taxation at standard UK corporation tax rate of 20% (2015: 20.25%)	**1**	(34)
Adjusted for the effects of:		
Expenses not deductible for tax purposes and other permanent items	**5**	5
Non-taxable disposals[+]	**(13)**	(19)
Tax levied at Group level on share of joint ventures' and associates' profits[#]	**11**	9
Preference share dividends not deductible	**2**	2
Deferred tax assets not recognised[^]	**12**	50
Effect of tax rates in non-UK jurisdictions	**4**	(6)
UK corporation tax rate change	**(3)**	5
Adjustments in respect of previous periods	**(7)**	(1)
Total tax charge on underlying profit/(loss)	**12**	11
Less: tax credit on non-underlying items	**(4)**	(4)
Total tax charge on profit/(loss) from continuing operations	**8**	7

+ These gains on disposal are not taxable due to availability of exemptions and use of capital losses.
# These are mainly in connection with US and Canadian joint ventures and associates where tax is levied at the Group level rather than within the share of joint ventures and associates.
^ Deferred tax was not recognised on certain losses where we do not currently expect to be able to recover these amounts against future forecasted taxable profits.
1 Before non-underlying items (Notes 2.10 and 10).

12 Earnings per ordinary share

Earnings

	Basic 2016 £m	**Diluted 2016 £m**	Basic 2015 £m	Diluted 2015 £m
Continuing operations				
Earnings/(loss)	**–**	**–**	(206)	(206)
Amortisation of acquired intangible assets – net of tax credit of £3m (2015: £4m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £1m (2015: £nil)	**42**	**42**	66	66
Underlying earnings/(loss)	**48**	**48**	(134)	(134)
Discontinued operations				
Earnings	**24**	**24**	–	–
Other non-underlying items	**(24)**	**(24)**	(1)	(1)
Underlying loss	**–**	**–**	(1)	(1)
Total operations				
Earnings/(loss)	**24**	**24**	(206)	(206)
Amortisation of acquired intangible assets – net of tax credit of £3m (2015: £4m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £1m (2015: £nil)	**18**	**18**	65	65
Underlying earnings/(loss)	**48**	**48**	(135)	(135)

	Basic 2016 m	**Diluted 2016 m**	Basic 2015 m	Diluted 2015 m
Weighted average number of ordinary shares	**680**	**684**	682	682

Earnings per share

	Basic 2016 Pence	**Diluted 2016 Pence**	Basic 2015 Pence	Diluted 2015 Pence
Continuing operations				
Earnings/(loss) per ordinary share	**–**	**–**	(30.2)	(30.2)
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**6.1**	**6.1**	9.7	9.7
Underlying earnings/(loss) per ordinary share	**7.0**	**7.0**	(19.7)	(19.7)
Discontinued operations				
Earnings per ordinary share	**3.5**	**3.5**	0.1	0.1
Other non-underlying items	**(3.5)**	**(3.5)**	(0.2)	(0.2)
Underlying loss per ordinary share	**–**	**–**	(0.1)	(0.1)
Total operations				
Earnings/(loss) per ordinary share	**3.5**	**3.5**	(30.1)	(30.1)
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**2.6**	**2.6**	9.5	9.5
Underlying earnings/(loss) per ordinary share	**7.0**	**7.0**	(19.8)	(19.8)

13 Dividends on ordinary shares

	Per share 2016 Pence	**Amount 2016 £m**	Per share 2015 Pence	Amount 2015 £m
Proposed dividends for the year				
Interim – current year	**0.9**	**6**	–	–
Final – current year	**1.8**	**12**	–	–
	2.7	**18**	–	–
Recognised dividends for the year				
Final – prior year		**–**		–
Interim – current year		**6**		–
		6		–

There were no proposed or recognised dividends for 2015. The Board took the decision to suspend the dividend in 2015, to ensure balance sheet strength was maintained during the initial stages of Build to Last. Following the demonstrable progress made by the Group in the first year of the transformation programme and in the expectation of further solid and measurable improvements, the Board is recommending a final dividend of 1.8p, following the interim dividend declared at the half year of 0.9p. The Board continues to anticipate a progressive dividend policy going forward.

The interim 2016 dividend was paid on 2 December 2016. Subject to approval at the Annual General Meeting on 18 May 2017, the final 2016 dividend will be paid on 7 July 2017 to holders on the register on 21 April 2017 by direct credit or, where no mandate has been given, by cheque posted on 6 July 2017 payable on 7 July 2017. The ordinary shares will be quoted ex-dividend on 20 April 2017.

Notes to the Financial Statements continued

14 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2015	977	(151)	826
Currency translation differences	20	2	22
Impairment charges in respect of Blackpool Airport (Note 10.1.4.6)	–	(4)	(4)
At 31 December 2015	997	(153)	844
Currency translation differences	**116**	**(25)**	**91**
Additions (Note 32.1)	**2**	**–**	**2**
Disposals	**(5)**	**5**	**–**
At 31 December 2016	**1,110**	**(173)**	**937**

Carrying amounts of goodwill by segment

	2016			2015		
	United Kingdom £m	**United States £m**	**Total £m**	United Kingdom £m	United States £m	Total £m
Construction Services	**260**	**492**	**752**	260	410	670
Support Services	**131**	**–**	**131**	129	–	129
Infrastructure Investments	**–**	**54**	**54**	–	45	45
Group	**391**	**546**	**937**	389	455	844

Carrying amounts of goodwill by cash-generating unit

	2016		2015	
	£m	**Pre-tax discount rate %**	£m	Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.2**	248	10.2
Balfour Beatty Construction Group Inc.	**452**	**12.6**	377	12.6
Rail UK	**68**	**10.4**	66	10.4
Gas & Water	**58**	**10.2**	58	10.3
Balfour Beatty Communities US	**54**	**12.6**	45	12.6
Other	**57**	**10.2–12.8**	50	10.3–12.7
Group total	**937**		844	

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 2017 to 2019 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.

14 Intangible assets – goodwill continued

	2016 Inflation rate %	2016 Real growth rate %	2016 Nominal long-term growth rate applied %	2015 Inflation rate %	2015 Real growth rate %	2015 Nominal long-term growth rate applied %
UK Regional and Engineering Services	**1.8**	**1.1**	**2.9**	1.6	1.2	2.8
Balfour Beatty Construction Group Inc	**1.9**	**1.5**	**3.4**	1.6	1.7	3.3
Rail UK	**1.8**	**1.1**	**2.9**	1.6	1.2	2.8
Gas & Water	**1.8**	**1.1**	**2.9**	1.6	1.2	2.8
Balfour Beatty Communities US	**1.9**	**1.5**	**3.4**	1.6	1.7	3.3
Other	**1.9**	**1.4**	**3.3**	1.6	1.7	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.

Using a pre-tax discount rate of 12.6% and nominal long-term growth rate of 3.4% the recoverable amount of the remaining goodwill in Balfour Beatty Construction Group Inc. is £594m based on value-in-use, with consequent headroom of £142m. A 1.0% increase in the discount rate and a 1.0% reduction in the growth rate would lead to an impairment of £41m.

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

In light of the significant, albeit reduced, losses incurred within the construction business in 2016 the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in the related CGUs and concluded that it is not the case. The stabilisation and recovery of the Group's Construction Services UK business to more normal levels of performance is however a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

Notes to the Financial Statements continued

15 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Infrastructure Investments intangible £m	Software and other £m	Total £m
Cost						
At 1 January 2015	201	57	23	49	110	440
Currency translation differences	10	2	–	–	–	12
Additions	–	–	–	23	20	43
Disposals	(4)	–	(2)	–	–	(6)
At 31 December 2015	207	59	21	72	130	489
Currency translation differences	**39**	**9**	**–**	**–**	**2**	**50**
Transfers	**–**	**1**	**(1)**	**–**	**–**	**–**
Additions	**1**	**–**	**–**	**6**	**4**	**11**
Removal of fully amortised intangible asset	**(9)**	**(19)**	**(16)**	**–**	**(4)**	**(48)**
Disposal of BBIP Advisor (Notes 32.2.5 and 32.2.11)	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Disposal of parts of Rail Germany (Notes 32.2.7 and 32.2.11)	**–**	**–**	**–**	**–**	**(3)**	**(3)**
At 31 December 2016	**238**	**50**	**4**	**78**	**125**	**495**
Accumulated amortisation						
At 1 January 2015	(122)	(38)	(20)	–	(44)	(224)
Currency translation differences	(6)	(1)	–	–	–	(7)
Charge for the year	(6)	(3)	(1)	(1)	(14)	(25)
Impairment charge	–	–	–	–	(17)	(17)
Disposals	4	–	2	–	–	6
At 31 December 2015	(130)	(42)	(19)	(1)	(75)	(267)
Currency translation differences	**(25)**	**(5)**	**(1)**	**–**	**(2)**	**(33)**
Charge for the year	**(6)**	**(3)**	**–**	**(1)**	**(11)**	**(21)**
Impairment charge	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Removal of fully amortised intangible asset	**9**	**19**	**16**	**–**	**4**	**48**
Disposal of BBIP Advisor (Notes 32.2.5 and 32.2.11)	**–**	**–**	**–**	**–**	**1**	**1**
Disposal of parts of Rail Germany (Notes 32.2.7 and 32.2.11)	**–**	**–**	**–**	**–**	**3**	**3**
At 31 December 2016	**(152)**	**(31)**	**(4)**	**(2)**	**(81)**	**(270)**
Carrying amount						
At 31 December 2016	**86**	**19**	**–**	**76**	**44**	**225**
At 31 December 2015	77	17	2	71	55	222

In 2013, the Group reached financial close on a student accommodation project in which the Group has demand risk and therefore, under IFRIC 12 Service Concession Arrangements, recognises an intangible asset as Infrastructure Investments intangible. The project to design, build and maintain postgraduate accommodation at the University of Edinburgh is nearing completion of the construction phase, with the first rooms occupied by students from September 2015. Additional spend of £6m (2015: £23m) was incurred in the year in respect of this project.

In 2015, an impairment charge of £17m was recognised against software intangible assets relating to costs capitalised in the transformation of the Group's UK IT estate from a federated to a more centralised model. Due to curtailments in the scope of the implementation and the Group's termination of its agreement with its implementation partner, future benefits expected to be generated from this asset are reduced. The impairment was recognised as a non-underlying charge. Refer to Note 10.1.4.12.

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to 10 years for customer relationships, three to seven years for software, and up to five years for brand names, except for customer contracts and relationships relating to Balfour Beatty Investments North America which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships. These contracts have a duration of up to 50 years for customer contracts relating to Balfour Beatty Investments North America.

The Infrastructure Investments intangible is amortised on a straight-line basis over the life of the project which is 50 years.

Software assets recognised in the UK are amortised on a basis matching its usage profile over its seven-year life. The Group's remaining knowledge sharing and collaboration software is amortised on a basis matching its usage profile over its five-year life. Other intangible assets are amortised over periods up to 10 years.

16 Property, plant and equipment

16.1 Movements

	Land and buildings £m	Plant and equipment £m	Infrastructure leasehold improvements £m	Assets in the course of construction[2] £m	Total[2] £m
Cost or valuation					
At 1 January 2015	69	362	34	2	467
Currency translation differences	1	2	1	–	4
Transfers	–	2	–	(2)	–
Additions[2]	6	21	–	9	36
Disposals	(3)	(28)	–	–	(31)
At 31 December 2015[2]	73	359	35	9	476
Currency translation differences	**6**	**19**	**8**	**2**	**35**
Transfers	**12**	**(12)**	**25**	**(25)**	**–**
Additions	**10**	**17**	**–**	**14**	**41**
Disposals	**(4)**	**(48)**	**–**	**–**	**(52)**
Disposal of parts of Rail Germany (Notes 32.2.7 and 32.2.11)	**(4)**	**(26)**	**–**	**–**	**(30)**
At 31 December 2016	**93**	**309**	**68**	**–**	**470**
Accumulated depreciation					
At 1 January 2015	(34)	(262)	–	–	(296)
Currency translation differences	–	(1)	–	–	(1)
Charge for the year	(5)	(29)	(1)	–	(35)
Impairment charge	(2)	(4)	–	–	(6)
Disposals	2	23	–	–	25
At 31 December 2015	(39)	(273)	(1)	–	(313)
Currency translation differences	**(3)**	**(16)**	**(1)**	**–**	**(20)**
Transfers	**(6)**	**6**	**–**	**–**	**–**
Charge for the year	**(7)**	**(22)**	**(1)**	**–**	**(30)**
Impairment charge	**(3)**	**–**	**–**	**–**	**(3)**
Disposals	**4**	**44**	**–**	**–**	**48**
Disposal of parts of Rail Germany (Notes 32.2.7 and 32.2.11)	**4**	**25**	**–**	**–**	**29**
At 31 December 2016	**(50)**	**(236)**	**(3)**	**–**	**(289)**
Carrying amount					
At 31 December 2016	**43**	**73**	**65**	**–**	**181**
At 31 December 2015[2]	34	86	34	9	163

2 Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified as such.

Infrastructure leasehold improvements comprise student accommodation projects in Iowa and Reno. The Group commenced construction of Phase 2 of the student accommodation project in Iowa in 2015 resulting in capital expenditure of £14m in the year (2015: £9m). Construction on this phase was completed in 2016 and was therefore transferred out of assets in the course of construction to be classified within infrastructure leasehold improvements. All buildings are held under short leaseholds and are depreciated over 40 years.

The carrying amount of the Group's plant and equipment held under finance leases was £1m (2015: £1m). The Company has no property, plant and equipment held under finance leases.

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated on a straight-line basis over their expected useful lives. Buildings are depreciated at 2.5% per annum or over the term of the lease, and plant and equipment is depreciated at 4% to 33% per annum.

16.2 Analysis of carrying amount of land and buildings

	Group 2016 £m	Group 2015 £m
Freehold	**20**	15
Long leasehold – over 50 years unexpired	**1**	1
Short leasehold	**22**	18
	43	34

Notes to the Financial Statements continued

17 Investment properties

	Cost[2] £m	Accumulated depreciation[2] £m	Carrying amount[2] £m
Cost or valuation			
At 1 January 2015	–	–	–
Additions[2]	4	–	4
At 31 December 2015[2]	4	–	4
Additions	**32**	–	**32**
At 31 December 2016	**36**	–	**36**

2 Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

Investment properties are held by the Group to generate rental income and capital appreciation. The Group has chosen to account for its investment property assets under the cost method. For one of its investment properties, the Group has secured non-recourse project specific financing amounting to £18m (2015: £nil). This financing is secured through a floating charge over the property.

In 2015, the amounts held as investment properties solely related to the purchase of land on which construction has commenced in 2016. All of the additions disclosed in the table above relate to capital expenditure on these properties which are in the course of construction and are not yet operational.

No depreciation is charged on investment properties that are in the course of construction. The fair value of the Group's investment properties at 31 December 2016 approximates the carrying value as these assets are still under construction. The Group did not generate any rental income from these properties as these assets are still under construction (2015: £nil).

18 Investments in joint ventures and associates

18.1 Movements

	Net assets £m	Loans £m	Infrastructure Fund £m	Total £m
At 1 January 2015	545	194	20	759
Currency translation differences	8	–	2	10
Income recognised+	41	–	3	44
Fair value revaluation of PPP financial assets (Note 30.1)	(170)	–	–	(170)
Fair value revaluation of cash flow hedges (Note 30.1)	21	–	–	21
Actuarial movements on retirement benefit obligations (Note 30.1)	(4)	–	–	(4)
Tax on items taken directly to equity (Note 30.1)	33	–	–	33
Dividends	(67)	–	(2)	(69)
Capital repayment during the period	(7)	–	–	(7)
Additions	19	–	–	19
Disposals	(20)	(26)	–	(46)
Fair value of retained interest in Thanet	10	4	–	14
Loans advanced	–	45	–	45
Loans repaid	–	(2)	–	(2)
Capital calls	–	–	15	15
Reclassify negative investment in Dutco# to provisions (Note 25)	9	–	–	9
At 31 December 2015	418	215	38	671
Currency translation differences	**45**	**–**	**5**	**50**
Income recognised	**57**	**(1)**	**–**	**56**
Fair value revaluation of PPP financial assets (Note 30.1)	**10**	**–**	**–**	**10**
Fair value revaluation of cash flow hedges (Note 30.1)	**(92)**	**–**	**–**	**(92)**
Actuarial movements on retirement benefit obligations (Note 30.1)	**1**	**–**	**–**	**1**
Tax on items taken directly to equity (Note 30.1)	**15**	**–**	**–**	**15**
Dividends	**(40)**	**–**	**(3)**	**(43)**
Additions	**12**	**–**	**–**	**12**
Capital calls	**–**	**–**	**8**	**8**
Disposals	**(7)**	**(33)**	**(48)**	**(88)**
Fair value of retained interest in the five streetlighting projects	**4**	**4**	**–**	**8**
Loans advanced	**–**	**17**	**–**	**17**
Reclassify additional losses incurred on negative investment in Dutco# to provisions (Note 25)	**3**	**–**	**–**	**3**
At 31 December 2016	**426**	**202**	**–**	**628**

+ Represents gain on fair value movements for the Infrastructure Fund.
# Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.

The principal joint ventures and associates are shown in Note 39.

The amount of the Group's share of borrowings of joint ventures and associates which was supported by the Group and the Company was £17m (2015: £20m), relating to the Group's share of guaranteed borrowings.

The non-recourse borrowings of joint venture and associate entities relating to infrastructure concessions projects are repayable over periods extending up to 2044. The non-recourse borrowings arise under facilities taken out by project-specific joint venture and associate concession companies. The borrowings of each concession company are secured by a combination of fixed and floating charges over that concession company's interests in its project's assets and revenues and the shares in the concession company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

As disclosed in Note 39(f), the Group has committed to provide its share of further equity funding of joint ventures and associates in Infrastructure Investments' projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction is complete. As is customary in such projects, banking covenants restrict the payment of dividends and other distributions.

The Group has recognised losses in relation to Dutco# in excess of the carrying value of its investment as the Group has constructive obligations to provide further funding to make good these losses. At 31 December 2016, these losses amounted to £12m (2015: £9m) and have been classified as other provisions. Refer to Notes 18.4 and 25.

As detailed in Note 37, on 26 January 2017 the Group reached agreement to sell its 49% interests in Dutco# to its joint venture partner. The sale subsequently completed on 1 March 2017.

Notes to the Financial Statements continued

18 Investments in joint ventures and associates continued

18.2 Share of results and net assets of joint ventures and associates

Income statement – continuing operations	Construction Services+ 2016 £m	Support Services 2016 £m	Infrastructure Investments UK^ 2016 £m	Infrastructure Investments North America 2016 £m	Infrastructure Investments Total 2016 £m	Total 2016 £m
Revenue[1]	1,381	27	220	120	340	1,748
Underlying operating profit[1]	29	1	6	15	21	51
Investment income	2	–	126	7	133	135
Finance costs	(1)	–	(114)	(9)	(123)	(124)
Profit before taxation[1]	30	1	18	13	31	62
Taxation	(3)	–	(4)	–	(4)	(7)
Profit after taxation before non-underlying items	27	1	14	13	27	55
Share of results within non-underlying items	1	–	–	–	–	1
Profit after taxation	28	1	14	13	27	56
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	4	69	2	71	347
Total assets	779	4	2,301	407	2,708	3,491
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)	–	(276)	(5)	(281)	(338)
Total liabilities	(635)	–	(1,967)	(261)	(2,228)	(2,863)
Net assets	144	4	334	146	480	628

^ Including Singapore and Australia.
+ Excludes the Group's share of the balance sheets of BK Gulf LLC and Dutco Balfour Beatty LLC as this is presented within provisions as set out in Note 18.1.
1 Before non-underlying items (Notes 2.10 and 10).

The Group's investment in military housing joint ventures' and associates' projects is recognised at its remaining equity investment plus the value of the Group's accrued returns from the underlying projects. The military housing joint ventures and associates have total non-recourse net borrowings of £2,710m (2015: £2,249m). Note 39(e) details the Group's military housing projects.

On certain Infrastructure Investments concessions where net fair value revaluations of PPP financial assets and cash flow hedges resulted in the Group's carrying value of these investments being negative, the Group has not recognised losses beyond the carrying value of its investments. This is because the Group has not committed to provide any further funding to these investments and the borrowings within these concessions are non-recourse to the Group. At 31 December 2016, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £19m (2015: £24m).

