Build to Last

Annual Report and Accounts 2018

Balfour Beatty

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Other Information

Manchester Engineering Campus Development (front cover): a state-of-the-art education facility for the University of Manchester.
Leo Quinn, Group Chief Executive
Preserve at Southwind: 306 unit military community offering amenities such as a dog park and fitness centre (artist's impression).
HS2: Balfour Beatty VINCI has been awarded two major design and build contracts for High Speed 2 (artist's impression).
East Slope Residences: a £179 million student accommodation development for the University of Sussex.

Build to Last

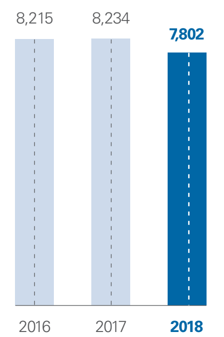
"Balfour Beatty's transformation has gone beyond resolving the legacy issues of forced growth: the Group's strong competitive positions in large and growing infrastructure markets, and the platform provided by its scalable operating model, provide the ability to deliver profitable managed growth."

Leo Quinn, Group Chief Executive

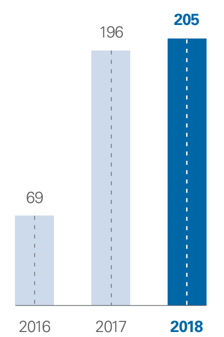
12 Read more

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 45 to 50.

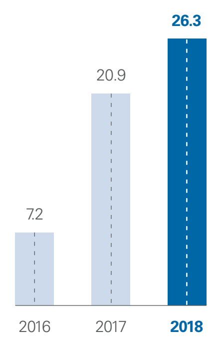
Continuing underlying revenue[1] £m



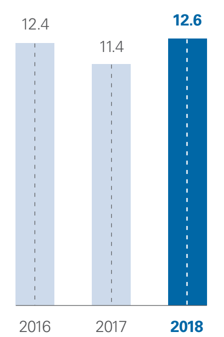
Continuing underlying profit from operations (PFO) £m



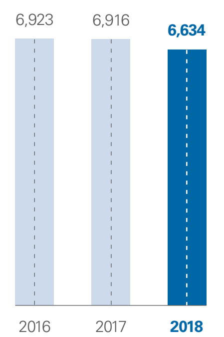
Continuing underlying earnings per share (basic) Pence



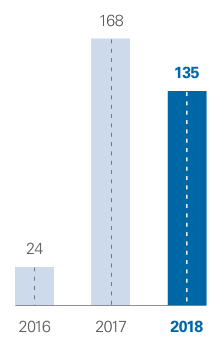
Order book[1] £bn



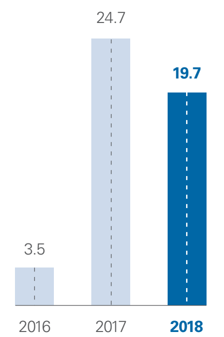
Statutory revenue £m



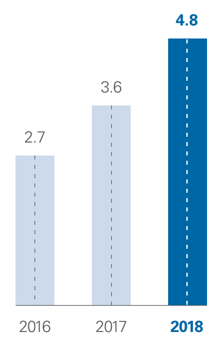
Statutory profit for the year £m



Statutory earnings per share (basic) Pence



Dividends per share Pence



1 Underlying revenue and order book include share of joint ventures and associates.

Chairman's introduction

"Whether in the iconic projects we will deliver, or in harnessing the advances in innovation and technology that will revolutionise our industry, we have the focus, the desire and the capability to shape the world around us for many years to come."

Philip Aiken AM
Chairman

This is the fourth occasion I have written to you as Chairman of your Board, and once again I am pleased to be able to report on significant improvements in your Company's performance.

The financial results delivered in 2018 demonstrate the extent to which Balfour Beatty has been transformed through the Build to Last programme and the value being created.

This transformation has been achieved in uncertain times. Events in our sector have included the collapse of Carillion and the refinancing challenges of other players, with the resulting impacts felt throughout the supply chain. More widely, we continue to experience delayed decisions caused by political uncertainties in the UK and abroad. These factors highlight the advantages accruing to a company, such as Balfour Beatty, which is financially strong, disciplined and with leading positions in large and growing infrastructure markets.

Today, the organisation is leaner and more effective; totally focused on outstanding delivery for its customers and on improving performance every day. We have achieved our target of industry standard margins in all our businesses and have a growing, higher quality order book. Notwithstanding our investments in leadership, capability, systems and governance, we have continued to pay down debt and, for the third consecutive year, are recommending payment of a progressive dividend. Most pleasingly, our safety, customer satisfaction and employee engagement levels have all improved.

Thanks to the support and enthusiasm of our employees in embracing Build to Last over the past four years, we now have a Balfour Beatty fit and ready to seize the exciting opportunities presented by its markets.

Markets

Construction – or, in its widest context, infrastructure – comprises between 6% and 7% of GDP in our core markets. This spend has a multiplier effect delivering for the economy three times the initial investment. It shapes how and where we live, work and travel and most importantly underpins economic growth.

With Balfour Beatty now focused on the UK, US and Hong Kong – markets where Governments are planning large-scale infrastructure investment for the coming decades – and with the Group's unique blend of capabilities underpinned by a strong and scalable business model, we expect Balfour Beatty to continue to deliver the major iconic projects that will shape the world we live in.

In the UK, given the uncertainty over the UK's exit from the European Union, our business has been planning for all potential outcomes. We now have contingency plans in place to mitigate foreseeable issues and ensure we continue to deliver on our current and future work commitments.

Our people

On behalf of the Board, I would like to thank everyone who has contributed to Balfour Beatty's strong business performance in 2018, including our customers and supply chain partners, and especially our hard-working employees. It is their dedication and relentless focus on operational excellence in delivering for our customers that has enabled us to achieve such major strides forward.

We continue to upgrade the strength and depth of our leadership team to ensure our ability to capture the opportunities presented by our markets in a way which produces prosperity for all stakeholders, and profitable managed growth for the business.

Health and Safety remains at the heart of our culture and our licence to operate. We are making encouraging progress towards our Safe goal, measured by Zero Harm, which is no injury, ill health or incident caused by our work activities. Incident rates have continued to reduce across our UK and US businesses – by almost 50% in the four years of Build to Last. Our Lost Time Injury Rate has reduced to 0.15 in 2018.

There were no fatalities across our business in 2018 as a direct result of our activities. However, I regret to report the deaths of two people working for our subcontractors due to third party incursions into our work sites. In the US, one person died as a result of a vehicle being driven by an intoxicated driver entering a temporary lane closure; in the UK, one person died and another sustained life-changing injuries following a vehicle incursion into a work site on a road maintenance contract. It is a sad reminder that tragedy occurs even where works are carried out with all the expected controls for risk in place. Our thoughts are with the bereaved.

Our work on treating health like safety and treating mental health like physical health continues with raising awareness of the issues across the Group and through our commitment to initiatives such as Mates in Mind.

We will continue to strive for Zero Harm in 2019, embedding industry best practice and exploring all ways to learn from cross-industry reviews to make conditions as safe as possible for our workforce and those who work on and around our sites.

The Board

Balfour Beatty is committed to building a truly diverse workforce by attracting the most talented people from all genders and backgrounds – this starts with the Board.

I was therefore delighted to appoint Anne Drinkwater in December 2018. Anne brings a powerful range of experience in strategic, commercial and operational roles spanning over thirty years in the energy industry. Her extensive knowledge of projects and operations across multiple jurisdictions, and particularly in the US, will support Balfour Beatty's increasing presence in this key market.

Following our AGM in May, Iain Ferguson will stand down as Senior Independent Director and Chair of our Remuneration Committee. Iain leaves with my sincere thanks for his significant contribution to Balfour Beatty's current success and I wish him well for the future. Stephen Billingham will become Senior Independent Director and Anne Drinkwater will become Chair of our Remuneration Committee.

Dividend

The Group's financial performance for 2018 demonstrates the value being created through Build to Last. As a result, your Board has felt able to recommend an increase in the final dividend to 3.2p per ordinary share, bringing the total dividend for the year to 4.8p per share.

Conclusion

This year Balfour Beatty is 110 years old. We have an amazing history of delivering projects for our customers and we are in robust health for the long term. Whether in the iconic projects we will deliver, or in harnessing the advances in innovation and technology that will revolutionise our industry, we have the focus, the desire and the capability to shape the world around us for many years to come.

For my part, and on behalf of your Board, I want to add that we look forward with confidence in Balfour Beatty's continuing success, based on the strong framework now in place to ensure that the business delivers market leading performance.

Philip Aiken AM
Chairman

Group Chief Executive's review

"These results demonstrate the value being created through the Build to Last programme."

Leo Quinn
Group Chief Executive

These results demonstrate the value being created through the Build to Last programme. Balfour Beatty's transformation has gone beyond resolving the legacy issues of forced growth: the Group's strong competitive positions in large and growing infrastructure markets, and the platform provided by its scalable operating model, provide the ability to deliver profitable managed growth.

Since the start of Build to Last in 2015, Balfour Beatty has simplified and refocused its operations, embedded new governance, reduced operating expenses by almost 40% and invested steadily in innovation, capability and leadership. As well as the delivery of all Build to Last targets, culminating in industry standard margins, every metric for a culture which is Lean, Expert, Trusted and Safe shows significant continuous improvement. To ensure these improvements are sustainable, they are embedded within consistent systems and processes which address risk and provide management with transparency and control.

The Group reported an underlying profit from operations (PFO) of £205 million (2017: £196 million) driven by improvements in the earnings based businesses. In the second half of the year, UK Construction, US Construction and Support Services all reported underlying PFO margins in, or above, the range of industry standard margins.

Underlying earnings per share from continuing operations increased 26% to 26.3 pence per share (2017: 20.9 pence) and the Board has recommended a 33% increase in the final dividend giving a total recommended dividend for the year of 4.8 pence per share (2017: 3.6 pence).

Cash remains Balfour Beatty's compass and ultimately the most reliable barometer of financial performance. During the year, the Group had average net cash of £194 million (2017: £42 million) and at year end, the Group had net cash of £337 million (2017: £335 million). During the year, Balfour Beatty paid down over 40% of its gross debt including repayment of the convertible bonds.

Balfour Beatty's net cash position and the value of its Investments portfolio underline the ongoing strength of the balance sheet, which constitutes a strong competitive benefit with customers and supply chain partners. The Investments portfolio is a strategic source of value and opportunity to the Group's businesses. The Directors' valuation of the Investments portfolio has remained broadly stable at £1.15 billion (2017: £1.24 billion), following £58 million of investments and £187 million of disposals in the year.

The order book increased by 11% to £12.6 billion (2017: £11.4 billion). This increase occurred whilst maintaining disciplined selective bidding in line with the Group's stated policy. The businesses increased bid margin thresholds and focused on projects where Balfour Beatty's capabilities can deliver value, coupled with a lower risk profile, to ensure that the Group wins work at appropriate terms and conditions.

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

In Lean, the governance and processes introduced during Build to Last have driven improved performance in all business segments and ensured that the earnings based businesses achieved industry standard margins in the second half of 2018. At the start of 2018, the Group extended its investment in systems standardisation with the migration of its US businesses onto a single JD Edwards ERP platform. This transition was achieved smoothly and followed the consolidation of the UK Construction business onto Oracle R12. These moves will enable the Group to drive significant ongoing value through increased productivity underpinned by greater transparency and assurance.

During the year the Group launched its 25 by 2025 vision. With the goal to reduce onsite activity by 25% by 2025 Balfour Beatty will increasingly use modular, innovation and digital solutions, in order to become more productive and efficient. From modular on tall towers such as the Madison project in London to the prefabrication of bridges at the £1 billion A14 project, the Group will look increasingly to utilise offsite manufacturing. With enhanced BIM modelling, virtual reality, drones and laser scanning, new technologies are transforming the construction industry. Properly applied, they have the power to lower cost, improve quality and enhance safety.

Customers contract with Balfour Beatty due to the engineering excellence and Expert capabilities of the Group and its employees.

In a market where there will be increasing intense competition for the best talent, Balfour Beatty places a major focus on recruitment, training and retention in order to maintain the highest calibre workforce. The employee survey in December 2018 measured employee engagement at 65% (2017: 60%), the highest level of engagement since the introduction of the survey in 2015.

Leadership changes made at the start of 2018 are already delivering benefits. In US Construction, the promotion of two internal candidates to lead the Buildings and Civils businesses, has delivered an improved overall performance with growing momentum in the pipeline. In Support Services, where the Power T&D, Gas & Water and Rail businesses work with similar types of customers, uniting this expertise has increased flexibility and productivity.

Balfour Beatty continues its sponsorship of The 5% Club, which encourages employers to provide 'earn and learn' training opportunities to help address the UK's skills gap and drive economic prosperity more widely across society. During 2018, Balfour Beatty recruited 102 apprentices, 94 graduates and 20 trainees. The percentage of the UK workforce in 'earn and learn' positions at year end stood at 5.6%. Membership of The 5% Club now includes key customers and supply chain partners of Balfour Beatty, all committed to ensuring the sector has the right capability required to support the growing infrastructure market.

Trusted is Balfour Beatty doing "what we say we will do" and is measured by customer satisfaction. During the year, over 4,000 customer satisfaction reviews were carried out (2017: 3,375), primarily in the UK. The Group customer satisfaction average increased to 97% (2017: 94%).

Following the successful completion of Build to Last Phase One targets at the end of 2016 (£200 million Cash In: £100 million Cost Out) the Group has now delivered its Phase Two targets with all earnings based businesses achieving industry standard margins in the second half of 2018 as follows:

	Underlying PFO margin target %	Underlying PFO margin H2 2018 %
UK Construction	2-3%	2.4%
US Construction	1-2%	1.5%
Support Services	3-5%	5.2%

The Group now has a higher quality order book with work won at appropriate levels of risk and return. Combined with the Gated Lifecycle, the Digital Briefcase and Project on a Page, the governance and controls introduced under Build to Last provide management with a clear, consistent line of sight on all stages of work which is being bid and delivered, together with key tools for managing commercial risk and project execution. This common contracting framework enables Balfour Beatty to: selectively bid business to match capability; assess and price risk appropriately; track, and thus intervene on, execution all the way through the lifecycle of a project, including the defect period; and ultimately to achieve higher margins for the Construction Services and Support Services businesses.

By maintaining Build to Last disciplines, underpinned by actions which have reduced geographic, commercial, operational and financial risk, the Group continues to embed a culture of active risk mitigation by investing in capability and IT-based processes and controls. Balfour Beatty is ensuring a more collaborative working environment which is being supported by the Group's investment in systems such as the roll-out of the Microsoft Office 365 platform across the Group. Balfour Beatty is also continuing to take steps to better capture and utilise real-time data on projects to provide unparalleled transparency, efficiency and forecasting through the enhancements of visual management, collaboration with project stakeholders through BIM enhancements, and accelerating business intelligence for better business agility.

Construction is an inherently dangerous industry. It is therefore essential that the safety and health of everyone who comes into contact with Balfour Beatty is the top priority. Each week the Executive Committee reviews the safety performance of each of the business units with particular attention to lessons which should be learnt from any high potential near miss incidents, as well as gauging the status of the Group's safety culture. Safety is also a leading indicator of future performance and productivity.

In 2018, the indicators continued to trend positively, with the Group's Lost Time Injury Rate (LTIR) (excluding international joint ventures) reducing for the fourth consecutive year to 0.15 (2017: 0.17). This LTIR is now approximately 50% of the rate when Build to Last commenced and all other key lagging indicators also continue to trend positively.

The Group primarily operates across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments). This provides resilience as the Group is less exposed to a downturn in a single geography or sector.

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable.

In the UK, Government policy continues to drive a strong pipeline of major infrastructure projects in transport and energy. Over the next few years, the '4Hs' – HS2 (high speed rail), new nuclear power at Hinkley Point C, the Road Investment Strategy for Highways England and the continued expansion of Heathrow airport – will contribute to the Government's investment in infrastructure commitment, which is targeted to rise from 0.8% in 2015/16 to over 1% of GDP by 2020/21.

In the US, with blue chip repeat customers such as Disney and Microsoft, the Group's Buildings opportunities are robust. In Civils in December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill, was signed, providing authorised spending for a five-year period. There are further opportunities being created, for example with the number of state-backed infrastructure bonds (over US$200 billion multi-state transportation bonds, over US$35 billion of education bonds in California) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming with the third runway at the international airport, a ten-year hospital development plan and continued investment in transportation infrastructure.

Having achieved industry standard margins, Balfour Beatty now has the platform in place to scale the business to drive profitable managed growth. The Group will look to benefit fully from its strong competitive positions in large and growing infrastructure markets to deliver market leading performance.

Leo Quinn
Group Chief Executive

Group at a glance

International infrastructure experts

Order book^

£12.6bn

2017: £11.4bn

Underlying revenue^

£7,802m

2017: £8,234m

Statutory revenue

£6,634m

2017: £6,916m

Underlying profit before tax^

£181m

2017: £165m

Statutory profit before tax

£123m

2017: £117m

Directors' valuation

£1.15bn

2017: £1.24bn[4]

Employees+

26,000

2017: 28,000

Balfour Beatty is a leading international infrastructure group, providing the structures and services that underpin daily lives, support communities and enable economic growth. The Group finances, designs, develops, builds and maintains complex infrastructure. It works across sectors such as transportation, power, utilities, and social and commercial buildings, and delivers projects across three main geographies: the UK, the US and Hong Kong.

Throughout this report, Balfour Beatty has presented financial performance measures which are used to manage the Group's performance. These financial performance measures are chosen to provide a balanced view of the Group's operations and are considered to provide relevant information on the Group's past or future performance, position or cash flows. These measures are also aligned to measures used internally to assess business performance in the Group's budgeting process and when determining compensation. An explanation of the Group's financial performance measures and appropriate reconciliations to statutory measures are provided on pages 45 to 50.

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

Image: HK$5.5 billion contract to construct the final stages of the Lyric Theatre Complex (artist's impression).

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

4 2017 valuation includes £62 million relating to the 7.5% second partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. The proceeds were subsequently received on 23 February 2018.

+ Includes Gammon employees.

Construction Services

The Construction Services businesses in the UK, the US, and in joint venture in Hong Kong, are top tier and all operate across the infrastructure and building sectors.

Total revenue^

Order book^

£9.8bn

2017: £8.3bn

Underlying revenue^

£6,127m

2017: £6,649m

Underlying profit from operations^

£95m

2017: £72m

Statutory profit from operations

£46m

2017: £36m

What we do

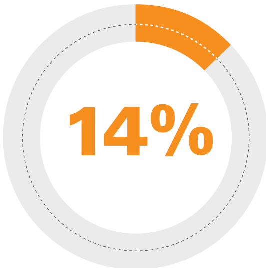
- Civil engineering
- Building
- Ground engineering
- Mechanical and electrical installation
- Refurbishment and fit-out
- Rail engineering

15 see Construction Services

Support Services

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

Total revenue^



Order book^

£2.8bn

2017: £3.1bn

Underlying revenue^

£1,104m

2017: £1,061m

Underlying profit from operations^

£46m

2017: £41m

Statutory profit from operations

£39m

2017: £39m

What we do

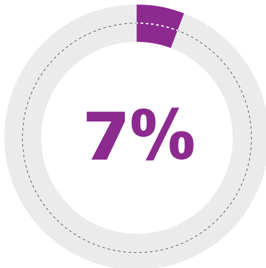
- Design, build, upgrade and maintain water, gas and electricity networks
- Highways network management, operation and maintenance
- Rail design, renewals and technology

23 see Support Services

Infrastructure Investments

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

Total revenue^



Directors' valuation

£1.15bn

2017: £1.24bn[4]

Underlying revenue^

£571m

2017: £524m

Underlying profit before tax^

£113m

2017: £140m

Statutory profit before tax

£111m

2017: £134m

What we do

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

25 see Infrastructure Investments

Market review

Infrastructure spend continues to grow; Buildings market stable

UK and US infrastructure spend continues upwards trajectory, backed by strong government support.

Key

↗ Growth

→ Flat

↘ Contraction

Construction Services

Medium-term market outlook

	Infrastructure	Buildings
UK	↗	→
US	↗	→
Hong Kong	↗	→

UK

The infrastructure market outlook is positive, underpinned by government expenditure and key programmes (Heathrow, Nuclear New Build, HS2 and Highways England's programmes). Overall, the Government has pledged to spend over £600 billion on infrastructure in the next 10 years*.

Buildings markets are likely to remain flat in the medium term. 2019 is forecast to see a downturn in activity as Brexit uncertainty peaks, but subsequent years are likely to see a recovery in the market.

US

Federal initiatives, state-level funding and an active P3 market are likely to contribute to a growing opportunity in Balfour Beatty's US infrastructure markets.

The buildings market is forecast to remain flat, but specific opportunities will remain. State-level education bonds in particular are likely to drive strong school building spend.

Hong Kong

Gammon continues to deliver a strong pipeline of infrastructure and construction projects, benefiting from high public and private sector demand.

→ 15 see Construction Services

* Infrastructure and Projects Authority, National Infrastructure and Construction Pipeline – Autumn 2018 update.

Image: Balfour Beatty VINCI has been awarded two major design and build contracts for High Speed 2 (artist's impression).

Support Services

Medium-term market outlook

	Power	Gas	Water	Highways	Rail
UK	→	→	↗	↗	↗

Power
With the RIIO-T1 period coming to an end in 2019; the market is likely to remain stable until RIIO-T2 ramps up after 2020.

Gas
The RIIO-GD1 cycle runs until 2021 and there are unlikely to be any significant shifts in the market before this point.

Water
Stable market with incremental changes as AMP7 begins to ramp up. This cycle is expected to result in significant growth in water infrastructure spend in the medium term, particularly in Capex, offering significant opportunities for Balfour Beatty.

Highways
Highways England continues to forecast increases in expenditure over the remainder of the RIS1 period, with a step-change increase in funding for the RIS 2 period.

Rail
2019 is forecast to see a reduced level of activity before CP6 begins to ramp up. From 2020 activity on CP6 and HS2 will begin to increase, providing very significant opportunities for growth.

23 see Support Services

Infrastructure Investments

Medium-term opportunity levels

	PPP/PFI	Other
UK	↘	↗
US	↗	↗

UK
The student accommodation market in the UK continues to provide a significant number of high-quality investment opportunities for Balfour Beatty, as well as an asset class that allows the Group to leverage its longstanding track record of Student Accommodation construction.

US
The US student accommodation, multifamily housing and P3 markets continue to offer significant and attractive investment opportunities and there are a number of major infrastructure projects in the pipeline.

25 see Infrastructure Investments

Image: M25 – Connect Plus Services (CPS) is a consortium comprising Balfour Beatty, Atkins and Egis Road Operation UK which operates and maintains the M25 network on behalf of Connect Plus.

Image: The University of Edinburgh – the design, build, finance and maintenance of 1,180 student study bedrooms.

Business model

How we create value

The environment we operate in

External market
The Group is well positioned in its chosen markets, all of which represent large and growing infrastructure opportunities with real synergies between Construction Services, Support Services and Infrastructure Investments.

UK, US and Hong Kong infrastructure spend continues upwards trajectory, backed by strong government support.

Balfour Beatty will continue to maintain a disciplined and focused approach to bidding for contracts.

8 See Market review

Internal performance
Since the start of Build to Last in 2015, Balfour Beatty has simplified and refocused its operations, embedded new governance, reduced operating expenses by almost 40% and invested steadily in innovation, capability and leadership. As well as the delivery of all Build to Last targets, culminating in industry standard margins, every metric for a culture which is Lean, Expert, Trusted and Safe shows significant continuous improvement. To ensure these improvements are sustainable, they are embedded within consistent systems and processes which address risk and provide management with transparency and control.

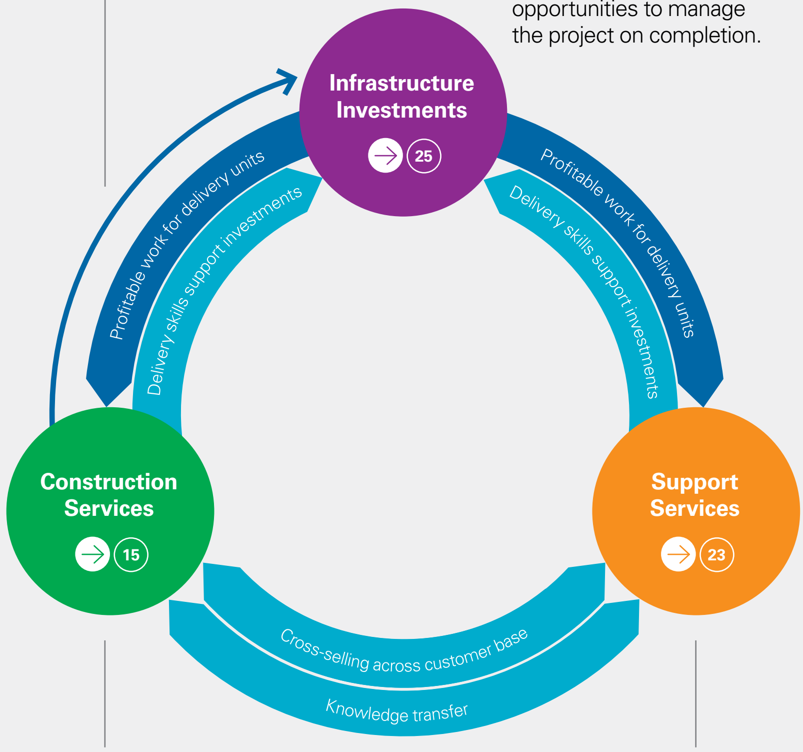
As a result Balfour Beatty has the culture and scalable platform to drive profitable managed growth for the benefit of all stakeholders.

12 See Our priorities

How our Group works together

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

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



Represents c.79% of our revenue and is responsible for design, engineering and construction across the most complex infrastructure and building projects.

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

Why our customers choose us

Build to Last priorities
The Build to Last transformation programme is designed to deliver market-leading returns for all stakeholders, from a Group which is Lean, Expert, Trusted and Safe.

12 Read more

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

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

34 Read more

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

51 Read more

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

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

12 Read more

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

30 Read more

Values
Our values are Talk Positively, Collaborate Relentlessly and Encourage Constantly; together they are the building blocks of our culture.

Business integrity
We help people who work for Balfour Beatty to make the right choices and ensure they can speak up freely.

36 Read more

Output for stakeholders

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

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

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

Supply chain
Partnership opportunities for suppliers and subcontractors allow them to contribute to, and share in, our success.

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

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

Our priorities

Build to Last

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

Our purpose

- Create infrastructure
- Support communities
- Enable growth

Our vision

To be the leading engineering and infrastructure company in our chosen markets

Our values

- Talk positively
- Collaborate relentlessly
- Encourage constantly

Lean

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

Expert

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

Trusted

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

Safe

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

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

112

Our KPIs

Net cash excluding non-recourse borrowings
£337m
2017: £335m

Underlying profit from operations
£205m
2017: £196m

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 engagement.

34

Our KPI

Employee engagement index
65%
2017: 60%

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 management 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.

55

Our KPI

Customer satisfaction average
97%
2017: 94%

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

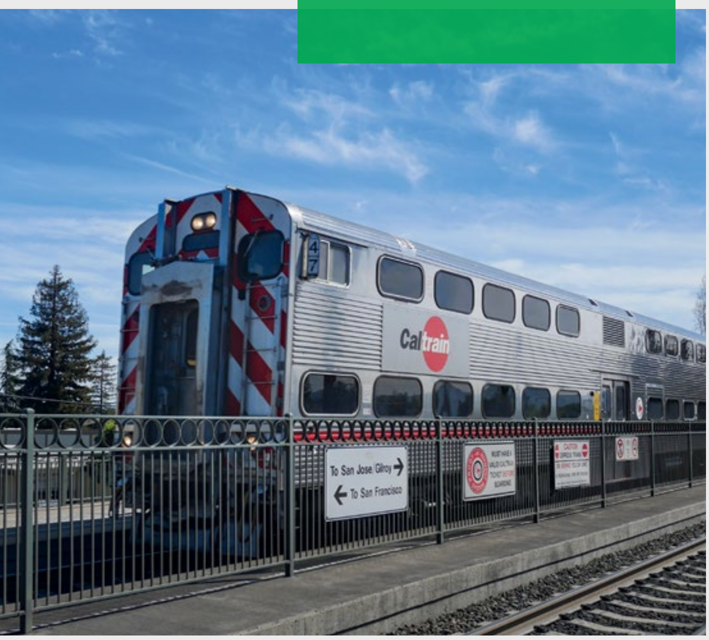
33

Our KPI

Lost Time Injury Rate excluding international JVs
0.15
2017: 0.17

What we have been doing in 2018

We operate across three sectors; Construction Services, Support Services and Infrastructure Investments, and over the following pages we review their performance and look at some of their projects.



Caltrain
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.

Los Angeles Automated People Mover (LAX)
US$4.9 billion project to develop a 2.25-mile, above-ground airport transport system connecting passengers with the airline terminals (artist's impression).

Mayflower Water Treatment Works
A new state-of-the-art water treatment works to serve Plymouth and the surrounding area.

Construction Services

Total revenue^

Order book^

£9.8bn

2017: £8.3bn

Underlying revenue^

£6,127m

2017: £6,649m

Statutory revenue

£5,217m

2017: £5,597m

Underlying profit from operations^

£95m

2017: £72m

Statutory profit from operations

£46m

2017: £36m

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

Construction Services continued to make good progress during the year with increasing profit, PFO margin and order book across all three chosen markets.

Financial review

Underlying revenue decreased by 8% to £6,127 million (2017: £6,649 million), a 6% decrease at CER as a result of a managed reduction in the order book during 2017. Revenues declined by 5% in the UK, 8% in the US (5% at CER) and 12% at Gammon (8% at CER).

Underlying profit from operations (PFO) continued to improve under Build to Last as all geographies had an increase in both absolute profit and margin percentage. The Group achieved its industry standard margin targets for UK Construction and US Construction in the second half of 2018.

The order book at £9.8 billion (2017: £8.3 billion) increased by 18% (14% at CER) due to increases in the US (21%, 16% at CER), Gammon (23%, 14% at CER) and the UK (11%). The increases occurred whilst maintaining the Group's policy of selective bidding. The £2.5 billion (Balfour Beatty 50% joint venture) HS2 contracts won in 2017 will not be included in the order book until the conclusion of the Early Contractor Involvement (ECI) phase, now expected at the end of 2019.