18 Investments in joint ventures and associates continued

18.2 Share of results and net assets of joint ventures and associates continued

Income statement – continuing operations	Construction Services 2015 £m	Support Services 2015 £m	Infrastructure Investments UK^ 2015 £m	Infrastructure Investments North America 2015 £m	Infrastructure Investments Infrastructure Fund 2015 £m	Infrastructure Investments Total 2015 £m	Total 2015 £m
Revenue[1]	1,168	25	187	91	–	278	1,471
Underlying operating profit[1]	8	1	8	11	3	22	31
Investment income	2	–	160	4	–	164	166
Finance costs	(2)	–	(129)	(7)	–	(136)	(138)
Profit before taxation[1]	8	1	39	8	3	50	59
Taxation	(3)	–	(9)	–	–	(9)	(12)
Profit after taxation before non-underlying items	5	1	30	8	3	41	47
Share of results within non-underlying items	(3)	–	–	–	–	–	(3)
Profit after taxation	2	1	30	8	3	41	44
Balance sheet							
Non-current assets							
Intangible assets – goodwill	30	–	–	–	–	–	30
– Infrastructure Investments intangible	–	–	25	–	–	25	25
– other	–	–	11	–	–	11	11
Property, plant and equipment[2]	38	–	26	–	–	26	64
Investment properties[2]	–	–	–	39	–	39	39
Investments in joint ventures and associates	5	–	–	–	–	–	5
PPP financial assets	–	–	2,159	77	–	2,236	2,236
Military housing projects	–	–	–	101	–	101	101
Infrastructure Fund investment	–	–	–	–	38	38	38
Other non-current assets	38	–	25	–	–	25	63
Current assets							
Cash and cash equivalents	296	–	204	59	–	263	559
Other current assets	464	5	62	–	–	62	531
Total assets	871	5	2,512	276	38	2,826	3,702
Current liabilities							
Borrowings – recourse	(20)	–	–	–	–	–	(20)
Borrowings – non-recourse	(19)	–	(60)	–	–	(60)	(79)
Other current liabilities	(642)	–	(123)	(18)	–	(141)	(783)
Non-current liabilities							
Borrowings – non-recourse	(23)	–	(1,669)	(141)	–	(1,810)	(1,833)
Other non-current liabilities	(64)	(1)	(255)	(5)	–	(260)	(325)
Total liabilities	(768)	(1)	(2,107)	(164)	–	(2,271)	(3,040)
Net assets	103	4	405	112	38	555	662
Reclassify net liabilities relating to Dutco# to provisions (Note 25)	9	–	–	–	–	–	9
Adjusted net assets	112	4	405	112	38	555	671

^ Including Singapore and Australia.
# Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.
1 Before non-underlying items (Notes 2.10 and 10).
2 Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

18.3 Aggregate information of joint ventures and associates

	Joint ventures 2016 £m	**Associates 2016 £m**	**Total 2016 £m**
The Group's share of profit from continuing operations	**46**	**10**	**56**
Aggregate carrying amount of the Group's interest	**504**	**124**	**628**

	Joint ventures 2015 £m	Associates 2015 £m	Total 2015 £m
The Group's share of profit from continuing operations	33	11	44
Aggregate carrying amount of the Group's interest	530	141	671

Notes to the Financial Statements continued

18 Investments in joint ventures and associates continued

18.4 Details of material joint ventures

	Dutco^		Gammon@		Connect Plus (M25) Ltd+,#	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Proportion of the Group's ownership interest in the joint venture	**49%**	49%	**50%**	50%	**40%**	40%
Income statement – continuing operations						
Revenue	**642**	372	**1,940**	1,597	**126**	121
Underlying operating (loss)/profit	**(1)**	(62)	**25**	38	**6**	5
Investment income	**–**	–	**12**	11	**138**	153
Finance costs	**(2)**	(3)	**(8)**	(7)	**(104)**	(100)
Income tax charge	**–**	–	**(7)**	(3)	**(7)**	(10)
(Loss)/profit and total comprehensive (loss)/income (100%)	**(3)**	(65)	**22**	39	**33**	48
Group's share of (loss)/profit and total comprehensive (loss)/income	**(2)**	(32)	**11**	20	**14**	19
Dividends received by the Group during the year+	**–**	–	**–**	9	**2**	4
Balance sheet						
Non-current assets	**23**	18	**317**	261	**1,967**	2,019
Current assets						
Cash and cash equivalents	**12**	–	**672**	489	**160**	152
Other current assets	**624**	447	**514**	420	**68**	65
	636	447	**1,186**	909	**228**	217
Current liabilities						
Trade and other payables	**(605)**	(412)	**(807)**	(563)	**(66)**	(41)
Provisions	**(26)**	(14)	**(52)**	(40)	**–**	–
Borrowings – recourse	**(35)**	(41)	**–**	–	**–**	–
Borrowings – non-recourse	**–**	–	**(109)**	(94)	**(6)**	(22)
Other current liabilities	**(19)**	(18)	**(94)**	(111)	**(47)**	(42)
	(685)	(485)	**(1,062)**	(808)	**(119)**	(105)
Non-current liabilities						
Trade and other payables	**–**	–	**(76)**	(63)	**–**	–
Provisions	**–**	–	**(17)**	(22)	**–**	–
Borrowings – non-recourse	**–**	–	**(116)**	(111)	**(1,044)**	(1,075)
Other non-current liabilities (including shareholder loans)	**–**	–	**(45)**	(37)	**(605)**	(543)
	–	–	**(254)**	(233)	**(1,649)**	(1,618)
Net (liabilities)/assets (100%)#	**(26)**	(20)	**187**	129	**427**	513
Reconciliation of the above summarised financial information to the carrying amount of the interest in the above joint ventures recognised in the consolidated financial statements:						
Net (liabilities)/assets of joint venture (100%)	**(26)**	(20)	**187**	129	**427**	513
Group's share of net (liabilities)/assets	**(13)**	(10)	**94**	65	**171**	205
Add: Group's interest in shareholder loans	**–**	–	**–**	–	**78**	78
Goodwill	**1**	1	**32**	27	**–**	–
Carrying amount of the Group's interest in the joint venture	**(12)&**	(9)&	**126**	92	**249**	283

^ Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.
@ Represents the combined results of Gammon China Ltd and Gammon Capital (West) Pte. Ltd as both joint ventures have common ownership and report under the same management structure.
& The negative carrying amount of the Group's interest in Dutco has been presented within provisions. Refer to Notes 18.1 and 25.
+ Re-presented to show the Group's share of dividends received in the year.
# Re-presented to include shareholder loans which is then adjusted for separately to arrive at the Group's carrying amount of its interest in the joint venture.

18 Investments in joint ventures and associates continued

18.5 Cash flow from/(to) joint ventures and associates

Cash flows from investing activities	Infrastructure Investments UK^ 2016 £m	Infrastructure Investments North America 2016 £m	Infrastructure Investments Infra-structure Fund 2016 £m	Other 2016 £m	Total 2016 £m	Infrastructure Investments UK^ 2015 £m	Infrastructure Investments North America 2015 £m	Infrastructure Investments Infra-structure Fund 2015 £m	Other 2015 £m	Total 2015 £m
Dividends from joint ventures and associates	**5**	**12**	**3**	**23**	**43**	34	9	2	24	69
Subordinated debt interest received	**19**	**–**	**–**	**–**	**19**	16	–	–	–	16
Investments in and loans to joint ventures and associates	**(20)**	**(9)**	**(8)**	**–**	**(37)**	(46)	(16)	(15)	–	(77)
Equity	**(3)**	**(9)**	**(8)**	**–**	**(20)**	(3)	(16)	–	–	(19)
Subordinated debt invested	**(17)**	**–**	**–**	**–**	**(17)**	(45)	–	–	–	(45)
Subordinated debt repaid	**–**	**–**	**–**	**–**	**–**	2	–	–	–	2
Other investments and loans	**–**	**–**	**–**	**–**	**–**	–	–	(15)	–	(15)
Short-term loans to joint ventures and associates	**–**	**–**	**–**	**–**	**–**	–	–	–	(11)	(11)
Capital repayment received	**–**	**–**	**–**	**–**	**–**	7	–	–	–	7
Disposal of investments in joint ventures	**108**	**–**	**47**	**2**	**157**	104	–	–	21	125
Net cash flow from/(to) joint ventures and associates	**112**	**3**	**42**	**25**	**182**	115	(7)	(13)	34	129

^ Including Singapore and Australia.

18.6 Share of reserves of joint ventures and associates

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total (Note 30.1) £m
At 1 January 2015	135	(237)	422	20	340
Currency translation differences	–	–	–	3	3
Income recognised	44	–	–	–	44
Fair value revaluation of PPP financial assets	–	–	(170)	–	(170)
Fair value revaluation of cash flow hedges	–	21	–	–	21
Actuarial movements on retirement benefit liabilities	(4)	–	–	–	(4)
Tax on items taken directly to equity	(1)	(7)	41	–	33
Dividends	(69)	–	–	–	(69)
Recycling of revaluation reserves to the income statement on disposal	–	26	(31)	–	(5)
Transfer of reserves to retained earnings relating to businesses disposed	–	(4)	20	–	16
Reserves disposed	(13)	–	–	–	(13)
At 31 December 2015	92	(201)	282	23	196
Currency translation differences	**–**	**–**	**–**	**41**	**41**
Income recognised	**56**	**–**	**–**	**–**	**56**
Fair value revaluation of PPP financial assets	**–**	**–**	**10**	**–**	**10**
Fair value revaluation of cash flow hedges	**–**	**(92)**	**–**	**–**	**(92)**
Actuarial movements on retirement benefit liabilities	**1**	**–**	**–**	**–**	**1**
Tax on items taken directly to equity	**–**	**14**	**1**	**–**	**15**
Dividends	**(43)**	**–**	**–**	**–**	**(43)**
Recycling of revaluation reserves to the income statement on disposal	**(6)**	**81**	**(66)**	**–**	**9**
Reserves disposed	**(9)**	**–**	**–**	**–**	**(9)**
At 31 December 2016	**91**	**(198)**	**227**	**64**	**184**

Notes to the Financial Statements continued

19 Investments

19.1 Group

	Held to maturity bonds £m	Available-for-sale investments in mutual funds £m	Total £m
At 1 January 2015	31	20	51
Currency translation differences	–	1	1
Additions	–	2	2
Maturities/disposals	(7)	(3)	(10)
At 31 December 2015	24	20	44
Currency translation differences	**–**	**4**	**4**
Fair value gains	**–**	**1**	**1**
Additions	**–**	**1**	**1**
Maturities/disposals	**(2)**	**(3)**	**(5)**
At 31 December 2016	**22**	**23**	**45**

The held to maturity bonds are held by the Group's captive insurance company, Delphian Insurance Company Ltd, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 0.73% (2015: 1.06%) and weighted average life of 2.1 years (2015: 1.4 years). The fair value of the bonds is £23m (2015: £26m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2016 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The available-for-sale investments in mutual funds comprise holdings in a number of funds, based on employees' investment elections, in respect of the deferred compensation obligations of the Group as disclosed in Note 28. The fair value of the available-for-sale investments is £23m (2015: £20m), determined by the market price of the funds at the reporting date.

19.2 Company

	2016 £m	2015 £m
Investment in subsidiaries^	**1,800**	1,771
Investment in joint ventures and associates+	**–**	2
Provisions	**(102)**	(102)
	1,698	1,671

^ The movement in investment in subsidiaries of £29m in 2016 (2015: £100m) represents additional equity contributions made from the Company to its subsidiaries.
+ The movement in investment in joint ventures and associates of £2m in 2016 is due to the disposal by the Company of a 30% interest in Connect M1-A1 Holdings Ltd. The Company retains a 20% interest in Connect M1-A1 Holdings Ltd. Refer to Note 32.2.1.

20 PPP financial assets

	Economic infrastructure+ £m	Social infrastructure+ £m	Total £m
At 1 January 2015	260	299	559
Income recognised in the income statement:			
– construction contract margin	1	–	1
– interest income (Note 8)	17	7	24
Losses recognised in the statement of comprehensive income:			
– fair value movements	(8)	(5)	(13)
Other movements:			
– cash expenditure	37	38	75
– cash received	(24)	(6)	(30)
– disposal of interest in Thanet (Note 32.3.2)	–	(214)	(214)
At 31 December 2015	283	119	402
Income recognised in the income statement:			
– interest income (Note 8)	**14**	**7**	**21**
Gains recognised in the statement of comprehensive income:			
– fair value movements	**16**	**11**	**27**
Other movements:			
– cash expenditure	**25**	**6**	**31**
– cash received	**(28)**	**(11)**	**(39)**
– disposal of interest in the five streetlighting projects (Notes 32.2.9 and 32.2.11)	**(279)**	**–**	**(279)**
At 31 December 2016	**31**	**132**	**163**

+ These categories have been renamed to provide a more appropriate classification of the Group's PPP financial assets. Economic infrastructure primarily represents assets providing transportation networks. Social infrastructure primarily represents assets providing student accommodation, healthcare and fire and rescue services.

20 PPP financial assets continued

Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets and are denominated in sterling. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets.

In 2016, the Group disposed of 80% interests in five streetlighting projects and retained 20% interests. Refer to Note 32.2.9. In 2015, the Group disposed of an 80% interest in Thanet OFTO HoldCo Ltd (Thanet). Refer to Note 32.3.2.

There were no impairment provisions in 2016 or 2015.

21 Inventories

	2016 £m	2015 £m
Unbilled non-construction work in progress	**36**	54
Raw materials and consumables	**29**	48
Development and housing land and work in progress	**32**	35
Finished goods and goods for resale	**4**	7
	101	144

22 Construction contracts

Contracts in progress at reporting date	**2016 £m**	2015 £m
Due from construction contract customers	**380**	379
Due to construction contract customers	**(542)**	(472)
	(162)	(93)

The aggregate amount of costs incurred plus recognised profits less recognised losses for all contracts in progress that had not reached practical completion at the reporting date was £14,044m from total operations (2015: £12,840m).

23 Trade and other receivables

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Current				
Trade receivables	**653**	506	**–**	–
Less: provision for impairment of trade receivables	**(7)**	(11)	**–**	–
	646	495	**–**	–
Other receivables	**60**	45	**–**	3
Due from subsidiaries	**–**	–	**1,453**	1,626
Due from joint ventures and associates	**58**	55	**17**	15
Due from joint operation partners	**7**	10	**–**	–
Contract retentions receivable#	**242**	202	**–**	–
Accrued income	**17**	24	**–**	–
Prepayments	**36**	54	**1**	1
	1,066	885	**1,471**	1,645
Non-current				
Other receivables	**4**	2	**–**	–
Due from joint ventures and associates	**25**	12	**2**	4
Contract retentions receivable#	**151**	100	**–**	–
	180	114	**2**	4
Total trade and other receivables	**1,246**	999	**1,473**	1,649
Comprising				
Financial assets (Note 38)	**1,210**	945	**1,472**	1,648
Non-financial assets – prepayments	**36**	54	**1**	1
	1,246	999	**1,473**	1,649

Including £390m (2015: £298m) construction contract retentions receivable.

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Directors believe no further credit risk provision is required in respect of trade receivables.

The Directors consider that the carrying values of current and non-current trade and other receivables approximate their fair values.

Notes to the Financial Statements continued

23 Trade and other receivables continued

Movement in the provision for impairment of trade receivables

	Group 2016 £m	Group 2015 £m
At 1 January	**(11)**	(26)
(Charged)/credited to the income statement:		
– additional provisions	**(3)**	(3)
– unused amounts reversed	**1**	6
Utilised during the year	**5**	12
Disposal of parts of Rail Germany (Notes 32.2.7 and 32.2.11)	**1**	–
At 31 December	**(7)**	(11)

Maturity profile of impaired trade receivables and trade receivables past due but not impaired

	Impaired		**Past due but not impaired**	
	Group 2016 £m	Group 2015 £m	**Group 2016 £m**	Group 2015 £m
Up to three months	**1**	1	**23**	42
Three to six months	**–**	–	**12**	12
Six to nine months	**–**	–	**10**	8
Nine to 12 months	**1**	–	**6**	5
More than 12 months	**5**	10	**33**	21
	7	11	**84**	88

At 31 December 2016, trade receivables of £84m (2015: £88m) were past due but not impaired. These relate to a number of individual customers where there is no reason to believe that the receivable is not recoverable.

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

24 Trade and other payables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current				
Trade and other payables	**936**	838	**2**	6
Accruals	**701**	755	**7**	16
Deferred income	**15**	7	**–**	–
VAT, payroll taxes and social security	**73**	67	**–**	2
Advance payment on contracts	**4**	–	**–**	–
Due to subsidiaries	**–**	–	**1,756**	1,695
Due to joint ventures and associates	**11**	25	**–**	–
Dividends on preference shares	**6**	5	**6**	5
Due on acquisitions	**3**	3	**–**	–
Due on disposals (Note 32.2.8)	**3**	–	**–**	–
	1,752	1,700	**1,771**	1,724
Non-current				
Trade and other payables	**110**	86	**–**	–
Accruals	**20**	18	**–**	–
Deferred income	**–**	1	**–**	–
Due to joint ventures and associates	**7**	11	**3**	8
Due on acquisitions	**14**	14	**–**	–
	151	130	**3**	8
Total trade and other payables	**1,903**	1,830	**1,774**	1,732
Comprising				
Financial liabilities (Note 38)	**1,772**	1,732	**1,774**	1,730
Non-financial liabilities:				
– accruals not at amortised cost	**39**	23	**–**	–
– deferred income	**15**	8	**–**	–
– VAT, payroll taxes and social security	**73**	67	**–**	2
– advance payment on contracts	**4**	–	**–**	–
	1,903	1,830	**1,774**	1,732

Maturity profile of the Group's non-current financial liabilities at 31 December

	Trade and other payables 2016 £m	**Accruals 2016 £m**	**Due to joint ventures and associates 2016 £m**	**Due on acquisitions 2016 £m**	**Total 2016 £m**
Due within one to two years	**98**	**10**	**–**	**3**	**111**
Due within two to five years	**4**	**7**	**–**	**8**	**19**
Due after more than five years	**8**	**3**	**7**	**3**	**21**
	110	**20**	**7**	**14**	**151**

	Trade and other payables 2015 £m	Accruals 2015 £m	Due to joint ventures and associates 2015 £m	Due on acquisitions 2015 £m	Total 2015 £m
Due within one to two years	69	4	–	3	76
Due within two to five years	5	6	–	7	18
Due after more than five years	12	8	11	4	35
	86	18	11	14	129

The Directors consider that the carrying values of current and non-current trade and other payables approximate their fair values. The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

Notes to the Financial Statements continued

25 Provisions

	Group				Company
	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m	Other provisions £m
At 1 January 2015	97	51	49	197	2
Currency translation differences	1	–	–	1	–
Reclassified from accruals	3	–	1	4	–
Reclassified from investments in joint ventures and associates in relation to Dutco^ (Note 18)	–	–	9	9	–
Charged/(credited) to the income statement:					
– additional provisions	79	27	19	125	–
– unused amounts reversed	(26)	(12)	(10)	(48)	–
Utilised during the year	(62)	(12)	(8)	(82)	–
At 31 December 2015	92	54	60	206	2
Currency translation differences	**6**	**2**	**1**	**9**	**–**
Transfers	**1**	**5**	**(6)**	**–**	**–**
Reclassified from/(to) accruals and due to construction contract customers	**40**	**–**	**4**	**44**	**–**
Charged/(credited) to the income statement:					
– additional provisions	**100**	**43**	**33**	**176**	**–**
– unused amounts reversed	**(36)**	**(15)**	**(21)**	**(72)**	**(2)**
– additional losses arising in the Group's investments in joint ventures and associates in relation to Dutco^ (Note 18.1)	**–**	**–**	**3**	**3**	**–**
Utilised during the year	**(56)**	**(28)**	**(8)**	**(92)**	**–**
Disposal of parts of Rail Germany (Notes 32.2.7 and 32.2.11)	**(1)**	**–**	**–**	**(1)**	**–**
At 31 December 2016	**146**	**61**	**66**	**273**	**–**

	Group				Group				**Company**	Company
	Contract provisions 2016 £m	**Employee provisions 2016 £m**	**Other provisions 2016 £m**	**Total 2016 £m**	Contract provisions 2015 £m	Employee provisions 2015 £m	Other provisions 2015 £m	Total 2015 £m	**Other provisions 2016 £m**	Other provisions 2015 £m
Due within one year	**109**	**22**	**16**	**147**	66	26	34	126	**–**	–
Due within one to two years	**11**	**10**	**16**	**37**	8	9	7	24	**–**	–
Due within two to five years	**19**	**22**	**26**	**67**	12	13	18	43	**–**	2
Due after more than five years	**7**	**7**	**8**	**22**	6	6	1	13	**–**	–
	146	**61**	**66**	**273**	92	54	60	206	**–**	2

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

Contract provisions include construction insurance liabilities, principally in the Group's captive insurance arrangements, and defect and warranty provisions on contracts, primarily construction contracts, that have reached practical completion.

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's captive insurance arrangements and provisions for employee termination liabilities arising from the Group's restructuring programmes.

Other provisions principally comprise: motor and other insurance liabilities in the Group's captive insurance arrangements; legal claims and costs, where provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress; property-related provisions, mainly onerous lease commitments, some of which arise from the Group's restructuring programmes; and environmental provisions.

The Group takes actuarial advice when establishing the level of provisions in the Group's captive insurance arrangements and certain other categories of provision.

Insurance-related provisions within these categories were £82m (2015: £76m) as follows: Contract provisions £42m (2015: £37m); Employee provisions £31m (2015: £35m); and Other, mainly motor, provisions £9m (2015: £4m).

Restructuring provisions within these categories were £10m (2015: £12m) as follows: Employee provisions £10m (2015: £9m); and Other, mainly property-related, provisions £nil (2015: £3m).

The Group has recognised losses in relation to Dutco^ in excess of its carrying value of its investment as the Group has constructive obligations to provide further funding to make good these losses. At 31 December 2016, these losses amounted to £12m and have been classified as other provisions (2015: £9m). Refer to Note 18.

26 Cash and cash equivalents and borrowings
26.1 Group

	Current 2016 £m	**Non-current 2016 £m**	**Total 2016 £m**	Current 2015 £m	Non-current 2015 £m	Total 2015 £m
Unsecured borrowings at amortised cost						
– bank overdrafts	**(1)**	**–**	**(1)**	(3)	–	(3)
– US private placement (Note 26.2)	**–**	**(285)**	**(285)**	–	(236)	(236)
– liability component of convertible bonds (Note 26.3)	**–**	**(240)**	**(240)**	–	(233)	(233)
– loans under committed facilities	**(50)**	**–**	**(50)**	–	–	–
– other loans	**(4)**	**(8)**	**(12)**	(9)	(1)	(10)
Secured borrowings at amortised cost						
– finance leases	**(1)**	**–**	**(1)**	(1)	–	(1)
	(56)	**(533)**	**(589)**	(13)	(470)	(483)
Cash and deposits at amortised cost	**605**	**–**	**605**	562	–	562
Term deposits at amortised cost	**157**	**–**	**157**	84	–	84
Cash and cash equivalents (excluding infrastructure concessions)	**762**	**–**	**762**	646	–	646
	706	**(533)**	**173**	633	(470)	163
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2044	**(47)**	**(193)**	**(240)**	(22)	(363)	(385)
Infrastructure concessions cash and cash equivalents	**7**	**–**	**7**	20	–	20
	(40)	**(193)**	**(233)**	(2)	(363)	(365)
Net cash/(borrowings)	**666**	**(726)**	**(60)**	631	(833)	(202)

The loans relating to projects finance arise under non-recourse facilities taken out by project-specific subsidiary companies. The loans of each company are secured by a combination of fixed and floating charges over that company's interests in its project's assets and revenues and the shares in the company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

Included in cash and cash equivalents is restricted cash of: £23m (2015: £25m) held by the Group's captive insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations; £31m (2015: £58m) held within construction project bank accounts; £nil (2015: £7m) relating to cash collateral held against an issued letter of credit, and £7m (2015: £20m) relating to the maintenance and other reserve accounts in the Infrastructure Investments subsidiaries.

Cash, deposits and term deposits include the Group's share of amounts held by joint operations of £282m (2015: £251m).

Maturity profile of the Group's borrowings at 31 December

	Non-recourse project finance 2016 £m	**Finance leases 2016 £m**	**Other borrowings 2016 £m**	**Total 2016 £m**	Non-recourse project finance 2015 £m	Finance leases 2015 £m	Other borrowings 2015 £m	Total 2015 £m
Due on demand or within one year	**(47)**	**(1)**	**(55)**	**(103)**	(22)	(1)	(12)	(35)
Due within one to two years	**(8)**	**–**	**(285)**	**(293)**	(35)	–	(2)	(37)
Due within two to five years	**(32)**	**–**	**(37)**	**(69)**	(34)	–	(293)	(327)
Due after more than five years	**(153)**	**–**	**(211)**	**(364)**	(294)	–	(175)	(469)
	(240)	**(1)**	**(588)**	**(829)**	(385)	(1)	(482)	(868)

The carrying values of the Group's borrowings are equal to the fair values at the reporting date. The fair values are determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

Undrawn Group committed borrowing facilities at 31 December in respect of which all conditions precedent were satisfied

	Non-recourse project finance 2016 £m	**Other borrowings 2016 £m**	**Total 2016 £m**	Non-recourse project finance 2015 £m	Other borrowings 2015 £m	Total 2015 £m
Expiring in one year or less	**8**	**–**	**8**	18	26	44
Expiring in more than one year but not more than two years	**–**	**22**	**22**	–	–	–
Expiring in more than two years	**–**	**328**	**328**	–	400	400
	8	**350**	**358**	18	426	444

The Group completed its refinancing in December 2015 resulting in a new facility arrangement of £400m. This new facility extends through to 2018. In November 2016, £375m of the facility was extended until 2019. A further one-year extension through to 2020 of the whole £400m facility is available, subject to bank approval.

Notes to the Financial Statements continued

26 Cash and cash equivalents and borrowings continued

26.2 US private placement

In March 2013, the Group raised US$350m (£231m) of borrowings through a US private placement of a series of notes with an average coupon of 4.94% per annum and an average maturity of 9.3 years. At 31 December 2016, as a result of movements in exchange rates, the balance outstanding was £285m (2015: £236m).

26.3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds of £100,000 each maturing on 3 December 2018 at a total issue price of £252.7m and incurred transaction costs of £6.7m resulting in net proceeds of £246m. The bonds have a coupon of 1.875% per annum payable semi-annually in arrears and the initial conversion price has been set at £3.6692 per share. On 23 April 2014, the conversion price was revised to £3.6212.

From 14 January 2014 until 14 days prior to final maturity, one bond is convertible at the option of the holder into one preference share in Balfour Beatty Finance No 2 Ltd which is immediately transferred to the Company in exchange for the issue of ordinary shares in the Company. The Group has the option to redeem the bonds from December 2015 under certain circumstances.

The bonds are compound instruments, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was £220m estimated using the prevailing market interest rate of 4.29% per annum for a similar non-convertible instrument. The difference between the net proceeds of issue of the convertible bonds after the transaction costs and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in equity holders' funds. Refer to Note 29.3.

Liability component recognised in the Balance Sheet

	2016 £m	2015 £m
Liability component at 1 January at amortised cost	**233**	227
Accretion	**7**	6
Liability component at 31 December at amortised cost	**240**	233

The fair value of the liability component of the convertible bonds at 31 December 2016 was £244m (2015: £236m).

The finance cost of the convertible bonds is calculated using the effective interest method.

26.4 Company

	Current 2016 £m	**Non-current 2016 £m**	**Total 2016 £m**	Current 2015 £m	Non-current 2015 £m	Total 2015 £m
Cash and deposits	**167**	**–**	**167**	50	–	50
Unsecured borrowings at amortised cost						
– bank loans and overdrafts	**–**	**–**	**–**	(160)	–	(160)
– loans under committed facilities	**(50)**	**–**	**(50)**	–	–	–
– US private placement (Note 26.2)	**–**	**(285)**	**(285)**	–	(236)	(236)
Net borrowings	**117**	**(285)**	**(168)**	(110)	(236)	(346)

The bank loans and overdrafts are sterling denominated, variable rate instruments and repayable on demand.

27 Deferred tax

27.1 Group

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Net deferred tax position at 31 December

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Deferred tax assets	**54**	58	**–**	–
Deferred tax liabilities	**(80)**	(53)	**(2)**	(2)
	(26)	5	**(2)**	(2)

Movement for the year in the net deferred tax position

	Group £m	Company £m
At 1 January 2015	3	(2)
Currency translation differences	(3)	–
Charged to income statement#	(10)	–
Credited to equity#	16	–
Write-off of deferred tax asset relating to previously disposed businesses (Note 32.2.10)	(7)	–
Disposal of Thanet (Notes 32.3.2 and 32.3.9)	6	–
At 31 December 2015	5	(2)
Currency translation differences	**(13)**	**–**
Charged to income statement#	**(22)**	**–**
Credited to equity#	**1**	**–**
Disposal of five streetlighting projects (Notes 32.2.9 and 32.2.11)	**3**	**–**
At 31 December 2016	**(26)**	**(2)**

Group includes £3m credited (2015: £5m charged) to the income statement and £nil charged (2015: £2m) to equity in relation to reductions in the UK corporation tax rate.

Notes to the Financial Statements continued

27 Deferred tax continued

27.1 Group continued

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority.

Deferred tax assets

	Depreciation in excess of capital allowances £m	Retirement benefit liabilities £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Total £m
At 1 January 2015	18	26	14	2	30	90
Currency translation differences	(1)	1	–	–	2	2
Transfers to deferred tax liabilities	–	–	2	–	–	2
(Charged)/credited to income statement	(3)	(16)	35	–	3	19
Credited to equity	–	15	–	–	–	15
Write-off of deferred tax asset relating to previously disposed businesses (Note 32.2.10)	–	–	(5)	–	(2)	(7)
At 31 December 2015	14	26	46	2	33	121
Currency translation differences	**(2)**	**2**	**9**	**–**	**4**	**13**
Credited/(charged) to income statement	**5**	**(8)**	**7**	**–**	**7**	**11**
Credited to equity	**–**	**2**	**–**	**–**	**–**	**2**
At 31 December 2016	**17**	**22**	**62**	**2**	**44**	**147**

Deferred tax liabilities

	Preference shares £m	Fair value adjustments £m	Derivatives £m	Other GAAP differences £m	Other £m	Total £m
At 1 January 2015	(3)	(42)	(8)	(33)	(1)	(87)
Currency translation differences	–	(2)	1	(4)	–	(5)
Transfers from deferred tax assets	–	–	–	(2)	–	(2)
Charged to income statement	–	(6)	–	(23)	–	(29)
Credited to equity	–	–	1	–	–	1
Disposal of Thanet (Notes 32.3.2 and 32.3.9)	–	–	6	–	–	6
At 31 December 2015	(3)	(50)	–	(62)	(1)	(116)
Currency translation differences	**–**	**(11)**	**(1)**	**(14)**	**–**	**(26)**
Transfers	**–**	**(4)**	**4**	**–**	**–**	**–**
Credited/(charged) to income statement	**1**	**(12)**	**–**	**(22)**	**–**	**(33)**
(Charged)/credited to equity	**–**	**(2)**	**1**	**–**	**–**	**(1)**
Disposal of five streetlighting projects (Notes 32.2.9 and 32.2.10)	**–**	**–**	**3**	**–**	**–**	**3**
At 31 December 2016	**(2)**	**(79)**	**7**	**(98)**	**(1)**	**(173)**

Total net deferred tax liability	**(26)**

At the reporting date the Group had unrecognised tax losses from operations (excluding capital losses) that arose over a numbers of years of approximately £1,064m (2015: £964m) which are available for offset against future profits. £6m (2015: £11m) will expire between five and 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2017. The remaining losses may be carried forward indefinitely.

The Group has recognised deferred tax assets for UK corporation tax trading losses of £4m (2015: £14m). The Group has UK corporation tax trading losses of £768m (2015: £709m) which are not recognised as deferred tax assets. The Group also had unrecognised deferred tax assets relating to retirement benefits of £108m (2015: £nil).

At the reporting date the undistributed reserves for which deferred tax liabilities have not been recognised were £1m (2015: £1m) in respect of subsidiaries and £nil (2015: £nil) in respect of joint ventures and associates. No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated.

27 Deferred tax continued
27.2 Company
Deferred tax assets and liabilities

	Deferred tax liabilities	Deferred tax assets	
	Preference shares £m	Provisions £m	Net deferred tax assets/ (liabilities) £m
At 1 January 2015	(3)	1	(2)
Credited to equity	–	–	–
At 31 December 2015	(3)	1	(2)
Credited/(charged) to income statement	**1**	**(1)**	**–**
At 31 December 2016	**(2)**	**–**	**(2)**

28 Retirement benefit liabilities
28.1 Introduction
The Group, through trustees, operates a number of defined contribution and defined benefit pension schemes.

Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

Defined benefit schemes are schemes other than defined contribution schemes where the Group's obligation is to provide specified benefits on retirement.

IAS 19 Employee Benefits (IAS 19) prescribes the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on high-quality corporate bonds. The pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net finance cost arising from the expected interest income on plan assets and interest cost on scheme obligations is included in finance costs. Actuarial gains and losses are reported in the Statement of Comprehensive Income. The IAS 19 accounting valuations are set out in Note 28.2.

A different calculation is used for the formal triennial funding valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme obligations. The principal difference between the two methods is that under the funding basis the obligations are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on high-quality corporate bonds as required by IAS 19 for the financial statements. Details of the latest formal triennial funding valuations are set out in Note 28.3.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of, the Group.

Principal schemes
The Group's principal schemes are the Balfour Beatty Pension Fund (BBPF), which includes defined contribution and defined benefit sections, and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme (RPS). The defined benefit sections of both schemes are funded and closed to new members with the exception of employees where employment has transferred to the Group under certain agreed arrangements. Pension benefits are based on employees' pensionable service and their pensionable salary.

The schemes operate under trust law and are managed and administered by trustees on behalf of the members in accordance with the terms of the trust deed and rules and relevant legislation. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice. The trustees are responsible for establishing the investment strategy and ensuring that there are sufficient assets to meet the cost of current and future benefits.

These schemes expose the Group to investment and actuarial risks where additional contributions may be required if assets are not sufficient to pay future pension benefits:

- investment risk: equity returns are a key determinant of investment return but the investment portfolio is also subject to a range of other risks typical of the investments held, for example, credit risk on corporate bond holdings.
- actuarial risk: the ultimate cost of providing pension benefits is affected by inflation rates and members' life expectancy. The net present value of the obligations is affected by the market yield on high-quality corporate bonds used to discount the obligations.

Changes in the principal actuarial assumptions based on market data, such as inflation and the discount rate, and experience, such as life expectancy, expose the Group to fluctuations in the net IAS 19 liability and the net finance cost.

Notes to the Financial Statements continued

28 Retirement benefit assets and liabilities continued

28.1 Introduction continued

Balfour Beatty Pension Fund

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

Since 2014, the Group has been offering a commutation option for pensioner members and dependants with benefits with a value of less than £30,000 and £18,000, respectively, to extinguish their benefits within the BBPF in exchange for a cash lump sum. The acceptance of this offer by certain members and dependants gave rise to a settlement event resulting in a decrease in liabilities of £1m (2015: £3m), which was recognised in other non-underlying items. Refer to Note 10.1.4.9.

Following the scheme apportionment arrangement made in relation to the disposal of Balfour Beatty WorkPlace, agreement was reached with the trustees on 24 September 2014 to make additional deficit payments totalling £15m in 2015.

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 deficit presented in these financial statements does not reflect the BBPF’s interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group’s financial statements as pension contributions on a cash basis. The first distribution was received in December 2015 and amounted to £1m. A further distribution was received in 2016 and amounted to £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. A further £5m is due in 2017; £7m 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 agreed to make ongoing deficit payments in addition to those set out above of £5m for the period from January 2017 to April 2017; £17m per annum from April 2017; £19m per annum from April 2018; and £3m per annum from April 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. Implementation of the draft Amendment to IFRIC 14 when it becomes effective will not affect this accounting.

28 Retirement benefit liabilities continued

28.1 Introduction continued

Railways Pension Scheme

The RPS is a shared cost scheme. The legal responsibility of the Group in the RPS is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing.

In 2013 and previous years, the assumed cost of providing benefits was split between the Group and the members in the ratio 60:40. This had been a reasonable assumption to make of how costs might have been shared over the long term. This assumption has been retained in relation to the cost of providing future service benefits.

Since 2014, because of a declining population of active members, it became less likely that the Group's costs of meeting any deficits would be capped in line with its strict legal obligation of 60%. It was anticipated that members might only be able to afford to fund a small proportion of the scheme deficit. In the accounts for the years ended 31 December 2014 and 31 December 2015, the long-term cost of providing past service benefits was assumed to be split between the Group and the members in the ratio 95:5. For the year ended 31 December 2016 it has been assumed that the Group will be responsible for 100% of any deficit and the balance sheet assets and obligations disclosed, therefore, are equal to 100% of the total scheme assets and obligations.

The RPS invests in a range of pooled investment funds intended to generate a combination of capital growth and income and, as determined by the trustee, taking account of the characteristics of the obligations and the trustee's attitude to risk. The majority of the RPS' assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled growth fund. This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time. The remaining assets in the RPS are principally fixed and index-linked bonds.

Following the formal triennial funding valuation carried out as at 31 December 2013, the Group agreed to make ongoing fixed deficit contributions of £6m per annum which should reduce the deficit to zero by 2031. This agreement constitutes a MFR under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the RPS would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the RPS have been settled. Implementation of the draft Amendment to IFRIC 14 when it becomes effective will not affect this accounting.

The triennial funding valuation as at 31 December 2016 is now underway.

Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe, the majority of which are closed to new entrants, and deferred compensation schemes in North America, where an element of employees' compensation is deferred and invested in available-for-sale assets (as disclosed in Note 19.1) in a trust, the assets of which are for the ultimate benefit of the employees but are available to the Group's creditors in the event of insolvency.

Membership of the principal schemes

	Balfour Beatty Pension Fund 2016			**Railways Pension Scheme 2016**			Balfour Beatty Pension Fund 2015			Railways Pension Scheme 2015		
	Number of members	**Defined benefit obligations £m**	**Average duration Years**	**Number of members**	**Defined benefit obligations £m**	**Average duration Years**	Number of members	Defined benefit obligations £m	Average duration Years	Number of members	Defined benefit obligations £m	Average duration Years
Defined benefit												
– active members	**12**	**3**	**17**	**99**	**90**	**21**	17	6	20	111	66	21
– deferred pensioners	**12,414**	**1,754**	**22**	**1,292**	**151**	**20**	12,894	1,546	23	1,335	100	20
– pensioners, widow(er)s and dependants	**18,606**	**1,926**	**11**	**1,686**	**175**	**12**	19,045	1,479	11	1,632	148	12
Defined contribution	**13,290**	**–**	**–**	**–**	**–**	**–**	13,163	–	–	–	–	–
Total	**44,322**	**3,683**	**17**	**3,077**	**416**	**16**	45,119	3,031	17	3,078	314	16

28.2 IAS 19 accounting valuations

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

	Balfour Beatty Pension Fund 2016 %	**Railways Pension Scheme 2016 %**	Balfour Beatty Pension Fund 2015 %	Railways Pension Scheme 2015 %
Discount rate	**2.50**	**2.50**	3.70	3.70
Inflation rate – RPI	**3.20**	**3.20**	3.00	3.00
– CPI	**2.00**	**2.00**	1.60	1.60
Future increases in pensionable salary	**2.00**	**2.00**	1.60	1.60
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.95**	**2.15**	2.85	1.80

28 Retirement benefit liabilities continued

28.2 IAS 19 accounting valuations continued

In December 2016, following independent advice from the Group's actuaries, the Group reassessed the difference between RPI and CPI measures of price inflation from 1.4% in December 2015 to 1.2% increasing the retirement benefit liability by a further £44m which was recognised in 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 (44,322 members at 31 December 2016) 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 2016 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2005 to 31 March 2016. The mortality tables adopted for the 2016 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2015: SAPS S2 tables) with a multiplier of 102% for all male and female members (2015: 102%) and 109% for female widows and dependants (2015: 109%); all with future improvements in line with the CMI 2015 core projection model (2015: 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 (2015: 1.25% per annum and 1.00% per annum).

	2016 Average life expectancy at 65 years of age		2015 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**22.1**	**23.9**	22.1	23.9
Members not yet in receipt of a pension (current age 50)	**23.4**	**25.0**	23.4	25.0

Amounts recognised in the income statement

The BBPF defined contribution employer contributions paid and charged to the income statement have been separately identified in the table below and the defined contribution section assets and liabilities amounting to £405m (2015: £318m) have been excluded from the tables on pages 153 to 155. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

	Balfour Beatty Pension Fund 2016 £m	**Railways Pension Scheme 2016 £m**	**Other schemes 2016 £m**	**Total 2016 £m**	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes 2015 £m	Total 2015 £m
Group								
Current service cost	**(2)**	**(1)**	**(3)**	**(6)**	(4)	(2)	(1)	(7)
Defined contribution charge	**(44)**	**–**	**–**	**(44)**	(45)	–	(1)	(46)
Included in employee costs (Note 7)	**(46)**	**(1)**	**(3)**	**(50)**	(49)	(2)	(2)	(53)
Interest income	**108**	**10**	**–**	**118**	111	9	–	120
Interest cost	**(109)**	**(11)**	**(2)**	**(122)**	(110)	(11)	(2)	(123)
Net finance cost (Note 9)	**(1)**	**(1)**	**(2)**	**(4)**	1	(2)	(2)	(3)
Settlements (Note 7)	**1**	**1**	**–**	**2**	3	–	–	3
Total charged to income statement	**(46)**	**(1)**	**(5)**	**(52)**	(45)	(4)	(4)	(53)

Amounts recognised in the Statement of Comprehensive Income

	Balfour Beatty Pension Fund 2016 £m	**Railways Pension Scheme 2016 £m**	**Other schemes 2016 £m**	**Total 2016 £m**	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes 2015 £m	Total 2015 £m
Actuarial movements on pension scheme obligations	**(710)**	**(115)**	**–**	**(825)**	57	5	6	68
Actuarial movements on pension scheme assets	**652**	**52**	**–**	**704**	(157)	4	(1)	(154)
Total actuarial movements recognised in the Statement of Comprehensive Income (Note 30.1)	**(58)**	**(63)**	**–**	**(121)**	(100)	9	5	(86)
Cumulative actuarial movements recognised in the Statement of Comprehensive Income	**(334)**	**(107)**	**(29)**	**(470)**	(276)	(44)	(29)	(349)

The actual return on plan assets was a gain of £822m (2015: £34m).

28 Retirement benefit liabilities continued
28.2 IAS 19 accounting valuations continued
Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2016 £m	**Railways Pension Scheme 2016 £m**	**Other schemes† 2016 £m**	**Total 2016 £m**	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes† 2015 £m	Total 2015 £m
Present value of obligations	**(3,683)**	**(416)**	**(56)**	**(4,155)**	(3,031)	(314)	(52)	(3,397)
Fair value of plan assets	**3,621**	**303**	**–**	**3,924**	2,988	263	–	3,251
Liabilities in the balance sheet	**(62)**	**(113)**	**(56)**	**(231)**	(43)	(51)	(52)	(146)

† Available-for-sale investments in mutual funds of £23m (2015: £20m) are held to satisfy the Group's deferred compensation obligations (Note 19.1).

The defined benefit obligation comprises £56m (2015: £52m) arising from wholly unfunded plans and £4,099m (2015: £3,345m) arising from plans that are wholly or partly funded.