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

Operational review

UK

Underlying revenue in the UK reduced by 5% to £1,900 million (2017: £1,998 million). Underlying profit from operations showed an improvement to £28 million (2017: £16 million) with an associated PFO margin of 1.5% (2017: 0.8%). In the second half of 2018, UK Construction's underlying PFO margin was 2.4%, within the 2-3% industry standard margin target range.

The UK order book increased 11% to £3.0 billion (2017: £2.7 billion). The UK Construction business continued to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and better contract governance.

UK Construction is continuing to manage historical problem contracts through to completion. At the start of 2015, 89 historical contracts were identified that had a material negative impact on profitability and cash. At 2018 year end, only five of these contracts were still to reach financial completion.

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

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

The Major Projects business continues to pursue a number of key infrastructure opportunities across core transportation and energy markets. Over the next few years HS2, new nuclear power (Hinkley) and airport expansion (Heathrow) will all contribute to the UK Government's investment in infrastructure, which is forecast to rise from 0.8% of GDP in 2015/16 to over 1% of GDP by 2020/21. In addition, the highways market continues to provide good growth opportunities following the UK Government's proposed £32 billion funding for Highways England's Road Investment Strategy.

In April, the Major Projects business completed the third and final phase of the Norwich Northern Distributor Road (NNDR). The scheme, which has seen delivery of 20 kilometres of dual carriageway, including the construction of 13 roundabouts and eight bridges, will alleviate congestion around the city of Norwich.

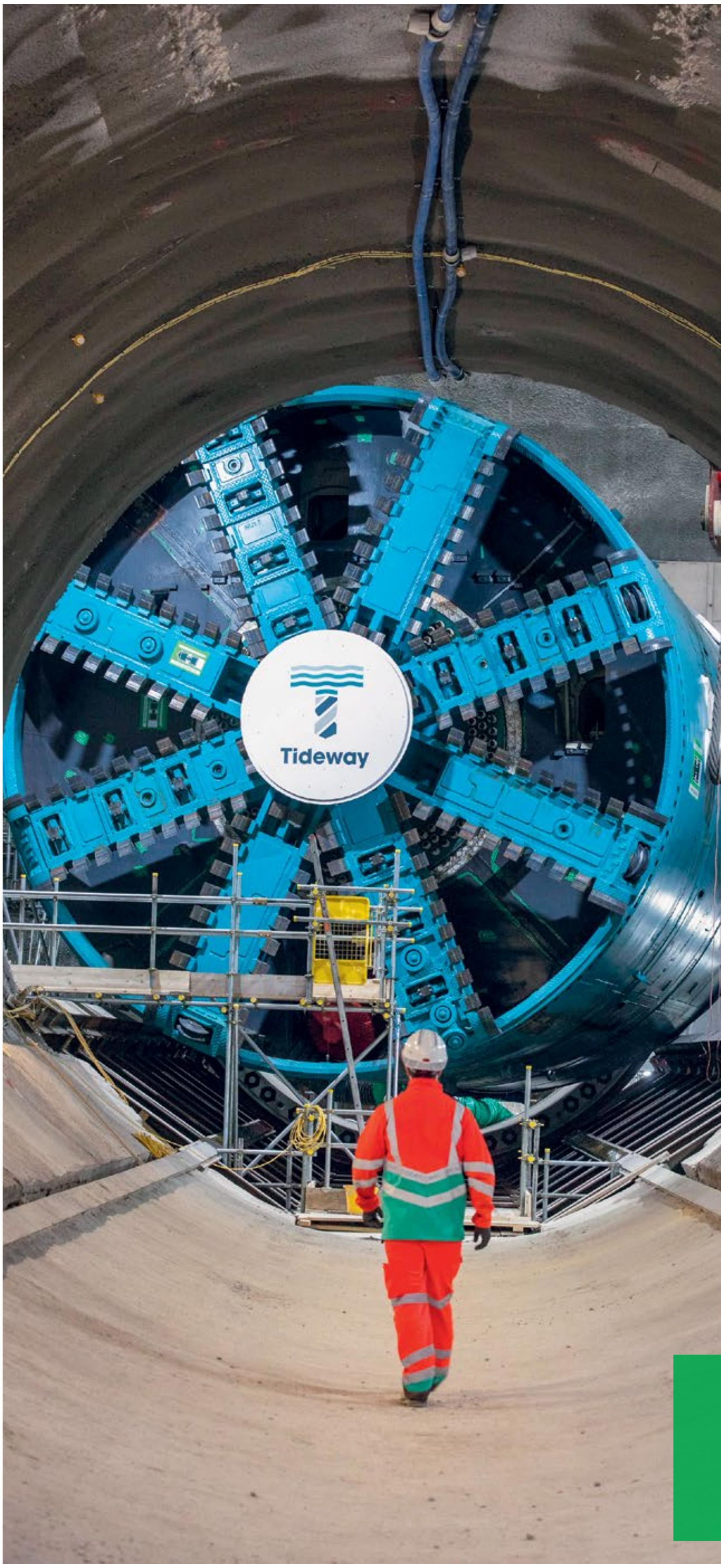
	2018				2017			
Construction Services	**Rev[1,2] £m**	**PFO[2] £m**	**PFO[2] %**	**Order book[1,2] £bn**	Rev[1,2] £m	PFO[2] £m	PFO[2] %	Order book[1,2] £bn
UK	**1,900**	**28**	**1.5**	**3.0**	1,998	16	0.8	2.7
US	**3,329**	**44**	**1.3**	**5.2**	3,634	41	1.1	4.3
Gammon	**898**	**23**	**2.6**	**1.6**	1,017	15	1.5	1.3
Underlying[3]	**6,127**	**95**		**9.8**	6,649	72		8.3
Non-underlying	**12**	**(49)**		**–**	30	(36)		–
Total	**6,139**	**46**		**9.8**	6,679	36		8.3

1 Underlying revenue and order book include share of joint ventures and associates.
2 From continuing operations.
3 Before non-underlying items (Note 10).

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

What we have been doing in 2018 continued

Construction Services continued



During the year, significant progress has been made on flagship projects. In November, the UK's largest current road construction project, the A14 in Cambridgeshire, reached its half-way point. The project started in November 2016 and is on target to be completed by December 2020. Since work started, more than eight million working hours have gone into the project, with nine new bridges already opened and construction well underway on 25 more. Following Carillion filing for liquidation, Balfour Beatty has assumed Carillion's share of this contract with the revised three-way joint venture working collaboratively to deliver the project.

On HS2, ECI work is ongoing on the main civils works, which were awarded as two-part design and build contracts in July 2017. Balfour Beatty VINCI won two lots around Birmingham, N1 and N2, worth about £2.5 billion. These contracts are included in awarded but not contracted (ABNC) during the ECI period. The joint venture team is currently working on the design and pricing of the two lots, with the ECI work expected to be completed by the end of 2019.

In February 2019, HS2 announced that it intends to appoint Balfour Beatty/VINCI/SYSTRA joint venture as the construction team that will be awarded a contract to manage the construction of the £1.0 billion Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in the venture, with Systra having the remaining 16.5%. Procurement processes are also underway on the rail systems contracts. In March 2018, Balfour Beatty VINCI, which will work with Balfour Beatty NG Bailey as a delivery partner, submitted the pre-qualification response for the combined railway systems Lots 1 (track and overhead catenary system works) and 2 (tunnel and open route mechanical and electrical works) worth approximately £1.9 billion. Announcement of successful pre-qualified bidders is due in 2019 with Invitation To Tenders expected late that year and contracts awarded in 2020.

On Crossrail, Balfour Beatty's three major projects: C510 (Liverpool Street and Whitechapel Station tunnels); C512 (Whitechapel Station); and C530 (Woolwich Station) all made headway during the year. C510 has achieved financial completion with the other two projects agreeing new supplementary agreements. Both projects are delivering in line with the revised completion dates.

At Sellafield, good progress has been made with the ongoing nuclear decommissioning projects. The Silo Maintenance Facility (SMF) has completed its commissioning phase and been handed over to Sellafield Ltd to allow it to decommission radioactive equipment.

Thames Tideway Tunnel
Working in three-way joint venture to construct the west section of London's new 'super sewer'.

At Hinkley Point C, Balfour Beatty's expanding team continues to make positive progress on the project. As well as a growing presence at the main site, Balfour Beatty has a larger site at Avonmouth. Occupied in January 2018, it is now home to nearly 200 direct employees and subcontractors. The project involves the construction of a pair of six-metre diameter underwater tunnels to supply the nuclear power station with cooling water and a third seven-metre diameter tunnel to discharge heated water back into the Bristol Channel. Three tunnel boring machines will use rotating cutting heads to excavate a total of 9 kilometres of tunnel – the two 3.5-kilometre intake tunnels and one 1.8-kilometre outfall tunnel.

At the Thames Tideway Tunnel project work continues on the six-kilometre west section which runs from Acton to Wandsworth. Excavation works to the tunnelling shaft at the Carnwath Road Riverside site are now complete with preparation works to launch the main tunnel boring machine well underway.

In 2018, the Aberdeen Western Peripheral Route (AWPR) project experienced schedule slippage and cost increases. In the year, Balfour Beatty recognised an additional £29 million loss on the AWPR project. A third of this charge (£10 million) has been recognised in non-underlying items as this reflects the additional loss that the Group has incurred in fulfilling Carillion's obligations on the contract. The AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believes are highly probable to be agreed. The final section of the AWPR project was fully open to traffic on 19 February 2019 with the final financial out-turn of this contract dependent upon the result of ongoing claims discussions.

The Major Projects business had a number of notable new contract awards in the year. In July, Balfour Beatty was awarded a project to turn the M20 junctions 8-9 into a contraflow system and convert the central reservation into a lorry park.

In November, Major Projects secured a place on two lots – B6 in the South East worth up to £1.1 billion, and B8 in the North worth up to £2 billion – on Highways England's Delivery Integration Partnership Framework. The initial packages of work which Balfour Beatty has secured through these lots are worth a total of £425 million with work commencing in 2019. This regional six-year framework will see contractors work with Highways England as partners responsible for designing and constructing motorway and major A-road projects across England. Balfour Beatty's digitally-enhanced way of working was instrumental in securing both lots. In collaboration with design partner, Atkins, Balfour Beatty will utilise Building Information Modelling (BIM) to improve efficiencies in delivering works and will also deploy offsite manufacturing techniques. This is a direct result of the Group's vision to reduce onsite activity by 25% by the year 2025, driving greater project efficiency and safety and lower waste by moving away from traditional industry methods.

UK

Underlying revenue^

£1,900m

2017: £1,998m

Order book^

£3.0bn

2017: £2.7bn

In December, a Balfour Beatty VINCI joint venture was awarded an M4 Smart Motorway contract. The project will convert the hard shoulder into an additional lane for traffic and introduce electronically-policed variable speed restrictions between junction 3 of the M4, just inside the M25 near Heathrow Airport, and junction 12 at Theale, west of Reading. As part of the works, 11 overbridges will be replaced with larger span structures and six underbridges will be widened to accommodate four lanes. The M4 project is subsequent to the same partnership being awarded a contract to convert the M6 junctions 2-4 to a Smart Motorway earlier in 2018.

The Regional business comprises:

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

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

Within Regional, in line with the Group's strategy, the business has simplified with an improved span of control as it operates fewer projects. The number of live projects, which was over 400 at December 2015 has subsequently fallen to under 250 at December 2018. During Build to Last, there has also been a shift towards a lower risk contract portfolio, with a reduction in the number of fixed price contracts offset by an increase in two-stage fixed cost and target cost contracts and framework agreements. These agreements require early contract engagement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties.

The Regional business is increasingly focused on customers with around 75% of all work won in 2018 from repeat customers. In November, Balfour Beatty won 'Partner of the Year' at the Team Heathrow Partnership awards ceremony.

The Group's largest framework agreement, the Scape National Civil Engineering and Infrastructure framework, secured £1.5 billion of civil engineering and infrastructure work under the initial four-year framework. Since being appointed as main contractor in 2015 over 100 projects have been completed on time and on budget. In October, it was announced that Balfour Beatty had been appointed as the sole contractor to Scape's second generation civil engineering frameworks, valued at a combined total of up to £2.1 billion. The Scape National Civil Engineering framework, which is valued at £1.6 billion, covers England, Wales and Northern Ireland, while the Scape Civil Engineering – Scotland framework, valued at £500 million, covers Scotland.

What we have been doing in 2018 continued

Construction Services continued

Hinkley Point C
Major contracts at Hinkley Point C include the North and South 400kV Overhead Line project, the electrical works package and the tunnelling and marine works package (artist's impression).

The frameworks allow local authorities, local enterprise partnerships and other public sector bodies to commission works through a procurement process that provides the fastest route to market and utilises early contractor engagement to deliver best value design solutions.

In September, Balfour Beatty was selected by the Midlands Highway Alliance to deliver vital transport infrastructure as part of its new £500 million Medium Schemes Framework (MSF3). Balfour Beatty is one of four contractors to have been awarded a place on the framework which will cover highways improvements, maintenance and infrastructure works.

In 2018, the Regional business completed the £63 million Rossall coastal defence scheme for Wyre Council in partnership with the Environment Agency. The scheme protects the town's tramway, hospital and schools whilst reducing flood risk to 7,500 nearby residential properties through two kilometres of sea defences. Other projects completed during the year included: Balfour Beatty Kilpatrick's £178 million Urenco Tails Management Facility project; a £46 million project for Wanda at One Nine Elms which represents Balfour Beatty Ground Engineering's largest ever piling project for a non-Group customer; Aberdeen South of the City school, a £47 million project delivering a 1,350 pupil academy on behalf of Hub North Scotland and Aberdeen City Council; a £44 million 33-storey student accommodation scheme at Miles Street, London for Urbanest; a £37 million luxury retirement complex for Audley Retirement Villages at Redwood, Bristol; and the new £30 million Dundee train station and hotel.

In the year, the Regional business achieved a key milestone at the University of Manchester's £287 million Manchester Engineering Campus Development (MECD) project with the first reinforced concrete core reaching full height. The core, which is one of four, will be an integral component of the seven-storey 'MEC Hall' building, housing lift shafts and stairwells. At the University of Sussex student accommodation project, which will incorporate over 2,000 new beds as well as innovative student amenities such as social hubs and a new student union facility, nearly 40% of the rooms had been handed over by year end. Other material ongoing projects include: the £150 million Madison Tower, a 53-storey residential building in Canary Wharf, London where modular construction, including offsite manufacturing techniques, is central to Balfour Beatty's approach in delivering the 187-metre high building; a £54 million project to construct Forth Valley College, Scotland; the renovation and new-build scheme at No.1 Palace Street in St James', London; and train stations at Warrington West (new station) and Queen Street Station, Glasgow (redevelopment).

In addition to the framework wins during the year, the Regional business also had a number of notable new contract awards in the year including:

- Curzon Street: work has begun on a new-build development comprising 32 apartments at 60 Curzon Street, London;
- Vine Street: £85 million contract to construct a student accommodation scheme for Urbanest in the City of London;
- London City Airport: £60 million mechanical and electrical contract to enable growth of the airport;

US

Underlying revenue^

£3,329m

2017: £3,634m

Order book^

£5.2bn

2017: £4.3bn

- New Cross: £40 million contract for student accommodation in Manchester which will feature 274 apartments;
- University of Strathclyde: £33 million contract to construct a new learning and teaching building;
- University of Reading: £33 million contract to deliver a new Health and Life Sciences building;
- Hornsea Project Two: appointed to build the onshore substation for the world's largest offshore wind farm; and
- Midland Metropolitan Hospital: awarded a £10 million early works contract on behalf of Sandwell and West Birmingham Hospitals NHS Trust.

Included in ABNC at 31 December 2018 the Group has been selected as preferred bidder for: the redevelopment of the Darwin Building at the University of Edinburgh; a new 10-kilometre bypass connecting Caernarfon and Bontnewydd in North Wales; phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park; and an Audley retirement village in Scarcroft, Leeds.

In the Rail Construction business, underlying revenues were broadly flat in the year. The business completed the West Outer Track Infrastructure, Western Overhead Electrification and South East Spur projects as part of its continued support of the Crossrail programme and work commenced on the examination, repair specification and report into the condition and safety of the Rhondda Tunnel. During the year, the Rail Construction business won the Reactive Building and Civils contract worth up to £50 million to perform work arising related to Network Rail's building infrastructure in the West Country.

In June, the Group launched a new Rail Innovation Centre at its Raynesway facility in Derby. The purpose-built centre is a dedicated research, development and testing facility to support Balfour Beatty's contribution to the development of the digital railway for a more reliable, cost efficient and safe railway network for all users across the UK and overseas. Omnicom Balfour Beatty, which creates remote surveying systems that give maintenance engineers a distinct advantage, is now actively applying machine learning and artificial intelligence to offer next generation asset management to customers, making the railways safer, more reliable and more efficient.

US

Underlying revenue in the US fell by 8% in the year (5% at CER) to £3,329 million (2017: £3,634 million) following the reduction to the order book during 2017. The business reported an underlying profit from operations for the year of £44 million (2017: £41 million). The underlying PFO margin was 1.3% for the full year (2017: 1.1%). In the second half of 2018, US Construction's underlying PFO margin was 1.5%, within the 1-2% industry standard margin target range. Overall the trajectory of the US business is positive and market conditions are favourable.

The 21% (16% at CER) increase in the US order book has been achieved at a quality consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities. In June, the US$1.95 billion Los Angeles airport (LAX) Automated People Mover project reached financial completion such that the Group's 30% share of the construction contract has been included in the order book. In addition, the Group won over US$1 billion of contracts for schools and higher education, primarily in California and North Carolina, during the year.

Caltrain
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.

What we have been doing in 2018 continued

Construction Services continued

Southern Gateway
This scheme involves reconstructing and improving the Southern Gateway, an 11-mile stretch of road in Dallas, Texas.

Balfour Beatty continues to develop its US organisation, building on the standardisation and leaning out already delivered. At the start of 2018, the promotion of two internal candidates to lead the Buildings and Civils businesses, has delivered an improved overall performance with growing momentum in the pipeline.

In December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill was signed, providing authorised spending for a five-year period. This bill permits longer term project planning horizons in the public market and is leading to improved visibility for publicly funded projects that had been slow to come to market. There are further opportunities being created with the number of state backed infrastructure bonds (over US$35 billion of education bonds in California, over US$200 billion of multi-state transportation bonds) and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

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

The Buildings business remains focused on working with repeat customers and in known geographies where it can deliver value. The business is focused on specific geographies, known internally as 'The Southern Smile'. This starts in the Pacific North West, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington DC. The core markets remain as commercial offices, education, hospitality, residential and healthcare.

In 2018, Buildings completed a number of notable projects including:

- VY/Reston Heights: in January, the Group completed the 483,000 square foot, mixed-use residential development in Reston, Virginia. The 385-unit residential community includes 89,000 square feet of retail space;
- Park District: in April, Balfour Beatty completed the 916,000 square foot, mixed-used development in Dallas, Texas. The project includes a 20-storey office tower and a 34-storey residence tower;
- Icon Midtown: in October, Balfour Beatty completed work on the 39-storey residential tower in Atlanta, Georgia. Located in Atlanta's Midtown area, the project features 390 luxury apartments with 6,500 square feet of retail space; and
- Broadway Tower: in November, Balfour Beatty completed the 430,000 square foot, mixed-use development in Portland, Oregon. The project includes a 19-storey tower with 175,000 square feet of office space, 180 hotel rooms, and four levels of underground parking.

During the year good progress has been made on flagship projects including:

- REI Headquarters: in April, Balfour Beatty broke ground on a mixed-use headquarters project including office buildings, conference centre, market and parking totalling nearly 724,000 square feet in the Spring District of Bellevue, Washington;
- Capitol Crossing: in May, Balfour Beatty topped out the 12-storey 250 Massachusetts tower in Washington DC, having previously topped out the corresponding 12-storey 200 Massachusetts tower. The two towers comprising the North Block will ultimately total 960,000 square feet;

– The Epic: in June, Balfour Beatty topped out a 16-storey office tower located in Dallas which includes 290,000 square feet of office space;
– Gables Station: in July, after contract award, the Group commenced the construction phase of the 1.3 million square foot, mixed-use Gables Station development located in Coral Gables, Florida. Comprised of three towers, the development will feature 120,000 square feet of retail space, 500 residential units, and a 1,000-car parking garage; and
– 500 Folsom: at the end of the year Balfour Beatty had completed 40 floors out of 43 liveable floors and the project was topped out in January 2019. The building will provide 545 residential units in the South of Market (SOMA) district of San Francisco, California.

The Buildings business had a number of notable new contract awards in the year including:

– Los Angeles World Airports: in June, Balfour Beatty and its LAX Integrated Express Solutions (LINXS) joint venture team reached financial close of the design-build-finance-operate-maintain (DBFOM) Automated People Mover (APM) project. Balfour Beatty is a 30% joint venture partner in the US$1.95 billion construction element of the project with the work to be delivered across both the Buildings and Civils divisions;
– Microsoft Redmond Campus: the Group has been selected, in joint venture with Skanska, as general contractor on Microsoft's head office refresh in Redmond, Washington. The project will include 18 new buildings, clustered into four distinct villages to create a unified campus;
– Stovall Street: the Group has been awarded a contract by Perseus TDC for the conversion of a 610,000 square foot office building in Alexandria, Virginia. The adaptive reuse project will transform the existing 13-storey office building into a 16-storey, mixed-use residential development;
– Osprey: Toll Brothers Apartment Living has contracted Balfour Beatty as construction manager for its mixed-use, multifamily project in West Midtown Atlanta, Georgia. Balfour Beatty is leveraging Prescient's modular construction technology and offsite manufacturing platform to build the project's entire tower structure;
– Wellington Green: ZOM Senior Living has contracted Balfour Beatty as construction manager for the first phase of Wellington Green Senior Living, its mixed-use senior housing community located in Wellington, Florida; and
– Shoal Creek: Balfour Beatty has been selected to deliver the first phase of the mixed-use portion of The Grove project in Austin, Texas. The 400,000 square foot development will include a commercial office building, retail space, and a 538-car parking garage.

Included in ABNC, the business has been made preferred bidder for: a US$605 million contract for the Broward County Convention Center Expansion and Headquarters Hotel; a US$150 million contract for an Atlanta airport hotel; a US$120 million contract for a 390,000 square foot office tower, 200-room hotel and adjoining outdoor public plaza in Bethesda, Maryland; and a US$55 million contract for the University of North Carolina Marriott Hotel and Conference Center in Charlotte.

The Civils business continues to operate in the largely regulated markets of rail, water and road. In March 2018, Civils completed the construction of Charlotte's light-rail extension (Blue Line) after four years of build. The 9.6-mile (15.45-kilometre) Blue Line provides service to 15 stations located within the Charlotte city limits. In December, the new Surf City high-rise bridge opened nine months ahead of schedule connecting the mainland of Surf City to the popular tourist destination of Topsail Island in North Carolina.

Additionally during the year, good progress has been made on key contracts with mobilisation at both the US$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor) and US$1.08 billion Green Line extension (25% Balfour Beatty) projects. At Southern Gateway, an 11-mile stretch of road in Dallas, Texas, the design is now complete, with the widening of frontage roads and mainline barrier demolition well underway. At Green Line, a 4.7-mile commuter rail extension in Boston, Massachusetts, the design is near complete and construction activities commenced in the second half of 2018. At Caltrain, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, design work is near complete and foundation work and overhead catenary system construction are ongoing.

In addition to its involvement with the Buildings business in the Los Angeles World Airports project described above, the Civils business had a number of notable new contract awards in the year including:

– EchoWater Project: in April, Balfour Beatty was awarded a US$299 million contract by Sacramento Regional County Sanitation District to construct a new water treatment plant that will produce cleaner water for discharge to the Sacramento River, as well as for potential reuse as recycled water; and
– Sterling Valley Water: US$150 million contract to construct a wastewater treatment facility that will recharge the natural groundwater aquifer by treating up to eight million gallons of water per day. The project will create a drought-proof source of water for the local aquifers which serve over 800,000 San Bernardino Valley area residents.

What we have been doing in 2018 continued

Construction Services continued

Gammon

Underlying revenue^

£898m

2017: £1,017m

Order book^

£1.6bn

2017: £1.3bn

Gammon

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of underlying revenue decreased by 12% (8% decrease at CER) to £898 million, consistent with the reduction in order book in 2017. Underlying profit increased to £23 million (2017: £15 million), and the order book increased by 23% (14% at CER) to £1.6 billion as a result of significant wins in the Buildings and Civils businesses. At Gammon, the timing of orders is more variable around a small number of large contracts.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming, including: a third runway at the international airport; a ten-year hospital development plan; and continued investment in transportation infrastructure (Central Kowloon Highway, Mass Transit Railway (MTR) upgrades). The order book is spread across a number of public and private customers. In Buildings, the focus is on productivity, efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever competitive advantage with a key area of future work likely to be from significant infrastructure programmes in Hong Kong and the Rail Circle Line in Singapore.

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

Gammon had a number of notable new contract awards in the year including:

- Lyric Theatre Complex: HK$5.5 billion contract to construct the final stage of the Lyric Theatre Complex. Gammon has supported the delivery of the development of the Lyric Theatre Complex since 2016 when it was awarded a first contract by the West Kowloon Cultural District Authority (WKCDA) to deliver the foundation works, for which it twice received the WKCDA highest commendation for safety performance. In January 2018, Gammon won a further contract award to deliver the public infrastructure and extended basement works. This third contract forms the final stage of the Lyric Theatre development;
- Lohas Park: HK$4 billion construction contract for a large scale residential development at Tseung Kwan O bay in the Sai Kung District, Hong Kong. The development will include the construction of three 54-56 storey residential towers on a five-level podium;
- Tuen Mun-Chek Lap Kok Link: HK$2.6 billion Northern Connection Tunnel Buildings contract for the Highways Department of the Government of the Hong Kong Special Administrative Region. The works comprise the provision of electrical and mechanical facilitation to serve the newly constructed 5-kilometre tunnel from Tuen Mun to Boundary Crossing Facilities Island and will include the tunnel's ventilation, road lighting, central monitoring and control systems;
- Sai Sha Road widening project: HK$2.3 billion contract in a 50:50 joint venture with Sanfield (Management) Ltd for the development project in Shap Sze Heung, Sai Kung, Hong Kong;
- M+ project: appointed by the WKCDA as the management contractor to oversee completion of the M+ project, a museum for visual culture, in Hong Kong; and
- Global Switch: S$253 million data centre contract in Singapore for Global Switch, a leading owner, operator and developer of large-scale, carrier and cloud neutral, multi-tenanted data centres.

Further, in January 2019 Gammon was awarded the Homantin luxury residential project by Gold Topmont Ltd. The project, worth HK$2.9 billion, will become an iconic landmark in the prestigious Homantin residential area in Kowloon, Hong Kong.

Somerset House, Hong Kong
HK$4 billion superstructure contract to redevelop Somerset House in Taikoo Place, one of Hong Kong's best-planned business hubs (artist's impression).

Since the start of 2015, Balfour Beatty has exited construction activities in the Middle East, Indonesia, Malaysia, Australia and Canada.

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

Support Services

Total revenue^

Order book^

£2.8bn

2017: £3.1bn

Underlying revenue^

£1,104m

2017: £1,061m

Statutory revenue

£1,076m

2017: £1,031m

Underlying profit from operations^

£46m

2017: £41m

Statutory profit from operations

£39m

2017: £39m

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

The Support Services segment comprises utilities and transportation businesses.

Financial review

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.

Support Services revenue increased by 4% to £1,104 million (2017: £1,061 million), driven by an increase in utilities. Underlying profit from operations and PFO margin for the year increased to £46 million (2017: £41 million) and 4.2% (2017: 3.9%) respectively. In the second half of 2018 the underlying PFO margin was 5.2%, above the industry standard margin target range of 3-5%. The order book decreased 10% to £2.8 billion (2017: £3.1 billion) as an increase in transportation was more than offset by the expected decline in gas and water.

In 2019, the Group expects a revenue decline in Support Services following the conclusion of the Area 10 highways maintenance contract and a reduction in power transmission and distribution. Support Services underlying profit from operations is expected to be broadly in line with 2018 with the underlying PFO margin expected to increase year-on-year.

Operational review

Underlying utilities revenue increased by 7% to £651 million (2017: £608 million), driven by an increase at power transmission and distribution. The utilities order book reduced to £0.9 billion (2017: £1.3 billion) as an increase at power was more than offset by the expected decline in gas and water as the current regulatory cycles approach the end of their periods.

Despite the increased revenue, the power transmission and distribution business continues to undergo restructure and cost removal. The business has consolidated its strategy to focus primarily on both core clients and core markets. The actions taken will ensure that the business is focused on the most profitable areas of its market.

In the year, power transmission and distribution successfully installed 148 new composite poles to connect the Dorenell wind farm to Blackhillock substation. The business has continued its work on the Eleclink project, in conjunction with the Rail business, to lay two 50-kilometre cables through the Channel Tunnel and connect them to converter stations in Northern France and Kent. In Folkestone the seven-metre high Helix cable management system has been filled with the first 2.5-kilometre section of cable ready to be pulled into the Channel Tunnel.

After a period of consolidation, notable new contract awards in the year included:

- Hinkley Point: National Grid contract for cabling works which will form part of the Hinkley Point C connection scheme. The contract involves the design, supply and construction of a new 8.5-kilometre 400kV double circuit cable route from Loxton in the Mendip Hills to a new substation at Sandford;
- Two contracts worth c.£47 million for the Fort Augustus to Fort William 132kV Transmission Reinforcement project; and
- Two contracts worth c.£43 million for the Beauly to Keith 132kV modernisation programme.

In January 2019, Balfour Beatty was appointed to deliver a £214 million contract to provide 400kV overhead lines from Hinkley Point C on behalf of National Grid. As part of the contract, Balfour Beatty will design, supply, install, test and commission a new overhead line spanning 48.4 kilometres and crossing through the Mendip Hills in Somerset. On completion, the new line will connect the power station with a new substation in Avonmouth, Bristol. This contract represents the fourth major piece of work won by Balfour Beatty for the new power station, following the electrical works package in joint venture with NG Bailey in 2015, now part of the MEH Joint Venture, the tunnelling and marine works package in 2017 and the 8.5-kilometre cabling contract won in 2018.

Support Services	**2018**	2017
Order book[1] (£bn)	**2.8**	3.1
Revenue[1] (£m)	**1,104**	1,061
Profit from operations[3] (£m)	**46**	41
Non-underlying items (£m)	**(7)**	(2)
Statutory profit from operations (£m)	**39**	39
Underlying profit margin[3] (%)	**4.2%**	3.9%

1 Underlying revenue and order book include share of joint ventures and associates.
3 Before non-underlying items (Note 10).