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2016 £m	**Railways Pension Scheme 2016 £m**	**Other schemes 2016 £m**	**Total 2016 £m**	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes 2015 £m	Total 2015 £m
At 1 January	(3,031)	(314)	(52)	(3,397)	(3,140)	(319)	(59)	(3,518)
Currency translation differences	**–**	**–**	**(9)**	**(9)**	–	–	(1)	(1)
Current service cost	**(2)**	**(1)**	**(3)**	**(6)**	(4)	(2)	(1)	(7)
Interest cost	**(109)**	**(11)**	**(2)**	**(122)**	(110)	(11)	(2)	(123)
Actuarial movements from reassessing the difference between RPI and CPI	**(33)**	**(11)**	**–**	**(44)**	–	–	–	–
Other financial actuarial movements	**(700)**	**(103)**	**(3)**	**(806)**	41	4	6	51
Actuarial movements from changes in demographic assumptions	**(50)**	**(1)**	**–**	**(51)**	15	1	–	16
Experience gains	**73**	**–**	**3**	**76**	1	–	–	1
Total actuarial movements	**(710)**	**(115)**	**–**	**(825)**	57	5	6	68
Benefits paid	**168**	**16**	**4**	**188**	163	13	5	181
Settlements	**1**	**9**	**–**	**10**	3	–	–	3
Disposal of parts of Rail Germany (Notes 32.2.7 and 32.2.11)	**–**	**–**	**6**	**6**	–	–	–	–
At 31 December	**(3,683)**	**(416)**	**(56)**	**(4,155)**	(3,031)	(314)	(52)	(3,397)

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2016 £m	**Railways Pension Scheme 2016 £m**	**Other schemes 2016 £m**	**Total 2016 £m**	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes 2015 £m	Total 2015 £m
At 1 January	2,988	263	–	3,251	3,128	261	1	3,390
Interest income	**108**	**10**	**–**	**118**	111	9	–	120
Actuarial movements	**652**	**52**	**–**	**704**	(157)	4	(1)	(154)
Contributions from employer								
– regular funding	**2**	**–**	**–**	**2**	3	1	–	4
– ongoing deficit funding	**39**	**2**	**–**	**41**	65	1	–	66
Benefits paid	**(168)**	**(16)**	**–**	**(184)**	(162)	(13)	–	(175)
Settlements	**–**	**(8)**	**–**	**(8)**	–	–	–	–
At 31 December	**3,621**	**303**	**–**	**3,924**	2,988	263	–	3,251

Notes to the Financial Statements continued

28 Retirement benefit liabilities continued

28.2 IAS 19 accounting valuations continued

Fair value of the assets held by the schemes at 31 December

	2016			2015		
	Balfour Beatty Pension Fund £m	**Railways Pension Scheme† £m**	**Total £m**	Balfour Beatty Pension Fund £m	Railways Pension Scheme† £m	Total £m
Return-seeking	**1,221**	**224**	**1,445**	973	200	1,173
– Developed nation equities^	**370**	**–**	**370**	358	–	358
– Emerging market equities^	**117**	**–**	**117**	103	–	103
– Emerging market debt and currency	**–**	**–**	**–**	116	–	116
– Hedge funds	**400**	**–**	**400**	336	–	336
– Return-seeking growth pooled funds	**–**	**224**	**224**	–	200	200
– Other return-seeking assets	**334**	**–**	**334**	60	–	60
Liability matching bond-type assets	**2,119**	**78**	**2,197**	1,963	63	2,026
– Corporate bonds^	**698**	**–**	**698**	617	–	617
– Fixed interest gilts^	**599**	**–**	**599**	628	–	628
– Index-linked gilts^	**627**	**–**	**627**	588	–	588
– Liability matching pooled funds	**–**	**78**	**78**	–	63	63
– Interest and inflation rate swaps	**195**	**–**	**195**	130	–	130
Property	**169**	**–**	**169**	–	–	–
Secure income assets	**51**	**–**	**51**	49	–	49
Other	**61**	**1**	**62**	3	–	3
Total	**3,621**	**303**	**3,924**	2,988	263	3,251

† The amounts in 2016 represent 100% of the scheme's assets (2015: 95%).
^ Of the assets included above, £2,048m are the assets that have quoted prices in active markets, where £822m relate to the corporate bonds, developed nation equities and emerging market equities.

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2017

	Balfour Beatty Pension Fund 2017 £m	**Railways Pension Scheme 2017 £m**	**Total 2017 £m**
Regular funding	**2**	**1**	**3**
Ongoing deficit funding+	**18**	**6**	**24**
Total	**20**	**7**	**27**

+ Ongoing deficit funding contributions presented above for BBPF in 2017 are less than the amounts prescribed in the funding agreement due to overpaid contributions in 2016.

28 Retirement benefit liabilities continued

28.2 IAS 19 accounting valuations continued

The sensitivity analysis below has been determined based on reasonably possible changes in assumptions occurring at the end of the reporting period. In each case the relevant change in assumption occurs in isolation from potential changes in other assumptions. In practice more than one variable is likely to change at the same time. The sensitivities have been calculated using the projected unit credit method.

Sensitivity of the Group's retirement benefit obligations at 31 December 2016 to different actuarial assumptions

	Percentage points/ Years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Increase in discount rate	**0.5%**	**(8.0)%**	**(330)**
Increase in market expectation of RPI inflation	**0.5%**	**5.9%**	**241**
Increase in salary growth	**0.5%**	**0.1%**	**4**
Increase in life expectancy	**1 year**	**4.3%**	**177**

Sensitivity of the Group's retirement benefit assets at 31 December 2016 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	**(9.2)%**	**(359)**
Increase in market expectation of RPI inflation	**0.5%**	**4.6%**	**181**

The asset sensitivities only take into account the impact of the changes in market conditions on bond type assets. The value of the schemes' return-seeking assets is not directly correlated with movements in interest rates or RPI inflation.

Year-end historical information for the Group's retirement defined benefit schemes

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Present value of obligations	**(4,155)**	(3,397)	(3,518)	(3,229)	(3,146)
Fair value of assets	**3,924**	3,251	3,390	2,795	2,813
Deficit	**(231)**	(146)	(128)	(434)	(333)
Experience adjustment for obligations	**76**	1	(7)	16	(39)
Experience adjustment for assets	**704**	(154)	574	(44)	83
Total deficit funding	**41**	66	49	59	61

28.3 Latest formal triennial funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal triennial funding valuation	31/03/2016	31/12/2013
Scheme deficit		
Market value of assets	3,536	273
Present value of obligations	(3,642)	(323)
Deficit in defined benefit scheme	(106)	(50)
Funding level	97.1%	84.5%

Notes to the Financial Statements continued

29 Share capital

29.1 Ordinary shares of 50p each

	Million	Issued £m
At 31 December 2015 and 2016	**690**	**345**

All issued ordinary shares are fully paid. Ordinary shares carry no right to fixed income but each share carries the right to one vote at general meetings of the Company.

29.2 Cumulative convertible redeemable preference shares of 1p each

	Million	Issued £m
At 31 December 2015 and 2016	**112**	**1**

All issued preference shares are fully paid. During the current and prior year, no preference shares were repurchased for cancellation by the Company.

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. A preference dividend of 5.375p per cumulative convertible redeemable preference share of 1p was paid on 1 July 2016 in respect of the six months ended 30 June 2016. A preference dividend of 5.375p per cumulative convertible redeemable preference share of 1p was paid on 1 January 2017 in respect of the six months ended 31 December 2016.

On 1 July 2020, any preference shares still outstanding are redeemable at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2016 (2015: £112m).

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 24.69136 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances. The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30-day period exceeds 810p, subject to adjustment in certain circumstances.

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding up of the Company. On winding up the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares.

The preference shares are a compound instrument, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13.5% per annum for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in equity holders' equity, net of deferred tax.

Liability component recognised in the Balance Sheet

	2016 £m	2015 £m
Redemption value of shares in issue at 1 January	**112**	112
Equity component	**(18)**	(18)
Interest element	**4**	2
Liability component at 1 January at amortised cost	**98**	96
Interest accretion	**2**	2
Liability component at 31 December at amortised cost	**100**	98

The fair value of the liability component of the preference shares at 31 December 2016 amounted to £117m (2015: £109m). The fair value is determined by using the market price of the preference shares at the reporting date.

Interest expense on the preference shares is calculated using the effective interest method.

29.3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds for net proceeds of £246m. The convertible bonds are compound instruments comprising equity and liability components. The fair value of the liability component was estimated as £220m using the prevailing market rate at the date of issue for a similar non-convertible instrument. The difference between the net proceeds and the fair value of the liability represented the embedded option to convert the liability into the Company's ordinary shares being the equity component of £26m.
Refer to Note 26.3.

30 Movements in equity

30.1 Group

	Called-up share capital 2016 £m	Share premium account 2016 £m	Special reserve 2016 £m	Share of joint ventures' and associates' reserves (Note 18.6) 2016 £m	Other reserves: Equity component of preference shares and convertible bonds 2016 £m	Other reserves: Hedging reserves 2016 £m	Other reserves: PPP financial assets 2016 £m	Other reserves: Currency translation reserve 2016 £m	Other reserves: Other 2016 £m	Retained profits/ (losses) 2016 £m	Non-controlling interests 2016 £m	Total 2016 £m
At 1 January 2016	345	65	22	196	44	(58)	58	87	13	54	4	830
Profit/(loss) for the year	–	–	–	**56**	–	–	–	–	–	**(32)**	–	**24**
Currency translation differences	–	–	–	**41**	–	–	–	**50**	–	–	**1**	**92**
Actuarial movements on retirement benefit liabilities	–	–	–	**1**	–	–	–	–	–	**(121)**	–	**(120)**
Fair value revaluations												
– PPP financial assets	–	–	–	**10**	–	–	**27**	–	–	–	–	**37**
– cash flow hedges	–	–	–	**(92)**	–	**(16)**	–	–	–	–	–	**(108)**
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	**1**	–	–	**1**
Recycling of revaluation reserves to the income statement on disposal@	–	–	–	**9**	–	**48**	**(63)**	**(2)**	–	–	–	**(8)**
Tax on items recognised in other comprehensive income@	–	–	–	**15**	–	**(4)**	**3**	–	–	**2**	–	**16**
Total comprehensive income/ (loss) for the year	–	–	–	**40**	–	**28**	**(33)**	**48**	**1**	**(151)**	**1**	**(66)**
Ordinary dividends	–	–	–	–	–	–	–	–	–	**(6)**	–	**(6)**
Joint ventures' and associates' dividends	–	–	–	**(43)**	–	–	–	–	–	**43**	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	**3**	**1**	–	**4**
Reserve transfers relating to joint venture and associate disposals	–	–	–	**(9)**	–	–	–	–	–	**9**	–	–
At 31 December 2016	**345**	**65**	**22**	**184**	**44**	**(30)**	**25**	**135**	**17**	**(50)**	**5**	**762**

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

Notes to the Financial Statements continued

30 Movements in equity continued
30.1 Group continued

	Called-up share capital 2015 £m	Share premium account 2015 £m	Special reserve 2015 £m	Share of joint ventures' and associates' reserves (Note 18.6) 2015 £m	Other reserves: Equity component of preference shares and convertible bonds 2015 £m	Other reserves: Hedging reserves 2015 £m	Other reserves: PPP financial assets 2015 £m	Other reserves: Currency translation reserve 2015 £m	Other reserves: Other 2015 £m	Retained profits 2015 £m	Non-controlling interests 2015 £m	Total 2015 £m
At 1 January 2015	345	64	23	340	44	(74)	101	55	14	315	3	1,230
Profit/(loss) for the year	–	–	–	44	–	–	–	–	–	(250)	–	(206)
Currency translation differences	–	–	–	3	–	–	–	29	–	–	–	32
Actuarial movements on retirement benefit liabilities	–	–	–	(4)	–	–	–	–	–	(86)	–	(90)
Fair value revaluations												
– PPP financial assets	–	–	–	(170)	–	–	(13)	–	–	–	–	(183)
– cash flow hedges	–	–	–	21	–	8	–	–	–	–	–	29
Recycling of revaluation reserves to the income statement on disposal@	–	–	–	(5)	–	4	(27)	3	–	5	–	(20)
Tax on items recognised in other comprehensive income@	–	–	–	33	–	4	(3)	–	–	15	–	49
Total comprehensive (loss)/income for the year	–	–	–	(78)	–	16	(43)	32	–	(316)	–	(389)
Joint ventures' and associates' dividends	–	–	–	(69)	–	–	–	–	–	69	–	–
Issue of ordinary shares	–	1	–	–	–	–	–	–	–	–	–	1
Movements relating to share-based payments	–	–	–	–	–	–	–	–	(1)	(12)	–	(13)
Minority interest	–	–	–	–	–	–	–	–	–	–	1	1
Reserve transfers relating to joint venture and associate disposals	–	–	–	(13)	–	–	–	–	–	13	–	–
Other transfers	–	–	(1)	16	–	–	–	–	–	(15)	–	–
At 31 December 2015	345	65	22	196	44	(58)	58	87	13	54	4	830

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

30 Movements in equity continued

30.2 Company

	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves: Equity component of preference shares and convertible bonds £m	Other reserves: Other £m	Retained profits £m	Total £m
At 1 January 2015	345	64	23	44	74	581	1,131
Profit for the year	–	–	–	–	–	34	34
Currency translation differences	–	–	–	–	–	2	2
Total comprehensive income for the year	–	–	–	–	–	36	36
Issue of ordinary shares	–	1	–	–	–	–	1
Movements relating to share-based payments	–	–	–	–	(2)	(14)	(16)
Other transfers	–	–	(1)	–	–	1	–
At 31 December 2015	345	65	22	44	72	604	1,152
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(18)**	**(18)**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**6**	**(2)**	**4**
At 31 December 2016	**345**	**65**	**22**	**44**	**78**	**578**	**1,132**

As permitted under Section 408 of the Companies Act 2006, the Company has elected not to present its Statement of Comprehensive Income (including the profit and loss account) for the year. Balfour Beatty plc reported a loss for the financial year ended 31 December 2016 of £10m (2015: £34m profit).

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which nil occurred in 2016 (2015: £1m).

30.3 The retained profits in the Group and the retained profits of the Company are stated net of investments in Balfour Beatty plc ordinary shares acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Performance Share Plan, the Executive Buyout Scheme, the Deferred Bonus Plan and the Restricted Share Plan. In 2016, 1.6m (2015: 7.3m) shares were purchased at a cost of £3.9m (2015: £16.9m). The market value of the 10.5m (2015: 9.2m) shares held by the Trust at 31 December 2016 was £28.2m (2015: £24.9m). The carrying value of these shares is £26.1m (2015: £23.0m).

Following confirmation of the performance criteria at the end of the performance period in the case of the Performance Share Plan and the Executive Buyout Scheme, and at the end of the vesting period in the case of the Deferred Bonus Plan and the Restricted Share Plan, the appropriate number of shares will be unconditionally transferred to participants. In 2016, nil shares were transferred to participants in relation to the April 2013 awards under the Performance Share Plan (2015: nil shares were transferred to participants in relation to the April 2012 awards under the Performance Share Plan), nil shares were transferred to participants in relation to the January 2015 awards under the Executive Buyout Scheme (2015: 0.3m), and 0.3m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2015: 0.7m shares).

The Trustees have waived the rights to dividends on shares held by the trust. Participants in the schemes receive an award of shares to represent the dividends which would have been payable on the shares since the date of grant.

Other reserves in the Group and Company include £5.8m (2015: £3.9m) relating to unvested Performance Share Plan awards, £1.5m (2015: £0.2m) relating to unvested Restricted Share Plan awards, £1.5m (2015: £1.3m) relating to unvested Executive Buyout Scheme awards and £1.9m (2015: £1.5m) relating to unvested Deferred Bonus Plan awards.

Notes to the Financial Statements continued

31 Notes to the statement of cash flows

31.1 Cash (used in)/generated from operations

	Notes	Continuing operations Underlying items[1] 2016 £m	Continuing operations Non-underlying items (Note 10) 2016 £m	Discontinued operations 2016 £m	2016 £m	2015 £m
Profit/(loss) from operations		**67**	**(52)**	**24**	**39**	(182)
Share of results of joint ventures and associates	18	**(55)**	**(1)**	**–**	**(56)**	(44)
Depreciation of property, plant and equipment	16	**29**	**1**	**–**	**30**	35
Amortisation of other intangible assets	15	**12**	**9**	**–**	**21**	25
Impairment of IT intangible assets	15	**1**	**–**	**–**	**1**	17
Pension deficit payments	28.2	**(41)**	**–**	**–**	**(41)**	(66)
Pension fund settlement gain	10	**–**	**(1)**	**–**	**(1)**	(3)
Movements relating to share-based payments	33	**7**	**–**	**–**	**7**	5
Profit on disposal of investments in infrastructure concessions	32.2	**(65)**	**–**	**–**	**(65)**	(95)
Net gain on disposal of other businesses	32.2	**–**	**(8)**	**(24)**	**(32)**	(14)
Profit on disposal of property, plant and equipment		**(5)**	**–**	**–**	**(5)**	(1)
Impairment of land relating to Blackpool airport (2015: impairment of goodwill)	10	**–**	**3**	**–**	**3**	4
Impairment of assets within Rail Germany	10	**–**	**–**	**–**	**–**	7
Other non-cash items		**–**	**–**	**–**	**–**	(1)
Operating cash flows before movements in working capital		**(50)**	**(49)**	**–**	**(99)**	(313)
(Increase)/decrease in operating working capital		**(82)**	**34**	**–**	**(48)**	178
Inventories and non-construction work in progress		**42**	**–**	**–**	**42**	27
Due from construction contract customers		**(14)**	**9**	**–**	**(5)**	182
Trade and other receivables		**(121)**	**(13)**	**–**	**(134)**	74
Due to construction contract customers		**60**	**(19)**	**–**	**41**	126
Trade and other payables		**(53)**	**(7)**	**–**	**(60)**	(236)
Provisions		**4**	**64**	**–**	**68**	5
Cash used in operations		**(132)**	**(15)**	**–**	**(147)**	(135)

1 Before non-underlying items (Notes 2.10 and 10).

31.2 Cash and cash equivalents

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash and deposits	**605**	562	**50**	–
Term deposits	**157**	84	**117**	50
Cash balances within infrastructure concessions	**7**	20	**–**	–
Bank overdrafts	**(1)**	(3)	**–**	(160)
	768	663	**167**	(110)

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

31.3 Analysis of movement in net (borrowings)/cash

	Infrastructure concessions non-recourse project finance 2016 £m	Other 2016 £m	Total 2016 £m	Total 2015 £m
Opening net borrowings	(365)	163	(202)	(226)
Currency translation differences	**(6)**	**30**	**24**	(15)
Net (decrease)/increase in cash and cash equivalents	**(13)**	**38**	**25**	(83)
Accretion on convertible bonds	**–**	**(7)**	**(7)**	(6)
Proceeds from new loans	**(65)**	**(52)**	**(117)**	(79)
Repayments of loans	**25**	**1**	**26**	12
Disposal of non-recourse borrowings (Notes 32.2.11 and 32.3.9)	**191**	**–**	**191**	177
Net decrease in cash within assets held for sale	**–**	**–**	**–**	18
Closing net (borrowings)/cash	**(233)**	**173**	**(60)**	(202)

31 Notes to the statements of cash flows continued

31.4 Borrowings

During the year ended 31 December 2016, the significant movements in borrowings were: an increase in new loans of £52m (2015: £nil); an increase of £65m (2015: £79m) in non-recourse loans funding the development of infrastructure projects in subsidiaries; disposal of non-recourse borrowings in streetlighting projects of £191m (2015: £177m on disposal of Thanet OFTO HoldCo Ltd); and repayment of £25m (2015: £11m) of non-recourse loans.

32 Acquisitions and disposals

32.1 Current and prior year acquisitions

On 30 September 2016, the Group acquired 100% of Omnicom Engineering Ltd for a purchase price of £3m. The consideration includes a deferred consideration element of £0.3m which is subject to Omnicom securing key orders at an acceptable level of margin. The acquisition resulted in goodwill of £2m. Refer to Note 14.

There were no material acquisitions in 2015.

Deferred consideration paid during 2016 in respect of acquisitions completed in earlier years was £3m (2015: £3m). This related to the Group's acquisition of Centex Construction in 2007.

32.2 Current year disposals

Notes	Disposal date	Entity/business	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain £m	Non-underlying gain/(loss) £m
32.2.1	15 April 2016	Connect M1-A1 Holdings Ltd^	30%	**15**	**(10)&**	–	–	**5**	–
32.2.2	5 May 2016	Living & Learning Unit Trust^	50%	**19**	**(1)**	**(8)**	**(1)**	**9**	–
32.2.3	1 July 2016	BSF Schools: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing, Derby City^	80/90%	**73**	**(27)**	**(8)**	–	**38**	–
32.2.4	1 July 2016	BBIP Infrastructure Fund+	17.8%	**48**	**(48)**	**7**	**(1)**	–	**6**
32.2.5	1 July 2016	BBIP Advisor*	100%	–	**(3)**	–	–	–	**(3)**
32.2.6	7 September 2016	Humber Gateway^	40%	**2**	–	–	–	**2**	–
32.2.7	21 September 2016	Parts of Rail Germany*	100%	**15**	**(14)**	**2**	**(1)**	–	**2**
32.2.8	21 November 2016	Balfour Beatty Sakti Indonesia^	49%	**(3)**	**3**	–	–	–	–
32.2.9	15 December 2016	Streetlighting: Sunderland, South Tyneside, Coventry, Cambridgeshire, Northamptonshire*	80%	**33**	**(37)**	**15**	–	**11**	–
				202#	**(137)**	**8**	**(3)**	**65**	**5**

* Subsidiary.
^ Joint venture.
\+ Associate.
\# Total cash consideration received by the Group also includes £9m of cash received in respect of Parsons Brinckerhoff (Note 32.2.10) and £2m of deferred cash consideration received in respect of SSL (Note 10.1.4.7).
& Net assets disposed include amounts due to the joint venture of £4m held by the Company.

32.2.1 On 15 April 2016, the Group disposed of a 30% interest in Connect M1-A1 Holdings Ltd for a cash consideration of £15m. The infrastructure concession disposal resulted in a net gain of £5m being recognised within underlying operating profit. The Group retains a 20% interest in Connect M1-A1 Holdings Ltd.