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

What we have been doing in 2018 continued

Support Services continued

Mayflower Water Treatment Works

A new state-of-the-art water treatment works to serve Plymouth and the surrounding area.

In gas, Balfour Beatty delivers network maintenance and asset growth for the largest gas distribution companies in the UK and Ireland. The Group expands and renews underground mains, often in busy and high-impact residential and commercial areas. Working on long-term contracts, the business manages and delivers work, minimising the impact this essential work has on local communities. The gas market is in the RIIO-GD1 period until early 2021. During the year the business managed two long-term gas contracts which made losses in 2018. Leadership changes have been made with a recovery plan put in place.

The water business is now coming towards the end of the UK water regulatory cycle (AMP6 2015 – 2020). Many water contracts are extended over multiple AMP periods and the Group has already started to engage on the AMP7 planning cycle.

In the year, the gas and water business successfully dealt with the 'Beast from the East' storm by tackling burst water mains throughout its areas of operation. In addition the business successfully completed the new Mayflower water treatment facility for South West Water. The Mayflower facility near Roborough, north of Plymouth, replaced the existing Crownhill facility, which dated from the 1950s and had reached the end of its natural life. Capable of delivering up to 90 megalitres of high-quality drinking water per day, the new works will meet the needs of a growing population.

Underlying transportation revenues were stable at £453 million (2017: £453 million). The transportation order book increased to £1.9 billion (2017: £1.8 billion), due to a number of contract wins for Network Rail.

Balfour Beatty continues to maintain, manage and operate major highway and road networks across the UK. The largest contract, M25 Connect Plus, will continue for another 20 years. In October, the Group was awarded a seven year, £103 million contract by Telford and Wrekin Council for the maintenance of local highways assets. During the year, Balfour Beatty decided not to re-tender for the Area 10 contract in the North-West of England.

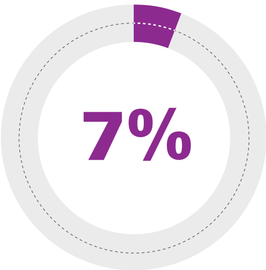
The rail services business won a number of plant contracts for Network Rail in the year including:

- A seven-year contract worth in excess of £115 million for the supply, operation and maintenance of 13 track maintenance 'tampers'; and
- A four-year contract worth in excess of £40 million for the operation and maintenance of Network Rail's fleet of track maintenance 'stoneblowers'.

In February 2019, Transport for London re-appointed Balfour Beatty to deliver the new London Underground track renewals contract, valued at up to £220 million over four years. Balfour Beatty was first appointed in 2002, with the contract already extended on a number of occasions. The Group's detailed knowledge and experience of London Underground's infrastructure and systems, as well as its commitment to championing innovation, was instrumental in securing the contract.

Infrastructure Investments

Total revenue^



Directors' valuation

£1.15bn

2017: £1.24bn[4]

Underlying revenue^

£571m

2017: £524m

Statutory revenue

£341m

2017: £288m

Underlying profit before tax^

£113m

2017: £140m

Statutory profit before tax

£111m

2017: £134m

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

4 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. The proceeds were received on 23 February 2018.

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

Financial review

The Group achieves enhanced returns when Infrastructure Investments, Construction Services and Support Services deliver as one. There is an inherent advantage in bidding for projects when the Infrastructure Investments business utilises the expertise of Construction Services and Support Services. Additionally, the negative working capital generated in the Construction Services business provides opportunity for Infrastructure Investments.

Following significant disposals in 2017, underlying profit from operations decreased to £97 million (2017: £116 million), with both pre-disposal operating profit and profit from disposals lower than the prior year. Pre-disposals underlying operating profit decreased to £17 million (2017: £30 million) as a result of the prior year disposals, refinancing costs on the Connect Plus M25 asset and write-downs on two UK investment assets, partially offset by overhead savings. Underlying profit on disposals decreased to £80 million (2017: £86 million). Net interest income decreased to £16 million (2017: £24 million) as a result of the prior year disposals with underlying profit before tax at £113 million (2017: £140 million).

Los Angeles Automated People Mover (LAX)
US$4.9 billion project to develop a 2.25-mile, above-ground airport transport system connecting passengers with the airline terminals (artist's impression).

What we have been doing in 2018 continued

Infrastructure Investments continued

Operational review

In 2018, the Infrastructure Investments business added five new projects and disposed of five projects (two full disposals, three partial disposals).

In January 2018, the business was named preferred bidder on the Automated People Mover project at Los Angeles airport. Financial close was reached in June 2018 and Balfour Beatty owns a 27% equity stake in the project.

In the private rented and regeneration sector, the North American business acquired: a 7.5% stake at the Riverchase Landing multifamily housing project located in Birmingham, Alabama; a 50% stake at the Providence at Zephyr Ridge project, located in Tampa, Florida; a 50% stake in the Ridgeland 220-unit community project in Jackson, Mississippi; and a 15% stake at Southwind, a 306-unit apartment community located in Memphis, Tennessee. Balfour Beatty Communities will perform property management services for the properties, leveraging its existing capabilities.

In February 2018, the Group made a 5% partial sale in Connect Plus, the company which operates and maintains the M25 orbital motorway, for £42 million. The Group retains a 15% interest in the Connect Plus M25 asset. In July, Connect Plus completed a refinancing.

In September, the Group disposed of its entire 50% interest in Fife Hospital for £43 million. Following this disposal, the Group only owns one material private finance initiative (PFI) healthcare asset.

In December, the Group sold an 80% interest in its University of Edinburgh student accommodation project for £24 million. In addition, before year end, the Group disposed of its Nesbit Palisades private rental housing in Alpharetta, Georgia, for cash proceeds of £3 million and there was a partial sale of phase one of the University of Texas, Dallas student accommodation project, where the Group reduced its interest from 91% to 10%, generating proceeds of £13 million.

At 31 December 2018, three projects had not yet reached financial close (2017: five projects).

The Infrastructure Investments business continues to see significant opportunities for future investment in its chosen geographic markets particularly in the US where the focus is on student accommodation, multifamily housing and PPP opportunities. In the UK, the focus is on student accommodation.

Infrastructure Investments	2018 £m	2017 £m
Pre-disposals operating profit[3]	**17**	30
Profit on disposals[3]	**80**	86
Profit from operations[3]	**97**	116
Net interest income from PPP concessions[+]	**16**	24
Profit before tax[3]	**113**	140
Non-underlying items	**(2)**	(6)
Statutory profit before tax	**111**	134

3 Before non-underlying items (Note 10).
+ Subordinated debt interest receivable and net interest receivable on PPP financial assets and non-recourse borrowings.

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

Directors' valuation of the investment portfolio

Continued success in targeted sectors

Overview

The Directors' valuation reduced by £93 million to £1,151 million (2017: £1,244 million), primarily due to £187 million being realised from divestments in the year (2017: £105 million). The number of projects in the portfolio increased from 71 to 74. This reflected continued success in targeted sectors with five new projects included in the Directors' valuation for the first time.

The Group invested £58 million (2017: £35 million) in new and existing projects. Cash yield from distributions amounted to £89 million (2017: £53 million) as the portfolio continued to generate cash flow to the Group net of investment.

The business continued its strategy of maximising value through recycling equity from operationally proven projects, whilst preserving interests in strategic projects that offer opportunities to the wider Group.

In February 2018, the Group received £104 million from 12.5% partial sales in Connect Plus, the company which operates the M25 orbital motorway, on completion of a 7.5% sale agreed in December 2017 and a further 5% sale agreed subsequently in February 2018.

In the second half of the year, the Group sold its interests in Fife Hospital and the Nesbit Palisades multifamily housing project, and completed partial sell-downs of its interests in the University of Edinburgh student accommodation project and phase one of the student accommodation project at the University of Texas, Dallas. In total, £187 million of proceeds were received in 2018.

Unwind of discount at £96 million (2017: £97 million) is a function of moving the valuation date forward by a year with the result that future cash flows are discounted by one year less. Operational performance movements resulted in an £18 million increase in the value of the portfolio (2017: £33 million), consisting mainly of an exchange rate gain of £36 million on the US portfolio offset by a number of changes in cash flow forecasts, discount rates and economic assumptions, including in respect of two UK investment assets which were written down in the year.

The methodology used for the Directors' valuation is unchanged, producing a valuation that reflects market value and which therefore changes with movements in the market.

Cash flows for each project are forecast based on historical and present performance, future risks and macroeconomic forecasts and which factor in current market assumptions. These cash flows are then discounted using different discount rates based on the risk and maturity of individual projects and reflecting secondary market transaction experience. As in previous periods, the Directors' valuation may differ significantly from the accounting book value of investments shown in the financial statements, which are produced in accordance with International Financial Reporting Standards rather than using a discounted cash flow approach.

Demand for high-quality infrastructure assets in the secondary market continues to exceed supply and the Group will continue to sell investment assets timed to maximise value to shareholders.

The Investments portfolio is now more heavily weighted to North America (UK 43%, North America 57%). Within the UK, roads is still the largest sector despite the partial sales of the Connect Plus M25 investment, whilst in North America US military housing represents the majority of the portfolio. The Investments portfolio includes £1 billion of projects that have completed the construction phase and are operational.

Movement in value 2017 to 2018

£m	2017[4]	Equity invested	Distributions received	Sales proceeds	Unwind of discount	New project wins	Gains on sales	Operational performance gains (inc. FX movements)	**2018**
UK	636	34	(37)	(171)	48	–	2	(21)	**491**
North America	608	24	(52)	(16)	48	7	2	39	**660**
Total	1,244	58	(89)	(187)	96	7	4	18	**1,151**

4 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. The proceeds were received on 23 February 2018.

Directors' valuation of the investment portfolio continued

Continued success in targeted sectors continued

UK portfolio

In the year, £34 million was invested across four projects in the portfolio: Aberdeen Western Peripheral Route; Irish Primary Care; Welland Bio Power; and the regeneration development at East Wick and Sweetwater.

In February 2018, there were partial sales of 12.5% of the Connect Plus M25 asset, comprising the completion of a 7.5% sale agreed in December 2017 and a further 5% sale agreed subsequently in February 2018, which generated proceeds of £104 million. In September, the Group completed the sale of its entire 50% interest in Fife Hospital for a cash consideration of £43 million. In December, the Group sold an 80% interest in its investment in the University of Edinburgh student accommodation project which generated proceeds of £24 million.

In aggregate operational performance movements resulted in a £21 million reduction in value arising from the net effect of revised cash flow forecasts and discount rates for certain projects, including in respect two investment assets which were written down in the year.

Discount rates applied to the UK portfolio range between 7% and 11.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.5% (2017: 8.5%). A 1% change in discount rate would change the value of the UK portfolio by approximately £49 million.

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

Portfolio valuation December 2018
Value by sector

Sector	2018 No. projects	2017 No. projects	2018 £m	2017[4] £m
Roads	**13**	13	**205**	290
Healthcare	**3**	4	**109**	136
Student accommodation	**4**	4	**43**	64
OFTOs	**3**	3	**50**	51
Waste and biomass	**4**	4	**41**	57
Other	**5**	5	**43**	38
UK total	**32**	33	**491**	636
US military housing	**21**	21	**532**	497
Healthcare and other PPP	**4**	3	**35**	28
Student accommodation	**7**	7	**46**	49
Residential housing	**10**	7	**47**	34
North America total	**42**	38	**660**	608
Total	**74**	71	**1,151**	1,244

Portfolio valuation December 2018
Value by phase

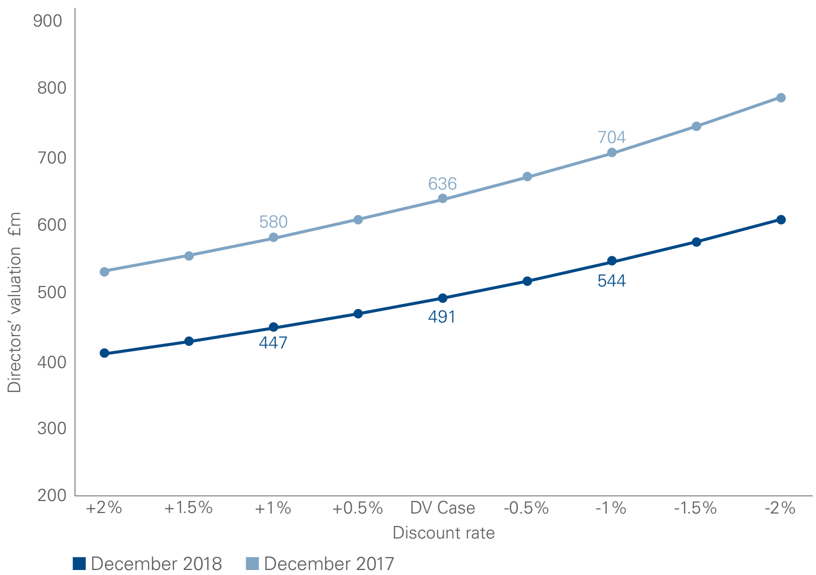
Phase	2018 No. projects	2017 No. projects	2018 £m	2017[4] £m
Operations	**64**	56	**1,003**	1,089
Construction	**7**	10	**130**	130
Preferred bidder	**3**	5	**18**	25
Total	**74**	71	**1,151**	1,244

Portfolio valuation December 2018
Value by income type

Income type	2018 No. projects	2017 No. projects	2018 £m	2017[4] £m
Availability based	**25**	25	**414**	518
Demand – operationally proven (2+ years)	**40**	33	**614**	559
Demand – early stage (less than 2 years)	**9**	13	**123**	167
Total	**74**	71	**1,151**	1,244

4 2017 valuation includes £62 million relating to the 7.5% partial disposal of the Connect Plus M25 asset, as the disposal proceeds had not been received at year end. The proceeds were received on 23 February 2018.

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



North American portfolio

In 2018, the business won five projects: four investments in private rental housing portfolios at Birmingham (Alabama), Zephyrhills (Florida), Ridgeland (Mississippi) and Memphis (Tennessee); and a PPP project to construct and operate the Automated People Mover at Los Angeles Airport in California.

Investment of £24 million was made during the year in two existing and four new projects: a PPP data centre in Canada; a student accommodation project at Purdue University; and the stakes acquired in the four private rental housing portfolios.

In December, the Group completed the sale of its investment in the Nesbit Palisades multifamily housing project in Alpharetta, Georgia generating cash proceeds of £3 million. In addition, there was a partial sale of the Group's investment in phase one of the University of Texas, Dallas student accommodation project which generated proceeds of £13 million.

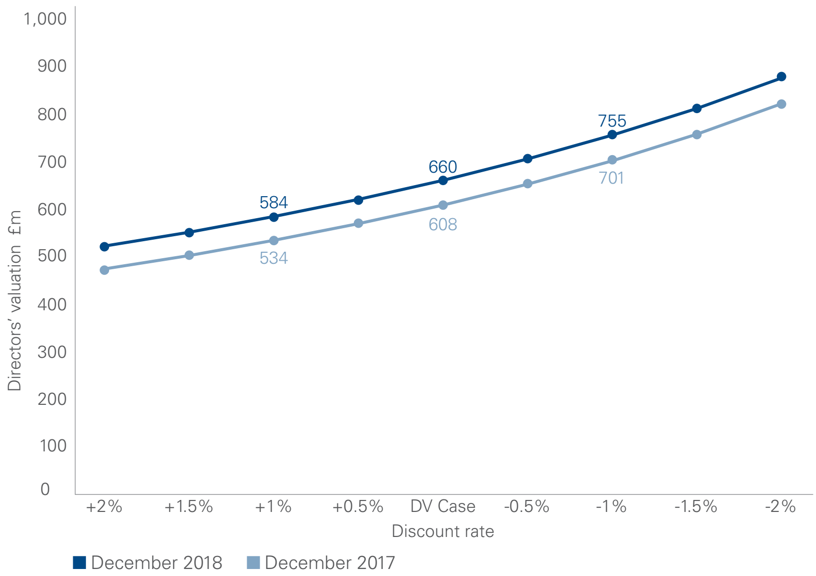
Operational performance movements resulted in a £39 million increase in the value of the portfolio, consisting mainly of an increase of £36 million due to exchange rate movements, together with some revised cash flow forecasts and discount rate assumptions for certain projects.

Discount rates applied to the North American portfolio range between 7.5% and 10.5%. The implied weighted average discount rate is 8.2% (2017: 8.2%) and a 1% change in the discount would change the value of the North American portfolio by approximately £86 million.

Under the Tax Cuts and Jobs Act passed by the US Government in December 2017 there are provisions to restrict the tax deductibility of interest expense. The Group's assessment of the provisions is that the restriction will not have a material effect on the Directors' valuation.

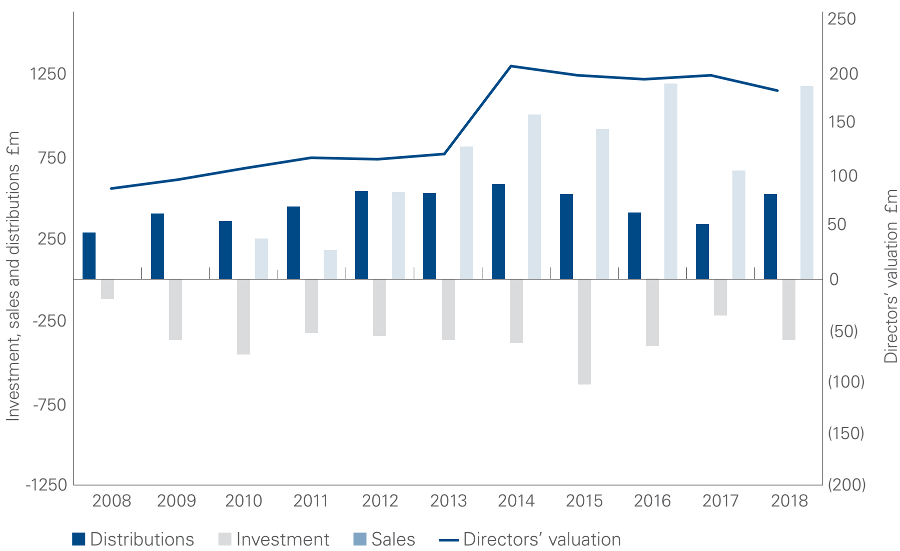
Valuation – The portfolio value at a range of discount rates

North American portfolio



Portfolio investment, divestment and distributions since 2008

£m



Building a sustainable business

Group-wide initiatives in innovation driving success

Innovation

Balfour Beatty is increasingly harnessing innovation which has the potential to deliver better, safer, faster, more cost-efficient outcomes for customers.

To fully leverage the benefits of innovation, the sector requires a more dynamic, agile workforce, skilled in new and emerging digital technologies, and prepared to challenge and transform conventional solutions. Balfour Beatty is responding by upskilling its workforce, bringing people with new skills into the business and embracing new technology to deliver the infrastructure of the future.

In 2018, Balfour Beatty embedded its 25 by 2025 vision, making a reduction in onsite activity by 25% by the year 2025 core to its operations. This involves removing complex and repetitive activities from sites by rethinking design, production and installation.

Using digital tools to deliver better outcomes

Balfour Beatty is driving forward new technology and innovative solutions across the business.

- Balfour Beatty's cutting edge Rail Innovation Centre in Derby brings together the Group's expertise in systems engineering, computer science, robotics, data analytics, electronics, and electrical and mechanical engineering. The purpose-built centre is a dedicated research, development and testing facility. It supports Balfour Beatty's contribution to the development of the digital railway for a more reliable, cost efficient and safe network for all users across the UK and overseas. The Innovation Centre is working on the latest developments in measurements systems, 'predict and prevent' technology, advanced digital surveying techniques, signalling and data science. Products and software being used at the facility include TrueTrak, OmniVision, OmniSurveyor3D, OmniCapture3D, DataMap and AssetView, which all help to improve the speed, safety and cost efficiency of maintaining the railway without reducing network capacity through disruptive possessions.
- On the M6 Smart Motorway scheme between Birmingham and Coventry, Balfour Beatty successfully trialled a mobile robot for setting out works. The tiny robot operates by a design being uploaded onto a USB memory stick, pre-marking whitelines using GPS. The robot achieved in one night what normally takes two people four nights to complete. In addition to programme benefits, the robot reduces manual handling and people plant interfaces.
- In the US, Balfour Beatty is now using Bluebeam, a software application which streamlines processes, improves project communication and makes collaboration a reality by allowing all users to add mark-ups to the same document in real-time, delivering significant efficiencies for the customer.
- As part of the programme to address over 600km of water mains renewals across the London and Thames Valley regions, Balfour Beatty has delivered 75% of the water mains replacement using trenchless technology. This enables London's ageing water supply network to be updated and made more resilient while minimising disruption to the end customer.

These examples of successful trials for innovative ways of working will inform Balfour Beatty's approach going forward, ensuring that the services and solutions offered to its customers are based on proven, cutting-edge technology.

My Contribution

Balfour Beatty's Group-wide employee engagement programme established in 2015, My Contribution, enables anyone in Balfour Beatty to take part in Build to Last and personally drive change and improvements. My Contribution encourages employees to suggest solutions that could benefit the business by reducing inefficiencies, improving productivity and making Balfour Beatty a better place to work. In 2018, business leaders and Balfour Beatty's My Contribution champions received over 1,000 ideas, which have the potential to deliver £5 million in benefits.

A digital solution is being rolled out for My Contribution with the launch of a new streamlined and interactive process on a social media platform.

Drones
Drone technology is used across projects to reduce the amount of time spent on site, providing a safer and efficient way of working.

Virtual reality
Our state-of-the-art 3D, virtual reality room helps our engineers to visualise and design a project before work commences on site.

Worldwide innovation

Balfour Beatty shares ideas and expertise from projects across its international business to create innovative solutions for customers.

- The most significant phase of Balfour Beatty's digital transformation, Integrated Digital Project Delivery (IDPD), was launched in 2018 by Gammon. IDPD combines the power of Level 2 BIM and Modular integrated Construction (MiC) techniques. Gammon recently completed Global Switch Singapore's data centre project with over 70% of the project delivered via Design for Manufacture and Assembly (DfMA).
- In India, Balfour Beatty's design team of 60+ technical experts in civil engineering, mechanical and electrical works and visual design, continued to provide value-adding services across the Group's business. Specific expertise includes the production of detailed 3D and 4D visualisations to maintain programme delivery and customer satisfaction.
- For the €219 million ElecLink contract, Balfour Beatty is installing a 1GW interconnector through the Channel Tunnel, connecting France and the UK. There are over 8,000 brackets and 55km of monorail being installed in a live rail environment. To automate the installation process, Balfour Beatty has developed a bespoke engineering works train. This has 36 automated arms which simultaneously drill 144 holes for 36 brackets, enabling the installation of 36 brackets in 30 minutes, and an installed monorail length of 2km in a five-hour shift. This 'flying factory' and automation has reduced the activity onsite by at least 50%.
- Balfour Beatty's delivery of the Madison, a 53-storey, 187m high residential tower in Canary Wharf in London has embraced the use of modular and offsite manufacturing techniques. The tower is located in a busy area with a small footprint. The scheme includes the manufacture of bathroom pods in Italy complete with finishes, fixtures and fittings, and the manufacture in China of storey-high panels for the glazed façade. A range of other innovative techniques are also being used, including surveys undertaken by drones to generate accurate, real-time data to assist with the efficiency of construction. The benefits of the offsite approach have been in delivering the first phases efficiently, and in ensuring that construction can proceed as safely and quickly as possible in spite of the lack of onsite storage space.

Smarter ways of working – collaborating with supply chain, industry and academia

Balfour Beatty understands the value of collaborating to innovate. The Group works closely with a range of industry bodies and leading academic institutions, sharing knowledge and learning and developing new ideas.

- Continued active involvement with industry groups, such as the UK client-led Infrastructure Industry Innovation Platform (i3P), provides a platform for Balfour Beatty to influence the industry and share knowledge with peers. Gammon is the first international member of this industry group, which is focused on improving productivity in the infrastructure industry through sharing internal and external industry solutions and collaboration on the digital platform.
- In 2018, Balfour Beatty and industry partners including members of the strategic design consultant partnership, secured funding from i3P for the development of SafetiBase, at a 'Spark' event. SafetiBase is an online platform which tracks and analyses project risks and health and safety issues. SafetiBase won an industry Health & Safety award in 2018 and is now ready to be deployed on a range of pilot sites.

Building a sustainable business continued

Group-wide initiatives in innovation driving success continued

- Balfour Beatty and Leeds Beckett University have teamed up on a new project co-funded by Innovate UK and Balfour Beatty to the value of c. £900,000. The project aims to address key challenges faced by the construction industry in adopting BIM systems by creating automated tools which will be available as a software plug-in to BIM models. Known as the Auto-BIM plug-in, it will be tested over two years using Balfour Beatty's existing database of projects and on new developments. On the M25, Balfour Beatty is piloting the latest remote sensing techniques to improve maintenance efficiency. In 2018, this included the deployment of sensors enabling remote monitoring of drainage systems and analytics to better assess the risk of flooding and enable timely maintenance.

The Site of the Future

Balfour Beatty's work on creating the Site of the Future will streamline what the Group does today and ensure that it continues to deliver for its customers in the future. There are two areas of focus:

- **Digitising and automating processes and making the data available** to people to inform decision-making, improve risk analysis and manage projects. This will minimise time spent manually collecting and processing data, freeing up project resource to focus on safe and profitable delivery.
- **Innovating** and ensuring that the whole of Balfour Beatty benefits from the solutions that are being developed across the business. Balfour Beatty has created a physical test area at Thurnscoe, South Yorkshire, where the principles of Fail Fast, Learn Quickly and Deploy Rapidly can be exercised, so the Group is always at the forefront of the latest technology.

Significant progress was made in 2018 in implementing the IT infrastructure required to handle the large volume of data created. The focus will now shift to developing the interfaces and reporting dashboards to capture and leverage this rich seam of information. Pilots are being run on live projects to test and develop these new processes.

Conclusion

For an industry that has been slow in the past to adopt innovation, there are considerable opportunities to capitalise on the insight, control and efficiencies that next-generation construction technologies and more streamlined ways of working offer. Through its 25 by 2025 vision, Balfour Beatty has set a clear trajectory to transform the future of construction. This will help the Group future-proof its business and deliver effectively for its customers.

Madison Tower
Utilising the latest technologies to ensure a safe and efficient completion for this residential building in London (artist's impression).

Committed to creating a safe workplace

Health and safety

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

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

Group initiatives linked to the Zero Harm calendar are proactive and evidence-based. These include focused campaigns and Group-wide stand downs on key topics. In 2018, these included particular focus on four fatal risk areas: falls; electrocution; caught in/between; and struck by. Other topics included: vehicles and driver risk; slips and trips; winter working; environmental nuisance; waste; hand arm vibration; manual handling; mental health; and wellbeing.

Many parts of Balfour Beatty's business reached millions of hours incident free during 2018, demonstrating Zero Harm is achievable. The Group's leading and lagging key performance indicators trended positively, with continued strong performance in the UK. Leading indicators include but are not limited to supervisor development, behavioural safety programme roll-out, recorded executive site visits, and engagement via observations. The Group's Lost Time Injury Rate (LTIR) improved from 0.17 to 0.15 excluding the Group's international joint ventures (IJVs).

Despite all the in-house actions taken to eliminate or mitigate risk, two subcontractor colleagues still lost their lives due to third-party incursions into Balfour Beatty work sites (see page 69 for more information).

Central to sustainable delivery of Zero Harm is Balfour Beatty's Making Safety Personal (MSP) programme, based around four simple golden rules. In 2016, the focus was engagement through workforce observations, 2017 saw the roll-out of the MSP 1 foundation programme for everyone on making safe choices and the MSP 4 leadership programme. Module MSP 2 aimed at supervisors and influencing behaviour was rolled out in 2018. In 2018, the milestone of 25,000 MSP engagement interventions was reached.

Balfour Beatty's industry-leading commitment to treating health like safety continues to focus on eliminating occupational disease and ill health. Balfour Beatty is a founding member and co-chairs the UK-wide Health in Construction Leadership Group (HCLG) bringing together industry leaders, customers and contractors with a focus on: healthy by design; dust; musculoskeletal disorders; and mental health. Balfour Beatty is an active supporter of the Mates in Mind charity for UK construction workers and has committed to rolling out the Mates in Mind programme. By the end of 2018, Balfour Beatty had 600 qualified mental health first aiders and has delivered training and support to over 9,000 of its UK workforce and supply chain.

Balfour Beatty was also the first organisation to roll out the British Occupational Society qualification (control of health risks in construction) in the UK and now has over 270 qualified occupational health champions.

The business continued to win awards for its health and safety performance. For example in the UK:

- the Silo Maintenance Facility project received the Sellafield Ltd CEO award for safety performance
- the Gas Distribution Strategic Partnership contract won the Institute of Gas Engineers & Managers (IGEM) annual safety award
- the Smart Motorways Programme project won Highways England project of the year for innovation.

In the US:

- Balfour Beatty's rail business won a fourth consecutive platinum award for excellent safety performance from the National Railroad Construction and Maintenance Association (NRC).

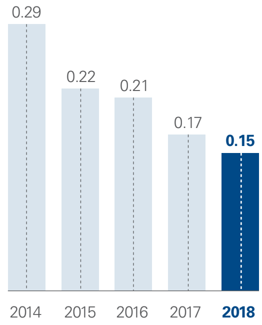
Employee survey results across the Group rated consistently highly on health and safety questions, a strong indicator of engagement.

Balfour Beatty continues to learn and share with its international joint venture Gammon which is an active member of the Group's HSES forum. Gammon has led on some innovative work with robotics and musculoskeletal risk. On health and safety, Gammon follows many of Balfour Beatty's standards and initiatives and continues to raise the bar compared to its local competitors.

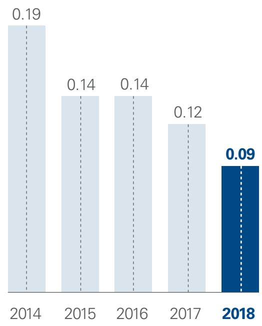
2018 also saw the launch of the UK-wide HSES Supply Chain Forum working in partnership to achieve Zero Harm. Supply chain led working groups covered topics including: elimination of hand arm vibration; plant safety; communications; and health.

In 2019, the Group will continue its relentless focus on health and safety within the business and working with the supply chain, customers and wider industry.

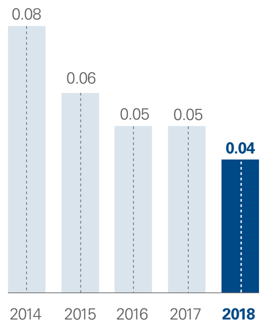
Lost Time Injury Rate (LTIR)
(excl. IJVs)



Accident Frequency Rate (AFR)
(excl. IJVs)



Major Injury Rate
(excl. IJVs)



Building a sustainable business continued

Investing in talent across the Group

People

The Build to Last transformation programme continues to be the foundation of the Group people plan. In 2018, the Group's central focus has been on talent development and enabling leadership capability, maintaining high employee engagement and continuing to stand out as a leading employer in the sectors in which it operates.

Leadership and talent development

Investing in future leadership capability, retaining talent and building a strong leadership pipeline continue as key priorities. To support these priorities, regular people reviews are executed throughout the Group as an opportunity to identify talent, review key professional and technical development interventions and create a strong succession plan across the organisation.

An example of investing in talent is the Future Leaders programme which ran with its second cohort, bringing together senior leader talent from across the UK business. 65% of the Future Leaders from the first cohort have been promoted into more senior leadership roles. The Aspiring Leaders programme was launched in the UK for managers who have the potential to move into senior positions.

The Executive Leader Development Programme (ELDP) was launched in the US Construction business to further strengthen leadership capabilities. The ELDP is expected to launch further cohorts and the extent to which the programme can be adopted across the Group will be considered.

In the US there are three well established mid-level programmes which act as 'feeder' development activities for the ELDP. These will be reviewed in 2019 to create a single programme based on best practice across the different Balfour Beatty businesses.

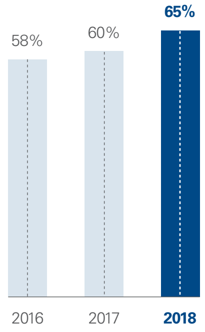
Across the Group, the wider development proposition embraces blended learning which spans formal training programmes, e-learning, webinars, in role development, coaching and mentoring.

The US Construction business deployed a broad collection of classroom training, delivered internally, focused on entry, mid, and executive-level management and leadership skills development. Additionally, more than 400 on-demand online training videos and training resources were accessible to all employees through their Learning Management System to support their professional development as managers and leaders.

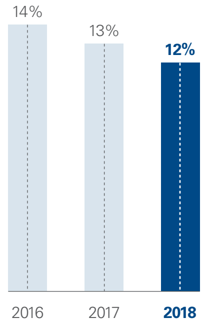
Continued strong investment and focus on people and capability development in the UK resulted in the delivery of 3,764 training days and 9,103 users completed a total of 29,492 e-learning courses.

In the UK, Balfour Beatty has also refreshed its employer brand and strengthened its wider resourcing strategy to support the attraction of key talent into the organisation.

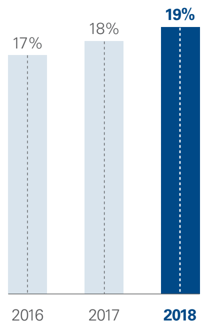
Employee engagement index %*



Annualised attrition rate UK %



Female employees across the workforce* %



* Excluding international joint ventures.

Engagement

Employee engagement remains a key focus to support and enhance business performance. The Group's aim is to make Balfour Beatty a great place to work by enabling continuous, two-way listening across the organisation.

For engagement surveys, standard technology is used in the UK and US to reach employees and provide immediate feedback on results ensuring complete transparency to build trust in the survey.

Balfour Beatty is proud to have achieved a Group response rate of 72% in its December 2018 survey outperforming many comparable organisations.

A key measure of the Build to Last 'Expert' goal, the employee engagement index, increased from 58% in 2016 to 60% in November 2017, and most recently to 65% in December 2018.

Particular highlights from the December 2018 engagement survey across the Group include:

- Balfour Beatty genuinely cares about having a positive impact on the environment and local communities (75% positive)
- I attend meetings where I can share my views (70% positive)
- my manager motivates me to give my best (68% positive)
- there are opportunities to develop my skills and/or knowledge in Balfour Beatty (19% increase vs. 2017).

The strong increases in the employee response rate and engagement index score are particularly pleasing.

Emerging talent

Balfour Beatty has continued to invest in its Emerging Talent aligned with its interest in supporting The 5% Club. In 2018, the UK recruited 94 graduates, 102 apprentices and 20 trainees. The proportion of the UK workforce in 'earn and learn' positions has increased from 3.1% in 2014, to 5.6% at the end of 2018. At 31 December 2018 the UK supports 322 apprentices, 237 graduates, 161 trainees and 19 year out industrial placement students on a range of schemes.

During the year in the UK, Balfour Beatty's Science, Technology, Engineering and Mathematics (STEM) ambassadors increased to 280+ and qualified Fairness, Inclusion and Respect (FIR) ambassadors increased to 32 raising awareness of Equality, Diversity and Inclusion (EDI) internally and with schools, colleges and youth groups.

In the US Balfour Beatty hired 115 college interns for the summer of 2018 focusing on the best and brightest with potential to become full-time engineers upon graduation. Interns are provided with formal training whilst being assigned to active projects, complementing their practical learning experience.

Diversity and inclusion

What makes Balfour Beatty unique is the expertise and capability of its people. Attracting and retaining the best talent from all backgrounds is key to building a high-performance culture. Leo Quinn is the Board-level sponsor for Diversity and Inclusion (D&I) and regularly promotes this internally and externally, most recently with his paper 'Breaking the Deadlock'. He is supported by a steering committee that sets the direction for Diversity and inclusion and a cross-functional working party that leads and co-ordinates diversity initiatives.

Balfour Beatty's three-year UK D&I action plan focuses on Communication, Culture, Creating Opportunities, Communities/Supply Chain and Governance and has been cascaded into local business plans with bespoke targets, helping to build a strong culture of fairness, inclusion and respect across the organisation. Affinity networks, with over 850 members, are sponsored by a member of the senior leadership team.

The Group's efforts have been recognised externally in the UK, including being shortlisted for the CECA: Inspiring Change in the Community Award, Inspire: Most Inspiring Contractor Award, workingmums.co.uk: Career Progression Top Employer Award and British Ex-Forces in Business: Employer of the Year Award. Balfour Beatty employees have also been recognised in the European WICE (Women in Construction & Engineering) Awards and the Financial Times Outstanding Top 100.

The US Construction business is embarking on its five-year strategic plan that will initially focus on three areas of opportunity and growth: gender; race/ethnicity; and veterans. The first two years of the strategic Diversity & Inclusion Plan have measurable objectives against leadership commitments, talent acquisition, talent development, and employee engagement.

Balfour Beatty expanded its Connecting Women initiative across the US in 2018. Designed to empower female employees through fostering alliance and networking, the programme facilitates diversity and inclusion, creates a culture of peer support and inspiration to attract and retain women, and provides education and personal development opportunities.

Balfour Beatty served as a gold sponsor for the Groundbreaking Women in Construction conference in San Francisco in 2018, sending a large, representative group from all levels to develop leadership skills, make industry connections and strengthen leadership skills development.

In the UK, Balfour Beatty helps its supply chain to improve workforce diversity and workplace inclusivity by sharing best practice at industry forums. It collaborates with stakeholders across the sector on initiatives such as the FIR programme to develop a range of resources for use in the supply chain to improve equality, diversity and inclusion practice at all tiers. Since 2013, Balfour Beatty's UK businesses have spent more than £8bn with SMEs with the majority going to small and micro businesses and is proud to have focused spend on Social Enterprises; women and veteran owned businesses based in the most deprived neighbourhoods in the UK.

Strategic partnerships and sponsorships are in place with Amos Bursary, Business Disability Forum, Leonard Cheshire Disability Society, Princes Trust, Stonewall and WISE. In 2018 Balfour Beatty UK achieved the Government's Disability Confident Level 2 Employer status to support the employment of disabled people and those with health conditions. In addition, Balfour Beatty is a co-founder of the Mates in Mind mental health programme with over 500 Mental Health First Aiders based at sites and offices and over 8,000 employees having completed 'Start the Conversation' awareness sessions.

In June 2018, Balfour Beatty re-signed the Armed Forces Covenant demonstrating its advocacy for the Armed Forces, employing veterans and supporting reservists.

Summary

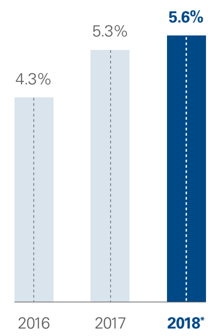
The Group's Build to Last transformation programme continues to improve business performance and contributes to the creation of a great place to work; both for current and prospective employees.

The Group continues its commitment to build a workforce of industry-leading people by offering a strong Leadership Talent Development offering, fostering employee engagement and by providing exciting career opportunities for its people through the future pipeline of work.

At 31 December 2018	Male	Female	Total	% Male	% Female
Board	7	2	**9**	77.8	22.2
Senior management[1]	87	27	**114**	76.3	23.7
Directors of subsidiaries	202	34	**236**	85.6	14.4
Group	15,852	3,622	**19,474**	81.4	18.6

1 Senior Functional and Strategic Business Unit leaders.

% of graduates, apprentices and trainees in UK workforce



Building a sustainable business continued

Ensuring integrity within the business

Business Integrity

Balfour Beatty's Business Integrity programme is a principles and behaviours-based programme, to ensure that the culture within the business enables people to make the right choices and empowers them to speak up where others have not.

The core of the Business Integrity programme remains the Balfour Beatty Code of Conduct, a web-based code which has been designed to be accessed from any device with an internet connection (www.balfourbeattycodeofconduct.com). This enables site-based personnel to access the Code, along with customers and partners. This is supported by the Suppliers Code of Conduct which sets out Balfour Beatty's commitment to work with those companies whose standards are consistent with its own.

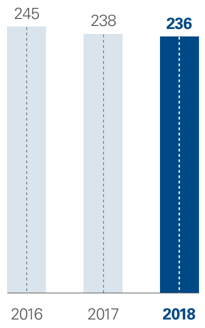
The programme underwent significant change during 2016/17 in order to better utilise technology and to further embed the programme within the business. Changes such as an assessment for the Code of Conduct, bite-sized learning modules and presentations across the business have seen an increase in engagement as demonstrated by the results of the June 2018 UK employees survey:

- 95% of respondents understand what is expected of them under the Code of Conduct;
- 84% are encouraged to do the right thing at work; and
- 82% felt they can raise issues and challenge unethical, dishonest or unacceptable behaviour.

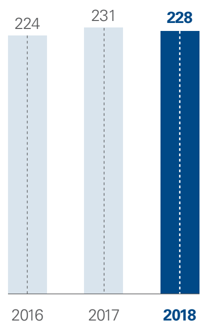
This is very encouraging but there is more to do to ensure all employees know what is required of them and that they can report their concerns. For a greater connection with the businesses, Balfour Beatty launched a network of Business Integrity advisers in 2017. Advisers assist by communicating Business Integrity messages and initiatives, supporting investigations and are local points of contact for issues and concerns. In 2019, the focus will be upon continued reinforcement of the Business Integrity message consistently across the Group:

- managers are critical to the success of the programme and the Business Integrity function will work with them to ensure they nurture and encourage integrity within their businesses.
- the Code of Conduct assessment, which tests knowledge in 12 key risk areas, has proven to be a more effective and engaging method of training and will be re-issued in 2019.
- to reinforce individual responsibility, all those who complete the assessment will be required to provide a declaration about their own behaviour in regard to the Code of Conduct and associated processes.
- the Group's approach to due diligence has been integrated within commercial processes and the services of third parties who specialise in collating data are being used. This has made processes more effective and allowed better assessment of suppliers and partners.

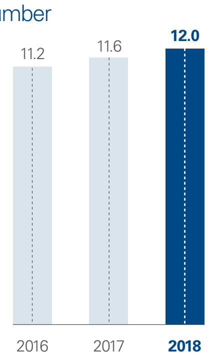
Speak Up Helpline cases
Number



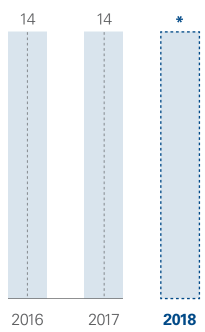
Speak Up Helpline cases (excluding HR grievances)
Number



Cases per 1,000 employees (Balfour Beatty)
Number



Cases per 1,000 employees (global benchmark)
Number



Speak Up

Balfour Beatty encourages the reporting of any concerns about unethical conduct. Trends and, where appropriate, details of cases raised are reported to the Board 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 Business Integrity programme.

The number of cases reported in 2018 remained largely consistent with 2017 with the number of cases per 1,000 employees increasing slightly as a result of a drop in the number of employees. Ensuring all in-scope cases are investigated remains an important priority to support a change in behaviour and to maintain the trust and support of those who raise concerns. This continued in 2018 with 100% of in-scope cases investigated.

Modern slavery

Modern slavery is a brutal form of organised crime in which people are treated as commodities and exploited for criminal gain. The majority of these people are in the supply chains of legitimate industries. Balfour Beatty is committed to working in the business and its supply chain to ensure an approach is taken to tackling labour exploitation and eliminating these practices. The Company's full Modern Slavery Act transparency statement for 2018 can be accessed here: www.balfourbeatty.com/services/modern-slavery

The EU General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR) and the UK Data Protection Act 2018, came into effect on 25 May 2018. GDPR significantly increases fines for breaches, requires breaches to be notified to the regulator, provides enhanced data subject rights and mandates certain risk assessments and record keeping requirements.

Ahead of the above legislative changes, Balfour Beatty appointed a Group Data Protection Officer who has led a GDPR readiness programme. Under this programme impact assessments have been carried out on the Group's high risk IT systems, supplier processors and corporate websites and initial risk assessments of joint venture and customer project processing activities. Balfour Beatty's data protection policies and procedures have been updated and a GDPR steering board introduced. An automated process for conducting data protection impact assessments and data mapping has been implemented, key processor terms and privacy notices updated, corporate training on data protection principles delivered and data storage and retention practices renewed.

The focus for 2019 will be to build on this programme and further embed best practices into the Group's business processes and broader culture whilst preparing for anticipated future changes to e-privacy laws.

* At the time of print, the global benchmark statistic for 2018 was not available. The full chart including the 2018 statistic can be found at: www.balfourbeatty.com/businessintegrity

Being a responsible taxpayer

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

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

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

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

Tax governance

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

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

Tax risk appetite

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

Managing tax risk

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

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

Interaction with tax authorities

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

Building a sustainable business continued

Using Our Blueprint to drive economic, environmental and social outcomes

Global trends relevant to the Group

Global construction has significant economic, environmental and social impacts. These impacts can be positive and negative. Balfour Beatty welcomes the opportunity to make a positive difference to people's lives.

- The construction, renovation and demolition of buildings account for 40% of 'developed' countries' solid waste streams[1]
- Buildings and construction together account for 36% of global energy use and 39% of energy related carbon-dioxide emissions[2]
- On a global scale, buildings account for around 40% of the world's consumption of natural resources and 25% of the world's water use[3].

Reducing carbon emissions in the built environment is widely recognised as the least expensive method of abating the adverse impacts of climate change. Furthermore, there are significant opportunities to reduce embodied carbon, materials and waste by adopting circular economy approaches.

In socio-economic terms, the built environment has significant direct and indirect impacts on social wellbeing and the livelihoods and prosperity of communities and individuals. The construction sector is a major employer, with a diverse and complex supply chain, positively impacting local economies through jobs and training. The sector provides homes, education, healthcare, transportation and recreational facilities for communities.

The Group's long-term materiality assessment has identified the following scenarios and trends:

- The availability and cost of raw materials and water will be a challenge as populations grow and key natural resources dwindle. This will impact the way Balfour Beatty designs and builds assets, manages waste, sources materials and conserves water resources, while also presenting new commercial opportunities such as water and waste water treatment technologies.
- The skills gap in key sectors such as construction is well-documented and getting worse. There is disparity between the number of skilled workers needed and the number of young professionals entering the industry. At the same time there is an increasing trend towards digitisation, automation and off-site manufacturing.
- The physical and economic impacts of climate change are likely to increase over time. This is likely to increase investment in climate change adaptation by society and encourage more innovative ways of managing existing assets.
- Increasing costs of fossil fuel energy and the price of carbon will encourage Balfour Beatty and its customers to seek low-carbon opportunities to reduce costs, and increase security of supply.
- Many local communities struggle with competing priorities on the public purse and are more likely to focus on value rather than just cost, allowing contractors to support economic, social and environmental outcomes when tendering for work. This is particularly important in the UK where social value/community benefits is/are now factored into public procurement.
- As cities grow and populations increase, there will be increased demand for infrastructure that will encroach on green spaces and impact on biodiversity. Implementing biodiversity net gain principles on projects over time will help protect and enhance biodiversity. The Group is well positioned to leave a lasting positive impact.

Our Blueprint

These trends have been recognised in developing Our Blueprint, the Group's sustainability strategy. It sets out how Balfour Beatty will deliver long-term economic, social and environmental outcomes for its employees, customers, society and shareholders. It is fully aligned with the Company's wider Build to Last goals, outlined on pages 12 and 13, and seeks to further embed sustainability throughout Balfour Beatty's operations by providing a robust framework. The strategy is based on the three pillars of Profitable Markets (economic), Environmental Limits (environmental) and Healthy Communities (social). It is supported by clear guidance on metrics through a reporting handbook. The Group's sustainability performance in relation to its Our Blueprint strategy is set out on pages 39 to 43. For details on Our Blueprint, please visit www.balfourbeatty.com/ourblueprint

Other themes such as resource efficiency or developing skills and talent have developed into specific programmes such as the 25 by 2025 vision and The 5% Club.

Governance

Balfour Beatty has a solid governance process that underpins everything it does to ensure that the business is being managed and run properly, effectively and ethically. The Safety and Sustainability Committee (see page 78) reviews the Group's sustainability strategy and monitors progress against Our Blueprint. This ensures governance and accountability for delivery and performance at Board level.

Each strategic business unit is responsible for developing its own sustainability action plan that communicates its priorities, sets out its targets, and describes the arrangements it is putting place in order to deliver them. This is updated annually.

Internal audit teams review performance against Our Blueprint and the external auditor is engaged by Balfour Beatty to provide limited assurance over selected greenhouse gas performance data for annual reporting purposes.

1 UN Environment, Assessing Global Resource Use, 2017, p.65 (http://www.resourcepanel.org/sites/default/files/styles/83_117_visuel_document/public/pdfpreview/3c8118deecb8c1c1e5beca38cb1e2c9f.png?itok=MnHp9HFE)

2 UN Environment, Towards a zero-emission, efficient, and resilient buildings and construction sector, Global Status Report 2017, page 6 https://www.worldgbc.org/sites/default/files/UNEP%20188_GABC_en%20%28web%29.pdf

3 UN Environment, Assessing Global Resource Use, 2017, p.64.

Balfour Beatty's key policies on 'Code of Conduct', 'Sustainability', 'Health and safety', 'Supply chain PR and marketing', 'Risk management', 'Quality', 'Environmental', 'Social Value' and 'Information security' are available on the Group's website.

These requirements are passed onto Balfour Beatty's supply chain through Our Supplier Code of Conduct and its Sustainable Procurement Policy, recognising the critical role that the supply chain plays.

Approximately 80% of the Group's business units are certified to the environmental management standard ISO 14001:2014 and assessed against the sustainable procurement standard ISO 20400:2017. Both are audited by third parties and management reviews are conducted to review the findings.

Profitable markets

Sustainability is an integral part of modern infrastructure projects – public sector customers require conformance to standards such as BREEAM, LEED®, BEAM, Green Mark, and CEEQUAL and these are important to planning authorities. In 2018, the total value of projects in progress that related to green infrastructure was £2.99 billion. This value relates to the contractual value of the projects some of which may have started before the reporting year. The Group's certifications in this area and its technical knowledge improve the whole-life performance of customers' built assets.

Increasingly, customers are scoring against sustainability criteria as in the case of the £2 billion Scape Infrastructure frameworks to which Balfour Beatty was appointed as sole contractor in 2018. 10% of the total score for these two frameworks was focused on social value, i.e. the economic, environmental and social benefits the framework offered to local communities.

The green economy represents a multi-billion pound growth opportunity over the coming decades in areas such as renewable energy and nuclear, flood defence schemes, inter-connectors, sustainable transport infrastructure, and energy efficient buildings.

Many customers are exploring new solutions to drive efficiencies and be more sustainable. Utility network providers for instance are interested in smarter installation and maintenance solutions that cause less disruption and reduce digging, vehicle movements and materials usage. They are particularly interested in solutions that minimise leaks.

In the US, Balfour Beatty's rooftop solar programme for military housing exceeded the Department of Defense's Renewable Energy Goal of 25% in 2018, by generating 30% of energy from renewable sources. To date the programme has installed 32MW of solar photovoltaics across 12 military installations. The US Construction business completed nine LEED® buildings in 2018. Gammon Construction, the Group's joint venture in Hong Kong, is in the process of completing 21 buildings, all of which have provisional LEED® or equivalent certificates in place.

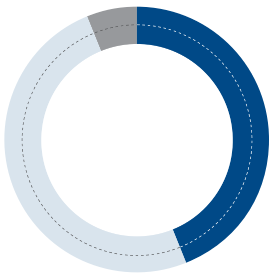
Green infrastructure projects in progress in 2018

£2.99bn

Installed solar photovoltaics

32MW

Buildings created with certification in 2018



UK	8
US	9
Gammon	1

Tonnes of Scope 1 & 2 CO_2e/£m revenue

24.5

Reduction in tonnes of Scope 1 & 2 CO_2e/£m revenue against 2010 baseline

41%

Environmental limits

Optimising environmental performance forms a key component of Our Blueprint and is essential for driving efficiencies and winning work. Balfour Beatty is committed to minimising its impact on climate change and mitigating the business risks that climate change presents. At an operational level the Group has continued to take steps to reduce Scope 1 and 2 Greenhouse Gas (GHG) emissions and its reliance on fossil fuels through the use of technology and algorithms that have been developed in-house to assist decision making. Balfour Beatty has also continued to use data to monitor and drive sustainability performance.

Scope 1 and 2 GHG emissions

The Group has seen an increase in carbon emissions intensity in 2018 compared to 2017 from 22.1 tonnes of CO_2 equivalent (CO_2e)/£m revenue to 24.5 tonnes of CO_2e/£m revenue. This is despite absolute scope 1 and 2 emissions dropping from 242,107 tonnes to 224,430 tonnes over the same period. Although efforts to manage energy and fuel and reduce associated GHG emissions have continued, the increase in intensity is due to a decrease in revenue. This result is also a clear indicator that project activity is decoupled from revenue. Since establishing the baseline in 2010, tonnes of CO_2e/£m revenue have dropped by 41% from 41.5 tonnes of CO_2e/£m revenue to 24.5 tonnes of CO_2e/£m revenue. The Group's total CO_2e figure for Scope 1 and 2 emissions has dropped by 133,553 tonnes of CO_2e (37%) from 357,983 tonnes of CO_2e to 224,430 tonnes of CO_2e over the same period.

As evidenced, the Group has made significant progress in reducing energy and fuel consumption and associated Scope 1 and 2 emissions, which is leading to reduced operating costs and therefore improved value to customers and shareholders. Reduced consumption also limits the Group's exposure to transitional market risks from energy and fuel price fluctuations.

The requirements for reducing Scope 1 and 2 emissions are well understood and controlled. In 2018, the Group has continued to: improve the fuel efficiency of its fleet; optimise the sizing of generators and the power profile of projects; improve the energy efficiency of site cabins; undertake energy efficiency improvements to properties; and optimise grid connections. Implementing these measures in the UK alone has resulted in 40,778 MWh energy reduction or 11,308 tonnes of CO_2e.

Gammon Construction, the Group's joint venture in Hong Kong, has started to develop Zero Waste Plans for all new projects to focus attention, planning, and commitment on actions to achieve the aspiration of Zero Waste in all its forms including wasted energy. Renewed efforts have included smart metering and controls, and more energy efficient site offices. Gammon has also been promoting earlier connection to mains power supply to avoid diesel generator use with government and customers at its biennial sustainability conference.

Building a sustainable business continued

Using Our Blueprint to drive economic, environmental and social outcomes continued

Balfour Beatty's 2020 goal is to achieve a 50% reduction in its Scope 1 and 2 emissions per £ million revenue against a 2010 baseline. The Group's performance to date illustrates it is on track to meet this target. The Group is working towards a 60% reduction stretch target per £ million revenue by 2025. Furthermore, a science-based target for 2030 is being considered by the Safety and Sustainability Committee.

As illustrated, the UK accounts for 41% of the Group's Scope 1 and 2 emissions, the US 23% and the Rest of the World 36%.

Gammon Construction is certified to ISO 14064-1 international standard for quantifying and reporting greenhouse gas (GHG) emissions. Its Scope 1 and 2 GHG emissions are independently verified by SGS.

GHG reporting and assurance

Balfour Beatty's GHG emissions are reported in accordance with the UK Government's GHG reporting requirements covering all seven UNFCCC/Kyoto gases. The Group uses the operational control approach under the GHG Protocol Corporate Accounting and Reporting Standard as at 31 December 2018 to report emissions from its operations around the world. However, Balfour Beatty has chosen to report only using the location-based approach and not the market-based approach. Even though Balfour Beatty does procure significant amounts of renewable electricity, the average DEFRA and IEA location-based conversion factors have been used for carbon reporting purposes in order not to detract from reducing energy intensive operations. Balfour Beatty's energy consumption in MWh is shown on page 41 to allow readers to make more informed comparisons of the Group's energy use.

Although Balfour Beatty's Scope 1 and 2 CO_2e emissions dropped by 7.3% (17,677 tonnes) over the period from 2017 to 2018, the number of MWh of energy dropped by 3.1% (25,790 MWh). This difference can be explained by the fact that different fuels have different carbon intensities, 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 10% reduction in gas oil (red diesel) use and a 23% reduction in electricity use. There has been a 12% increase in 5% biodiesel blend use.

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

The Group has determined and reported the emissions it is responsible for within this boundary and does not believe there are any material omissions. The Group uses the UK Government's carbon conversion factors that were updated in 2018 to calculate its emissions into equivalent tonnes of carbon dioxide (CO_2e) and the IEA's November 2018 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. Datasets for 2014 to 2017 relating to Heery have been removed as it was sold in October 2017.

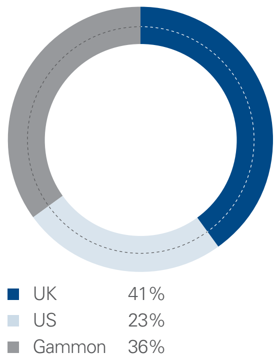
PwC was engaged to undertake an independent limited assurance engagement, reporting to Balfour Beatty plc, using the assurance standards ISAE 3000 and ISAE 3410 over the GHG data that have been highlighted in this report with the symbol Δ. Their full statement is available at: www.balfourbeatty.com/IIA

The level of assurance provided for limited assurance is substantially lower than a reasonable assurance engagement. In order to reach their opinion, PwC performed a range of testing procedures over the GHG data. A summary of the work they performed is included within their assurance opinion.

Non-financial performance information, GHG quantification in particular, is subject to more inherent limitations than financial information. The limited assurance statement should be read in context of the reporting criteria as set out in Balfour Beatty's Global Sustainability Reporting Guidance available at: www.balfourbeatty.com/sustainabilityreporting

The guidance outlines the non-financial KPIs measured by the Group, their definitions, and evidence requirements.

Scope 1 & 2 emissions by geography



Reduction in Scope 1 & 2 emissions in 2018

7.3%

	Absolute tonnes of CO_2e					
	Base year 2010	2014	2015	2016	2017	**2018**
Scope 1	283,821	221,268	238,083	220,355	170,937	**175,065**Δ
Scope 2 (location-based)	74,162	69,915	71,007	77,943	71,170	**49,365**Δ
Total Scope 1 and 2 carbon emissions	357,983	291,183	309,090	298,298	242,107	**224,430**
Total Scope 1 and 2 carbon emissions per £m revenue	41.5	30.0	35.0	29.4	22.1	**24.5**

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

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

Δ Included within PwC's limited assurance scope.

Waste intensity

At present, there are limitations on the completeness of Balfour Beatty's waste data, making like-for-like comparisons of its annual data difficult. Comparing waste data year-on-year will also vary depending on the type of projects the Group undertakes and the stage that the projects are at. Balfour Beatty is working with its operating businesses to improve this data.

In 2018, over 2,258,033 tonnes of waste that Balfour Beatty produced were avoided from landfill. This equates to 97% of the total amount of waste that Balfour Beatty produced in 2018, but does not include materials that were reused directly without entering the waste stream. Although these figures are impressive, the Group is working on circular economy solutions to reduce waste in the first place and has a 2025 vision to reduce onsite activities by 25%. This will mean a greater shift towards Design for Manufacture and Assembly (DfMA) techniques which are inherently more resource efficient. As illustrated, Balfour Beatty has steadily reduced the tonnes of waste it produced per £ million revenue over the last three years. This includes both materials sent to landfill and materials that are recycled.

On the East Wick and Sweetwater project on the Queen Elizabeth Olympic Park, the project team saved 500 vehicle movements by reusing 3,500 tonnes of materials onsite. The team planed out tarmac surface layers to produce aggregate that could be reused, saving 175 lorry loads of deliveries and over £100k.

Water intensity

Water intensity is an optional indicator in Balfour Beatty's sustainability strategy. It is measured in cubic metres per £ million revenue. Depending on the geography in which the Group operates, water can be a sparse or abundant commodity. Almost all of its operating businesses in the UK and Hong Kong reported on water use. Neither the US Construction business nor the US Investments business elected to monitor water use as an optional indicator.

In 2018, Balfour Beatty switched to purchasing all of its water in England and Scotland from one provider to enhance data collection.

Since improving its approach to monitoring water the Group has seen a decrease in its water intensity in the areas of its business where water is monitored from 162m^3/£m revenue in 2017 to 160m^3/£m revenue.

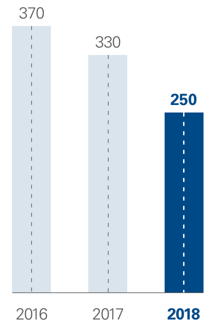
Supply chain and collaboration

Balfour Beatty recognises the critical role of its supply chain in helping to make it a more sustainable business. The Group has continued to improve its approach to sustainable procurement in 2018 by working with its supply chain to deliver social value outcomes and agree improvement plans across key categories. Much of the Group's work is undertaken collaboratively. For instance, in 2018 Balfour Beatty worked with A-Plant and El Bjorn to develop and replace all electric heaters in drying rooms in the UK with purpose-built dehumidifiers that are 33% more energy efficient than conventional electric radiators. Since becoming the first company to implement and be assessed against ISO 20400:2017 the international standard for sustainable procurement in 2017 for its UK operations, Balfour Beatty has continued to improve its processes to drive sustainability by targeting specific opportunities and risks.