32.2.2 On 5 May 2016, the Group disposed of its 50% interest in Living & Learning Holdings Custodians Pty Ltd (Living & Learning Unit Trust) for a cash consideration of £19m. The infrastructure concession disposal resulted in a net gain of £9m being recognised within underlying operating profit, comprising: a gain of £18m in respect of the investment in the joint venture, an £8m loss in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

32.2.3 On 1 July 2016, the Group disposed of its entire interest in seven BSF (Building Schools for the Future) projects: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing and Derby City for a cash consideration of £73m. On this date, the Group ceased to jointly control these BSF projects by virtue of a put/call structure with a preferred bidder. The disposal completed on 22 August 2016. The infrastructure concession disposal resulted in a net gain of £38m being recognised within underlying operating profit, comprising: a gain of £46m in respect of the investments in the joint ventures and an £8m loss in respect of revaluation reserves recycled to the income statement.

32.2.4 On 1 July 2016, the Group disposed of its 17.8% interest in the BBIP Infrastructure Fund for an initial cash consideration of £48m. The disposal resulted in a net gain of £6m being recognised within non-underlying operating profit, comprising: a gain of £nil in respect of the investment in the associated undertaking, a £7m gain in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

Notes to the Financial Statements continued

32 Acquisitions and disposals continued

32.2 Current year disposals continued

32.2.5 On 1 July 2016, the Group disposed of its 100% interest in the BBIP Advisor for a cash consideration of £nil. The disposal resulted in a net loss of £3m being recognised within non-underlying operating profit, comprising a loss of £3m in respect of the investment in the subsidiary.

32.2.6 On 7 September 2016, the Group disposed of its right to a 40% interest in Humber Gateway OFTO Holdings Ltd. The infrastructure concession disposal resulted in a net gain of £2m being recognised within underlying operating profit comprising a £2m fee received on disposing of the Group's interest. The Group retains a 20% interest in Humber Gateway OFTO Holdings Ltd.

32.2.7 On 21 September 2016, as part of the ongoing process to exit the Mainland European rail business, the Group disposed of part of its Rail business in Germany to Tianjin Keyvia Electric Co Ltd for a cash consideration of £15m. This sale resulted in a £2m gain as a result of recycling of foreign currency reserves. The related assets disposed were impaired by £11m in 2015 to reflect the value of the agreed consideration which was recognised within non-underlying items (refer to Note 10.1.4.8). The disposal included cash disposed of £10m.

32.2.8 On 21 November 2016, the Group reached agreement to dispose of its 49% interest in Balfour Beatty Sakti Indonesia to its joint venture partner for a payment by the Group of £3m reflecting the Group's share of the net liabilities of the joint venture. This has been recognised as a disposal in the year as completion of the sale is not subject to any substantive terms at the year end. The amount due to the purchaser has been recognised in amounts due on disposal within trade and other payables (refer to Note 24).

32.2.9 On 16 December 2016, the Group disposed of 80% interests in five streetlighting projects for a cash consideration of £33m. This infrastructure concession disposal resulted in a net gain of £11m being recognised within underlying operating profit, comprising: a loss of £4m in respect of the investments in subsidiaries and a £15m gain in respect of fair value reserves recycled to the income statement. The Group retains 20% interests in the infrastructure concession projects which are accounted for as joint ventures under the equity method. The disposal included cash disposed of £16m.

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

Subsequently in 2016, the Group reached a settlement with the purchaser of PB in relation to outstanding tax matters and indemnities. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters have been released, resulting in an overall gain to the Group of £24m.

32 Acquisitions and disposals continued
32.2 Current year disposals continued
32.2.11 Subsidiaries net assets disposed

Net assets disposed	Notes	Streetlighting £m	Rail Germany& £m	BBIP Advisor £m	Total £m
PPP financial assets	20	**279**	**–**	**–**	**279**
Intangible assets – other	15	**–**	**–**	**3**	**3**
Property, plant and equipment	16	**–**	**1**	**–**	**1**
Deferred taxation	27	**(3)**	**–**	**–**	**(3)**
Inventories and non-construction work in progress		**–**	**5**	**–**	**5**
Due from construction contract customers		**–**	**21**	**–**	**21**
Trade and other receivables		**4**	**8**	**–**	**12**
Trade and other payables		**(3)**	**(24)**	**–**	**(27)**
Provisions	25	**–**	**(1)**	**–**	**(1)**
Retirement benefit liabilities	28	**–**	**(6)**	**–**	**(6)**
Derivative financial instruments		**(57)**	**–**	**–**	**(57)**
Cash		**16**	**10**	**–**	**26**
Non-recourse borrowings	31.3	**(191)**	**–**	**–**	**(191)**
Net assets of interest retained	18.1	**(8)**	**–**	**–**	**(8)**
		37	**14**	**3**	**54**
Reserves recycled to the income statement		**(15)**	**(2)**	**–**	**(17)**
Costs directly related to the sale		**–**	**1**	**–**	**1**
		22	**13**	**3**	**38**
Cash consideration		**(33)**	**(15)**	**–**	**(48)**
(Gain)/loss on disposal		**(11)**	**(2)**	**3**	**(10)**
Net cash flow effect					
Total consideration		**33**	**15**	**–**	**48**
Cash and cash equivalents disposed		**(16)**	**(10)**	**–**	**(26)**
Net cash consideration		**17**	**5**	**–**	**22**
Net receipt in relation to the disposal of Parsons Brinckerhoff	32.2.10				**9**
					31

& Sale of parts of Rail Germany to Tianjin Keyvia Electric Co Ltd.

32.3 Prior year disposals

Notes	Disposal date	Entity/business	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain £m	Non-underlying gain/(loss) £m
32.3.1	31 January 2015	Parts of Rail Germany*	100	5	(5)	(1)	(4)	–	(5)
32.3.2	16 February 2015	Thanet OFTO HoldCo Ltd*	80	40	(35)	18	6	29	–
32.3.3	11 March 2015	Rail Italy*	100	5	(6)	(2)	(1)	–	(4)
32.3.4	12 March 2015	Baoji BaoDeLi Electrification Ltd^	25	4	(2)	–	–	–	2
32.3.5	28 April 2015	Edinburgh Royal Infirmary^	50	72	(15)	(1)	(1)	55	–
32.3.6	27 May 2015	Signalling Solutions Ltd^	50	18	(1)	–	(1)	–	16
32.3.7	30 November 2015	Aura Holdings (Newcastle) Ltd^	25	7	(3)	–	–	4	–
32.3.8	2 December 2015	Greater Gabbard OFTO Holdings Ltd^	33	26	(25)	6	–	7	–
				177	(92)	20	(1)	95	9

* Subsidiary.
^ Joint venture.

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

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

Notes to the Financial Statements continued

32 Acquisitions and disposals continued

32.3 Prior year disposals continued

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

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

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

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

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

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

32.3.9 Prior year subsidiaries net assets disposed

		Continuing operations	Discontinued operations and assets held for sale		
Net assets disposed	**Notes**	**Thanet £m**	**Rail Germany+ £m**	**Rail Italy £m**	**Total £m**
PPP financial assets	20	214	–	–	214
Deferred taxation	27	(6)	–	1	(5)
Inventories and non-construction work in progress		–	1	–	1
Due from construction contract customers		–	10	4	14
Trade and other receivables		2	5	10	17
Trade and other payables		–	(20)	(11)	(31)
Provisions		–	(1)	–	(1)
Retirement benefit liabilities		–	(1)	(1)	(2)
Current taxation		–	–	1	1
Derivative financial instruments		(6)	–	–	(6)
Cash		17	12	3	32
Recourse borrowings		–	(1)	(1)	(2)
Non-recourse borrowings	31.3	(177)	–	–	(177)
Net assets of interest retained		(9)	–	–	(9)
		35	5	6	46
Fair value movement on retained interest		(6)	–	–	(6)
Reserves recycled to the income statement		(18)	1	2	(15)
Costs directly related to the sale		–	4	1	5
		11	10	9	30
Cash consideration		(40)	(5)	(5)	(50)
(Gain)/loss on disposal		(29)	5	4	(20)
Net cash flow effect					
Total consideration		40	5	5	50
Cash and cash equivalents disposed		(17)	(12)	(3)	(32)
Transaction and separation costs paid		–	(3)	(1)	(4)
Net cash consideration		23	(10)	1	14
Net receipt in relation to the disposal of Parsons Brinckerhoff	32.2.9				25
					39

+ Sale of parts of Rail Germany to Rhomberg Sersa Rail Group. Refer to Notes 32.3.1 and 32.3.4.

33 Share-based payments

The Company operates four equity-settled share-based payment arrangements, namely the Executive Buyout Scheme (EBS), the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP) and the Restricted Share Plan (RSP). The Group recognised total expenses relating to equity-settled share-based payment transactions of £7.4m in 2016 (2015: £4.5m). Refer to the Remuneration report for details of the various schemes.

Movements in share plans

2016 number of awards	**EBS conditional awards**	**PSP conditional awards**	**DBP conditional awards**	**RSP conditional awards**
Outstanding at 1 January	**1,905,260**	**7,105,303**	**1,249,236**	**1,105,658**
Granted during the year	**–**	**3,768,644**	**651,306**	**986,096**
Awards in lieu of dividends	**–**	**–**	**4,676**	**5,592**
Forfeited during the year	**–**	**(579,335)**	**(127,790)**	**(159,400)**
Exercised during the year	**–**	**–**	**(285,853)**	**(1,000)**
Expired during the year	**–**	**(2,166,515)**	**(27,253)**	**–**
Outstanding at 31 December	**1,905,260**	**8,128,097**	**1,464,322**	**1,936,946**
Exercisable at 31 December	**–**	**–**	**–**	**–**
Weighted average remaining contractual life (years)	**0.7**	**1.7**	**1.5**	**1.8**
Weighted average share price at the date of exercise for awards exercised in the year	**n/a**	**n/a**	**252.4p**	**228.0p**

2015 number of awards	EBS conditional awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	–	6,833,065	1,345,473	–
Granted during the year	2,859,212	4,231,248	700,087	1,105,658
Awards in lieu of dividends	–	–	–	–
Forfeited during the year	–	(1,351,983)	(68,220)	–
Exercised during the year	(409,156)+	–	(728,104)	–
Expired during the year	(544,796)	(2,607,027)	–	–
Outstanding at 31 December	1,905,260	7,105,303	1,249,236	1,105,658
Exercisable at 31 December	–	–	–	–
Weighted average remaining contractual life (years)	1.5	1.4	1.9	2.4
Weighted average share price at the date of exercise for awards exercised in the year	261.6p	n/a	278.1p	n/a

+ Included in the number of shares exercised during 2015 is the exercise of an award of 141,791 shares which was cash-settled.

The principal assumptions, including expected volatility determined from the historical weekly share price movements over the three-year period immediately preceding the award date, used by the consultants in the stochastic model for the 33.3% of the PSP awards granted in 2016 subject to market conditions, were:

Award date	**Name of award**	**Closing share price on award date Pence**	**Expected volatility of shares %**	**Expected term of awards Years**	**Risk-free interest rate %**	**Calculated fair value of an award Pence**
13 April 2016	PSP award	**238.3**	**34.1**	**3.0**	**0.39**	**125.2**

For the 66.7% of the PSP awards granted in 2016 subject to non-market conditions and for the DBP and RSP awards granted in 2016, the fair value of the awards is the closing share price before award date.

34 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £5m (2015: £4m) in the Group and £nil (2015: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt in Infrastructure Investments projects which have reached financial close. Refer to Note 39(f).

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement for continuing operations is disclosed in Note 6.1.

Future operating lease expenditure commitments

	Land and buildings 2016 £m	**Other 2016 £m**	Land and buildings 2015 £m	Other 2015 £m
Due within one year	**25**	**41**	28	32
Due between one and five years	**63**	**53**	58	43
Due after more than five years	**24**	**2**	23	3
	112	**96**	109	78

The Company did not have any future operating lease expenditure commitments as at 31 December 2016 (2015: £nil).

Notes to the Financial Statements continued

34 Commitments continued

Future committed operating lease income

	Land and buildings 2016 £m	Land and buildings 2015 £m
Due within one year	**6**	1
Due between one and five years	**11**	5
Due after more than five years	**–**	1
	17	7

The Company did not have any future committed operating lease income as at 31 December 2016 (2015: £nil).

35 Contingent liabilities

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

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

36 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £344m (2015: £414m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 23 and 24 respectively.

Transactions with non-Group members

During 2016, the Group also entered into the following transactions with related parties which are not members of the Group. The following companies were related parties in 2016 as they are controlled or jointly controlled by a non-executive director of Balfour Beatty plc.

	Sale of goods & services 2016 £m	Purchase of goods & services 2016 £m	Amounts owed by related parties 2016 £m	Amounts owed to related parties 2016 £m
Urenco Ltd	**62**	**–**	**5**	**–**
Anglian Water Group Ltd	**13**	**9**	**–**	**–**
	75	**9**	**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.

Remuneration of key management personnel of the Company

	2016 £m	2015^ £m
Short-term benefits	**2.384**	2.627
Long-term benefits	**0.341**	0.291
Payments for loss of office	**–**	0.639
Joining costs	**–**	2.053
Share-based payments	**1.612**	1.642
	4.337	7.252

^ Restated to include £43,600 of annual incentive cash paid to Duncan Magrath.

Key management personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors. The remuneration included above is that paid in respect of the period of the year during which the individuals were Directors. Further details of Directors' emoluments, post-employment benefits and interests are set out in the 2016 Remuneration report on pages 84 to 99.

37 Events after the reporting date

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. The sale subsequently completed on 1 March 2017. The Group's investment in these entities did not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations at the balance sheet date and therefore continued to be presented within the Group's underlying continuing operations. Following the agreement to sell in January 2017, the criteria under IFRS 5 are now satisfied and therefore the Group's share of results in these entities will be presented as part of its discontinued operations with comparatives restated accordingly in its 2017 financial statements. The impact of the disposal will be presented as non-underlying within discontinued operations.

38 Financial instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The components of capital are as follows: equity attributable to equity holders of the Company comprising issued ordinary share capital, reserves and retained earnings as disclosed in Notes 29.1 and 30; preference shares as disclosed in Note 29.2; US private placement as disclosed in Note 26; convertible bonds as disclosed in Note 26; and cash and cash equivalents and borrowings as disclosed in Note 26.

The Group maintains or adjusts its capital structure through the payment of dividends to equity holders, issue of new shares and buyback of existing shares, and drawdown of new borrowings and repayment of existing borrowings. The policy of the Group is to ensure an appropriate balance between cash, borrowings (other than the non-recourse borrowings of companies engaged in Infrastructure Investments projects), working capital and the value in the Infrastructure Investments investment portfolio.

The overall capital risk management strategy of the Group remains unchanged from 2015.

Categories of financial instruments

	Loans and receivables at amortised cost, cash and deposits 2016 £m	**Financial liabilities at amortised cost 2016 £m**	**Available-for-sale financial assets 2016 £m**	**Held to maturity financial assets 2016 £m**	**Derivatives 2016 £m**	Loans and receivables at amortised cost, cash and deposits 2015 £m	Financial liabilities at amortised cost 2015 £m	Available-for-sale financial assets 2015 £m	Held to maturity financial assets 2015 £m	Derivatives 2015 £m
Financial assets										
Fixed rate bonds and treasury stock	**–**	**–**	**–**	**22**	**–**	–	–	–	24	–
Mutual funds	**–**	**–**	**23**	**–**	**–**	–	–	20	–	–
PPP financial assets	**–**	**–**	**163**	**–**	**–**	–	–	402	–	–
Cash and deposits	**769**	**–**	**–**	**–**	**–**	666	–	–	–	–
Trade and other receivables	**1,210**	**–**	**–**	**–**	**–**	945	–	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**4**	–	–	–	–	1
Total	**1,979**	**–**	**186**	**22**	**4**	1,611	–	422	24	1
Financial liabilities										
Liability component of preference shares	**–**	**(100)**	**–**	**–**	**–**	–	(98)	–	–	–
Trade and other payables	**–**	**(1,772)**	**–**	**–**	**–**	–	(1,732)	–	–	–
Unsecured borrowings	**–**	**(588)**	**–**	**–**	**–**	–	(482)	–	–	–
Secured borrowings	**–**	**(1)**	**–**	**–**	**–**	–	(1)	–	–	–
Infrastructure concessions non-recourse term loans	**–**	**(240)**	**–**	**–**	**–**	–	(385)	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**(39)**	–	–	–	–	(78)
Total	**–**	**(2,701)**	**–**	**–**	**(39)**	–	(2,698)	–	–	(78)
Net	**1,979**	**(2,701)**	**186**	**22**	**(35)**	1,611	(2,698)	422	24	(77)
Current year comprehensive income/(loss) excluding share of joint ventures and associates	**52**	**(78)**	**(14)**	**1**	**32**	25	(60)	(16)	1	12

Notes to the Financial Statements continued

38 Financial instruments continued

Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2016 £m	**Non-current 2016 £m**	**Total 2016 £m**	**Current 2016 £m**	**Non-current 2016 £m**	**Total 2016 £m**	Current 2015 £m	Non-current 2015 £m	Total 2015 £m	Current 2015 £m	Non-current 2015 £m	Total 2015 £m
Foreign currency contracts												
Held for trading at fair value through income statement	**1**	**–**	**1**	**(2)**	**–**	**(2)**	1	–	1	–	–	–
Designated as cash flow hedges	**–**	**3**	**3**	**–**	**–**	**–**	–	–	–	–	–	–
Interest rate swaps												
Designated as cash flow hedges	**–**	**–**	**–**	**(4)**	**(33)**	**(37)**	–	–	–	(11)	(67)	(78)
	1	**3**	**4**	**(6)**	**(33)**	**(39)**	1	–	1	(11)	(67)	(78)

Non-derivative financial liabilities gross maturity

The following table details the remaining contractual maturity for the Group's non-derivative financial liabilities. The table reflects the undiscounted contractual maturities of the financial liabilities including interest that will accrue on those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that are not included in the carrying value of the financial liability.

Maturity profile of the Group's non-derivative financial liabilities at 31 December

	Non-recourse project finance 2016 £m	**Other borrowings 2016 £m**	**Other financial liabilities 2016 £m**	**Total non-derivative financial liabilities 2016 £m**	**Discount 2016 £m**	**Carrying value 2016 £m**
Due on demand or within one year	**(57)**	**(56)**	**(1,639)**	**(1,752)**	**10**	**(1,742)**
Due within one to two years	**(10)**	**(299)**	**(93)**	**(402)**	**14**	**(388)**
Due within two to five years	**(34)**	**(37)**	**(134)**	**(205)**	**15**	**(190)**
Due after more than five years	**(188)**	**(209)**	**(20)**	**(417)**	**36**	**(381)**
	(289)	**(601)**	**(1,886)**	**(2,776)**	**75**	**(2,701)**
Discount	**49**	**12**	**14**	**75**		
Carrying value	**(240)**	**(589)**	**(1,872)**	**(2,701)**		

	Non-recourse project finance 2015 £m	Other borrowings 2015 £m	Other financial liabilities 2015 £m	Total non-derivative financial liabilities 2015 £m	Discount 2015 £m	Carrying value 2015 £m
Due on demand or within one year	(24)	(13)	(1,606)	(1,643)	2	(1,641)
Due within one to two years	(38)	(2)	(74)	(114)	3	(111)
Due within two to five years	(46)	(313)	(130)	(489)	47	(442)
Due after more than five years	(383)	(175)	(36)	(594)	90	(504)
	(491)	(503)	(1,846)	(2,840)	142	(2,698)
Discount	106	20	16	142		
Carrying value	(385)	(483)	(1,830)	(2,698)		

Derivative financial liabilities gross maturity

The following table details the Group's expected maturity for its derivative financial liabilities. The table reflects the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that are settled on a gross basis (foreign exchange contracts). When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves at the reporting date.

Maturity profile of the Group's derivative financial liabilities at 31 December

	Payable 2016 £m	**Receivable 2016 £m**	**Net payable 2016 £m**	Payable 2015 £m	Receivable 2015 £m	Net payable 2015 £m
Due on demand or within one year	**(77)**	**71**	**(6)**	(45)	33	(12)
Due within one to two years	**(10)**	**6**	**(4)**	(13)	2	(11)
Due within two to five years	**(14)**	**3**	**(11)**	(29)	–	(29)
Due after more than five years	**(27)**	**–**	**(27)**	(64)	–	(64)
Total	**(128)**	**80**	**(48)**	(151)	35	(116)

38 Financial instruments continued

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk; credit risk; and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

– forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company
– interest rate swaps to mitigate the cash flow variability in non-recourse project finance loans arising from variable interest rates on borrowings.

There has been no material change to the Group's exposure to market risks and there has been no change in how the Group manages those risks since 2015.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros, Hong Kong dollars and United Arab Emirates dirhams. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Whenever a current or future foreign currency exposure is identified with sufficient reliability Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer.

Refer to page 168 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures.

As at 31 December 2016, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £70m (2015: £35m) receivable and £71m (2015: £36m) payable with related cash flows expected to occur in up to two (2015: two) years. The foreign exchange gains or losses resulting from fair valuing these unhedged foreign exchange contracts will affect the income statement throughout the same periods.

The Group has designated forward exchange contracts with a notional principal amount of £10m (2015: £nil) receivable and £11m (2015: £nil) payable as cash flow hedges against highly probable cash flows which are expected to occur in up to five (2015: one) years. Fair value gains on these contracts of £2m (2015: £nil) have been taken to hedging reserves through other comprehensive income. The cumulative amount deferred in the hedging reserves relating to cash flow hedges at the reporting date is £2m (2015: £nil).

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the income statement in relation to any foreign exchange cash flow hedges.

The Group's investments in foreign operations are exposed to foreign currency translation risks. The Group does not enter into forward foreign exchange or other derivative contracts to hedge foreign currency denominated net assets.

In March 2013, the Group raised US$350m through a US private placement which has been designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements. The Group has reassessed this hedge and has concluded that the hedge continues to be effective. Exchange movements in the year totalled £49m (2015: £12m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a £14m decrease (2015: £11m)/£15m increase (2015: £12m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £7m increase (2015: £20m)/£9m decrease (2015: £24m) in amounts taken directly to other comprehensive income by the Group.

The hedging policy is reviewed periodically. At the reporting date there had been no change to the hedging policies since 2015.

Notes to the Financial Statements continued

38 Financial instruments continued

(ii) Interest rate risk management

Interest rate risk arises in the Group's non-recourse project companies which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets. Floating rate borrowings expose the Group to cash flow interest rate risk. The Group's policy to manage this risk is to swap floating rate interest to fixed rate, using interest rate swap contracts.

In an interest rate swap, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The net effect of a movement in interest rates on income would be immaterial. The fair value of interest rate swaps is determined by discounting the future cash flows using the yield curve at the reporting date.

During 2016 and 2015, the Group's non-recourse project subsidiaries' borrowings at variable rates of interest were denominated in sterling and US dollars.

The notional principal amounts of the outstanding subsidiaries' interest rate swaps outstanding at 31 December 2016 totalled £117m (2015: £304m) with maturities that match the maturity of the underlying borrowings ranging from one year to 23 years.

At 31 December 2015, the fixed interest rates range from 3.5% to 5.1% (2015: 3.5% to 5.1%) and the principal floating rates are LIBOR plus a fixed margin.

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £7m increase (2015: £20m)/£9m decrease (2015: £24m) in amounts taken directly to other comprehensive income by the Group in relation to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its Infrastructure Investments subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and other borrowings. A 50 basis point increase/decrease in the interest rate of each currency in which these financial instruments are held would lead to a £nil decrease (2015: £2m)/£nil increase (2015: £1m) in the Group's net finance cost.

(iii) Price risk management

The Group's principal price risk exposure arises in its Infrastructure Investments concessions. At the commencement of the concession, an element of the unitary payment by the customer is indexed to offset the effect of inflation on the concession's costs. The Group is exposed to price risk to the extent that inflation differs from the index used.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and deposits, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and deposits and derivative financial instruments, the Group has a policy of only using counterparties that are independently rated with a minimum long-term credit rating of BBB+. At 31 December 2016, £1m (2015: £5m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances, however no losses are anticipated from these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board of Directors for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables, credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at the reporting date is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 26.1. The maturity profile of the Group's financial liabilities is set out on page 168.

38 Financial instruments continued

Fair value estimation

The Group holds certain financial instruments on the balance sheet at their fair values. The following hierarchy classifies each class of financial asset or liability in accordance with the valuation technique applied in determining its fair value.

There have been no transfers between these categories in the current or preceding year.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds available-for-sale investments in mutual funds which are traded in active markets and valued at the closing market price at the reporting date.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date and taking into account own credit risk. Own credit risk for Infrastructure Investments' swaps is not material and is calculated using the following credit valuation adjustment (CVA) calculation: loss given default multiplied by exposure multiplied by probability of default.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts. Own credit risk for the other derivative liabilities is not material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party.

Level 3 – The fair value is based on unobservable inputs.

The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin by reference to the construction margin on non-PPP projects reflecting the construction risks retained by the construction contractor, and fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in other comprehensive income and other movements recognised in the income statement. Amounts originally recognised in other comprehensive income are transferred to the income statement upon disposal of the asset.

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £7m decrease (2015: £14m)/£7m increase (2015: £15m) in the fair value of the assets taken through equity. Refer to Note 20 for a reconciliation of the movement from the opening balance to the closing balance.

				2016				2015
Financial instruments at fair value	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale mutual fund financial assets	**23**	**–**	**–**	**23**	20	–	–	20
Financial assets – foreign currency contracts	**–**	**4**	**–**	**4**	–	1	–	1
Available-for-sale PPP financial assets	**–**	**–**	**163**	**163**	–	–	402	402
Investment in the Infrastructure Fund	**–**	**–**	**–**	**–**	–	–	38	38
Total assets measured at fair value	**23**	**4**	**163**	**190**	20	1	440	461
Financial liabilities – foreign currency contracts	**–**	**(2)**	**–**	**(2)**	–	–	–	–
Financial liabilities – infrastructure concessions interest rate swaps	**–**	**(37)**	**–**	**(37)**	–	(78)	–	(78)
Total liabilities measured at fair value	**–**	**(39)**	**–**	**(39)**	–	(78)	–	(78)

Notes to the Financial Statements continued

39 Principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries

	Country of incorporation or registration
Construction and Support Services	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Construction, LP	Canada
Balfour Beatty Infrastructure Inc	US
Balfour Beatty Rail Inc	US
Infrastructure Investments (Note 39)	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Investments, LP	Canada
Balfour Beatty Communities, LP	Canada
Other	
Balfour Beatty Holdings Inc.	US
Delphian Insurance Company Ltd*	Isle of Man

(b) Principal joint ventures and associates

	Country of incorporation or registration	Ownership interest %
Construction and Support Services		
BK Gulf LLC	Dubai	49.0
Dutco Balfour Beatty LLC	Dubai	49.0
Gammon China Ltd	Hong Kong	50.0
Infrastructure Investments (Note 39)		
Connect Plus (M25) Ltd		40.0

(c) Principal joint operations

The Group carries out a number of its larger contracts in joint arrangements with other contractors so as to share resources and risk. The principal joint projects in progress during the year are shown below.

Crossrail		26.7
M25 Maintenance		52.5
DFW Terminal Development Program	US	60.0
Vancouver Children's and Women's Hospital	Canada	50.0
Houston Convention Centre Hotel	US	50.0
Aberdeen Western Peripheral Route		33.3
Area 10 ASC		70.0

Notes
(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.
(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.
* Indicates held directly by Balfour Beatty plc.

A full list of the Group's related undertakings is included in Note 41.

39 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK

Roads

Balfour Beatty is a promoter, developer and investor in 13 road and street lighting projects to construct new roads, to upgrade and maintain existing roads and to replace and maintain street lighting. The principal contract is the project agreement with the governmental highway authority. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Connect M1-A1 Ltd	30km road	290	20%	March 1996	30	1999
Connect A50 Ltd	57km road	42	25%	May 1996	30	1998
Connect A30/A35 Ltd	102km road	127	20%	July 1996	30	2000
Connect M77/GSO plc (ii)	25km road	167	85%	May 2003	32	2005
Connect Roads Sunderland Ltd	Streetlighting	27	20%	August 2003	25	2008
Connect Roads South Tyneside Ltd	Streetlighting	28	20%	December 2005	25	2010
Connect Roads Derby Ltd	Streetlighting	36	100%	April 2007	25	2012
Connect Plus (M25) Ltd	J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	1,309	40%	May 2009	30	2012
Connect CNDR Ltd	Carlisle Northern Development Route	176	25%	July 2009	30	2012
Connect Roads Coventry Ltd	Streetlighting	56	20%	August 2010	25	2015
Connect Roads Cambridgeshire Ltd	Streetlighting	51	20%	April 2011	25	2016
Connect Roads Northamptonshire Ltd	Streetlighting	64	20%	August 2011	25	2016
Aberdeen Roads Ltd	Aberdeen Western Peripheral Route	665	33.3%	December 2014	33	2018

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Connect M77/GSO plc and Aberdeen Roads Ltd which are registered in and conduct their principal operations in Scotland.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

Healthcare

Balfour Beatty is a promoter, developer and investor in four healthcare projects to build hospital accommodation and to provide certain non-medical facilities management services over the concession period. The principal contract is the project agreement between the concession company and the NHS Trust and in the case of the Irish Primary Care Centres, the Irish Government. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	June 2006	40	2011
Consort Healthcare (Fife) Ltd	General hospital	170	50%	April 2009	30	2011
Woodland View Project Co Ltd	Mental health hospital in Irvine	58	100%	June 2014	27	2016
Healthcare Centres PPP Ltd	Primary health care centres	158	40%	May 2016	26	2018

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Consort Healthcare (Fife) Ltd and Woodland View Project Co Ltd which are registered in and conduct their principal operations in Scotland and Healthcare Centres PPP Ltd which is registered in and conducts its principal operations in Ireland.

Student accommodation

Balfour Beatty is a promoter, developer and investor in three student accommodation projects. On Holyrood and Aberystwyth, the principal agreement is between the concession company and the university and the assets transfer to the customer at the end of the concession. On Glasgow Residences the building is owned outright by Balfour Beatty and rooms will be let to individual students.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Holyrood Student Accommodation SPV Ltd	Edinburgh	82	100%	July 2013	50	2016
Aberystwyth Student Accommodation Ltd	Aberystwyth	51	100%	July 2013	35	2015
Glasgow Residences (Kennedy Street) SPV Ltd	Glasgow	40	100%	April 2016	n/a	2017

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Holyrood Student Accommodation SPV Ltd and Glasgow Residences (Kennedy Street) SPV Ltd which are registered in and conduct their principal operations in Scotland.

Notes to the Financial Statements continued

39 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK continued

Other concessions

Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex. Gammon Capital (West) Pte Ltd has a contract with the Institute of Technical Education (ITE) College West of Singapore to design, build and finance the ITE and provide long-term facilities management services for the remainder of the 27-year project. Balfour Beatty Fire and Rescue NW Ltd is contracted by the local authority to design, construct, fund and provide facilities for 16 community firestations in Merseyside, Cumbria and Lancashire. UBB Waste (Essex) Ltd and UBB Waste (Gloucestershire) Ltd have contracts with the local authorities to design, build and operate new sustainable waste treatment facilities. Thanet involves the operation of transmission assets for the 300MW offshore wind farm project located off the Kent coast. Gwynt y Môr involves the operation of transmission assets for the 576MW offshore wind farm in the Irish sea. Humber involves the operation of transmission assets for the 219MW offshore wind farm in the North sea. Thanet, Gwynt y Môr and Humber operate and maintain the transmission assets under the terms of perpetual licences granted by Ofgem which contain the right to be paid a revenue stream over a 20-year period on an availability basis. Birmingham Bio Power involves the design, construction, financing, operation and maintenance of a 9.3MW waste wood gasifier located at Tyseley Energy Park, Birmingham. Welland Waste Bio Power involves the design, construction, financing, operation and maintenance of a 10.4MW waste wood gasifier located at Pebble Hall Farm, Thredingworth. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Pevensey Coastal Defence Ltd	Sea defences	3	25%	July 2000	25	n/a
Gammon Capital (West) Pte Ltd	Technical education college	100	50%	August 2008	27	2010
Balfour Beatty Fire and Rescue NW Ltd	Fire stations	55	100%	February 2011	25	2013
UBB Waste (Essex) Ltd	Waste processing plant	146	30%	May 2012	28	2015
UBB Waste (Gloucestershire) Ltd	Waste processing plant	194	49.5%	February 2013*	28	2017
Thanet OFTO Ltd	Offshore transmission	197	20%	December 2014	20	n/a
Gwynt y Môr OFTO plc (ii)	Offshore transmission	256	60%	February 2015	20	n/a
Birmingham Bio Power Ltd	Waste wood gasifier	53	37.5%	December 2013	n/a	2016
Welland Bio Power Ltd	Waste wood gasifier	17	25%	March 2015	n/a	2017
Humber Gateway OFTO Ltd	Offshore transmission	187	20%	September 2016	20	n/a

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Gammon Capital (West) Pte Ltd which is registered in and conducts its principal operations in Singapore.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

* Due to delays in achieving planning, UBB Waste (Gloucestershire) Ltd reached a second financial close in January 2016.

(e) Balfour Beatty Investments North America

Military housing

Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 55 US government military bases which includes 55 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 42,800 housing units once development, construction and renovation are complete.

The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), seven projects with the United States Department of the Air Force (Air Force) and two projects with the United States Department of the Navy (Navy). In addition, there is one unaccompanied personnel housing (UPH) project with the Army at Fort Stewart.

Contractual arrangements The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, however it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC. On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, could potentially extend for up to an additional 25 years. The 50-year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the government.

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual minimum preferred rate of return. On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project. During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return. The unpaid amounts will generally accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the government in accordance with the terms of the project agreements.

39 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Military housing continued

Allocation of remaining operating cash flows Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service.

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the applicable military service.

Military concession company (i)(ii)	Projects	Total project funding £m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson Family Housing LLC	Army base	143	November 2003	46	2004
– Fort Carson expansion		106	November 2006	43	2010
– Fort Carson GTA expansion		80	April 2010	39	2013
Stewart Hunter Housing LLC	Two Army bases	303	November 2003	50	2012
Fort Hamilton Housing LLC	Army base	50	June 2004	50	2009
Fort Detrick/Walter Reed Army Medical Center Housing LLC	Two Army bases	90	July 2004	50	2008
Northeast Housing LLC	Seven Navy bases	402	November 2004	50	2010
Fort Eustis/Fort Story Housing LLC	Two Army bases	141	March 2005	50	2011
– Fort Eustis expansion		7	July 2010	45	2011
– Fort Eustis – Marseilles Village		22	March 2013	42	2015
Fort Bliss/White Sands Missile Range Housing LP	Two Army bases	347	July 2005	50	2011
– Fort Bliss expansion		39	December 2009	46	2011
– Fort Bliss GTA expansion phase I		132	July 2011	44	2014
– Fort Bliss GTA expansion phase II		119	November 2012	43	2016
Fort Gordon Housing LLC	Army base	88	May 2006	50	2012
Carlisle/Picatinny Family Housing LP	Two Army bases	68	July 2006	50	2011
– Carlisle Heritage Heights phase II		17	October 2012	44	2014
AETC Housing LP	Four Air Force bases	291	February 2007	50	2012
Southeast Housing LLC	11 Navy bases	452	November 2007	50	2013
Vandenberg Housing LP	Air Force base	126	November 2007	50	2012
Leonard Wood Family Communities LLC	Army base	187	Acquired June 2008	47	2014
AMC West Housing LP	Three Air Force bases	347	July 2008	50	2015
West Point Housing LLC	Army base	180	August 2008	50	2016
Fort Jackson Housing LLC	Army base	147	October 2008	50	2013
Lackland Family Housing LLC	Air Force base	85	Acquired December 2008	50	2013
Western Group Housing LP	Four Air Force bases	269	March 2012	50	2017
Northern Group Housing LLC	Six Air Force bases	354	August 2013	50	2019
ACC Group Housing LLC	Two Air Force bases	47	June 2014	50	2018
Military unaccompanied personnel housing					
Stewart Hunter Housing LLC		29	January 2008	50	2010

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US.
(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision making power over key facets of the contracts were evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects.

Notes to the Financial Statements continued

39 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Hospitals

Summary Balfour Beatty is a developer, operator and investor in two hospital projects in Canada.

Contractual arrangements The principal contract is the project agreement between the concession companies and the authorities. An inflation-indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. The construction services for the BC Children's and BC Women's Hospital project were subcontracted to a joint venture in which the Group has a 50% participation and the facilities maintenance services were subcontracted to a joint venture in which the Group also has a 50% participation. The soft facilities management services at North Island Hospital were subcontracted to a Group company and the hard facilities management services were subcontracted to a third party. The payments for the soft facilities management services, at both projects, are initially market adjusted after the third year of operations and then every six years thereafter. All assets transfer to the authorities at the end of the concession.

Hospitals (i)	Project	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
Affinity Partnerships (ii)	BC Children and BC Women's Hospital	271	70%	April 2014	33	2017
THP Partnerships	North Island Hospital	304	50%	June 2014	32	2017

Notes
(i) Registered in the Province of Manitoba in Canada and the principal operations of each project are conducted in British Columbia, Canada.
(ii) Balfour Beatty has joint control over the project through unanimous consent over all significant operating and financing decisions, and therefore does not consolidate the project.

Other concessions

Summary Balfour Beatty is a developer, operator and investor in a data centre located at the Canadian Forces base in Borden, Ontario.

Contractual arrangements The principal contract is the project agreement between the concession partnership and the authorities. An inflation-indexed payment is primarily based upon availability of the date centre subject to any performance related deductions or security related deductions.

Concession partnership (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
UIP GP	Borden Data Centre	93	50%	May 2016	25	2017

Residential investments

Summary Balfour Beatty is a developer, operator and investor in six multifamily residential projects.

Contractual arrangements Balfour Beatty formed joint ventures to acquire residential apartment buildings for six multifamily residential projects. For the Carmendy Square, Townlake of Coppell, The Dallas 5 Portfolio, Mobile Alabama portfolio and Nesbit Palisades projects, the joint ventures entered into agreements with Balfour Beatty Communities LLC to perform the operations and renovation work. For The Ranch at Pinnacle Point, the joint venture entered into an agreement with Balfour Beatty Communities LLC to perform the asset management services and renovation work.

Residential investments (i)	Total project funding £m	Shareholding	Financial close	Renovation completion
Carmendy Square Properties, LLC (Florida)	12	45%	September 2014	2016
RAPP – BBC Associates, LLC (Pinnacle Point, Arkansas)	35	50%	February 2015	2018
DFW 5 Holdings, LLC (Dallas 5 Portfolio, Texas)	140	10%	May 2015	2018
Coppell Properties, LLC (Texas)	41	10%	May 2015	2018
BBC – Apexone Mobile Eastern, LLC (Alabama)	21	50%	January 2016	2018
Nesbit Palisades, LLC (Georgia)	42	15%	July 2016	2019

Note
(i) Registered in the US and the principal operations of each project are conducted in the US.

39 Principal subsidiaries, joint ventures and associates continued

Student accommodation

Summary Through its subsidiary, Balfour Beatty Campus Solutions LLC, Balfour Beatty is a manager on one student accommodation project, where it also acted as a developer. Balfour Beatty is also a developer and owner of three additional student accommodation projects, and is a joint venture partner to develop one other student accommodation project.

Contractual arrangements The principal contract in the Florida Atlantic University project is the property management agreement with the state university setting out the obligations for the operation and maintenance of the student accommodation. The principal contracts in the other student accommodation projects where Balfour Beatty is an owner are the ground leases, development leases and operating agreements with the state universities setting out the obligations for the construction, operation and maintenance of the student accommodation including lifecycle replacement during the concession period.

Concession company (i)	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
C-BB Management LLC/C-BBC Development LLC (Florida)	81	(ii)	March 2010	30	2011
BBCS-Hawkeye Housing LLC (Iowa) Phase 1	25	100%	June 2013	41	2014
BBCS-Hawkeye Housing LLC (Iowa) Phase 2	28	100%	May 2015	41	2016
BBCS-UN Reno Housing LLC (Reno)	18	100%	August 2013	43	2014
Northside Group Partners LP (Texas Dallas)	44	50%	March 2015	61	2016

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US.
(ii) 50% holding in the management company.

(f) Balfour Beatty Investments UK and North America

Total future committed equity and debt funding for Infrastructure Investments' project companies

Concessions	2017 £m	2018 £m	2019 £m	2020 onwards £m	Total £m
UK					
Roads	–	20	–	–	20
Healthcare	–	5	–	–	5
Student accommodation	2	–	8	18	28
Waste and biomass+	2	–	25	–	27
Other UK+	11	7	6	6	30
	15	32	39	24	110
North America					
Social infrastructure	–	3	–	–	3
Hospitals	18	–	–	–	18
	18	3	–	–	21
	33	35	39	24	131
Projects at financial close	22	28	25	–	75
Projects at preferred bidder stage	11	7	14	24	56
Total	33	35	39	24	131

+ These categories have been presented within Other concessions in Note 39(d).

40 Audit exemptions taken for subsidiaries

The following subsidiaries are exempt from the requirements under the Companies Act 2006 relating to the audit of individual financial statements by virtue of Section 479A of the Act.

	Company registration number
Education Investments Holdings Ltd	6863458
Consort Healthcare Infrastructure Investments Ltd	6859623
Heery International Ltd	2759565

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2016

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates and joint ventures, including the principal activity, the country of incorporation and the effective percentage of equity owned as at 31 December 2016 is disclosed below. Unless otherwise stated, all interests are in the ordinary share capital or shares of common stock in the entity and are held indirectly by the Company, and all entities operate principally in their country of incorporation. All subsidiaries had a reporting period ended 31 December 2016 and are wholly owned, except where indicated.