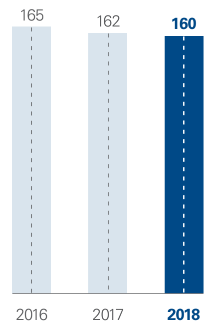
Innovation through value engineering continues to be a key focus: Balfour Beatty's collaborative UK Strategic Design Consultants partnership with Atkins, Mott MacDonald and WSP has been a success and allowed partners to deliver more value and win more quality business by working together with common goals.

Balfour Beatty is a funding Partner and Gold Member of the Supply Chain Sustainability School, which aims to improve sustainability performance throughout the construction and infrastructure supply chains. As a result, Balfour Beatty has held a number of engagement events and workshops with its supply chain partners improving their knowledge on sustainability. The number of these partners registered with the school is now over 2,607, an increase of over 13.35% from 2017.

Tonnes of waste
per £m revenue



Cubic metres of water
per £m revenue



Energy use

Fuel	2015	2016	2017	MWh **2018**
Electricity	167,319	140,365	130,645	**100,324**
Heat and steam	2,603	4,561	12,836	**14**
Natural gas	17,284	21,387	16,924	**15,242**
Industrial gases	2,828	6,193	3,866	**3,013**
5% biodiesel blend	476,488	477,400	362,589	**407,209**
5% biofuel petrol blend	11,934	52,958	70,829	**65,876**
Biodiesel different blend	–	410	456	**67**
E85 petrol	5,479	58	99	**603**
Gas oil (red diesel)	288,144	292,502	213,012	**191,374**
100% mineral diesel	20,025	16,636	15,381	**15,372**
100% mineral petrol	44,405	12,939	3,848	**6,076**
LPG	185	571	212	**188**
CNG	1	2	1	**–**
Boiler fuel	863	1,524	1,103	**653**
Global total	1,037,558	1,027,506	831,801	**806,011**
UK energy use % of total				**37.8**

Building a sustainable business continued

Using Our Blueprint to drive economic, environmental and social outcomes continued

Climate disclosure
The Group is committed to addressing climate change 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 2018, compared to the industry average rating of C.

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

Although the Group has identified a number of climate change related risks and opportunities, none of these pose a principal risk to the business. The risks identified include:

- climate change increasing the intensity and frequency of extreme weather events, including flooding and high winds which could impact sites negatively
- large fluctuation in energy costs
- sustainability performance failing to keep pace with demands
- sudden tightening of environmental legislation to improve air quality and/or reduce CO_2 emissions.

The opportunities include:

- energy savings
- increased demand for climate change mitigation measures by customers
- improved reputation and ability to win work through our capability.

Environmental compliance
In 2018, two environmental incidents resulted in enforcement action and fines totalling £3,328.

Healthy communities

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 supply chain partners, 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.

All staff have the opportunity to volunteer up to two days per year to give something back to local communities. The December 2018 engagement survey showed that 75% of the Group's UK and US employees thought that "Balfour Beatty genuinely cares about having a positive impact on the environment and local communities". The focus areas for the charitable work has been on:

- supporting skills in infrastructure
- supporting people and families with health and wellbeing
- regenerating local communities
- inspiring tomorrow's workforce
- supporting Affinity Networks
- supporting national charity partners.

In the UK Balfour Beatty has continued to support the Considerate Constructors Scheme (CCS).

The CCS is a non-profit-making, independent organisation founded in 1997 by the construction industry to improve its image. In 2018, 85 of the Group's UK sites were assessed against the scheme, with an average score of 40.55 out of 50 against an industry average of 36.27. Of these sites, 68% exceeded Balfour Beatty's internal target score of 40.

Employee engagement on sustainability

75%

Number of UK sites assessed against CCS

85

CCS average score

40.55

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 2018, employees raised over £40,256 through Building Better Futures. The Company matched this with an additional contribution and donated a total of £90,000. Since 2013, the Trust has raised £201,416 to support Barnardo's, helping over 1,340 young people. Since 2010, the Trust has contributed over £490,000 to Coram, funding vital services for children and young people.

The Group has worked closely with the Prince's Trust since the beginning of the partnership and has raised over £1.35 million for the charity. In the UK, a further £161,825.90 was raised by employees for charitable purposes. Across the Group's operations, employees volunteered 11,854 hours for charitable causes and donated £58,978 in-kind contributions to charities. This has brought multiple social value benefits to the communities in which Balfour Beatty operates.

The US construction business contributed over US$288,000 to charitable causes in 2018. Some of the organisations receiving donations were:

- Bridges to Prosperity
- American Heart Association
- Make-A-Wish® Foundation
- Oregon Harbor of Hope
- DC Students Construction Trades Foundation
- Ronald McDonald House
- Sharefest
- Urban Ministry Center.

In coordination with Bridges to Prosperity (B2P), a 10-member team of Balfour Beatty employees from across the US celebrated the completion of a 131-metre suspended footbridge in the isolated rural Espiritu Santo community near Cochabamba, Bolivia. Planned for months and constructed by Balfour Beatty's volunteer team over the course of two weeks, the new footbridge is helping support B2P's dedication to building footbridges over impassible rivers so that isolated communities can access healthcare, education and economic opportunities. The build team's fundraising efforts received significant support of over US$107,000 from colleagues, friends, family and Balfour Beatty business partners to fund the trip.

In California, Balfour Beatty hosted its annual Golf Classic that raised more than US$145,000 for the Sharefest 2018 Workday. Nearly 150 people attended the tournament and set an event fundraising record to sponsor six Workday sites, help send nearly 250 disadvantaged youths to camp, and provide four college scholarships to local deserving students. 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$600,000 to support annual Workday activities.

For Make-A-Wish® Foundation of Georgia, the Balfour Beatty team in Atlanta raised US$51,000 at its annual Golf Tournament for Wishes. The proceeds donated fund wishes for children in Georgia who have been afflicted with life-threatening illnesses.

In Texas, Balfour Beatty employees volunteered their time to mentor high school students as part of the ACE Mentor of Dallas programme. The hands-on workshop taught students how to develop construction milestone schedules and site logistics plans based on an active project in Dallas, Texas. The dynamic mentoring programme provides students with a deeper understanding of industry career opportunities, while providing insight into the tools and techniques used by Balfour Beatty experts in the field.

In 2018, Gammon Construction, its staff and partners contributed to over 90 activities and community events in Hong Kong and provided over HK$2.6 million in charity donations.

2018 marked the 60th anniversary of Gammon. Celebrations were launched with a 'Run for 60 – Run for Charity' event which was sponsored by Gammon. The run was also organised to raise money for the Construction Charity Fund which provides support to families of victims in fatal construction accidents. More than 100 Gammon staff members, family members and business partners joined the event, running the Gammon Construction China Coast Full or Half Marathons or 10km races to raise over HK$1.6 million.

One of the strongest typhoons in Hong Kong's history, Mangkhut, ripped through the territory on 16 September. The storm tore off roofs, broke windows, and caused extensive flooding. The aftermath saw thousands of trees blocking hundreds of roads and traffic was paralysed. Gammon's project teams deployed workers and equipment to clear obstructions near sites on public roads and in adjacent buildings and neighbourhoods. Gammon was presented with an Appreciation Certificate by the Hong Kong Government's Home Affairs Bureau and received many commendations from District Councils.

Non-financial information statement

This section of the Strategic Report constitutes the Group's non-financial information statement, produced to comply with sections 414CA and 414CB of the Companies Act. The non-financial information is contained within the various sections of the Strategic Report and is cross-referenced below to help stakeholders find relevant information.

Reporting requirement	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes
Environmental	Our Blueprint Sustainability policy Sustainable procurement policy Environmental policy ISO 14001:2014 & ISO 20400:2017	Using Our Blueprint to drive economic, environmental and social outcomes, pages 38-43
Employees	Health and safety policy Code of Conduct	Committed to creating a safe workplace, page 33 Investing in talent across the Group, pages 34-35 Ensuring integrity within the business, page 36
Social and Community matters	Social Value policy Code of Conduct	Healthy communities, pages 42-43 Ensuring integrity within the business, page 36
Respect for human rights	Modern Slavery Statement Code of Conduct	Ensuring integrity within the business, page 36
Anti-corruption and bribery matters	Supplier Code of Conduct Code of Conduct	Ensuring integrity within the business, page 36
Innovation		Group-wide initiatives in innovation driving success, pages 30-32
Description of the business model		Group at a glance, pages 6-7 Market review, pages 8-9 Business model, pages 10-11 Our priorities, pages 12-13
Description of principal risks and impact of business activity		Risk management, pages 55-57 Principal risks, pages 58-66
Non-financial key performance indicators		Our priorities, pages 12-13 Committed to creating a safe workplace, page 33 Investing in talent across the Group, pages 34-35 Ensuring integrity within the business, page 36 Using Our Blueprint to drive economic, environmental and social outcomes, pages 38-43

The Group's policies can be found at www.balfourbeatty.com/policies

Measuring our financial performance

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

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

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Measuring the Group's performance

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

Statutory measures

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

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 120 to 127.

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.

Measuring our financial performance continued

Providing clarity on the Group's alternative performance measures continued

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

a) Order book

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

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

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

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

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

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

	2018 £m
Order book (performance measure)	**12,625**
Less: Share of orders included within the Group's joint ventures and associates	**(2,013)**
Estimated orders under framework agreements included in the order book disclosure	**(358)**
Add: Transaction price allocated to remaining performance obligations in Infrastructure Investments+	**2,641**
Transaction price allocated to remaining performance obligations for the Group+ (statutory measure)	**12,895**

+ Refer to Note 4.3.

b) Underlying performance

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

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

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

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

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

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

Reconciliation of 2018 statutory results to performance measures

	2018 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Additional loss on AWPR contract £m	Loss on GMP equalisation £m	(Gain)/loss on disposals £	Provision release on health & safety claims £m	Joint venture items £m	Results of Rail Germany £m	2018 performance measures £m
		Non-underlying items								
Revenue including share of joint ventures and associates (performance)	**7,814**	–	–	–	–	–	–	–	(12)	**7,802**
Share of revenue of joint ventures and associates	**(1,180)**	–	–	–	–	–	–	–	9	**(1,171)**
Group revenue (statutory)	**6,634**	–	–	–	–	–	–	–	(3)	**6,631**
Cost of sales	**(6,263)**	–	–	10	–	–	–	–	3	**(6,250)**
Gross profit	**371**	–	–	10	–	–	–	–	–	**381**
Gain on disposals of interests in investments	**80**	–	–	–	–	–	–	–	–	**80**
Amortisation of acquired intangible assets	**(8)**	–	8	–	–	–	–	–	–	**–**
Other net operating expenses	**(319)**	11	–	–	28	9	(13)	–	–	**(284)**
Group operating profit	**124**	11	8	10	28	9	(13)	–	–	**177**
Share of results of joint ventures and associates	**23**	–	–	–	–	–	–	5	–	**28**
Profit from operations	**147**	11	8	10	28	9	(13)	5	–	**205**
Investment income	**35**	–	–	–	–	–	–	–	–	**35**
Finance costs	**(59)**	–	–	–	–	–	–	–	–	**(59)**
Profit before taxation	**123**	11	8	10	28	9	(13)	5	–	**181**
Taxation	**12**	(2)	(2)	(2)	(5)	(3)	–	–	–	**(2)**
Profit for the year	**135**	9	6	8	23	6	(13)	5	–	**179**

Reconciliation of 2018 statutory results to performance measures by segment

Profit/(loss) from operations	2018 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Additional loss on AWPR contract £m	Loss on GMP equalisation £m	(Gain)/loss on disposals £m	Provision release on health & safety claims £m	Joint venture items £m	Results of Rail Germany £m	2018 performance measures £m
		Non-underlying items								
Segment										
Construction Services	**46**	6	3	10	15	12	(2)	5	–	**95**
Support Services	**39**	5	–	–	13	–	(11)	–	–	**46**
Infrastructure Investments	**95**	–	5	–	–	(3)	–	–	–	**97**
Corporate activities	**(33)**	–	–	–	–	–	–	–	–	**(33)**
Total	**147**	11	8	10	28	9	(13)	5	–	**205**

Measuring our financial performance continued

Providing clarity on the Group's alternative performance measures continued

Reconciliation of 2017 statutory results to performance measures

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

Reconciliation of 2017 statutory results to performance measures by segment

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

c) Underlying profit before tax

As mentioned on page 45, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

	2018 £m	2017 £m
Underlying profit from operations (section (b) and Note 5)	**97**	116
Add: Subordinated debt interest receivable+	**21**	26
Interest receivable on PPP financial assets+	**9**	11
Less: Non-recourse borrowings finance cost+	**(14)**	(13)
Underlying profit before tax	**113**	140
Non-underlying items (section (b) and Note 5)	**(2)**	(6)
Statutory profit before tax	**111**	134

+ Refer to Note 8 and Note 9.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2018 pence	2017 pence
Statutory basic earnings per ordinary share	**19.7**	24.7
Less: earnings from discontinued operations	**–**	(1.0)
Statutory basic earnings per ordinary share from continuing operations	**19.7**	23.7
Amortisation of acquired intangible assets	**0.9**	0.8
Other non-underlying items	**5.7**	(3.6)
Underlying basic earnings per ordinary share from continuing operations (performance)	**26.3**	20.9

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

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

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

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

f) Recourse net cash/borrowings

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

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

Net cash/borrowings reconciliation

	2018 statutory £m	Adjustment £m	2018 performance £m	2017 statutory £m	Adjustment £m	2017 performance £m
Total cash within the Group	**661**	**(70)**	**591**	968	(135)	833
Cash and cash equivalents – infrastructure concessions	**70**	**(70)**	**–**	135	(135)	–
– other	**591**	**–**	**591**	833	–	833
Total debt within the Group	**(739)**	**485**	**(254)**	(1,041)	543	(498)
Borrowings – non-recourse loans	**(379)**	**379**	**–**	(440)	440	–
– other	**(254)**	**–**	**(254)**	(498)	–	(498)
Liability component of preference shares	**(106)**	**106**	**–**	(103)	103	–
Net (borrowings)/cash	**(78)**	**415**	**337**	(73)	408	335

g) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and the liability component of the Company's preference shares, and this performance measure shows average net cash of £194 million for 2018 (2017: £42 million).

Using a statutory measure, which is derived using the average opening and closing figures for the year, inclusive of non-recourse elements and the liability component of the Company's preference shares, gives average net borrowings of £76 million for 2018 (2017: £117 million).

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 27 to 29, 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 £1.15 billion at year end (2017: £1.24 billion). The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

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

	2018 £m	2017 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**653**	629
Less: Recourse loans presented within Corporate activities relating to Infrastructure Investments projects	**(15)**	(13)
Less: Net assets not included within the Directors' valuation – Housing division	**(25)**	(24)
Comparable statutory measure of the Investments portfolio under IFRS	**613**	592

Measuring our financial performance continued

Providing clarity on the Group's alternative performance measures continued

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

	2018 £m	2017 £m
Statutory measure of the Investments portfolio (as above)	**613**	592
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases: – historical cost – amortised cost – fair value	**538**	652
Directors' valuation (performance measure)^	**1,151**	1,244

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

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

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

As referred to in the Strategic Report on page 27, the Directors' valuation is calculated using discounted cash flows. In deriving these cash flows, assumptions have been made and different discount rates used which are updated at each valuation date.

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

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

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

i) Constant exchange rates (CER)

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

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

2018 statutory growth compared to performance growth

	Construction Services						
	UK	**US**	**Gammon**	**Total**	**Support Services**	**Infrastructure Investments**	**Total**
Revenue (£m)							
2018 statutory	1,903	3,314	–	5,217	1,076	341	6,634
2017 statutory	2,011	3,586	–	5,597	1,031	288	6,916
Statutory growth (%)	(5)%	(8)%	–	(7)%	4%	18%	(4)%
2018 performance+	1,900	3,329	898	6,127	1,104	571	7,802
2017 performance retranslated+	1,998	3,519	979	6,496	1,062	516	8,074
Performance CER growth (%)	(5)%	(5)%	(8)%	(6)%	4%	11%	(3)%
Order book (£bn)							
2018	3.0	5.2	1.6	9.8	2.8	–	12.6
2017	2.7	4.3	1.3	8.3	3.1	–	11.4
Growth (%)	11%	21%	23%	18%	(10)%	–	11%
2018	3.0	5.2	1.6	9.8	2.8	–	12.6
2017 retranslated	2.7	4.5	1.4	8.6	3.1	–	11.7
CER growth (%)	11%	16%	14%	14%	(10)%	–	8%

+ 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

"The Group's financial position and order book both improved in the year and Balfour Beatty is now operating from a position of strength."

Philip Harrison
Chief Financial Officer

Results for the year

	2018 £m	2017 £m
Revenue from continuing operations		
– underlying including joint ventures and associates	**7,802**	8,234
– statutory	**6,634**	6,916
Pre-tax profit from continuing operations		
– underlying	**181**	165
– statutory	**123**	117
Basic earnings per share from continuing operations		
– underlying	**26.3p**	20.9p
– statutory	**19.7p**	23.7p

Underlying profit from operations[2,3]	2018 £m	2017 £m	Change %age
UK Construction	**28**	16	75%
US Construction	**44**	41	7%
Gammon	**23**	15	53%
Construction Services	**95**	72	32%
Support Services	**46**	41	12%
Earnings based businesses	**141**	113	25%
Infrastructure investments	**97**	116	(16)%
Corporate activities	**(33)**	(33)	–
Total	**205**	196	5%

2 From continuing operations.
3 Before non-underlying items (Note 10).

Group financial summary

These results demonstrate the value being created through the Build to Last programme. The Group's financial position and order book both improved in the year and Balfour Beatty is now operating from a position of strength.

In the second half of 2018, the Group successfully delivered on its Build to Last underlying PFO margin targets by delivering industry standard margins for UK Construction, US Construction and Support Services.

Net cash at year end was consistent with the prior year despite cash used in operations of £132 million (2017: £41 million generated from operations) which was negatively impacted by the Aberdeen Western Peripheral Route (AWPR) project.
The average monthly net cash for the year at £194 million (2017: £42 million) was ahead of the £140 – £170 million guidance range provided during 2018.

The Group continues to have one of the strongest balance sheets in the sector with net assets increasing from £1,066 million to £1,241 million.

The order book increased by 11% to £12.6 billion, up 8% at constant exchange rates (CER) (2017: £11.4 billion). The Group's focus on disciplined bidding is continuing to build a higher quality order book capable of delivering managed profitable growth from the rising infrastructure spend in the UK, US and Hong Kong.

Chief Financial Officer's review continued

Underlying revenue was down 5% (3% at CER) at £7,802 million (2017: £8,234 million), following the managed reduction in the order book during 2017. Statutory revenue, which excludes joint ventures and associates, was £6,634 million (2017: £6,916 million).

Construction Services underlying revenue was down 8% (6% at CER) at £6,127 million (2017: £6,649 million) as a result of the expected decline in the US. Support Services underlying revenue was 4% higher at £1,104 million (2017: £1,061 million) with an increase in the utilities business.

In the earnings based businesses underlying profit from operations increased 25% to £141 million (2017: £113 million), which contributed to the 5% increase in the Group's underlying profit from operations to £205 million (2017: £196 million). Statutory profit from operations was £147 million (2017: £148 million).

Construction Services improved 32% to an underlying profit from operations of £95 million (2017: £72 million) with increases in all three geographies. Support Services improved 12% with underlying profit from operations of £46 million (2017: £41 million). Following significant disposals in 2017, Infrastructure Investments underlying profit from operations decreased to £97 million (2017: £116 million).

Net finance costs decreased to £24 million (2017: £31 million) as a result of higher net finance income in relation to the Group's retirement benefit schemes and lower interest costs as the Group continues to pay down debt, partially offset by lower net income from Infrastructure Investments as a result of disposals.

Underlying pre-tax profit from continuing operations increased 10% to £181 million (2017: £165 million). The Group's underlying profit before tax resulted in an underlying tax charge of £2 million (2017: £23 million) following the recognition of deferred tax assets for some of the Group's UK historical tax losses.

Underlying profit after tax for the year including discontinued operations increased to £179 million (2017: £143 million). Total statutory profit after tax for the year was £135 million (2017: £168 million), after non-underlying items.

Non-underlying items

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

Non-underlying items from continuing operations of £44 million were a net charge to profit for the year (2017: £20 million net credit).

The Group recognised additional retirement benefit obligations following the judgment on the Lloyds Banking Group High Court hearing with regard to Guaranteed Minimum Pension (GMP) equalisation which was published on 26 October 2018. The judgment indicated that pension trustees need to amend scheme benefits to equalise for the effect of unequal GMPs and indicated an acceptable range of methods for how to do so. The charge arising from the recognition of GMP equalisation on the Group's pension schemes amounted to £28 million and has been recognised in the Group's income statement as a plan amendment. The Group has treated this item as non-underlying due to the size and nature of the income statement charge.

The Group recognised an additional indemnity provision of £12 million in the year following the re-assessment of several projects which were indemnified by the Group as part of the disposal of Heery International Inc. This estimate is subject to final ongoing negotiations with various clients and any further gains or losses that arise as part of this indemnity obligation will be recorded within non-underlying items as part of the Heery disposal.

As a result of Carillion filing for liquidation on 15 January 2018, the Group and its remaining joint venture partner on the AWPR project, Galliford Try plc, became jointly liable to deliver Carillion's remaining obligations on the contract in addition to each partner's existing 33% share. This has resulted in the Group now having a 50% interest in the AWPR contract. Balfour Beatty recognised an additional £29 million loss on the AWPR project in 2018. A third of this charge (£10 million) has been recognised in non-underlying items as this reflects the additional loss that the Group has incurred in fulfilling Carillion's obligations on the contract. The loss incurred on Balfour Beatty's original 33% joint venture share (£19 million) is treated as part of the Group's underlying performance. The AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believes are highly probable to be agreed. The final section of the AWPR project was fully open to traffic on 19 February 2019 with the final financial out-turn of this contract dependent upon the result of ongoing claims discussions.

Offsetting these charges is a non-underlying provision release of £13 million relating to settlements of health and safety claims. These claims were previously included in non-underlying items as part of the Group's overall reassessment in 2016 of potential liabilities relating to historical health and safety breaches following new sentencing guidelines.

Significant other non-underlying items included £11 million of restructuring costs relating to the Group's Build to Last transformation programme and amortisation of acquired intangible assets of £8 million.

Earnings per share

Underlying basic earnings per share from continuing operations were 26.3 pence (2017: 20.9 pence), which, along with a non-underlying loss per share from continuing operations of 6.6 pence (2017: 2.8 pence gain), gave a total basic earnings per share for continuing operations of 19.7 pence (2017: 23.7 pence). Discontinued operations contributed nil pence (2017: 0.1 pence) to the total underlying basic earnings of 26.3 pence per share (2017: 21.0 pence). Total basic earnings per share were 19.7 pence (2017: 24.7 pence).

Cash flow performance

The total cash movement in the year resulted in a £2 million increase in the Group's net cash position to £337 million (2017: £335 million), excluding non-recourse net borrowings. Operating cash flows and proceeds from Infrastructure Investments disposals were largely offset by working capital outflows and investment in new Infrastructure assets.

Cash flow performance	2018 £m	2017 £m
Operating cash flows	**124**	39
Working capital (outflow)/inflow	**(229)**	27
Pension deficit payments	**(27)**	(25)
Cash (used in)/from operations	**(132)**	41
Infrastructure Investments:		
– disposal proceeds	**187**	105
– new investments	**(58)**	(35)
Other	**5**	51
Net cash movement	**2**	162
Opening net cash*	**335**	173
Closing net cash*	**337**	335

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

On a statutory basis the Group reported net debt of £78 million at 31 December 2018 (2017: £73 million).

Working capital

During the year, the Group's working capital position resulted in an outflow of £229 million (2017: £27 million inflow), primarily as a result of significant cash outflows on the AWPR project, reduced working capital as a result of the expected decline in revenues in US Construction, and improved supply chain payment processes.

Working capital flows^*	2018 £m	2017 £m
Inventories	**(16)**	(12)
Net contract assets	**51**	7
Trade and other payables	**(196)**	(92)
Trade and other receivables	**12**	95
Provisions	**(80)**	29
Working capital (outflow)/inflow^*	**(229)**	27

^ Excluding impact of foreign exchange and disposals.
* The movement in operating working capital has been presented to exclude movements arising from IFRS15 Revenue from Contracts with Customers reclassification adjustments.

The decrease in trade and other payables has resulted in a working capital outflow of £196 million (2017: £92 million). This is mainly attributable to the decrease in revenues in US Construction and the Group's focus on improving payment processes resulting in faster payment of suppliers compared to the prior year.

The working capital outflow from provisions of £80 million (2017: £29 million inflow) predominantly relates to the significant AWPR cash outflows in 2018.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital decreased to £680 million at 31 December 2018 (2017: £888 million).

Net cash/borrowings

The Group's average monthly net cash in 2018 improved substantially to £194 million (2017: £42 million). The Group's net cash position at 31 December 2018, excluding non-recourse net borrowings, was £337 million (2017: £335 million). Non-recourse net borrowings, held in infrastructure concessions entities consolidated by the Group, increased to £309 million (2017: £305 million). The balance sheet also includes £106 million (2017: £103 million) for the liability component of the preference shares. Statutory net debt at 31 December 2018 was £78 million (2017: £73 million).

Pensions

Following the formal triennial funding valuation of the Balfour Beatty Pension Fund (BBPF) at 31 March 2016, the Company and the trustees agreed the key commercial principles of a plan for the BBPF to reach self-sufficiency during 2027, some three years earlier than previously planned. Under the current plan Balfour Beatty will make cash contributions totalling £116 million over the five years 2019 to 2023. There is an agreed dividend sharing mechanism such that if the dividend cover ratio falls below 2x, funding to the BBPF will be accelerated. Preparation is underway for the next formal triennial valuation of the BBPF which will be as at 31 March 2019.

Following the formal triennial funding valuation of the Railways Pension Scheme (RPS) as at 31 December 2016, the Group agreed to make ongoing deficit contributions of £6 million per annum which should reduce the deficit to zero by 2027. The next formal triennial valuation of the RPS will be as at 31 December 2019.

The Group's balance sheet includes net retirement benefit assets of £54 million (2017: £32 million) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. The increase in pension surplus in the year is due to £30 million of employer contributions and £22 million of net actuarial gains, partially offset by a £28 million charge from the recognition of GMP equalisation.

Impact of IFRS 16

The adoption of IFRS 16 will result in a right-of-use (ROU) asset and a corresponding lease liability amounting to approximately £135 million respectively being brought onto the Group's balance sheet on 1 January 2019. There will be no impact on the Group's opening equity as a result of adopting this standard.

Outlook

Since the start of Build to Last in 2015, Balfour Beatty has: simplified and refocused the Group; strengthened leadership and governance; invested in innovation, systems and processes; and developed a culture which can drive continuous performance improvement.

Having achieved industry standard margins in the second half of 2018, the Board remains confident that the Group will perform in line with market expectations in 2019.

Balfour Beatty now has the platform in place to scale the business to drive profitable managed growth. The Group will look to benefit fully from its strong competitive positions in large and growing infrastructure markets to deliver market leading performance.

Markets

The Group primarily operates across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments). This provides resilience as the Group is less exposed to a downturn in a single geography or sector.

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable.

In the UK, Government policy continues to drive a strong pipeline of major infrastructure projects in transport and energy. Over the next few years, the '4Hs' – HS2 (high speed rail), new nuclear power at Hinkley Point C, the Road Investment Strategy for Highways England and the continued expansion of Heathrow airport – will contribute to the Government's investment in infrastructure commitment, which is targeted to rise from 0.8% in 2015/16 to over 1% of GDP by 2020/21.

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Balfour Beatty recognises the inherent uncertainty arising from this and has been planning for all outcomes. The Group has contingency plans in place to ensure it can continue to deliver on current and future work commitments.

Chief Financial Officer's review continued

In the US, Balfour Beatty operates in specific geographies. As the population migrates south and west, it is moving to cities, driving urbanisation in the Group's chosen markets. This leads directly to increased demand for buildings and infrastructure. With blue chip repeat customers such as Disney and Microsoft, the Group's Buildings opportunities are robust. In Civils in December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill, was signed, providing authorised spending for a five-year period. There are further opportunities being created, for example with the number of state-backed infrastructure bonds (over US$200 billion multi-state transportation bonds, over US$35 billion of education bonds in California), and increases in: US public-private partnership schemes; state gasoline taxes; and local county sales taxes dedicated to local infrastructure.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming with the third runway at the international airport, a ten-year hospital development plan and continued investment in transportation infrastructure (Central Kowloon Highway, Mass Transit Railway (MTR) upgrades).

In Support Services, power transmission and distribution has a stable underlying market. The gas business operates in an established market and the water business is beginning to transition to the next regulatory cycle (AMP7). Transportation, which includes major road and rail maintenance contracts, is expected to grow steadily in the medium term. Local authorities provide opportunities in highways, whilst a key contract with London Underground, to deliver essential track renewal work across the network, has been re-awarded to Balfour Beatty in February 2019.

The Infrastructure Investments business continues to see opportunities for future investment in its chosen geographic markets, particularly in the US where the focus is on student accommodation, multifamily housing and public-private partnerships (PPP) opportunities. In the UK, the focus is primarily on student accommodation.

Dividend

Following the 1.6 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 3.2 pence per share, giving a total recommended dividend for the year of 4.8 pence per share (2017: 3.6 pence). The Board recognises the importance of dividends to shareholders and expects to deliver a continuation of the progressive dividend policy.

Taxation

The Group's underlying profit before tax from continuing operations for subsidiaries of £153 million (2017: £106 million) resulted in an underlying tax charge of £2 million (2017: £23 million) following the recognition of deferred tax assets for some of the Group's historical UK tax losses.

Goodwill

The goodwill on the Group's balance sheet increased to £903 million (2017: £874 million) as a result of foreign exchange movements. The Group has conducted impairment reviews on its goodwill balance at the year end and has concluded that it was fully recoverable.

Factoring

During the year, the Group closed its bank-supported supply chain financing arrangements (2017: £0.2 million drawn).

Banking facilities

The Group's core committed revolving credit facilities total £400 million and extend to December 2020. The purpose of the facilities is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. At 31 December 2018, these facilities were undrawn.