Subsidiary undertakings incorporated in the United Kingdom

Name of undertaking	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX	
Aberystwyth Student Accommodation Ltd	Infrastructure concession
Balfour Beatty Fire and Rescue NW Holdings Ltd	Investment holding company
Balfour Beatty Fire and Rescue NW Intermediate Ltd	Infrastructure concession
Balfour Beatty Fire and Rescue NW Ltd	Infrastructure concession
Balfour Beatty Infrastructure Investments Ltd (i)	Investment holding company
Balfour Beatty Infrastructure Partners Member Ltd	Investment holding company
Balfour Beatty Infrastructure Projects Investments Ltd	Investment holding company
Balfour Beatty Investments Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty OFTO Holdings Ltd	Investment holding company
BBI Holdings Australia Limited	Investment holding company
BBPF LLP (v)	Investment partnership
Connect Roads Derby Holdings Ltd	Investment holding company
Connect Roads Derby Ltd	Infrastructure concession
Connect Roads Infrastructure Investments Ltd	Investment holding company
Consort Healthcare Infrastructure Investments Ltd	Investment holding company
East Slope Residencies Facilities Management Ltd	Infrastructure concession
East Slope Residencies Holdings Ltd	Investment holding company
East Slope Residencies Partner Ltd	Infrastructure concession
East Slope Residencies PLC	Infrastructure concession
East Slope Residencies Student Accommodation LLP (v)	Infrastructure concession
Education Investments Holdings Limited	Investment holding company
Initial GP1 Ltd	Investment holding company
Squires Gate Airport Operations Ltd (ii)	Airport services
West Stratford Developments Ltd	Investment holding company
42-44 Clarendon Road, Watford, Hertfordshire WD17 1DR	
G. N. Haden & Sons Ltd	Dormant
5 Churchill Place, Canary Wharf, London E14 5HU	
Avatar Ltd	Dormant
Balfour Beatty Build Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Building Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty CE Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civils Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Const Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Northern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Services (HY) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Group Employment Ltd	Employer for UK workforce
Balfour Beatty Group Ltd	Construction and support services
Balfour Beatty Homes (South Western) Ltd	Dormant
Balfour Beatty Homes Ltd	Agent of Manring Homes Ltd
Balfour Beatty International Ltd	Agent of Balfour Beatty Group Ltd

Name of undertaking	Principal activity
Balfour Beatty Investment Holdings Ltd (i)	Investment holding company
Balfour Beatty Management Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Nominees Ltd	Nominee company
Balfour Beatty Overseas Investments Ltd	Investment holding company
Balfour Beatty Overseas Ltd	Investment holding company
Balfour Beatty Property Ltd (i)	Agent of Balfour Beatty plc
Balfour Beatty Rail Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Projects Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Technologies Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Track Systems Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Refurbishment Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Kilpatrick Ltd	Dormant
Balvac Ltd	Agent of Balfour Beatty Group Ltd
Bical Construction Ltd	Agent of Balfour Beatty Group Ltd
Bignell & Associates Ltd	Agent of Balfour Beatty Group Ltd
Birse Group Ltd	Investment holding company
Birse Metro Ltd	Construction and support services
Birse Rail Ltd	Construction and support services
Bnoms Ltd (i)	Nominee company
BPH Equipment Ltd	Hire of plant and transport
British Insulated Callender's Cables Ltd (i)	Dormant
Burnbank House Ltd (iii)	Property investment
Cowlin Group Ltd	Investment holding company
Dean & Dyball Developments Ltd	Dormant
Dean & Dyball Rail Ltd	Dormant
Eastern Infrastructure Maintenance Company Ltd	Property investment
Footprint Furniture Ltd	Construction services
Guinea Investments Ltd	Investment holding company
Haden Building Services Ltd	Investment holding company
Haden Young Ltd (i)	Dormant
Hall & Tawse Western Ltd	Dormant
Heery International Ltd	Agent of Balfour Beatty Group Ltd
Laser Rail Ltd	Agent of Balfour Beatty Group Ltd
Lounsdale Electric Ltd	Dormant
Manring Homes Ltd	Property investment
Multibuild (Construction & Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Multibuild Hotels and Leisure Ltd	Construction services
Multibuild Interiors Ltd	Construction services
Office Projects (Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Office Projects Group Ltd	Investment holding company
Office Projects Ltd	Construction services
Omnicom Engineering Ltd	Construction services
Raynesway Construction Ltd	Agent of Balfour Beatty Group Ltd
South East Infrastructure Maintenance Company Ltd	Property investment
Southern Track Renewals Company Ltd	Property investment
Strata Construction Ltd	Dormant
W. T. Glover & Company Ltd (i)	Dormant

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2016 continued

Subsidiary undertakings incorporated in the United Kingdom continued

Name of undertaking	Principal activity
Blackpool Airport, Squires Gate Lane, Blackpool, Lancashire FY4 2QY	
Blackpool Airport Properties Ltd (ii)	Property investment
Regional & City Airports (Blackpool) Holdings Ltd	Investment holding company
Regional & City Airports (Blackpool) Ltd (ii)	Investment holding company
C/O Mc Griggors LLP, Arnott House, 12-16 Bridge Street, Belfast, BT1 1LS Northern Ireland	
Balfour Kilpatrick Northern Ireland Ltd	Dormant
Dean House, 24 Ravelston Terrace, Edinburgh EH4 3TP	
Aberdeen Construction Group Ltd	Dormant
Balfour Beatty Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Scottish & Southern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Residuary Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
BBPFS LP (v)	Investment partnership
Glasgow Residences (Kennedy Street) Holdings Ltd	Investment holding company
Glasgow Residences (Kennedy Street) LLP (v)	Infrastructure concession
Glasgow Residences (Kennedy Street) SPV Ltd	Infrastructure concession
Hall & Tawse Ltd	Dormant
Holyrood Student Accommodation Holdings Ltd	Investment holding company
Holyrood Student Accommodation Intermediate Ltd	Infrastructure concession
Holyrood Student Accommodation plc	Infrastructure concession
Holyrood Student Accommodation SPV Ltd	Infrastructure concession
Initial Founder Partner GP1 Ltd	Investment holding company
Woodland View Holdings Co Ltd	Investment holding company
Woodland View Intermediate Co Ltd	Infrastructure concession
Woodland View Project Co Ltd	Infrastructure concession
Hereford Steel Works, Holmer Road, Hereford HR4 9SW	
Painter Brothers Ltd	Agent of Balfour Beatty Group Ltd
Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ	
Balfour Beatty Pension Trust Ltd (i)	Pension fund trustee
Lumina Building 40 Ainslie Road, Hillington Park, Glasgow G52 4RU	
Balfour Beatty Kilpatrick Limited	Agent of Balfour Beatty Group Ltd
Midmill Business Park, Tumulus Way, Kintore, Aberdeenshire AB51 0TG	
Balfour Beatty Engineering Services (CL) Ltd	Agent of Balfour Beatty Group Ltd
Park Square, Newton Chambers Road, Thorncliffe Park, Chapeltown, Sheffield S35 2PH	
Balfour Beatty Utility Solutions Ltd (iv)	Agent of Balfour Beatty Group Ltd
BB Indonesia Ltd	Support services
Pavilion B, Ashwood Park, Ashwood Way, Basingstoke, Hampshire RG23 8BG	
Balfour Beatty Ground Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Living Places Ltd	Agent of Balfour Beatty Group Ltd
Sunderland Streetlighting Ltd	Agent of Balfour Beatty Group Ltd
Testing and Analysis Ltd	Agent of Balfour Beatty Group Ltd
Q14, Quorum Business Park, Benton Lane, Newcastle upon Tyne NE12 8B	
Balfour Beatty Rail Corporate Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty WorkSmart Ltd	Agent of Balfour Beatty Group Ltd
C/O Mazars, 90 St Vincent Street, Glasgow, G2 5UB	
Balfour Beatty Engineering Services (LEL) Ltd	Dormant – in liquidation

Name of undertaking	Principal activity
C/O Mazars, Tower Bridge House, St Katharine's Way, London E1W 1DD	
Armpledge Ltd	Investment holding company – in liquidation
Balfour Beatty Australia Finance Ltd	Dormant – in liquidation
Balfour Beatty Engineering Solutions Ltd	Dormant – in liquidation
Balfour Beatty Power Networks (Distribution Services) Ltd	Dormant – in liquidation
Balfour Beatty Property Investments Ltd (i)	Investment holding company – in liquidation
Balfour Beatty Rail Investments Ltd	Investment holding company – in liquidation
Birse Construction Ltd	Investment holding company – in liquidation
Birse Group Services Ltd	Dormant – in liquidation
Birse Integrated Solutions Ltd	Dormant – in liquidation
Birse Properties Ltd	Dormant – in liquidation
Branlow Ltd	Dormant – in liquidation
Bruton Investments Ltd (i)	Investment holding company – in liquidation
Chris Britton Consultancy Ltd	Dormant – in liquidation
Clarke Securities Ltd (i)	Investment holding company – in liquidation
Cowlin Management Ltd	Investment holding company – in liquidation
Dean & Dyball Investments Ltd	Investment holding company – in liquidation
Dean & Dyball Ltd	Investment holding company – in liquidation
Dean & Dyball Workforce Ltd	Dormant – in liquidation
Edgar Allen Engineering Ltd	Dormant – in liquidation
EIMCO Ltd	Investment holding company – in liquidation
Fielden & Ashworth Ltd	Dormant – in liquidation
Heery Holdings Ltd (i)	Dormant – in liquidation
John Kennedy (Civil Engineering) Ltd (iv)	Dormant – in liquidation
John Kennedy (Holdings) Ltd	Investment holding company – in liquidation
Kenton Utility Service Management Ltd	Dormant – in liquidation
Kirby Maclean Ltd	Dormant – in liquidation
Mansell North East Ltd	Dormant – in liquidation
Mansell plc	Investment holding company – in liquidation
Mayfair Place Investments Ltd	Investment holding company – in liquidation
Network Plant Ltd	Dormant – in liquidation
SEIMCO Ltd	Investment holding company – in liquidation
STAT 123 Ltd	Dormant – in liquidation
The Telegraph Construction and Maintenance Company Ltd	Dormant – in liquidation
Traffic Flow Ltd	Dormant – in liquidation
William Cowlin (Holdings) Ltd	Dormant – in liquidation
West Service Road, Raynesway, Derby, DE21 7BG	
Balfour Beatty Plant & Fleet Services Ltd	Hire of plant and transport

Notes:
(i) Held directly by Balfour Beatty plc.
(ii) Regional & City Airports (Blackpool) Holdings Ltd holds an economic interest of 95% in Regional & City Airports (Blackpool) Ltd, which holds 100% of each of Blackpool Airport Properties Ltd and Squires Gate Airport Operations Ltd.
(iii) 75% owned.
(iv) Preference shares and/or deferred shares also held.
(v) Partnership interests held.

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2016 continued

Subsidiary undertakings incorporated outside the United Kingdom

Name of undertaking	Principal activity
Australia	
Allens Corporate Services Pty Ltd, Deutsche Bank Place Level 5, 126-130 Phillip Street, Sydney NSW 2000	
Balfour Beatty Australia Pty Ltd	Construction and support services
Balfour Beatty Holdings Australia Pty Ltd	Investment holding company
Balfour Beatty Investments Australia Pty Ltd	Dormant
Harvest Power Custodians Pty Ltd	Dormant – in liquidation
Harvest Power Holdings Custodians Pty Ltd	Investment holding company – in liquidation
Harvest Power Holdings Pty Ltd	Dormant – in liquidation
Allens Corporate Services Pty Ltd, Level 33, 101 Collins Street, Melbourne, Victoria 3000	
Balfour Beatty Australian LP (iii)	Investment holding partnership
Bahamas	
One Millars Court, PO Box N-7117, Nassau	
Balfour Beatty Bahamas Ltd	Construction services
Brazil	
Avenida Brigadeiro Faria Lima, No. 1478, Suites 109-110, 1st Floor, Jardim Paulistano, São Paulo, 01.451–001	
RHA do Brasil Serviços de Infraestrutura Ltda	Construction services
Canada	
Borden Ladner Gervais LLP, Scotia Plaza , 40 King Street West, 44th Floor, Toronto ON M5H 3Y4	
BB Group Canada Inc	Investment holding company
720 King Street West, Toronto ON M5H 3Y4	
BB UIP Inc	Infrastructure concession
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5	
Balfour Beatty Communities GP, Inc	Infrastructure investment
Balfour Beatty Communities, LP (iii)	Infrastructure investment
Balfour Beatty Construction, GP Inc	Infrastructure investment
Balfour Beatty Construction LP (iii)	Infrastructure investment
Balfour Beatty CWH Holdings Inc	Infrastructure investment
Balfour Beatty Investments GP Inc	Infrastructure investment
Balfour Beatty Investments LP (iii)	Infrastructure investment
Balfour Beatty THP Holdings, Inc.	Infrastructure investment
BB CWH, LP (iii)	Infrastructure investment
BB CWH GP, Inc	Infrastructure investment
BB NIH, LP (iii)	Infrastructure investment
BB NIH GP, Inc	Infrastructure investment
Chile	
Avenida Vicuna MacKenna 10777, La Florida, Santiago	
Balfour Beatty Chile SA	Construction services
China	
Unit 511-514, Landmark Tower 2, 8 North Dongsanhuan Rd, Chaoyang District, Beijing	
Balfour Beatty Rail Electrification Equipment Trading (Beijing) Ltd	Construction services
Germany	
Garmischer Strasse 35, 81373 Munich	
Balfour Beatty Capital GmbH	Dormant
Balfour Beatty Offshore Transmission Germany GmbH	Dormant
Balfour Beatty Rail GmbH	Construction services
BICC Holdings GmbH	Investment holding company
Schreck-Mieves GmbH	Construction services

Name of undertaking	Principal activity
Hong Kong	
Level 54, Hopewell Centre, 183 Queen's Road East	
Balfour Beatty Hong Kong Ltd	Construction and support services
India	
210, 2nd Floor Elegance, Jasola District Centre, Old Mathura Road, New Delhi 110 025	
Balfour Beatty India Pvt. Ltd	Construction and support services
3rd Floor, Municipal No. 1, Service Road, 11 VB Colony, Outer Ring Road, Ward No. 88, Bansawadi, Banglore, Karnataka-KA	
Balfour Beatty Infrastructure India Pvt. Ltd	Construction and support services
Ireland	
City Junction Business Park, Northern Cross, Malahide Road, Dublin 17	
Balfour Beatty Ireland Ltd (ii)	Support Services
Kenton Utilities & Developments (Ireland) Ltd	Dormant
Isle of Man	
Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man	
Delphian Insurance Company Ltd (i)	Insurance company
Jersey	
12 Castle Street, St Helier, Jersey, JE2 3RT	
Balfour Beatty Employees Trustees Ltd (i)	Employee trust
47 Esplanade, St Helier, Jersey, JE1 0BD	
Balfour Beatty Finance No.2 Ltd (i)	Finance company
Malaysia	
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya	
Balfour Beatty Projects Sdn Bhd	Construction services
Balfour Beatty Rail Design International Sdn Bhd	Construction services
Netherlands	
Prins Bernhardplein 200, 1097 JB, Amsterdam	
BICC Finance BV	Dormant
Rapenburgerstraat 177/B, 1011 VM, Amsterdam	
Balfour Beatty Netherlands BV	Investment holding company
New Zealand	
C/O Price Waterhouse Coopers, Level 8, Price Waterhouse Coopers Tower, 188 Quay street Private Bag 92162, Auckland	
Balfour Beatty New Zealand Ltd	Construction and support services
Romania	
G-Ral Ernest Brosteanu Street no.23, Sector 1, 01527, Bucharest	
SC Balfour Beatty Rail SRL	Construction services
Sri Lanka	
No. 216 De Saram Place, Colombo 10	
Balfour Beatty Ceylon (Private) Ltd	Construction services
Switzerland	
Hansmatt 32, 6370 Stans	
Balfour Beatty Rail Schweiz GmbH	Construction services
Thailand	
9 Soi Santisuk, Sithisarn Road, Huay Kwang, Bangkok	
Asia Trade Development Co Ltd	Construction services
Balfour Beatty Construction (Thailand) Co Ltd	Construction services
Balfour Beatty Holdings (Thailand) Co Ltd	Investment holding company
Balfour Beatty Thai Ltd	Construction services
Linwood Co Ltd	Investment holding company

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2016 continued

Subsidiary undertakings incorporated outside the United Kingdom continued

Name of undertaking	Principal activity
United States	
1011 Centre Road, Suite 310, Wilmington DE 19805	
Balfour Beatty Holdings Inc	Investment holding company
Balfour Beatty LLC	Investment holding company
50 Public Square, Suite 2175, Cleveland OH 44113	
National Engineering & Contracting Company	Construction services
6420 Wilshire Blvd, 18th Floor, Los Angeles CA 90048-5502	
JCM Group	Dormant
811 Ponce de Leon Blvd, Coral Gables FL 33134	
Sequeira & Gavarrete, Inc	Construction services
999 Peachtree Street NE, Atlanta, Georgia 30309-39764	
Balfour Beatty Infrastructure, Inc	Construction services
Heery Architects & Engineers, Inc	Construction services
Heery Engineering, Inc	Construction services
Heery International, Inc	Construction services
Heery Program Management, Inc	Construction services
Corporation Service Company, 505 5th Avenue Suite 729, Des Moines, IA 50309	
BBCS Condominium Association, Inc.	Infrastructure concession
Corporation Service Company, 1127 Broadway Street NE, Suite 310, Salem OR 97301	
Columbia Plaza Investments, LLC	Construction services
HSW Rock Springs, LLC	Construction services
Corporation Service Company, 1703 Laurel Street, Columbia SC 29201	
National Casualty and Assurance, Inc	Insurance company
Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington DE 19808	
Balfour Beatty Campus Solutions, LLC	Infrastructure investment
Balfour Beatty Communities, LLC	Infrastructure investment
Balfour Beatty Communities TRS, Inc	Infrastructure investment
Balfour Beatty Construction D.C., LLC	Construction services
Balfour Beatty Construction, LLC	Construction services
Balfour Beatty Equipment, LLC	Construction services
Balfour Beatty Investments, Inc	Investment holding company
Balfour Beatty Management Inc	Business services
Balfour Beatty Military Communities LLC	Infrastructure investment
Balfour Beatty Military Housing Development LLC	Infrastructure investment
Balfour Beatty Military Housing Investments LLC	Investment holding company
Balfour Beatty Military Housing LLC	Infrastructure investment
Balfour Beatty Military Housing Management LLC	Infrastructure investment
Balfour Beatty – Worthgroup, LLC	Construction services
BBC – D5 Investors, LLC (iv)	Infrastructure investment
BBC AF Housing Construction LLC	Infrastructure investment
BBC AF Management/Development LLC	Infrastructure investment
BBC Independent Member I, Inc	Infrastructure investment
BBC Independent Member II, Inc	Infrastructure investment
BBC Military Housing – ACC Group, LLC	Infrastructure concession
BBC Military Housing – AETC General Partner LLC	Infrastructure concession
BBC Military Housing – AETC Limited Partner LLC	Infrastructure concession
BBC Military Housing – AMC General Partner LLC	Infrastructure concession
BBC Military Housing – AMC Limited Partner LLC	Infrastructure concession
BBC Military Housing – Bliss/WSMR General Partner LLC	Infrastructure concession
BBC Military Housing – Bliss/WSMR Limited Partner LLC	Infrastructure concession
BBC Military Housing – Carlisle/Picatinny General Partner LLC	Infrastructure concession
BBC Military Housing – Carlisle/Picatinny Limited Partner LLC	Infrastructure concession
BBC Military Housing – FDWR LLC	Infrastructure concession
BBC Military Housing – Fort Carson LLC	Infrastructure concession
BBC Military Housing – Fort Gordon LLC	Infrastructure concession
BBC Military Housing – Fort Hamilton LLC	Infrastructure concession
BBC Military Housing – Fort Jackson LLC	Infrastructure concession
BBC Military Housing – Hampton Roads LLC	Infrastructure concession
BBC Military Housing – Lackland LLC	Infrastructure concession
BBC Military Housing – Leonard Wood LLC	Infrastructure concession
BBC Military Housing – Navy Northeast LLC	Infrastructure concession
BBC Military Housing – Navy Southeast LLC	Infrastructure concession
BBC Military Housing – Northern Group, LLC	Infrastructure concession
BBC Military Housing – Stewart Hunter LLC	Infrastructure concession
BBC Military Housing – Vandenberg General Partner LLC	Infrastructure concession
BBC Military Housing – Vandenberg Limited Partner LLC	Infrastructure concession
BBC Military Housing – West Point LLC	Infrastructure concession
BBC Military Housing – Western General Partner, LLC	Infrastructure concession
BBC Military Housing – Western Limited Partner, LLC	Infrastructure concession
BBC Multifamily Holdings, LLC	Infrastructure investment
BBCS – Hawkeye Housing, LLC	Infrastructure investment
BBCS – Northside Campus, LLC	Infrastructure investment
BBCS – UN Reno Housing, LLC	Infrastructure investment
BBCS Development, LLC	Infrastructure investment
BBI – Indy, LLC	Infrastructure investment
BICC Cables Corporation	Business services
E3 2020, LLC	Dormant
Corporation Service Company, 300 Deschutes Way SW, Suite 304, Tumwater WA 98501	
Howard S Wright Construction Co	Construction services
HSW, Inc	Construction services
CSC – Nevada, C/O CSC Services of Nevada, Inc., 502 East John Street, Carson City, Nevada, 89706	
Balfour Beatty – Golden Construction Company	Construction services
Balfour Beatty Construction Company, Inc	Construction services
Balfour Beatty Construction Group, Inc	Construction services

Notes:

(i) Held directly by Balfour Beatty plc.

(ii) In accordance with the provisions of Section 357 of the Irish Companies Act 2014, the Company, as the ultimate parent of Balfour Beatty Ireland Ltd (BBIL) having its registered office at City Junction Business Park, Northern Cross, Malahide Road, Dublin 17, Ireland, irrevocably guarantees in respect of the whole of the financial year of BBIL ended 31 December 2016, all the liabilities of BBIL provided that this guarantee shall not extend to any liability or commitment of BBIL which shall not have arisen otherwise than in respect of the financial year or which shall not constitute a liability or loss.

(iii) Partnership interests held.

(iv) 65% interest held.

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2016 continued

Joint ventures incorporated in the United Kingdom

Name of undertaking	% held by the Group	Principal activity
1 Exchange Crescent, Conference Square, Edinburgh EH3 8UL		
Consort Healthcare (Fife) Holdings Ltd	50	Investment holding company
Consort Healthcare (Fife) Intermediate Ltd	50	Infrastructure concession
Consort Healthcare (Fife) Ltd	50	Infrastructure concession
350 Euston Road, Regent's Place, London NW1 3AX		
Connect A30/A35 Holdings Ltd	20	Investment holding company
Connect A30/A35 Ltd	20	Infrastructure concession
Connect A50 Ltd	25	Infrastructure concession
Connect CNDR Holdings Ltd	25	Investment holding company
Connect CNDR Intermediate Ltd	25	Infrastructure concession
Connect CNDR Ltd	25	Infrastructure concession
Connect M1-A1 Holdings Ltd (i)	20	Investment holding company
Connect M1-A1 Ltd	20	Infrastructure concession
Connect M77/GSO Holdings Ltd (ii)	85	Investment holding company
Connect M77/GSO plc (ii)	85	Infrastructure concession
Connect Roads Cambridgeshire Holdings Ltd	20	Investment holding company
Connect Roads Cambridgeshire Intermediate Ltd	20	Infrastructure concession
Connect Roads Cambridgeshire Ltd	20	Infrastructure concession
Connect Roads Coventry Holdings Ltd	20	Investment holding company
Connect Roads Coventry Intermediate Ltd	20	Infrastructure concession
Connect Roads Coventry Ltd	20	Infrastructure concession
Connect Roads Ltd	25	Investment holding company
Connect Roads Northamptonshire Holdings Ltd	20	Investment holding company
Connect Roads Northamptonshire Intermediate Ltd	20	Infrastructure concession
Connect Roads Northamptonshire Ltd	20	Infrastructure concession
Connect Roads South Tyneside Holdings Ltd	20	Investment holding company
Connect Roads South Tyneside Ltd	20	Infrastructure concession
Connect Roads Sunderland Holdings Ltd	20	Investment holding company
Connect Roads Sunderland Ltd	20	Infrastructure concession
Consort Healthcare (Birmingham) Funding plc	40	Infrastructure concession
Consort Healthcare (Birmingham) Holdings Ltd	40	Investment holding company
Consort Healthcare (Birmingham) Intermediate Ltd	40	Infrastructure concession
Consort Healthcare (Birmingham) Ltd	40	Infrastructure concession
East Wick and Sweetwater Projects (Holdings) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 1) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 2) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 3) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 4) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 5) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 6) Ltd	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 7) Ltd	50	Infrastructure concession
Gwynt y Mor OFTO Holdings Ltd (ii)	60	Investment holding company
Gwynt y Mor OFTO Intermediate Ltd (ii)	60	Infrastructure concession
Gwynt y Mor OFTO plc (ii)	60	Infrastructure concession
Humber Gateway OFTO Holdings Ltd	20	Investment holding company
Humber Gateway OFTO Intermediate Ltd	20	Infrastructure concession
Humber Gateway OFTO Ltd	20	Infrastructure concession
Thanet OFTO Holdco Ltd	20	Investment holding company
Thanet OFTO Intermediate Ltd	20	Infrastructure concession
Thanet OFTO Ltd	20	Infrastructure concession
Blythe House, Blythe Park, Cresswell, Stoke on Trent, Staffordshire ST11 9RD		
Birmingham Bio Power Ltd	37.5	Infrastructure concession
Pebblehall Bio Power Ltd	25	Investment holding company
Tyseley Bio Power Ltd	37.5	Investment holding company
Welland Bio Power Ltd	25	Infrastructure concession
Connect Plus House St Albans Road, South Mimms, Hertfordshire EN6 3NP		
Connect Plus (M25) Holdings Ltd	40	Investment holding company
Connect Plus (M25) Intermediate Ltd	40	Infrastructure concession
Connect Plus (M25) Ltd	40	Infrastructure concession
Dean House, 24 Ravelston Terrace, Edinburgh EH4 3TP		
Aberdeen Roads (Finance) plc	33.3	Infrastructure concession
Aberdeen Roads Holdings Ltd	33.3	Investment holding company
Aberdeen Roads Ltd	33.3	Infrastructure concession
First Floor, 6 St Andrew Street, London EC4A 3AE		
Woking Housing Partnership Ltd	50	Property management
The Shard, 32 London Bridge Street, London SE1 9SG		
Trans4m Ltd	25	Construction services – in liquidation
Westminster House, Crompton Way, Segensworth West, Fareham, Hampshire PO15 5SS		
Pevensey Coastal Defence Ltd	25	Infrastructure concession

Notes:
(i) Held directly by Balfour Beatty plc.
(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2016 continued

Joint ventures incorporated outside the United Kingdom continued

Name of undertaking	% held by the Group	Principal activity
Bermuda		
Conyers Dill & Pearman Limited, 2 Clarendon House, 2 Church Street, Hamilton HM 11		
CP Bay Carry A LP	20	Infrastructure concession
CP Bay Carry B LP	20	Infrastructure concession
British Virgin Islands		
P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola		
Gammon Asia Ltd	50	Investment holding company
Gammon Construction Holdings Ltd	50	Investment holding company
Canada		
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5		
Affinity BBL Inc.	50	Infrastructure investment
Affinity General Partner Inc.	50	Infrastructure investment
Affinity LP (iv)	70	Infrastructure investment
CWH Facilities Management, LP (iv)	50	Infrastructure investment
CWH FM GP Inc	50	Infrastructure investment
CWH Design – Build GP	50	Construction services
Gracorp Balfour Beatty THP Holdings Inc.	50	Investment holding company
Ledcor Balfour Beatty Affinity Holdings Inc.	50	Investment holding company
THP GBB Inc.	50	Infrastructure investment
THP GP Inc.	50	Infrastructure investment
THP LP (iv)	50	Infrastructure investment
Chile		
Avenida Vicuna Mackenna 10777, La Florida, Santiago de Chile		
Balfour Beatty Mendes Junior Ltda	50	Construction services – in liquidation
Germany		
Luisenstr. 38, 10117 Berlin		
InoSig GmbH	50	Construction services
Hong Kong		
28th Floor, Devon House, Taikoo Place, 979 King's Road		
Gammon China Ltd	50	Investment holding company
Gammon Construction Ltd (iii)	50	Construction services
Indonesia		
Jl. RC Veteran No.4, Bintaro, Jakarta 12330, Indonesia		
PT Balfour Beatty Sakti Indonesia	49	Construction services
Ireland		
Dunmoy House, St Margaret's Road, Finglas, Dublin 11		
Balfour Beatty CLG Ltd	50	Support services
C/O Sweett Group, 2nd Floor, Cathedral Court, New Street South, Dublin 8		
Healthcare Centres PPP Holdings Ltd	40	Investment holding company
Healthcare Centres PPP Ltd	40	Infrastructure concession

Name of undertaking	% held by the Group	Principal activity
Malaysia		
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya		
Balfour Beatty Ansaldo Systems JV Sdn Bhd (ii)	60	Construction services
Balfour Beatty Rail Sdn Bhd (ii)	70	Construction services
10th Floor, Menara Peladang, Jalan Telok Wanjah, Alor Setar, 05200 Kedah		
Balfour Beatty – Maju Sdn Bhd	49	Dormant – in liquidation
Singapore		
239 Alexandra Road, 159930		
Gammon Capital (West) Holdings Pte. Ltd	50	Infrastructure concession
Gammon Capital (West) Pte. Ltd	50	Infrastructure concession
Gammon Investments Pte. Ltd	50	Investment holding company
United Arab Emirates		
Jebel Ali, Industrial Area 1, 10079, Dubai Real Estate, UAE		
BK Gulf LLC	49	Construction services
Dutco Balfour Beatty LLC	49	Construction services
Dutco Construction Company LLC	49	Construction services
Emirates Properties Investment Company Bdg, Airport Road, Abu Dhabi		
Power Transmission Gulf LLC	49	Construction services
P.O. Box 43537, Abu Dhabi, UAE, 43537		
Middle East Scaffolding Company LLC	49	Construction services
2nd Sheikh Zayed Road, Mussalem, Salem bin Ham Bdg, Abu Dhabi		
Balfour Beatty Abu Dhabi LLC	49	Construction services
United States		
Corporation Service Company, 1201 Hays Street, Tallahassee FL 32301		
C-BB Management, LLC	50	Infrastructure investment
C-BBC Development, LLC	50	Infrastructure investment
Corporation Service Company d/b/a CSC-Lawyers, Incorporating Service Company, 211 E. 7th Street, Suite 620, Austin TX 78701-3218		
Northside Campus Partners, LP (iv)	50	Infrastructure investment
Corporation Trust Company, 1209 Orange St, Wilmington, Delaware 19801		
RAPP-BBC Associates, LLC	10	Infrastructure concession
Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington DE 19808		
Balfour Beatty/Benham Military Communities LLC (i)	90	Infrastructure investment
Balfour Beatty/PHELPS Military Communities LLC (i)	90	Infrastructure investment
BBC – Apexone Holdings, LLC	45	Infrastructure investment
BBC – Apexone Mobile Eastern, LLC	50	Infrastructure investment
Carmendy Square Properties, LLC	45	Infrastructure investment
E3 2020 II LLC	50	Dormant
Nesbit Palisades, LLC	15	Infrastructure concession
Northside Campus General Partner LLC	50	Infrastructure concession
Northside Campus Limited Partner, LLC (i)	90	Infrastructure investment
Park Place (Foley) Owner, LLC	50	Infrastructure concession
Summer Trace (Gulf Shores) Owner, LLC	50	Infrastructure concession
Windscape (Daphne) Owner, LLC	50	Infrastructure concession

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2016 continued

Joint ventures incorporated outside the United Kingdom continued

Name of undertaking	% held by the Group	Principal activity
United States continued		
Corporation Service Company, 2908 Poston Avenue, Nashville TN 37203		
Balfour Concord GP (iv)	50	Construction services
Balfour Concord Property Management, LLC	50	Construction services
430 Eastwood Road, Wilmington, NC 28403		
New Energy Alliance LLC	50	Construction and support services
Corporation Trust Centre, 150 West Market Street, Suite 800, Indianapolis, IN 46204		
WMB Heartland Justice Partners, LLC	15	Infrastructure concession – in liquidation

Notes:
(i) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.
(ii) The Group holds a 70% interest in Balfour Beatty Rail Sdn Bhd, which holds a 60% interest in Balfour Beatty Ansaldo Systems JV Sdn Bhd. Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of these companies, the Directors consider that the Group does not control these companies and they have been accounted for as joint ventures.
(iii) Preference shares and/or deferred shares also held.
(iv) Partnership interests held.

Associated undertakings incorporated in the United Kingdom

Name of undertaking	% held by the Group	Principal activity
United Kingdom		
Newington House, 237 Southwark Bridge Road, London SE1 6NP		
Power Asset Development Company Ltd	25	Infrastructure concession
UK Power Networks Services Powerlink Ltd	10	Infrastructure concession
Ashford House, Grenadier Road, Exeter, EX1 3LH		
UBB Waste (Essex) Holdings Ltd	30	Investment holding company
UBB Waste (Essex) Intermediate Ltd	30	Infrastructure concession
UBB Waste (Essex) Ltd	30	Infrastructure concession
UBB Waste (Gloucestershire) Holdings Ltd	49.5	Investment holding company
UBB Waste (Gloucestershire) Intermediate Ltd	49.5	Infrastructure concession
UBB Waste (Gloucestershire) Ltd	49.5	Infrastructure concession

Associated undertakings incorporated outside the United Kingdom

Name of undertaking	% held by the Group	Principal activity
United States		
Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington DE 19808		
ACC Group Housing, LLC (i)	100	Infrastructure concession
AETC Housing LP (i)(ii)	100	Infrastructure concession
AMC West Housing LP (i)(ii)	100	Infrastructure concession
Carlisle/Picatinny Family Housing LP (ii)	10	Infrastructure concession
Coppell Properties, LLC	10	Infrastructure concession
DFW 5 – Josey Ranch, LLC	10	Infrastructure concession
DFW 5 – Madison Parkway, LLC	10	Infrastructure concession
DFW 5 – Round Grove, LLC	10	Infrastructure concession
DFW 5 – Wimberly, LLC	10	Infrastructure concession
DFW 5 – Wimbledon Oaks, LLC	10	Infrastructure concession
DFW 5 Holdings, LLC	10	Infrastructure concession
FDWR Parent LLC	10	Infrastructure concession
Fort Bliss/White Sands Missile Range Housing LP (ii)	10	Infrastructure concession
Fort Carson Family Housing LLC	10	Infrastructure concession
Fort Detrick/Walter Reed Army Medical Center Housing LLC	10	Infrastructure concession
Fort Eustis/Fort Story Housing LLC	10	Infrastructure concession
Fort Gordon Housing LLC	10	Infrastructure concession
Fort Hamilton Housing LLC	10	Infrastructure concession
Fort Jackson Housing LLC	10	Infrastructure concession
Lackland Family Housing, LLC (i)	100	Infrastructure concession
Leonard Wood Family Communities, LLC	10	Infrastructure concession
Northeast Housing LLC	10	Infrastructure concession
Northern Group Housing, LLC (i)	100	Infrastructure concession
Southeast Housing LLC	10	Infrastructure concession
Stewart Hunter Housing LLC	10	Infrastructure concession
Vandenberg Housing LP (i)(ii)	100	Infrastructure concession
Western Group Housing, LP (i)(ii)	100	Infrastructure concession
West Point Housing LLC	10	Infrastructure concession
Edward Y. Lau, 30 North Lasalle Street, Suite 3900, Chicago, IL 60602		
C A R E Plus LLC	10	Infrastructure concession

Notes:
(i) The Group evaluated each of its interests in the military housing projects to determine if the associated entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision making power over key facets of the contracts were evaluated when determining which party or parties had control over the activities that most significantly impact a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not control or jointly control them and therefore the entities have been accounted for as associated undertakings.
(ii) Partnership interests held.

Unaudited Group five-year summary

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Income					
Revenue including share of joint ventures and associates	**8,683**	8,444	8,793	8,852	8,681
Share of revenue of joint ventures and associates	**(1,760)**	(1,489)	(1,529)	(1,364)	(1,301)
Group revenue from continuing operations	**6,923**	6,955	7,264	7,488	7,380
Underlying profit/(loss) from continuing operations	**67**	(106)	(58)	146	188
Underlying net finance costs	**(7)**	(17)	(22)	(15)	(6)
Underlying profit/(loss) before taxation	**60**	(123)	(80)	131	182
Amortisation of acquired intangible assets	**(9)**	(10)	(11)	(17)	(20)
Other non-underlying items	**(43)**	(66)	(213)	(163)	(159)
Profit/(loss) from continuing operations before taxation	**8**	(199)	(304)	(49)	3
Taxation on profit/(loss) from continuing operations	**(8)**	(7)	3	(4)	(6)
Loss from continuing operations after taxation	**–**	(206)	(301)	(53)	(3)
Profit from discontinued operations after taxation	**24**	–	242	18	38
Profit/(loss) for the year attributable to equity holders	**24**	(206)	(59)	(35)	35

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Capital employed					
Equity holders' funds	**757**	826	1,227	1,033	1,310
Liability component of preference shares	**100**	98	96	94	92
Net non-recourse borrowings – infrastructure concessions	**233**	365	445	354	368
Net (cash)/borrowings – other	**(173)**	(163)	(219)	66	(35)
	917	1,126	1,549	1,547	1,735

	2016 Pence	2015 Pence	2014 Pence	2013 Pence	2012 Pence
Statistics					
Underlying earnings/(loss) per ordinary share from continuing operations*	**7.0**	(19.7)	(11.5)	15.3	23.6
Basic loss per ordinary share from continuing operations	**–**	(30.2)	(43.9)	(7.5)	(0.3)
Diluted loss per ordinary share from continuing operations	**–**	(30.2)	(43.9)	(7.5)	(0.3)
Proposed dividends per ordinary share	**2.7**	–	5.6	14.1	14.1
Underlying profit/(loss) from continuing operations before net finance costs including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	**0.8%**	(1.3)%	(0.7)%	1.6%	2.2%

Note
* Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group's underlying trading performance.

Shareholder information

Financial calendar

	2017
20 April	Ex-dividend date for final 2016 ordinary dividend
21 April	Final 2016 ordinary dividend record date
18 May	Annual General Meeting
18 May	Ex-dividend date for July 2017 preference dividend
19 May	July 2017 preference dividend record date
1 July	Preference dividend payable
7 July	Final 2016 ordinary dividend payable
16 August*	Announcement of 2017 half-year results
5 October*	Ex-dividend date for interim 2017 ordinary dividend
6 October*	Interim 2017 ordinary dividend record date
23 November	Ex-dividend date for January 2018 preference dividend
24 November	January 2018 preference dividend record date
1 December*	Interim 2017 ordinary dividend payable
	2018
1 January	Preference dividend payable

* Provisional date.

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state your registered address and, if available, your shareholder reference number. Please write to:

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone: 0871 664 0300 from the UK. Calls cost 12p per minute plus your phone company's access charge. If you are outside the UK, please call +44 371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can email: Shareholderenquiries@capita.co.uk.

They can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; record the death of a shareholder.

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). The Registrars can provide a dividend mandate form. A dividend reinvestment plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at www.balfourbeatty-shares.com.

International payment service

Shareholders outside the UK may elect to receive dividends direct into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars on +44 371 664 0391 (from outside the UK) or 0871 664 0385 from the UK. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

Shareholder information on the internet and electronic communications

Our website www.balfourbeatty.com provides a range of information about the Company, our people and businesses and our policies on corporate governance and corporate responsibility. It should be regarded as your first point of reference for information on any of these matters. The share price can also be found there.

You can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to: view your holdings and indicative share price and valuation; view movements on your holdings and your dividend payment history; register a dividend mandate to have your dividends paid directly into your bank account; change your registered address; sign up to receive e-communications or access the online proxy voting facility; and download and print shareholder forms.

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: shareportal@capita.co.uk.

Unsolicited telephone calls

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports on the Company.

If you receive any unsolicited investment advice:

- always ensure the firm is on the Financial Conduct Authority (FCA) Register and is allowed to give financial advice before handing over your money. You can check via www.fsa.gov.uk/register/home.do
- double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. If there are no contact details on the FCA Register or you are told that they are out of date, or if you have any other doubts, call the FCA Consumer Helpline on 0800 111 6768
- if you are approached about a share scam, please visit the FCA's ScamSmart website at www.scamsmart.fca.org.uk where you can access information about the various types of scam, including share and boiler room fraud, see the FCA's Warning List and reports on firms about whom consumers have expressed concerns. Alternatively, you can call the FCA Consumer Helpline (see above). If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong
- you should also report any approach to Action Fraud, who are the UK's national fraud reporting centre at www.actionfraud.police.uk, or by calling 0300 123 2040.

Shareholder information continued

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £20m has been given to more than 2,000 charities.

The relevant share transfer form may be obtained from the Registrars. For more information visit www.sharegift.org.

Share dealing services

Capita Share Dealing Services (a trading name of Capita IRG Trustees Limited) provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, telephone: 0371 664 0445. Calls cost 12p per minute plus your phone company's access charge. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can log on to www.capitadeal.com.

Capita IRG Trustees Limited is authorised and regulated by the Financial Conduct Authority and is also authorised to conduct cross-border business within the EEA under the provisions of the EU Markets in Financial Instruments Directive.

London Stock Exchange Codes

The London Stock Exchange Daily Official List (SEDOL) codes are: Ordinary shares: 0096162. Preference shares: 0097820.

The London Stock Exchange ticker codes are: Ordinary shares: BBY; Preference shares: BBYB.

Capital gains tax (CGT)

For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

Consolidated tax vouchers

Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank accounts. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars. A copy of the consolidated tax voucher may be downloaded from the Share Portal at www.balfourbeatty-shares.com.

Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

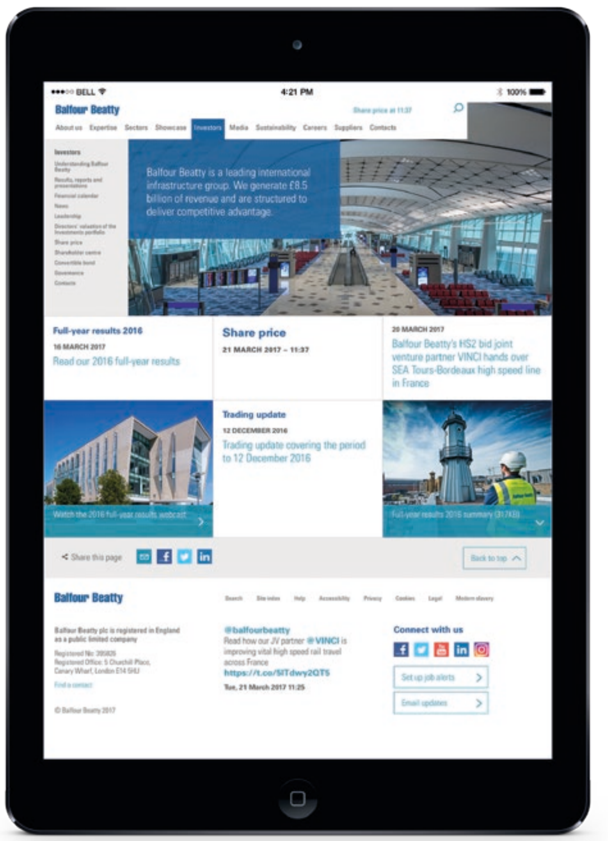
Balfour Beatty plc Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU. Registered in England Number 395826.

Shareholder information continued

Forward-looking statements

This document may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'plans', 'anticipates', 'targets', 'aims', 'continues', 'expects', 'intends', 'hopes', 'may', 'will', 'would', 'could' or 'should' or in each case, their negative or other various or comparable terminology. These statements are made by the Balfour Beatty plc Directors in good faith based on the information available to them at the date of this report and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature, these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under 'Principal risks' on pages 56 to 65 of this document.

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



Find out more about our investor relations at:
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