Financial risk factors and going concern

The key financial risk factors for the Group remain largely unchanged.

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2018, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

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

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

- the Group has a strong order book;
- 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 £337 million at 31 December 2018;
- the Group's portfolio of Infrastructure Investments comprises reasonably realisable securities which can be sold to meet funding requirements as necessary; and
- the Group has access to committed credit facilities totalling £400 million through to December 2020. At 31 December 2018, these facilities were wholly undrawn.

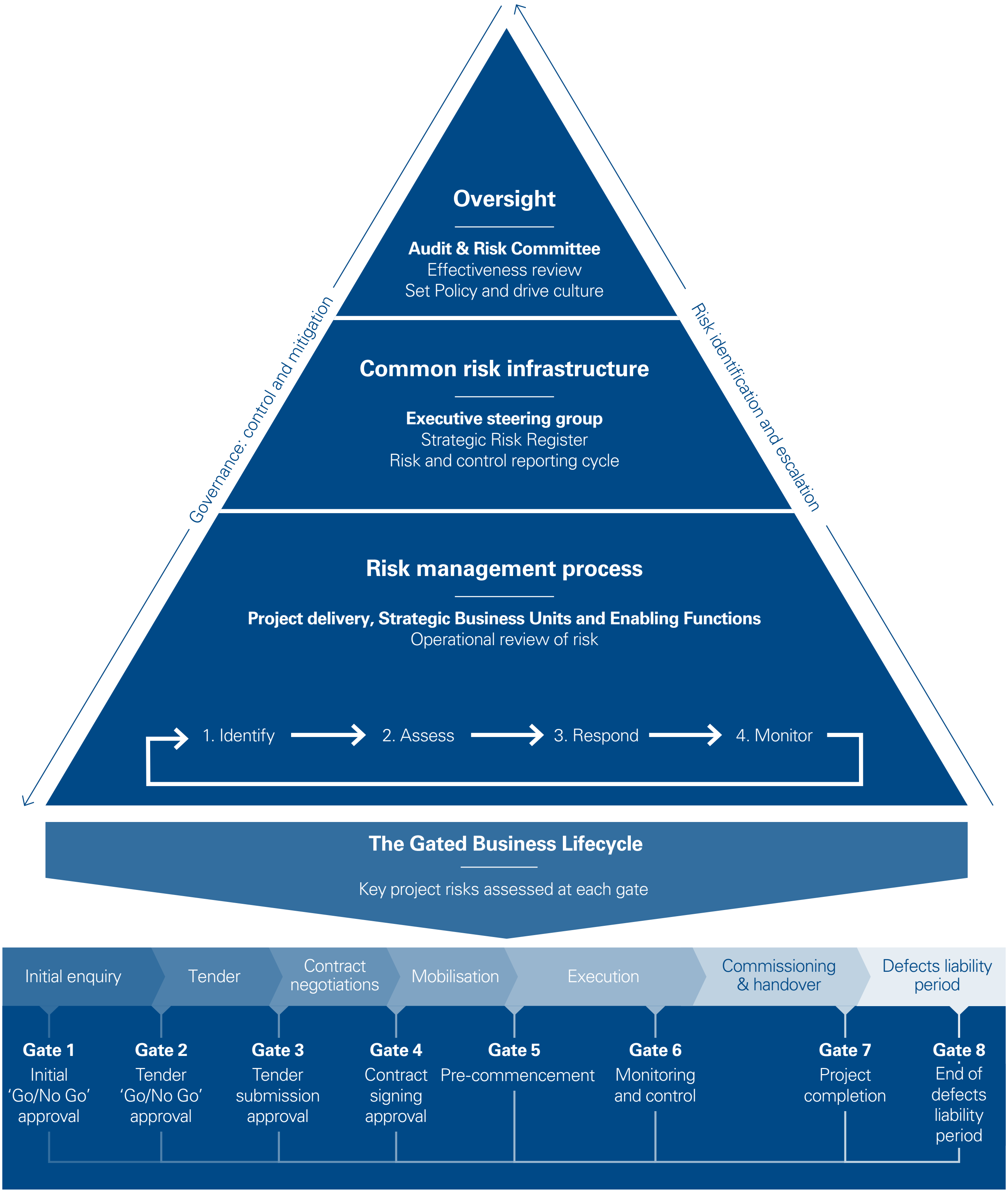
Based on the above and having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern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

Philip Harrison

Philip Harrison
Chief Financial Officer

Risk management

A refocus and reinvigoration of risk management



A refocus and reinvigoration of risk management continued

Balfour Beatty's approach to risk management remained agile and responsive to the Group's operational requirements and wider industry good practice throughout 2018. The enterprise risk management framework was completely reviewed and updated and a more intuitive and dynamic risk reporting process was deployed. These updates include the development of a new bespoke risk management software package for the UK business (IRIS: Intelligent Risk Information System) to identify, assess, respond to and monitor risk.

Oversight

The Board accepts overall responsibility for risk management and determines the nature, extent and potential timescale of current and emerging risks facing the business. Biannually the Directors assess the effectiveness of the risk management and internal control systems including financial, operational and compliance steps that are in place to prevent occurrence or mitigate impacts.
The business has in place several well established and ongoing processes embedded within the Gated Business Lifecycle to support this assessment and manage the Group's risk exposure.

Common risk infrastructure

The dynamic structure of the Group's risk management process allows the Group Chief Executive to monitor the risk profile of the business via the Executive Risk Steering Group. Members of the steering group act as the executive sponsor for risk management within their business and functions and as such are in a position to directly influence custom and practice. The steering group undertook a comprehensive reassessment of the Group Risk Register in 2018 including the production of a key risk and control statement to improve Executive Committee focus.

Risk process

A dedicated enterprise risk management resource is in place in each geography and is accountable for the consistent application of the Group's Risk Management Framework and associated processes.
This supports the businesses in making decisions based on an accurate assessment of risk. Pragmatic interaction between operational delivery and enterprise risk teams enables and encourages a direct understanding, application and monitoring of the Group's risk attitude and appetite. 2019 will see further improvements as IRIS becomes embedded throughout the UK business and assessment tools are shared across the wider Group.

Assessment

Balfour Beatty's internal control environment is centred on the Gated Business Lifecycle with a mandatory assessment of risk and risk appetite being made at each review gate. In-house project management includes assessment and subsequent rating of risk and reinforcement of the importance of adherence to the Group's wide-ranging Minimum Expectations and Operating Standards.

Risk appetite

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

Throughout 2018 and into 2019 the Board and its Committees and working groups measured the nature and extent of those risks that the Group is willing to take to achieve its strategic objectives. This required a thorough review of the effectiveness of its internal control environment. The outcome of this assessment represents the Group's risk appetite and can be set out in the context of the Group's strategic priorities as set out below.

Strategic priorities – Build to Last

Lean

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

Risk appetite
Balfour Beatty is committed to maximising the value of Build to Last.

In delivering better for less, the Group is prepared to accept a level of operational risk.

Such risks must not be at the expense of achieving the overall lean objective or meeting customer requirements.

The Group's risk appetite for efficiency remains moderate.

Transformation programme
12 63 Read more

Supply chain
64 Read more

Legacy pension liabilities
66 Read more

Expert

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

Risk appetite
Balfour Beatty continues to develop its expertise in engineering, computer science, robotics, data analytics, electronics and electrical & mechanical engineering to deliver the very best solutions to its customers.

This drive for sustained innovation is undertaken with industry experts in managed and safe environments to minimise risk.

The Group continues to have a moderate appetite for expert risk.

People
62 Read more

Transformation programme
12 63 Read more

Economic environment
66 Read more

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 retains a low appetite for risks around meeting customer expectations.

Work winning
59 Read more

Project delivery
60 Read more

Joint ventures
61 Read more

Data governance
61 Read more

Transformation programme
12 63 Read more

Financial strength
63 Read more

Business conduct
65 Read more

Legal and regulatory
65 Read more

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 continues to be zero.

Health and safety
33 58 Read more

Transformation programme
12 63 Read more

Principal risks

Influencing the way we work

Understanding Balfour Beatty's risk profile and establishing the most effective way to manage, accept or transfer risk is central to the Group's decision-making process. The principal risks and uncertainties are continually mapped to strategic and business plans to ensure the appropriate coverage of risks allowing the Board to make a robust assessment of the principal risks which the Group faces, the controls in place to remove or mitigate these risks and whether these risks represent new, increased or decreased threats. The risk profile comprises interlinked and discrete risks which are focused on understanding the worst case scenarios that could threaten the Group's business model, future performance, solvency or liquidity. As a result, changes in the Group risk profile and movements in the some of the principal risks have been identified and are described on pages 58 to 66 below.

Brexit

Balfour Beatty continues to monitor potential risks and uncertainties posed by the UK's exit from the EU. A well-established working group comprised of functional experts monitors developments in this area closely. Specific risks and related mitigations are controlled in individual strategic business units and kept under review by the Executive Committee. Whilst there remains a great deal of uncertainty as to what Brexit will mean for the construction industry and Balfour Beatty in particular, the Group continues to develop and implement plans to ensure the best possible outcomes.

Further commentary is included in the uncertainty within our economic environment risk on page 66.

Climate change

The changing global climate generates a number of risks and opportunities for Balfour Beatty the impact of which, and mitigations against, are considered and reviewed as part of the Group's risk management process. Whilst climate change is not currently considered to be a principal risk to the business, the most significant elements have been identified to be changes in environmental legislation and weather related events. Further commentary on the potential impacts of climate change is set out on page 38.

Health and safety

Owner:	Safety and Sustainability Committee
Build to Last pillar:	Safe
Risk:	no movement

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 which could drive health and safety risks are recognised and communicated, including:

- risk identification/assessment
- lack of competence
- processes that fail to deliver risk elimination or mitigation
- failure in safety leadership
- ineffective management of subcontractors
- failure to cascade and follow procedures
- ongoing transformation programme and performance pressures, affecting the ability of people to remain focused on health and safety risks.

What impact it might have

Failure to manage these risks gives the potential for significant harm, including fatal or life changing injuries to employees, subcontractor staff or members of the public, as well as criminal prosecutions, significant fines, debarring from contract bidding and reputational damage.

How it is mitigated

Balfour Beatty has in place an overarching Key Strategy comprising policies and procedures (Zero Harm) to minimise such risks. This strategy and its action plans 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.

Work winning

Owner: Group Tender and Investment Committee

Build to Last pillar: Trusted

Risk: decreased

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

Causes
Inaccuracy at Gate reviews in:

- assumptions behind investment decisions
- costs versus scope and time calculations
- bid strategy development
- assessment of the impact of inflation and exchange rates
- technical and written proposal development
- Quick Qualifier assumptions
- contract / account management
- negotiation of terms and conditions
- assessment of customers' liquidity/creditworthiness.

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

If any of the assumptions behind bid strategy development and investment decisions prove incorrect, there is the potential for the business not to win the required work to sustain and grow shareholder value.

How it is mitigated
The Group Tender and Investment Committee process is in place to challenge all proposals.

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.

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

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

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

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.

Risk movement
Continued rigour in tendering and estimating combined with an ongoing focus on the value proposition to the Group's customers has seen a reduction in exposure.

Principal risks continued

Influencing the way we work continued

Project delivery

Owner: Group management

Build to Last pillar: Trusted

Risk: decreased

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

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

- unrealistic programming targets
- inadequate resource (people, plant and materials)
- unrealistic progress assessments and cost to complete judgements which could arise due to poor training, lack of supervision, lack of accountability or fear of reporting bad news
- overly-optimistic claim recovery assumptions
- incomplete visibility and appreciation of scale of commercial judgements
- failings in administering the contract terms to safeguard or protect future claims, change orders and extensions of time (EOTs).

What impact it might have
Failure to manage or deliver against contracted customer requirements on time, on budget and to the required quality could result in issues such as contract disputes, rejected claims, design issues, liquidated damages, cost overruns and failure to achieve anticipated customer savings which in turn could reduce the Group's profitability and damage its reputation.

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

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

How it is mitigated
A continued focus on identifying and reporting risks, including the accuracy of cost and cash forecasting.

Consistent application of strong commercial management and contract administration processes.

Integrated work winning and project delivery teams across the Gateway processes to ensure expectations are understood and realistic.

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

Ongoing management assessment of project risk management and control including planning, programme and resource reviews.

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

Use of innovative and cost-effective engineering and technical solutions (including the vision for 25% offsite fabrication by 2025).

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

Professional indemnity cover in place to provide further financial safeguards.

Balfour Beatty monitors the performance of subcontractors and suppliers throughout the lifecycle of a project.

Risk movement
Improvements to the Group's reporting systems and increasing traction of its short interval control processes within the early stages of project delivery are providing greater certainty of operational outcomes. The Group has used the lessons learnt from legacy problem contracts and new disciplines resulting from the Build to Last transformation programme to reduce the risk of project delivery.

Joint ventures

Owner: Group Tender and Investment Committee

Build to Last pillar: Trusted

Risk: new risk

Risk description
Failure of joint ventures to deliver expected returns and minimise the risk of unexpected liabilities.

Causes
The risk could be realised through:
- ineffective assessment of potential partner including liquidity, capacity and capability
- lack of clarity of the delegated levels of authority between partners
- delayed and fettered decision making process between partners
- segregation of management systems (financial and operational)
- lack of understanding of contract requirements and expectations
- failure to embed Balfour Beatty cultures and practices.

What impact it might have
A failure to execute a significant joint venture contract could result in a significant impact to profitability and reputational harm in the marketplace.

The failure of a joint venture partner may expose the Group to increased resourcing costs and ongoing warranty and insurance risks.

Disputes with strategic joint venture partners could impact the Group's ability to operate successfully and or expand within its chosen markets.

Failure to share and embed the Group's health and safety management expectations could result in increased potential for injury and or fatality.

How it is mitigated
All proposals to enter into a joint venture must be authorised by Group management via the Agreement to Enter into a Joint Venture procedure at Gate 1 of the review process.

The Group undertakes significant due diligence on potential joint venture partners via the Gateway review process including capacity, capability and liquidity.

The Group Tender and Investment Committee process is in place to challenge all proposals.

The Group seeks to enter into joint ventures with known and trusted long-term partners.

Experienced Project Directors are appointed to manage the project including an ongoing assessment of operational delivery risk.

Balfour Beatty monitors the performance of its joint venture partners throughout the lifecycle of a project.

Best practice including joint reporting systems where possible is shared between all partners to embed the Group's expectations and culture throughout joint venture delivery teams.

Risk movement
The Group is involved in a number of joint ventures and recognises that successfully executing these agreements presents a significant risk.

This risk represents an amplification of existing business and project delivery risk.

Data governance and cyber security

Owner: Group management

Build to Last pillar: Trusted

Risk: increased

Risk description
A breach of the Data Protection Act or the General Data Protection Regulation (GDPR) and/or a failure to protect key company data or other confidential information.

Causes
Failure to:
- comply with the GDPR
- embed required culture and procedure to address the ongoing threat of cybercrime
- prepare and respond to malicious intent and/or a targeted attack
- prevent a breakdown of key security software or management systems.

What impact it might have
Crystallisation of this risk has the potential for:
- the business to face legal proceedings, investigations or disputes resulting in business disruption, losses, fines, penalties and reputational damage
- a reduction or loss of competitive advantage (including loss of intellectual property)
- a negative impact on customer relationships, including loss of confidence
- disruption to operational delivery (business as usual)
- exclusion from bidding opportunities.

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

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

Resilience in network, endpoint protection and data backup.

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

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

Risk assessment of external providers of data and services.

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

Risk movement
Increased potential for cybercrime due to increased use of data-sharing platforms and standardised operating systems.

Principal risks continued

Influencing the way we work continued

People

Owner: The Board

Build to Last pillar: Expert

Risk: increased

Risk description

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

Causes

- Ineffective workload and location scheduling
- Increased competitor/sector strength and opportunities
- Inability to recruit and retain strong performers
- Failure to maintain a culture of pride and advocacy across the workforce
- Ineffective and or unfocused training
- 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, manage delivery costs, 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, stakeholder confidence being lost and an inability to drive business improvements.

How it is mitigated

Build to Last has included a range of People policies and processes under the Expert goal to improve the attractiveness of Balfour Beatty as the business people want to join and develop their careers. Since 2015 these measures have been increasingly effective in developing Balfour Beatty's culture and attractiveness as an employer and enabling the recruitment and retention of people with the skills and behaviours needed. Specific activities which mitigate this risk include:

- competency frameworks within core job families identify and support the development of key knowledge, skills and expertise
- recruitment and retention rates are measured and regularly reviewed across all parts of the business and succession plans are in place for core disciplines
- regular reviews of remuneration and incentive arrangements to ensure they are appropriate to help the Group attract, motivate and retain key employees
- Group-wide employee engagement surveys are undertaken to measure engagement and appropriate actions are developed and communicated
- the Balfour Beatty Academy has been established in the UK to provide professional development and knowledge sharing opportunities and to ensure employees feel valued and specialisms are recognised
- strong employee communication channels are in place celebrating individual, business and Group-level successes
- affinity networks have been established to create a diverse and inclusive working environment
- emerging talent is supported via a range of graduate, apprenticeship, trainee and industrial placement/internship schemes including The 5% Club (see page 34).
- in 2019 a Strategic Workforce Planning tool will be implemented to further enhance longer term planning, of work winning and matching with focused internal and external recruitment activities.

Risk movement

To execute the Group's strategy and achieve industry leading margins, the breadth and depth of leadership and the appropriate capabilities need to be well matched to the opportunities presented. A key factor impacting the increase in this risk, which applies to the broader sector, is the long-term visibility and timing of workload which has been impacted as a result of ongoing economic uncertainty. Delays to project commencement create uncertainty and can contribute to skilled resource leaving the industry and make it more difficult to attract people into the sector. As part of the Build to Last transformation programme Balfour Beatty has created a culture with strong people policies and processes in place which will continue to mitigate this risk.

Sustaining the transformation programme

Owner: The Board

Build to Last pillar: All

Risk: no movement

Risk description
The Group does not sustain and build upon the good practice, policies and procedures and culture of the Build to Last transformation programme.

Causes
Failure to sustain momentum could arise from:
- ineffective communication and reinforcement of message
- inadequate resourcing (financial, physical and people)
- complacency within core disciplines
- new systems and processes being used without appropriate controls being in place and/or tested.

What impact it might have
Inconsistency in working practices could result in the Group's ability to deliver sustained profit being jeopardised.

How it is mitigated
Ensuring Build to Last continues to deliver value is a strategic priority for the Group and is being led by the Group Chief Executive.

Controls include:
- continuing to reinforce the Build to Last culture and framework within each business unit
- senior leadership engagement across the businesses is clear and frequent
- new systems and processes are deployed with training plans and in agreed phases
- all agreed processes are held on the BMS and are frequently validated
- employee surveys form a key part of the programme
- leaders throughout the business frequently monitor and measure the delivery and impacts of the programme including through the outputs of the business improvement community
- senior leadership is well experienced in delivering business transformation successfully.

Financial strength

Owner: The Board

Build to Last pillar: Trusted

Risk: decreased

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

Causes
Failure to manage financial risks, including forecasting material exposures, and the financial resources of the Group that underpin its ability to:
- meet ongoing liquidity obligations so that it remains a going concern
- meet financial covenants as set out in financing facility agreements.

What impact it might have
Failure to deliver effectively the required financial strength will mean the Group:
- fails to meet financial covenant tests, as set out in its financing facility agreements, that would lead to an event of default if not remedied within a specific grace period
- fails to pass the required tests that allow it to continue to use the going concern basis of accounting in preparing its financial statements
- loses the ability to compete for key long-term contracts that are critical to the delivery of its long-term objectives and viability.

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

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

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

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

Sales across the asset portfolio can be used to generate cash.

Risk movement
During the year, the Group has significantly strengthened its balance sheet, paying down over 40% of its gross debt.

Principal risks continued

Influencing the way we work continued

Supply chain

Owner:	Group management	
Build to Last pillar:		Lean
Risk:		increased

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
- Lack of market capacity
- Retention of subcontracted parties in buoyant markets
- Inadequate assessment of supply chain partner capabilities and process (including quality, safety, ethics, materials 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 becoming involved in disputes, having to find a replacement or undertaking the task itself. This could result in delays, business disruption, additional costs or a reduction in quality/increased defects 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. This includes relationship mapping with strategic suppliers, including briefing on order book requirements.

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

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

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

The performance of active suppliers is monitored and lessons learnt inform future projects.

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

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

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

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

Risk movement

Scheduling, capacity and capability tensions in market hotspots has increased the potential for risk realisation.

Business conduct/compliance

Owner: The Board

Build to Last pillar: Trusted

Risk: no movement

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
Failure to embed the Code of Conduct and Balfour Beatty values could leave the Group exposed to:
- corruption
- bribery
- fraud, deception, false claims or false accounting
- unfair competition practices
- 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
- ethics and values being compromised as a result of commercial pressures
- other emerging ethical risks.

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

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

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

The Group has a range of operational controls (commercial including procurement, due diligence and risk assessment) that are designed to identify and manage risks internally and 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 are, in addition to the Group's due diligence and approval process, subject to specific contractual clauses, policies and agreements.

Legal and regulatory

Owner: The Board

Build to Last pillar: Trusted

Risk: no movement

Risk description
The Group does not adopt and implement all relevant legal, tax and regulatory requirements.

Causes
A failure to recognise or adapt to changes in applicable laws affecting the Group's businesses may result from:
- lack of awareness of the changes made
- ineffective communication of the requirements across relevant business units
- a deliberate breach.

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.

Affected businesses are alerted to changes in the law and the requirements of them made clear.

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.

Principal risks continued

Influencing the way we work continued

Legacy pension liabilities

Owner: The Board

Build to Last pillar: Lean

Risk: no movement

Risk description
The Group is exposed to and must effectively manage significant defined benefit pension risks.

Causes
The Group is unable to ensure that the trustees of the pension funds react effectively to or manage:
- changes in interest rates
- inflation or life expectancy trends
- intervention by regulators or legislators
- investment performance of the funds' assets.

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

This has the potential to affect the ongoing sustainability of the Group.

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

The funding and investment arrangements of the pension funds are subject to an in-depth triennial review with regular monitoring in between.

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

Uncertainty within our economic environment

Owner: The Board

Build to Last pillar: Expert

Risk: increased

Risk description
The effects of national or market trends, political or regulatory change (including the UK's exit from the EU), may cause customers to re-evaluate existing or future infrastructure expenditure and the procurement of services and/or lead to changes in the price and availability of labour and products.

Causes
Failure to plan for any potentially negative impacts, or to capture any opportunities that may be presented could lead to:
- customers postponing, reducing or changing expenditure plans
- wider than expected fluctuations in inflation
- increased competition (e.g. in the UK from foreign investors acquiring competitors)
- increased supply chain risks (e.g. solvency, people and materials)
- reduced revenue or pressure on margins.

What impact it might have
Any significant delay or reduction in the level of customer spending or investment plans could adversely impact the Group's strategy and order book, reducing revenue or profitability in the near or medium term.

Restrictions on the availability of skilled labour and competitively priced materials could lead to increased costs and hence potentially a devaluation of the business.

Financial failure of a customer, including any government or public sector body, could result in increased financial exposure to counterparty risk.

How it is mitigated
The Group primarily operates across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments). This provides resilience as the Group is less exposed to a downturn in a single geography or sector.

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, commodity prices and regulatory changes. A well-established working group comprised of functional experts is in place for this purpose, although significant uncertainty remains as to the impact of Brexit.

The financial solvency and strength of counterparties is always considered before contracts are signed and 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.

Risk movement
Macro-economic factors, reduced government spending and delayed decision making on strategic projects, have the potential to negatively impact the availability of skilled resource. This risk has increased in the year.

Common industry-wide risks
In parallel with those principal risks faced by the Group, Balfour Beatty faces significant risks and uncertainties that are prevalent to many companies – including financial and treasury, communications and marketing, regulatory reporting, information management, business continuity and disaster recovery, and general hazard risks.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the Group's long-term prospects and its viability over a three-year period to 31 December 2021.

Assessing the Group's long-term prospects

The Group operates primarily in the UK, US and Hong Kong, specialising in multiple facets of the construction and services industry. The Group also maintains an Investments portfolio which provides a strong underpin to the Group's balance sheet.

The Group has many elements necessary for greater future business success – expertise in technology and innovation, strong customer relationships and a talented workforce. The Group seeks to build on these strong foundations with continued investment into technological advances, to not only ensure that projects are delivered on time and as efficiently as possible whilst maintaining the upmost focus on safety, but also to remain market leaders in the way construction is conducted and to push the boundaries of innovation in line with achieving industry-leading margins.

Assessing the Group's viability

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

The Directors and the Executive Risk Steering Group continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, its business model, future performance, solvency and liquidity. As part of assessing the Group's future viability, the Directors have considered these principal risks and the mitigations available to the Group. These principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 58 to 66.

In their assessment of the Group's viability, the Directors have also considered the need to be successful in focusing on the Group's strategic goals of Lean, Expert, Trusted and Safe detailed on pages 12 to 13.

The Group successfully exceeded its Phase One Build to Last targets of £200 million cash in: £100 million cost out in 2016. Since then, the Group has continued to exploit opportunities to re-engineer processes, reducing cost whilst maintaining or improving efficiencies, culminating in all earnings based businesses achieving the Phase Two target of industry standard margins in the second half of 2018. It remains critical that the Build to Last principles are maintained to drive future success, although success is also dependent on the Group's ability to selectively win new contracts which will be partly impacted by political changes, particularly in the UK and the US.

The Directors have assessed the Group's viability in conjunction with its current position as well as its projections of its various debt facilities and associated covenants. These financial projections are based on the Group's Three Year Plan, which has been built on a bottom-up basis with a Group overlay which provides a more top-down view to align to the Group's strategic objectives. These projections indicate that the projected headroom, provided by the Group's net cash position and under the debt facilities currently in place, are adequate to support the Group over the next three years, whilst still enabling the Group to repay its £148 million debt falling due in the next three years. In testing the headroom available under the key sensitivities modelled, these expiring debt facilities have been assumed to be fully repaid and will not be replaced with another form of debt. In the three-year period, the Group is also not projecting to draw down on its revolving credit facility of £400 million. This facility expires in December 2020 but for the purposes of testing viability, it is assumed that an equivalent facility is available in 2021.

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

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

The above scenarios result in a reduction in revenue; a reduction in margin; an increase in operating costs; a slowdown in the Group's investments disposal programme; and/or negative changes to working capital.

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

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

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

Based on the assessment undertaken to stress-test the Group's viability against severe but plausible scenarios, and taking into account the strength of mitigations that are immediately available to the Group, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period until 31 December 2021.

Our 2018 Strategic Report, from pages 1 to 67, was approved by the Board on 12 March 2019.

Philip Harrison

Philip Harrison
Chief Financial Officer

Chairman's introduction to Corporate Governance

Embedding governance practices in our culture to support the Company's purpose

> "I believe that good standards of corporate governance are critical to the long-term sustainability of our business."
>
> **Philip Aiken AM**
> Chairman

Corporate Governance reporting

On the pages that follow, we have set out the Company's compliance with the 2016 UK Corporate Governance Code. Where practical we have aligned some content to recognise the new 2018 UK Corporate Governance Code (the 2018 code). We will report against the 2018 Code in full in the 2019 Annual Report.

Board leadership (including relations with stakeholders)
The Board is responsible for leading the business in the way it believes leads to the Company's long-term sustainable success. This includes effective engagement with shareholders and employees.

70 Read more

Board Committees
The Board is supported in its work through the Safety and Sustainability Committee, the Nomination Committee and also the Group Tender and Investment Committee and Finance and General Purposes Committee.

77 Read more

Division of responsibilities
The Board has a collective responsibility to lead but each member of the Board has a clearly defined role to ensure no individual or group of individuals dominates decision making.

74 Read more

Audit, risk and internal control and Audit and Risk Committee
The Board defines Balfour Beatty's strategy, taking care to avoid unnecessary or unacceptable risks. The Audit and Risk Committee is appointed to oversee this process on behalf of the Board.

80 Read more

Composition, succession and evaluation
We aim to ensure we have a balanced Board with the appropriate skills to govern the business, and an effective evaluation and succession plan. The Nomination Committee is appointed to lead on composition and succession matters on behalf of the Board.

75 Read more

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. The Board has delegated this responsibility to the Remuneration Committee.

Both the 2016 and 2018 UK Corporate Governance Codes can be found on the Financial Reporting Council's website: www.frc.org.uk.

88 Read more

Dear Shareholder

I am pleased to introduce this year's Corporate Governance report and to have the opportunity to share with you the activities of the Board during 2018. I believe that good standards of corporate governance are critical to the long-term sustainability of our business. In shaping the Group's strategic direction, we have sought to ensure that good governance practices are embedded in our culture and support our purpose of creating infrastructure, supporting communities and enabling growth.

Succession planning

In 2018, the full Board reviewed succession planning for our senior leaders including key roles below the Executive Committee. During the Board's scheduled annual visit to the US, we had the opportunity to meet with a range of senior colleagues and undertook a detailed review of succession plans focusing on the US. Directors make a number of visits to sites and offices in the UK and also the US specifically to meet as many of our colleagues as possible. The views of colleagues are then discussed with the rest of the Board. To enable Board members to directly support our pipeline of future leaders, individual mentoring relationships have been established.

At Board level, the Nomination Committee oversees all new appointments. Candidates are assessed against objective criteria through a rigorous selection process. We make appointments based on merit and do not believe in setting gender quotas. We adopted this approach in appointing Anne Drinkwater to our Board; who was judged to be the strongest candidate from those we considered.

We welcomed Anne as a non-executive Director to the Board in December 2018. Anne brings a wealth of experience of leading on large complex projects across multiple jurisdictions including the US from her long career at BP. With effect from 1 January 2019, Anne has joined the Safety and Sustainability Committee and the Remuneration Committee.

The Board undertakes a formal review of Committee composition each year and decided that no additional changes were required to the main Board Committees.

During 2018, terms of appointment for myself, Stuart Doughty and Stephen Billingham were reviewed in light of the contribution made by each of us to the effective operation of the Board. After consideration, the Board renewed each of our appointments for a further three-year term.

As is our usual practice, all Directors will stand for re-election, or election in the case of Anne Drinkwater, by shareholders at the AGM in May 2019 with the exception of Iain Ferguson. Iain will be retiring from the Board after the 2019 AGM and therefore will not be seeking re-election.

Further information on these matters is set out in the Nomination Committee report on page 77.

Independence of Directors

As is our usual practice, we carefully considered the independence of all Board members during the year taking account of the criteria set by the 2016 UK Corporate Governance Code and reviewing the conflicts of interest register, further details of which can be found on page 75.

Evaluation

An externally facilitated evaluation was conducted this year for which full details are set out on page 76. In consideration of what we had learnt in our internal reviews over the past two years – that the Board and Committees were functioning in accordance with their respective charters – I decided to adopt an approach which focused on the interpersonal effectiveness and performance of each Board member in the context of his or her personality profile and how this aligned with the profiles of other Board members.

Relations with stakeholders

The Board and I recognise the responsibility we have to a range of stakeholders including our customers, employees, key subcontractors, suppliers, the environment and the communities we operate in.

We are committed to open and effective dialogue with shareholders and meetings have been held with a range of institutional shareholders and also proxy advisory firms in order to directly discuss our strategic objectives and governance practices. In addition, meetings have been held with the UK Shareholders Association which represents retail shareholders.

The AGM is an important opportunity for private investors to engage with the Board and all shareholders are encouraged to attend.

During the year, in addition to the informal meetings of individual Directors during site and office visits referred to above, all Board members met with a range of colleagues at a 'Meet the Board' event at our Canary Wharf office. Further details of this can be found on page 73. Work is underway to develop and enhance the Board's formal approach to engagement with employees and we will report on this further in the 2019 Annual Report.

Safety and sustainability

The Board has continued to oversee our Company's approach to sustainability and health and safety. Although this work is led by our Safety and Sustainability Committee, the full Board receives a briefing paper on key metrics in this area at each meeting. More details of the Committee's work this year can be found on page 78.

Tragically during 2018, there were two separate fatalities suffered by our subcontractor partners, both resulting from third party incursions into our work sites. The Safety and Sustainability Committee received full briefings on these incidents and reviewed innovations and additional mitigations that could be undertaken to avoid such events in future. Such incidents are a sad reminder of the risk that our colleagues and partners face in delivering projects for our customers. The Board remains determined to drive industry-wide improvements in such areas to better protect our workforce across our operations.

Remuneration

Our remuneration policy was last approved by shareholders at the 2017 AGM. Details of how we intend to operate that policy in 2019 can be found in the Remuneration report on pages 88 to 103. We will be conducting a full review of our remuneration policy in 2019 and will then ask shareholders to approve our revised policy at the 2020 AGM.

UK Corporate Governance Code

During the year, the Board received a presentation on the new 2018 UK Corporate Governance Code. Processes and procedures including all Committee terms of reference and the Board's matters reserved are being reviewed in light of the changes brought in by the 2018 Code. We will report against the 2018 Code in the 2019 Annual Report.

For the current reporting period, we have applied the 2016 UK Corporate Governance Code (the 2016 Code), being the standard that applies to good corporate governance practice in the UK. The Company has complied fully with the requirements of the 2016 Code throughout the accounting period and to the date of this report.

Philip Aiken AM
Chairman

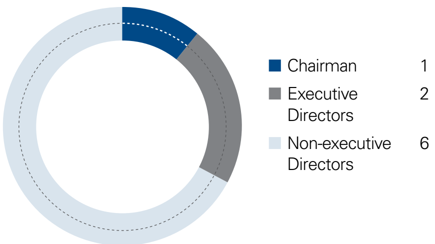
Board leadership

Board of Directors

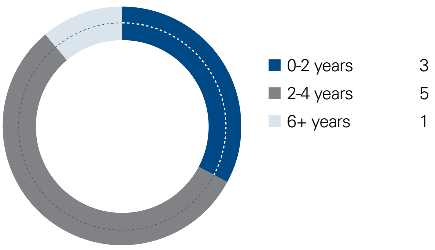
The Board has a collective responsibility for promoting the long-term success of the Company which is achieved by having members with a balanced range of individual skills and experience.

Set out below are some key metrics relating to the Board as at 31 December 2018.

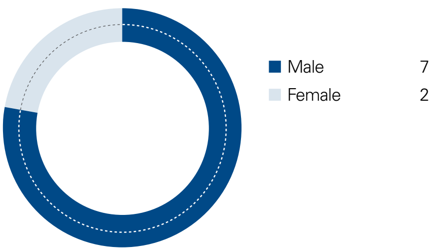
Board balance



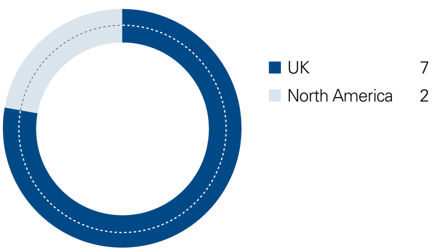
Board tenure



Board gender



Board geography



During 2018, there were no changes made to the composition of the main Board committees.

Anne Drinkwater was appointed to the Board on 1 December 2018 and appointed to the Safety and Sustainability Committee and the Remuneration Committee on 1 January 2019.

Iain Ferguson, Senior Independent Director and chair of the Remuneration Committee will step down from the Board at the conclusion of the AGM in May 2019.

Stephen Billingham will be appointed as Senior Independent Director and Anne Drinkwater will be appointed as chair of the Remuneration Committee. Both of these appointments will be effective from the conclusion of the AGM in May 2019.

Key for committee membership:

AR – Audit and Risk Committee
Rem – Remuneration Committee
Nom – Nomination Committee
SS – Safety and Sustainability Committee
GTIC – Group Tender and Investment Committee
FGPC – Finance and General Purposes Committee

1 Philip Aiken AM
Chairman

Date of appointment: 26 March 2015

Age at 12 March 2019: 70

Committee membership: Nom (Chair)/Rem/SS

Experience: Philip has over 45 years of board-level experience including extensive international business expertise, principally in the resources sectors.

Philip 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. Philip was awarded a Member of the Order of Australia in June 2013.

During 2018, Philip served as the chairman of Gammon China Ltd, the 50:50 joint venture between Balfour Beatty and Jardine Matheson, and its subsidiary Gammon Construction Holdings Ltd. Philip now serves as a non-executive director of the Gammon business.

External responsibilities: Philip is non-executive chairman of Aveva Group plc and a non-executive director of Newcrest Mining Limited.

2 Leo Quinn
Group Chief Executive

Date of appointment: 1 January 2015

Age at 12 March 2019: 62

Committee membership: Nom/SS/GTIC (Chair)/FGPC (Chair)

Experience: Leo has strong leadership expertise and has significant experience of successfully delivering transformation strategies for large multi-national companies.

Leo is a civil engineer and began his career at Balfour Beatty. He was educated at Portsmouth University and Imperial College, London where he completed his MSc in Management Science. Before being appointed as Group Chief Executive at Balfour Beatty, Leo spent four years as group chief executive of QinetiQ Group plc and prior to that, five years as chief executive officer of De La Rue plc. Before this, he spent almost four years as chief operating officer 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. Leo was previously a non-executive director of Betfair Group plc and Tomkins plc.

External responsibilities: Leo is the founder of 'The 5% Club', a UK employer led initiative focused on creating momentum behind the recruitment of apprentices and graduates into the workforce.

3 Philip Harrison
Chief Financial Officer

Date of appointment: 1 June 2015

Age at 12 March 2019: 58

Committee membership: GTIC/FGPC

Experience: Philip has considerable financial expertise and extensive experience of working in large multi-national manufacturing and services businesses.

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

4 Iain Ferguson CBE
Non-executive Senior Independent Director

Date of appointment: 1 January 2010

Age at 12 March 2019: 63

Committee membership: Rem (Chair)/Nom/SS

Experience: Iain has considerable remuneration experience and brings significant leadership and strategic oversight skills to the Board.

Iain spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development. Following this, Iain joined Tate & Lyle in 2003 as chief executive, serving in that role for six years.

He was also formerly chairman of Berendsen plc and of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office. Iain also previously held the roles of non-executive director of Sygen International and of Greggs plc.

External responsibilities: Iain is non-executive chairman of Stobart Group Limited, Hallmarq Veterinary Imaging Limited and a non-executive director of Personal Assets Trust plc. Iain is also a council member of Cranfield University and governor emeritus of the British Nutrition Foundation.

5 Barbara Moorhouse
Non-executive Director

Date of appointment: 1 June 2017

Age at 12 March 2019: 60

Committee membership: AR/Rem

Experience: Barbara has extensive leadership experience across the private, public and regulated sectors. She was group finance director at Morgan Sindall plc, regulatory director at South West Water and chief finance officer for two international listed IT companies – Kewill Systems plc and Scala Business Solutions NV. Subsequently, Barbara was Director General at the Ministry of Justice and the Department for Transport. Her most recent executive appointment was as chief operating officer at Westminster City Council. She is a fellow of the Chartered Institute of Management Accountants and an Associate Member of the association of Corporate Treasurers.

External responsibilities: Barbara is currently chair of the Rail Safety Standards Board, a non-executive director of Microgen Plc and Agility Trains, and a trustee for Guy's and St Thomas' Charity.

6 Dr Stephen Billingham
Non-executive Director

Date of appointment: 1 June 2015

Age at 12 March 2019: 60

Committee membership: AR (Chair)/Nom

Experience: Stephen has significant recent and relevant financial experience and has worked in the construction, infrastructure and support services industries for over 30 years.

Stephen was group finance director (CFO) of British Energy Group plc (FTSE 100 power generator) and WS Atkins plc (FTSE 250, and the UK's largest engineering consultancy) and ran Punch Taverns plc (the UK's second largest pub owner) as executive chairman. He played instrumental roles in the financial and operational turnarounds of all three companies. He also spent 11 years with Balfour Beatty's predecessor company BICC plc in corporate finance and other roles. He is a fellow of the Association of Corporate Treasurers.

External responsibilities: Stephen is currently non-executive chairman of Anglian Water Group Ltd and Urenco Ltd. He chaired the Urenco Ltd Audit Committee from 2009 to 2015 and was a member of the Anglian Water Audit Committee from 2014 to 2018.

7 Stuart Doughty CMG
Non-executive Director

Date of appointment: 8 April 2015

Age at 12 March 2019: 75

Committee membership: SS (Chair)/AR/Nom

Experience: Stuart has over 54 years' experience in the civil engineering, construction and infrastructure sectors.

Stuart 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 21 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, and as chairman of Alstec Ltd, Somero Plc and Beck and Pollitzer Limited. He is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and the Institute of Highway Engineers. Stuart was honoured in 2004 by the Queen with a CMG and also received an honorary doctorate from Aston University in 2018.

External responsibilities: Stuart is the chairman of the Finance and Major Projects Committee for Aston University.

8 Michael Lucki
Non-executive Director

Date of appointment: 1 July 2017

Age at 12 March 2019: 62

Committee membership: AR/Rem

Experience: Over 35 years of business and leadership experience in the US and internationally in the engineering and construction sector.

Michael has held a number of leadership and finance roles, including chief financial officer, executive vice president and board member at CH2M Hill. He was formerly an audit partner at Ernst & Young LLP and appointed as their Global Industry Leader for Infrastructure, Construction and Engineering Practices. Latterly, he has acted as a strategic advisor to companies and private equity firms in the engineering and construction industry.

External responsibilities: Michael is currently a board member at Psomas and also serves as an advisory board member at Anchor QEA, LLC. He is a trustee of the California State University Foundation Board and a member of the Investment Advisory Committee of The California State University System.

9 Anne Drinkwater
Non-executive Director

Date of appointment: 1 December 2018

Age at 12 March 2019: 63

Committee membership: Rem/SS

Experience: Anne has significant experience in heavy industry including multiple large capital expenditure projects with infrastructure considerations and knowledge of doing business in the UK and US. Anne was at BP plc for over 30 years, holding a number of senior strategic and operational roles across multiple jurisdictions including the US, Norway, Indonesia, the Middle East and Africa culminating in the role of president and CEO of the Canadian business. Anne has previously held non-executive director roles at Aker Solutions A.S.A. and UK listed Tullow Oil plc where she served on a number of key board committees. She was previously oil and gas advisor to the Falkland Islands Government.

External responsibilities: Anne is a non-executive director of Equinor A.S.A.

Board leadership continued

Corporate governance framework
The Board has a formal schedule of matters reserved for its decision and separate terms of reference for each of its Committees. As referenced in the preceding pages, there are four main Board Committees (Audit and Risk, Nomination, Remuneration and Safety and Sustainability). In addition, there is a Group Tender and Investment Committee and a Finance and General Purposes Committee, which are led and managed by the executive Directors with reports on their activities being made to the Board as appropriate. Verbal reports on meetings of the main Board Committees are provided at each full Board meeting by the relevant Committee chair.

Each Committee reviews its own terms of reference annually and these are then reviewed by the full Board together with the matters reserved to the Board. The matters reserved to the Board cover points affecting the Group as a whole including its strategy and budget, risk, high value investments/expenditure and approval of the Group financial statements and dividends. The full terms of reference for all Board Committees are available on our website https://www.balfourbeatty.com/investors/governance/board-committees/.

Responsibility for the day-to-day running of the Group is delegated to the Group Chief Executive who in turn delegates particular responsibilities to different individuals and functions through his Executive Committee of direct reports.

To ensure that decisions are taken at the right level within the Group by those best placed to take them, the Group Delegated Authorities set out in detail the authority afforded to each function and senior individuals across the UK and US. Having this central point of reference for all colleagues ensures there is a consistency of approach across the UK and US and allows the business to operate without creating bureaucratic and burdensome processes.

During 2018, the Group Delegated Authorities were thoroughly refreshed to re-align them with changes to the Group's business structure leading to stronger accountability.

Board and Committee meetings
Set out in the table opposite are details of individual Directors' attendance at meetings. The Chairman encourages all Directors to attend all Committee meetings unless conflicted e.g. where an individual's term of appointment, performance or remuneration is being considered.

Additional attendees are invited to attend Board and Committee meetings at the discretion of the relevant chair e.g. the Group Financial Controller and Group Head of Risk and Audit are invited to attend all Audit and Risk Committee meetings together with representatives of the Company's auditor KPMG LLP.

During the year, the Chairman met with the non-executive Directors without the executive Directors present.

Where Directors have not been able to attend part of 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.

Board and Committee agendas
A forward agenda is established for the Board and each of the main Board Committees to ensure that items are scheduled at the appropriate time during the year. Capacity is maintained on the agenda for each meeting to allow for the timely consideration of matters as they arise during the year. Regular deep dive presentations form part of the annual meeting cycle focusing on particular business areas or major projects of strategic importance to the Group.

A non-exhaustive list of matters considered by the Board during 2018, includes:

- progress with Phase Two of the Build to Last transformation programme
- Group strategy and budgets
- Group financial performance including annual and interim financial statements
- bid and contract updates
- legacy contract out-turns
- pipeline of significant projects
- health and safety performance
- significant human resources issues, including succession planning and diversity matters
- consideration of issues relating to major disputes, proceedings or other matters with a potentially adverse effect on the Group's reputation
- results of employee engagement surveys.

Speak up
The Group provides a service, Speak Up, which enables colleagues to report, anonymously if they choose, their concerns relating to unethical conduct affecting all areas of the business. Reports on the operation of this are provided to the Board biannually by the Group Head of Business Integrity. Further details of the service can be found on page 36.

Conflicts of interest
The Board has established formal procedures for the declaration, review and authorisation of any conflicts of interest of Board members. Conflicts are considered by the full Board on an annual basis. The Board was satisfied that none of the Directors had any conflict of interest during the year which could not be authorised by the Board.

Director	Board	Audit and Risk	Safety and Sustainability	Nomination	Remuneration
Philip Aiken	8(8)		3(3)	2(2)	4(4)
Leo Quinn	8(8)		3(3)	2(2)	
Philip Harrison	8(8)				
Iain Ferguson	7*(8)		2*(3)	2(2)	4(4)
Barbara Moorhouse	8(8)	4(4)			4(4)
Stephen Billingham	8(8)	4(4)		2(2)	
Stuart Doughty	7^(8)	4(4)	3(3)	2(2)	
Michael Lucki	8(8)	4(4)			4(4)
Anne Drinkwater	1(1)				

* Iain Ferguson – both absences were for meetings that were held on the same day and were due to unavoidable external commitments.

^ Stuart Doughty – absence due to illness.

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships).

All serving Directors attended the AGM held on 24 May 2018. In addition to the information reported above, the Chairman, Group Chief Executive and Chief Financial Officer routinely attend meetings of the Audit and Risk Committee. The Group Chief Executive also routinely attends meetings of the Remuneration Committee, except when matters relating to his own remuneration are discussed.

Relations with stakeholders

The Board has a responsibility to a range of stakeholders including the Group's customers, key subcontractors and suppliers and to the environment and the communities in which the Group operates. Set out below are details of the Board's engagement with two key stakeholder groups; employees and shareholders.

Employee engagement

Although the Group people plan has its foundation in the Build to Last transformation programme, the Board recognises the importance of its own role in ensuring constructive employee engagement to build a sustainable business.

Meet the Board

In 2018, a 'Meet the Board' event was held for staff at the Company's office in Canary Wharf. The event was publicised internally and via the Canary Wharf office social events committee and was open to all employees to attend whether or not they were based in Canary Wharf.

The Chairman delivered a presentation followed by a Q&A session. The other Board members were also available to answer questions. Further informal discussion continued over tea and coffee.

The intention of this session was for the Board to have the opportunity to engage with a wide range of employees. Members of the Board discussed roles and responsibilities and also heard directly from those in attendance about issues that matter to them.

The event was a great success with over 90 employees attending and a large number of questions being asked.

A further session was held in March 2019 in the Canary Wharf office with other office locations also being reviewed as locations for future events.

Further employee engagement

The Board has historically received updates and presentations on people related matters and routinely receives reports on the results of employee engagement surveys.

Notwithstanding this, plans are underway to further develop and formalise the Board's engagement programme with employees which will be detailed in the 2019 Annual Report.

Shareholder engagement

The Board places great importance on having positive relationships with all shareholders and seeks to ensure that there is an appropriate level of dialogue with investors.

The Group's website is an important resource for the Company to communicate to all stakeholders and in particular provides information useful for shareholders. Further engagement activities are set out below.

Institutional investors

As part of the Group's investor relations programme, the Chairman and executive Directors met with institutional shareholders throughout 2018. Other Board members, including the Senior Independent Director, also met with shareholders.

Details of meetings held were shared with the rest of the Board during the year. In addition to these 1:1 meetings, group sessions were held with current and prospective shareholders in attendance. Board members also attended and spoke at investor conferences.

An annual detailed review of investor relations activities, including shareholder meetings and conferences, was provided to the Board by the Head of Investor Relations together with a summary of analyst research briefings and an overview of the Company's share price movement.

Proxy advisory firms

Together with the Head of Investor Relations and the Deputy Company Secretary, the Chairman met with proxy advisory firms to directly communicate the Company's strategic priorities and governance practices. Verbal reports of proxy advisory meetings were provided to the full Board.

Retail shareholders

An event was hosted for the UK Shareholders' Association at the Canary Wharf office, attended by the Head of Investor Relations and the Deputy Company Secretary. The event was well attended with approximately 30 retail shareholders hearing a presentation from the Chairman on the Group's performance followed by a Q&A session. The discussion continued informally over a light lunch.

Following the success of this event, a further session is planned for April 2019.

Annual General Meeting

The AGM is an important event in the Board calendar and all shareholders are encouraged to participate whether by attending in person, asking questions or casting their vote in advance of the meeting. All resolutions continue to be put to a poll rather than a show of hands to ensure that the votes of all shareholders are counted even if they are unable to attend the meeting.

Each substantially separate issue is proposed via a separate resolution and proxy forms provide for shareholders to vote for, vote against or withhold their vote on each resolution.

All Board members attend the AGM and are available to answer questions during the formal part of the meeting as well as being present for informal discussion over refreshments after the AGM.

2019 Annual General Meeting and Class Meeting of Preference Shareholders

The 2019 AGM will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD on Thursday 16 May 2019 commencing at 11am.

Immediately following the AGM, a Class Meeting of the holders of the Company's cumulative convertible redeemable preference shares will be held.

Shareholders are encouraged to attend these meetings and ask any relevant questions they may have.

Division of responsibilities

The Board has a collective responsibility as set out above. Notwithstanding this, the division of responsibilities across all Board members is clear with each having a defined role with individual duties. A distinction is made between the leadership of the Board which is the Chairman's responsibility and the executive leadership of the Company's business which is the Group Chief Executive's role. The balance of responsibilities at Board level is set out below and demonstrates that no one individual has unfettered powers of decision-making.

Group Chief Executive

The Group Chief Executive is responsible for the day-to-day management of the Group and the delivery of the strategy as set by the Board.

Chairman

The Chairman leads the Board and ensures its effectiveness in directing the Company. The Chairman achieves this through promoting a culture of open and constructive debate among all Board members, both executive and non-executive. The Chairman encourages high standards of corporate governance, meeting with investors throughout the year to actively communicate with them.

Senior Independent Director

The Chairman is supported by the Senior Independent Director who acts as a sounding board for the Chairman and as an intermediary for the non-executive Directors and for investors. The Senior Independent Director leads the appraisal of the Chairman's performance.

Non-executive Directors

All of the non-executive Directors are considered to be independent under the Code. They are each responsible for providing strategic guidance and scrutinising and challenging the performance of management. In addition, all the non-executive Directors serve on at least one of the main Board committees, each of which is chaired by a non-executive Director. Through these committees but also through the main Board, the non-executive Directors ensure that the integrity of financial information and financial controls and systems of risk management are robust and defensible. They also determine appropriate levels of remuneration and are involved in succession planning and appointments.

Time commitment of Directors

The Board recognises the importance of individual members having sufficient time available to discharge their duties effectively. Additional commitments of Directors are carefully reviewed on appointment, before new directors are accepted onto the Board.

Each Director declares his or her external appointments and commitments to the Board on an annual basis as part of their conflict of interest declaration. In addition, a new policy has been implemented in 2019 to ensure that any new external responsibilities being considered by Directors are notified to the Chairman who can arrange for full Board approval if necessary. Before approval is given, an internal review is conducted to identify any potential conflicts of interest.

The Chairman's significant commitments are set out in his biography on page 71 and have not changed during 2018. Neither of the executive Directors holds any non-executive board positions at a FTSE 100 company. Leo Quinn holds the chairmanship of the 5% Club of which he was a founder (more details are set out on page 71).

Company Secretary

The Board is supported by the Company Secretary who is responsible for ensuring that the Board is able to function effectively and efficiently. In addition to making all logistical arrangements for meetings, the Company Secretary manages the policies and processes relating to the Board and ensures that the Board receives information in a timely manner.

With the retirement of David Mercer, a new Company Secretary, Jonathan Lagan was appointed in February 2019. Jonathan met with the Chairman, Chief Executive Officer and Chief Financial Officer as part of the selection appointment process and had 1:1 meetings with all other Board members as part of his induction.

Composition, succession and evaluation

Composition

As set out on pages 70 and 71, the Board consists of nine members, comprising the Chairman, Group Chief Executive, Chief Financial Officer and six independent non-executive Directors. With the retirement of Iain Ferguson in May 2019, the Board will revert to having eight members, including five independent non-executive Directors. The Board considers this to be an appropriate size to manage the requirements of the business.

Independence of Directors

By the criteria set by the Code, the Chairman was independent at the time of his appointment. As referenced above, all of the non-executive Directors are considered to be independent under the Code. This includes Stephen Billingham notwithstanding his directorships at companies that have a business relationship with the Group, as the value of such relationships is not considered to be material (more detail relating to value is set out in Note 36 on page 177).

Stephen is also a member of the Company's pension scheme from his time as an employee of the Group 15 years ago. The Board are all apprised of this and a fresh declaration is made by Stephen and recorded in the minutes at any meetings where there is discussion relating to the Group's pension scheme. Iain Ferguson has served on the Board since January 2010 and has remained independent throughout his tenure. Iain has now reached nine years of service on the Board and has informed the Board of his intention to retire as a Director following the AGM in May 2019. More details are available on page 77.

Succession and tenure

On behalf of the Board, the Nomination Committee reviews succession planning of Directors. Further information on the work of this Committee is set out on page 77.

In December 2018, Anne Drinkwater was appointed to the Board as an independent non-executive Director. The search process was led by the Nomination Committee and all Board members were kept updated of progress. Further details are set out on page 77.

All Directors are subject to annual re-election by shareholders at the AGM where terms of appointment for each non-executive Director are available for inspection. Set out in the Notice of AGM is information on the skills and experience of each Director seeking re-election or election. During 2018, terms of appointment were renewed for the Chairman, Stephen Billingham and Stuart Doughty, each for a second three-year term and further details are set out on page 77.

Set out below is the current length of tenure for the Chairman and each non-executive Director as at 31 December 2018:

Director	Tenure
Philip Aiken	3 years 9 months
Iain Ferguson	9 years
Barbara Moorhouse	1 year 7 months
Stephen Billingham	3 years 7 months
Stuart Doughty	3 years 8 months
Michael Lucki	1 year 6 months
Anne Drinkwater	1 month

Induction, training and development

Following the appointment of new Board members, the Company Secretary in conjunction with the Chairman prepares a tailored induction programme. The new Director is consulted to ensure that areas of particular interest to him or her are prioritised or emphasised as necessary. This approach was taken in arranging the induction of Anne Drinkwater, appointed in December 2018. Meetings were held for Anne to speak directly to all members of the Executive Committee and other senior leaders across the Group, and visits to office and site locations across the UK and the US were arranged.

In addition, Anne was provided with access to a suite of induction materials via the electronic Board portal. These materials are also available to all other Board members as a continuing point of reference. Included in the pack are key internal governance documents, information relating to the business of the Company and policies and procedures relating to the operation of the Board.

The induction programme provides the foundation for the ongoing training and development of Board members. The Chairman maintains a dialogue with individual Directors to identify any specific training needs. Where appropriate, such training is delivered by the topic being included at a future Board meeting so that all Directors can benefit. Otherwise, training is delivered by way of formal presentations, individual meetings and visits to sites in order to learn more about a particular initiative or project. All Board members are encouraged to visit site and project locations throughout the year and Directors are invited to provide verbal reports of such visits at each Board meeting.

Information and support

During the year, the Company Secretary advised the Board on matters related to governance, ensuring Board procedures were followed and relevant statutory and regulatory requirements were complied with. The Company Secretary has responsibility for facilitating the timely distribution of information between the Board and its Committees and the executive and non-executive Directors.

The Directors have direct access to the Company Secretary for advice and he is able to arrange, at the Company's expense, for the Directors to receive independent professional advice where appropriate.

Composition, succession and evaluation continued

Evaluation

In accordance with the Code, the Board undertakes an annual evaluation of its performance and that of its Committees. An external evaluation is undertaken every three years, with internal evaluations carried out in the intervening years to consider the performance and effectiveness of the Board and its Committees, as well as the Chairman and individual Directors.

2018 evaluation

An externally facilitated evaluation of the Board was undertaken in 2018 by Dobson Lyle. The Company has previously engaged Dobson Lyle to provide services to review and assess the capability of senior leaders.

In considering the feedback from Directors and senior management from the two previous years' internal reviews, it was considered that the Board and its Committees were functioning in accordance with their respective charters. External facilitation was not needed to confirm this and therefore the approach adopted was to focus on the interpersonal effectiveness and performance of each Board member in the context of his or her personality profile and how this aligned with the profiles of other Board members. This focus on the specific skills and operating style of each Board member sought to identify the relative strengths of each Director thereby ensuring that each Director is appropriately and fully utilised in light of their capabilities. By profiling each Board member in this way, the overall efficacy and communication dynamics of the Board could be improved.

The evaluation was conducted through the completion of personality profiles for each Director individually, followed up by 1:1 interviews. An overarching report setting out the findings was prepared and presented to the Board by Dobson Lyle for further review. In addition to the full Board report, an individual review was prepared and provided to each Board member. Following this, the Chairman held 1:1 meetings with each Director to gather feedback on the outcome of the evaluation.

Stage 1

Completion of a detailed personality profile by individual Directors.

Stage 2

1:1 meetings conducted by Dobson Lyle with each Director based on the outcome of his or her personality profile.

Stage 3

Preparation of report for the whole Board and individual Directors.

Stage 4

Results presented to and reflected on at a Board meeting.

Stage 5

1:1 meetings with the Chairman and individual Directors to reflect on outcomes.

Key conclusions from the evaluation

This process was considered effective in improving the depth of understanding of how the Board operates and interacts through its constituent members and opportunities for improvement were identified.

Appreciation of individual styles and the impact this has on effective communication and decision making has led to an improvement in the operation of the Board, raising the standard of debate at meetings and the Board's performance overall.

Having reviewed all the materials and discussed the findings at some length, the Directors re-affirmed that the Board and its Committees are working very effectively.

Board Committees

Philip Aiken AM
Chair of the Nomination Committee

During 2018, the Committee has considered a range of matters, most notably leading on the process to appoint a new non-executive Director, Anne Drinkwater.

Nomination Committee report

In 2018, Philip Aiken served as Chairman of the Committee. Other members were non-executive Directors Stephen Billingham, Stuart Doughty and Iain Ferguson, and the Group Chief Executive, Leo Quinn. The full terms of reference for the Committee are available on our website https://www.balfourbeatty.com/investors/governance/board-committees/.

Activities during 2018

During 2018, the Committee considered Board succession planning, the balance of skills and experience on the Board, the appointment of a new non-executive Director and the renewal of existing Board members' terms of appointment.

Detailed reviews of internal talent and succession plans for executive Directors and senior leaders were presented to the full Board during 2018 including a focus on US leadership during the Board's visit to Dallas, Texas.

The succession of the executive Directors was discussed at a meeting of the non-executive Directors without the executive Directors present. The Committee also considered the impact and associated succession planning required in light of Iain Ferguson completing nine years of service as a Board member. This was particularly significant given Iain's roles as Senior Independent Director and chair of the Remuneration Committee. The Committee made its recommendations in respect of these appointments to the full Board for approval.

Diversity and inclusion

Diversity and inclusion remain central to Balfour Beatty's people strategy. The Committee recognises that it is not only right to ensure that people of all genders and backgrounds are able to access fulfilling careers in the construction industry; but that a business which reflects the society it serves will be better placed to continue to deliver for its stakeholders. By encouraging people of all backgrounds to join the Group, and enabling them to do their best, the Group is able to help bridge the skills gap this industry continues to face.

In the UK, in order to promote the inclusivity of people of all backgrounds, the Company has developed four employee affinity networks across key areas of protected characteristics which all employees are encouraged to join regardless of gender, race, ability or sexual orientation: LGBT, Gender Equality, Multi-Cultural/BAME and Ability (which seeks to identify and remove barriers to enable people with disabilities to join the Group and to reach their full potential). Development of talent at all levels of the business remains a key focus for the Group and the Committee seeks to apply this approach in respect of appointments to the Board.

Appointment of new non-executive Director

In securing the appointment of Anne Drinkwater as a new independent non-executive Director, an external search agency, Ridgeway Partners was engaged in order to identify suitable candidates. Ridgeway Partners has supported the Board in previous selection processes for new Board members but has no other connection with the Company.

The Committee was keen to ensure that a fair process was undertaken to identify candidates on the basis of merit and objectively determine the strengths and skills that would complement those of existing Board members. Anne's considerable experience working at BP plc on multiple large capital expenditure projects with infrastructure considerations makes her a strong addition to the Board. Her knowledge of doing business in the UK and US also reflects the Group's focus on these jurisdictions.

Renewal of terms of appointment

In reviewing existing Board members' terms of appointment, Phil Aiken, Stephen Billingham and Stuart Doughty each reached the end of their initial three-year term as Board members during 2018.

The Committee considered the individual performance and contributions made by each of these Directors over the past three years. The Committee was satisfied that each of them would continue to be effective in their roles and offered each a further three-year term in accordance with the Code. Each of the Directors recused themselves from the discussion where his own appointment was considered. For the consideration of the Chairman Philip Aiken's renewal of appointment, the Senior Independent Director chaired the meeting.

Focus for 2019

With the introduction of the 2018 Code, the Committee will review its terms of reference to ensure its scope is expanded to formally address new requirements, particularly in the areas of diversity across the Group.

Succession planning will remain a key priority for the Committee to ensure that the pipeline of the Group's leadership remains aligned with the strategic direction of the business. The balance of skills and experience at Board level will also continue to be monitored.

Stuart Doughty
Chair of the Safety and Sustainability Committee

Among the Committee's duties are to review the strategies, policies and performance of the Group in relation to health, safety, environment and sustainability, and to drive improvement in these areas.

Safety and Sustainability Committee report

During 2018, Stuart Doughty has continued to chair the Committee. Other members during the year included the Chairman Philip Aiken, independent non-executive Directors Stephen Billingham and Iain Ferguson, and the Group Chief Executive, Leo Quinn. Anne Drinkwater was appointed to the Committee on 1 January 2019.

Committee's duties

Among the Committee's duties are to review the strategies, policies and performance of the Group in relation to health, safety, environment and sustainability, and to drive improvement in these areas. 'Safe' is one of the Group's four Build to Last goals and the Committee, on behalf of the Board, is responsible for reviewing the Group's strategies, policies and procedures in relation to health and safety. In addition, the Committee reviews and approves targets and key performance indicators on health and safety and monitors performance against those targets. With regard to sustainability, the Committee reviews the environmental and social performance of the Group, including but not limited to carbon emissions, energy, resource efficiency and compliance. The full terms of reference for the Committee are available on our website https://www.balfourbeatty.com/investors/governance/board-committees/.

Activities during 2018

The Committee met three times during 2018. In addition to receiving routine reports on matters relating to both safety and sustainability, detailed briefings were provided on significant incidents that had occurred including high potential events that could under other circumstances have caused serious harm.

As reported on page 69, sadly during this year, the Committee received in-depth reports on two fatalities that occurred in 2018 due to third party incursions into Balfour Beatty work sites. Detailed briefings were received on the investigations carried out following each incident and learnings and improvements identified.

During 2018, the Committee has overseen improving trends in safety performance across the Group (excluding international joint ventures) with increasing levels of safety observations indicating a greater workforce engagement. The Committee has continued to support the sharing of best practice across geographies on learnings from incidents and also innovation opportunities between the UK and US businesses and with Gammon, the Group's 50:50 joint venture operation based in Hong Kong. A drive towards treating health like safety was also progressed this year with mental health being a key priority.

In relation to sustainability, the Committee reviewed environmental incidents and environmental performance, discussed a number of innovations that are being used to reduce energy and associated carbon emissions and deliver significant cost savings and examined how data was being used to drive positive behaviours, reduce fuel consumption and associated emissions and costs as well as improve safety.

Committee members were active in visiting sites throughout the year, where they were able to reference the health and safety calendar for monthly focus areas and see at first hand the safety and sustainability measures being implemented at site level.

Areas of focus for 2019

In 2019, the Committee will continue to promote a strong safety culture and support the initiative to treat health like safety including an ongoing focus on mental health activities.

In line with the Group's 25 by 2025 vision, reducing the volume of materials, associated carbon and waste across project sites will also be a priority. The Committee is keen to review Our Blueprint (the Group's sustainability strategy) and an update on the United Nation Assembly's Sustainable Development Goals will be provided to assist this review. Overseeing progress on targets to reduce carbon emissions will also be key and consideration will be given to the development of appropriate metrics with the Science Based Targets initiative on corporate climate change action. There will also be a continued focus on subcontractor engagement and supply chain engagement.

Our Blueprint can be accessed at: https://www.balfourbeatty.com/media/195840/sustainability-blueprint-2017.pdf.

Leo Quinn
Group Chief Executive

Group Tender and Investment Committee report

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

The Committee has overall authority and responsibility for the content, maintenance and operation of the Gated Business Lifecycle. The Committee meets regularly throughout the year to discuss proposed projects at the various stages of their development and review all major proposed tenders with projected values above specified levels, with a specific focus on risk. Those contracts which are considered to be of a significant size and risk to the overall Group are reviewed by a committee of the Board.

Any member may convene a meeting of the Committee to discuss any of the tender reviews in more detail. Key members of the team involved with the project being considered and their strategic business unit leaders attend each meeting in addition to Committee members. Minutes of all meetings are made available to all Directors.

Finance and General Purposes Committee report

The Committee is chaired by Leo Quinn as the Group Chief Executive, or in his absence, by the Chief Financial Officer.

The Committee is responsible for agreeing the Group's borrowing and banking arrangements, management of foreign exchange exposures, contract financing, bonding and leasing arrangements and various matters relating to the issued share capital of the Company.

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

Audit, risk and internal control

Risk management and internal control

Risk management

The Board recognises that successful delivery of the Group's strategic and day to day objectives is underpinned by a comprehensive and consistent assessment of relevant risks. Effective, agile and universally applied risk management principles enable the Group to accurately examine its risk profile against its accepted attitude and appetite, limit its exposure to unacceptable risk and ensure long-term viability. Once key risks to delivering value to the Group and its stakeholders are identified a decision is made to treat, tolerate, terminate or transfer potential exposure. For more information, refer to pages 55 to 66.

The Board is committed to meeting the relevant requirements of the UK Corporate Governance Code and has applied the principles of the Code in establishing procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives.

Roles and responsibilities

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

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

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

Risk management process

Mandated by the Balfour Beatty's risk management policy, all business units are responsible for ensuring that effective arrangements, and management controls, are established and implemented for the management of risk. The Group's hierarchy of risk management is to prioritise reduction in the likelihood of risk events occurring, mitigate the adverse impact where this is not possible and identify opportunities where taking risks might benefit the business. Balfour Beatty is relentless in ensuring that a positive risk management culture remains embedded at all levels.

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

Additionally, the Board issued updated and more detailed delegated authority levels in 2018 which act as triggers for the escalation of matters requiring approval. In relation to work winning, this means projects above a certain value, or those with unusual characteristics, such as a move into new markets, require approval by the Group Tender and Investment Committee or the Board, as appropriate.

Escalation and reporting structures ensure that risk oversight is rigorously applied at all levels of the business from operational review through to scrutiny by the Executive Risk Steering Group and the Board.

To be effective it is vital that the Group's approach to risk management remains reflective of the shape and direction of the business and the wider industry. In 2018 the Group Risk Register was completely refreshed, recategorised and reassessed and a key risk and control statement was drafted for review by the Group Chief Executive. To ensure a consistent application of the Group's risk management expectations the links between the central risk team and business units were strengthened and a bespoke risk assessment and escalation tool was developed with extensive input from the wider business.

Internal control

The Board has ultimate responsibility for the Group's risk management systems and internal control and regularly reviews their effectiveness. The Group's systems and controls are designed to ensure exposure to significant risk is both understood and appropriately managed. The Board recognises that any system of internal control is designed to identify and control rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved sit wholly within Balfour Beatty's internal control environment. Where this is the case, separate systems of internal control and risk management are applied as agreed between the joint venture partners.

Central to the Group's systems of internal control are its processes and framework for risk management. These align with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and were in place throughout 2018 and up to the date of signing this report. The Group has a thorough understanding of its risk exposures and has mapped out its assurance network accordingly. Topics covered by Policies, Standards and Expectations include but are not limited to:

- a fully revised and reissued system of delegated authorities from the Board to management with certain matters reserved by the Board
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and management, including particular areas of business or project risk. This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control identified risks
- annual review of the strategy and plans of each business and of the Group as a whole to identify risks to the achievement of objectives and, where appropriate, any relevant mitigating actions
- a comprehensive suite of policies, manuals and instructions setting out the requirements of the Group Finance function covering the financial management of the Group, including but not restricted to arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, application of accounting policies and financial controls
- risk management expectations which are embedded throughout the Group
- enhanced systems for the management and reporting of risk which have been deployed throughout the Group
- reviews and tests by the internal audit function of critical business financial processes and controls and specific reviews in areas of perceived high business risk
- reviews and authorising of proposed investment, divestment and capital expenditure through the Board and Board Committees
- regular reporting, monitoring and review of the effectiveness of health, safety, environment and sustainability processes. These processes are subject to independent audit and certification to internationally recognised standards as appropriate
- legal and regulatory compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- promotion of a culture of compliance with ethics and integrity responsibilities to help manage legal and reputational risks across the Group. An ethics helpline encourages staff to raise concerns, in confidence, about possible breaches of the Code of Conduct.

There is also an independent internal audit function that executes a risk-based programme of audit throughout the entire Group. All audit reports are shared with relevant business leaders in addition to being reviewed by the Audit and Risk Committee (see pages 82 to 84).

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

The Board's assessment of the risk management processes and internal controls during 2018 is based on reports it received and those presented to the Audit and Risk Committee and the Safety and Sustainability Committee, including:

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

Principal risks

The principal risks that could adversely impact on the Group's profitability and ability to achieve its strategic objectives are set out on pages 58 to 66.

Audit and Risk Committee

Stephen Billingham
Chair of the Audit and Risk Committee

Among the Committee's duties are to review significant accounting judgements, review the effectiveness of risk management and internal controls and assess the external and internal audit functions.

Audit and Risk Committee report

During the year the Committee comprised Stephen Billingham as Chairman, Stuart Doughty, Michael Lucki and Barbara Moorhouse. All members are independent non-executive Directors with further details of their skills, experience and qualifications set out on page 71.

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. He is supported by Committee members with varied industry and commercial experience relevant to the construction sector.

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

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 performed by internal audit and the 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.

Summary of activities in 2018

In 2018, the Committee's core 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 83.

Financial reporting

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

- at the Board's request, whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy
- the clarity of disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements and guidelines, including the European Securities and Markets Authority Guidelines on Alternative Performance Measures
- discussing the critical accounting policies and use of assumptions and estimates (including key contract judgements), as noted on pages 126 and 127 of this Annual Report, and concluding that the estimates, judgements and assumptions used were reasonable based on the information available and had been used appropriately in applying the Group's accounting policies
- assessing the Group's implementation of the new leasing standard, IFRS 16 Leases. In particular, the Committee focused on the robustness of the implementation project led by the Group team and the impact assessment of the new standard on the Group's results. The Committee also reviewed, assessed and endorsed the Group's proposed internal accounting policies to reflect the requirements of the new standard, which was adopted by the Group on 1 January 2019. Further detail on the impact of the adoption of IFRS 16 can be found on page 121.
- reviewing the going concern and viability of the Group over the longer term as part of its assessment of the Group's risks (see pages 54 and 67).

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

The key significant financial reporting issues and other accounting judgements are set out in the table on page 83.

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 Group 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 54 and 67.
Non-underlying items	The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.
Provisions	The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.
Retirement benefits	The key judgement relates to the assumptions underlying the valuation of the retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.
Deferred tax assets	The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.
Directors' valuation of the Investments portfolio	The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Other matters

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

Items discussed		Mar	May	Aug	Nov
Internal audit	– biannual assessment of risk and internal control	•		•	
	– approval of the Group's internal audit plan		•		•
	– review of the effectiveness of internal audit	•	•	•	•
	– review of findings from internal audit activities and updates	•	•	•	•
External audit	– audit report on 2017 financial results	•			
	– review report on 2018 interim results			•	
	– approval and review of the proposed audit strategy plan and procedures			•	
	– transition of lead audit partner		•		
	– review of the provision of non-audit services provided by the external auditor (including fees)	•			
	– review and assessment of the effectiveness of the planned audit strategy	•			
	– review process and control issues identified during the audit and recommendations to management		•		•
Other matters	– assessment of the Group's insurance strategy and programme		•		
	– assessment of the robustness of the Group's procedures on Business Integrity and review of its findings		•		
	– review and discuss the Group's update to the Committee on its ERP system standardisation			•	•
	– review of the Group's management of its tax affairs including its approach to the new UK corporate criminal offence of failure to prevent tax evasion		•		•
	– review regulatory and other third party correspondence			•	•
	– assessment of Business Integrity's report on identification of fraud and deception				•
	– annual review of the Committee's terms of reference				•

Audit and Risk Committee continued

FRC's Audit Quality Review

During the year, the FRC's Audit Quality Review team carried out a review of KPMG LLP's audit work for 2017. There were no findings in their report to the Committee and consequently no changes were made to the 2018 external audit process other than general process enhancements.

Areas of focus in 2019

In 2019, the Committee will continue to address the topics described on pages 82 and 83 including continuing to undertake reviews of the risk management and assurance practices across the Group on a rolling programme. The Committee will also continue to receive any necessary training in order to broaden and refresh the skills and knowledge of its members.

Risk management and internal control

The Board has ultimate responsibility for the Group's risk management systems and internal control.

The risk management and internal control framework now comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion.

These processes are underpinned by common minimum standards in project and commercial management and are under constant review to ensure their effectiveness and compliance.

Internal auditor effectiveness

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

External auditor independence and effectiveness

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

Non-audit work

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

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

The Group'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 2018, there were fees of £0.4 million (2017: £0.5 million) paid to the external auditor for non-audit services. 2018 non-audit services primarily related to the half-year review. Audit fees for 2018 were £2.6 million. Further details are included in Note 6.2 on page 134.

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

The Committee considers that the Group 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.

98% by value of non-audit related work provided by international accounting firms in 2018 was carried out by firms other than KPMG.

Annual assessment of the audit process

In addition to receiving written reports from the auditor (both internal and external) and management, the Committee also conducted separate private meetings with the external auditor 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, the effectiveness of the external auditor as well as KPMG's level of professional scepticism, together with any identified improvement recommendations, is prepared each year.

External auditor rotation

The Group undertook an external audit tendering process in 2015 and KPMG was selected as the Group's auditor for the year ended 31 December 2016, replacing Deloitte as the incumbent for the last 14 years.

Paul Sawdon is the lead partner on the audit for the year ended 31 December 2018. He replaced Stephen Wardell who retired as the lead partner on the audit after completing his second year for the year ended 31 December 2017.

The external auditor is required to rotate the lead partner every five years. Such changes are carefully planned to ensure business continuity without undue risk or inefficiency.

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 group'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 Group'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.

Directors' report – other disclosures

Directors' report
The Directors of Balfour Beatty plc present their report, together with the audited accounts for the year ended 31 December 2018.

For the purpose of the Financial Reporting Council's Disclosure Guidance and Transparency Rule (DTR) 4.1.8R, the Directors' report is also the Management report for the year ended 31 December 2018.

As permitted by Section 414 C(11) of the Companies Act 2006, some matters required to be included in the Directors' report have instead been included in the Strategic report. These disclosures are incorporated by reference in the Directors' report. The Strategic report can be found on pages 1 to 67.

Corporate governance
The Governance section on pages 68 to 103, including the Compliance with the Code statement on page 69, forms part of the Directors' report.

Directors and their interests
The Directors who served during the year and were Directors at 31 December 2018 were Philip Aiken, Leo Quinn, Philip Harrison, Iain Ferguson, Stephen Billingham, Stuart Doughty, Michael Lucki, Barbara Moorhouse and Anne Drinkwater. Further details and individual biographies are set out on page 71.

The interests of the Directors and their connected persons in the Company's shares, (as notifiable to the Company under Article 19 of the Market Abuse Regulation) are set out on page 100. In the period between 31 December 2018 and the date of this report there has been no change in the interests of Directors or their connected persons save for the increase of 109 ordinary shares held in the Share Incentive Plan for Leo Quinn.

At no time during 2018 did any of the Directors have a material interest in any contract with the Company or any of its subsidiaries.

Directors' indemnities and insurance
The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its directors.

Qualifying third party indemnity provisions were in force during 2018 and as at the date of this report for the benefit of certain employees who were directors of a subsidiary company.

Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the year ended 31 December 2018 for the benefit of the trustee directors of the Balfour Beatty Pension Scheme.

All provisions related to indemnities and insurance are reviewed annually.

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.

Share capital
Details of the share capital of the Company as at 31 December 2018, including the rights attaching to each class of shares, are set out in Note 29 on page 167. During the year ended 31 December 2018, no ordinary or preference shares were issued or repurchased for cancellation.

At 31 December 2018, the Directors had authority under shareholder resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2018 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 2019 AGM or on 1 July 2018 (except in relation to the purchase of shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

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.

Shares held by the Balfour Beatty Employee Share Ownership Trust rank pari passu with the ordinary shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in this trust rest with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

Details of shares purchased by the Balfour Beatty Share Ownership Trust in relation to the Company's share schemes can be found in Note 30.3 on page 170. All shares purchased were ordinary 50p shares. The percentage of called-up share capital represented by the shares purchased in 2018 was 0.22%.

Major shareholders' interests
Notifications provided to the Company by major shareholders in accordance with the DTR are published via a Regulatory Information Service and on the Company's website. Pursuant to DTR 5, the Company has been notified of the following interests in voting rights in its shares as at 31 December 2018 and as at the date of this report:

	Percentage of voting rights (%) as at 31 December 2018	Percentage of voting rights (%) as at 4 March 2019
Causeway Capital Management LLC	11.79	12.19
M&G Investment Management	6.39	6.37
BlackRock Inc	6.46	6.23
UBS Asset Management	5.51	5.52
UBS collateral account	4.76	4.45
Invesco Limited	3.74	3.61
Pzena Investment Management	3.42	3.42
Vanguard Group	3.30	3.38

Dividends
An interim dividend of 1.6p per ordinary share was approved by the Board on 14 August 2018 and a final dividend of 3.2p per ordinary share will be recommended at the Annual General Meeting, giving a total dividend per ordinary share of 4.8p for 2018 (2017: 3.6p). Preference dividends totalling 10.75p per preference share were paid in 2018 (2017: 10.75p).

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

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

Auditor
KPMG LLP has indicated its willingness to continue as auditor to the Company and a resolution for its re-appointment will be proposed at the 2019 AGM.

Directors' report – other disclosures continued

Innovation, future development and research and development

Information concerning innovation, future development and research and development is set out on pages 30 to 32, and forms part of the Directors' report disclosures.

Policies

The Group's published policies on health and safety, sustainability, sustainable procurement, modern slavery, social value, environment, business conduct and ethics remain in place and can be accessed on its website (https://www.balfourbeatty.com/how-we-work/our-code-of-conduct/policies/

Sustainability

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 30 to 43.

Greenhouse gas emissions

Details of Balfour Beatty's Scope 1 and 2 greenhouse gas emissions during the year and the actions which the Group is taking to reduce them are set out on pages 39 and 40 and form part of the Directors' report disclosures.

Employment

The Balfour Beatty Group operates across a number of geographies and end markets.

Balfour Beatty provides a Human Resources framework for promoting diversity, ethical behaviour and learning and development as well as continuing to fulfil its commitments in relation to regulation and corporate governance. The key principles in the design and practice of employment policy that are applicable across the Group are to:

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

The Group provides fair and flexible employment policies and practices that respond to the different needs of its people. Information concerning employee diversity is set out on page 35 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 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 financial and economic factors affecting the performance of the Group and the Company's share price is available to all employees via the Company's intranet site.

Events after the reporting date

As at 12 March 2019, there were no material post balance sheet events arising after the reporting date.

Political donations

At the AGM held in May 2018, 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 2019 AGM.

In the US and Canada, corporate political contributions totalling US$203,000 (£152,300) were made by business units during 2018 (2017: US$26,100 (£19,306). The increase in donations made in 2018 is largely due to payments made by the business unit based in California (over 80% of the total payments made) to support voter approval for the issuance of school bonds. 2018 was an election year in California and the bond measures, which voters must approve, are generally timed to coincide with the election cycle.

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.

Capitalised interest

Details of the Group's capitalised interest can be found in Notes 15 and 17 on pages 143 and 145 respectively.

Financial instruments

The Group's financial risk management objectives and policies (including its hedging policy) and its exposure to the following risks – liquidity, foreign currency, interest rate, price and credit – are detailed in Note 38 on pages 178 to 182.

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 any 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.

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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report (including this Directors' report) and the Group and Company financial statements in accordance with applicable law and regulations. As set out above, the Directors are Philip Aiken, Leo Quinn, Philip Harrison, Iain Ferguson, Barbara Moorhouse, Stephen Billingham, Stuart Doughty, Michael Lucki and Anne Drinkwater.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant, reliable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements
- assess the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In light of the work undertaken by the Audit and Risk Committee reported in greater detail on pages 82 to 84 and the internal verification and approval process which has been followed, 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 and 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

Jonathan Lagan
Group General Counsel
and Company Secretary

12 March 2019

Registered Office:
5 Churchill Place, Canary Wharf
London E14 5HU

Registered in England and Wales, registered number 395826

Remuneration report

Chairman of the Remuneration Committee's introduction

> "We believe that the remuneration policy continues to deliver a robust link between reward and performance."
>
> **Iain Ferguson**
> Chairman of the Remuneration Committee

Dear Shareholders,

As Chairman of the Remuneration Committee I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2018.

Shareholders approved the Remuneration Policy at the AGM in 2017 and, in keeping with the more concise reporting adopted last year, the policy is not presented in this report but can be found at https://balfourbeatty.com/remuneration_policy.

In line with regulatory requirements the policy is next subject to a vote at the 2020 AGM. Ahead of this, the Committee will be conducting a full policy review during 2019. Details of the approved remuneration policy in action during the year, the Committee's considerations and the intended arrangements for 2019 are set out on the following pages.

Context

Our remuneration policy's primary objective is to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders. As referenced earlier in this Annual Report, the Group continues to make significant progress through the Build to Last transformation programme.

This report highlights the remuneration decisions made by the Committee over the course of the year. The deliberations of the Committee are made against the backdrop of strong progress against the Build to Last goals, the markets in which the Group operates, the wider general economy and developing corporate governance and shareholder views.

As you will see, the Committee's decisions recognised the continuing scale of change brought by Leo Quinn, Group Chief Executive, and Philip Harrison, Chief Financial Officer, and I hope that you will show your support by voting in favour of this report at the 2019 AGM.

Remuneration alignment to strategy

The Committee considered in detail the performance measures and targets for the Annual Incentive Plan and Performance Share Plan awards in 2018 to ensure they remain appropriate and support the Group's ongoing and future strategy.

The Committee will continue to review the pay structures and incentive arrangements in 2019. This will be informed by the Group's performance, the future focus of Build to Last and the 2019 policy review.

Key decisions made in 2018

Following the publication of the 2018 UK Corporate Governance Code (the 2018 Code), the Committee reviewed the Company's current executive Directors' remuneration policy and its operation. It concluded that, for PSP awards made in 2019 and thereafter, a post-vesting holding period will apply to awards granted to executive Directors, requiring them to retain shares (net of tax) vesting under the PSP for two years. This will mean that there will be a minimum period of five years between grant of PSP awards and sale of the shares.

Additionally, the Committee's Terms of Reference are being reviewed to ensure they are compliant with the 2018 Code. Going forward the Committee will be responsible for reviewing and approving the remuneration for both the executive Directors and members of the Executive Committee.

In respect of the proposal to require companies to report the pay ratio between the CEO and average of the UK workforce, we are currently reviewing calculations with a view to publication in our 2019 report.

The Committee additionally considered other items, including post-employment shareholding guidelines, Committee discretions, executive Director pensions' alignment with the wider workforce and clawback and malus clauses. It concluded that these will be reviewed fully during 2019 as part of the wider policy review.

Reward for 2018

In respect of 2018, the annual bonus payments for the executive Directors reflect the strong performance of the Group – the maximum profit target was met, the cash target was met in part and the personal performance of both executive Directors was strong. Leo Quinn and Philip Harrison both received annual bonus payments of 69.06% of the maximum available respectively, of which 50% will be deferred in shares for three years.

The TSR performance conditions relating to the 2016 PSP awards measured performance over the three years ended 31 December 2018 for all participants. TSR performance conditions were not met, the maximum net cash/(debt) target was met and EPS targets were met in part. As a result, 64.17% of these awards will vest for Leo Quinn and Philip Harrison on 13 April 2019.

Salaries are normally reviewed on 1 July, and it was agreed that the executive Directors would not receive a salary increase for 2018, with salaries remaining at the level agreed upon their appointment in 2015. Their next salary review date is 1 July 2019.

Remuneration policy for 2019

The Committee will continue to operate within the remuneration policy approved by shareholders in 2017. The key highlights of how we intend to apply this for 2019 are:

- the annual bonus will be based on profit before tax 40%, cash 35% and strategic business and personal objectives 25%
- the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary
- consistent with awards made previously, PSP awards will continue to be based on the achievement of three performance metrics split equally between relative TSR, EPS and cash, with any shares vesting subject to a further two-year holding period.

Areas for focus in 2019

The current remuneration policy was approved by shareholders at the 2017 AGM. In advance of the 2020 AGM policy vote, the Committee will be conducting a full review during 2019 to ensure that the policy remains effective and aligned to the Group's strategic objectives. As part of the review the Committee will consider continuing developments in external corporate governance and best practice.

Remuneration of the wider workforce

The Committee receives regular updates on pay and benefits for the wider workforce and takes these developments into account when reviewing executive pay and benefits.

The Committee will be reviewing calculations of the pay ratio between the CEO and average of the workforce. The UK gender pay gap reporting has also been reviewed by the Committee during the year.

Shareholder engagement

Although no changes to the remuneration policy have been proposed over the last year, we did engage with major shareholders to discuss their priorities over remuneration matters. The Committee is made fully aware of any areas of concern when raised.

As our policy will be put to a binding vote at the 2020 AGM, the Committee will be conducting a full policy review over the course of 2019 and we will consult with major shareholders to ensure that their views are considered during the process.

Conclusion

We believe that the remuneration policy continues to deliver a robust link between reward and performance, that it is implemented rigorously in line with its stated objectives and is aligned with the Group's strategic goals. We hope you will support our remuneration report at this year's AGM.

I will be retiring from the Board after the 2019 AGM and Anne Drinkwater will then be appointed chair of the Committee. I wish her well in this role.

Iain Ferguson
Chair of the Remuneration Committee

Remuneration outcomes at a glance

Outcomes of awards in year

AIP metrics and outcome

Profit before tax and non-underlying items

Targets

Threshold: £126.0m
Target: £157.5m
Maximum: £173.3m

Actual

£181m

100%
(of maximum)

Group total cash flow*

Targets

Threshold: £0m
Target: £13.6m
Maximum: £30.0m

Actual

£2m

11.6%
(of maximum)

Strategic business and personal objectives

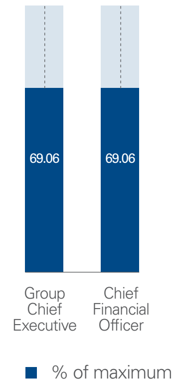
Actual

100%
Group Chief Executive
(of maximum)

100%
Chief Financial Officer
(of maximum)

* Group total cash flow is the movement between opening and closing total net cash/(debt).

AIP out-turn
% of maximum



PSP metrics and outcome

Total shareholder return

Targets

Threshold: Median
Maximum: Upper quartile

Actual

Below median

0%

Total net cash/(debt)

Targets

Threshold: £(75)m
Target: £0m
Maximum: £50m

Actual

£337m

100%
(of maximum)

Earnings per share

Targets

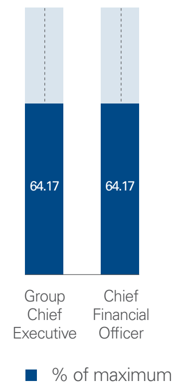
Threshold: 20p
Maximum: 27p

Actual

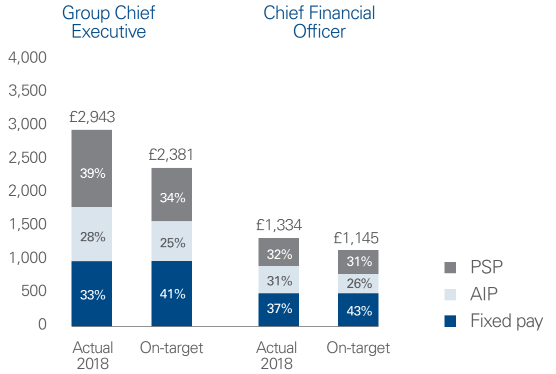
26.3p

92.5%
(of maximum)

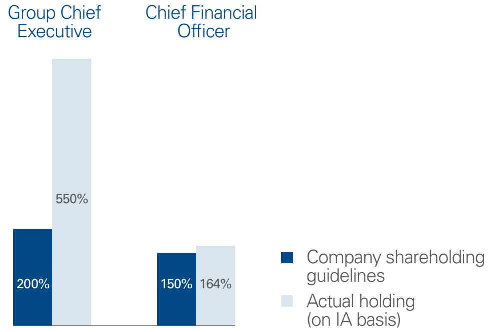
PSP out-turn
% of maximum



Executive Director remuneration scenarios
(£000)



Executive Directors' shareholding guidelines
(% of base salary held)



Calculations shown include shares beneficially owned at 31 December 2018 plus unvested shares, which are not subject to a further performance condition, on a net of tax basis.

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 2019 and how it was implemented over the year ended 31 December 2018. 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 91 to 103 (excluding the performance graph on page 101), has been audited by the Company's independent auditor, KPMG LLP.

The areas covered in this Annual Report on Remuneration comprise:

Implementation of the remuneration policy for the year ending 31 December 2019

Base salaries

The Committee reviewed the base salary of the executive Directors at the normal review date of 1 July 2018. It took into consideration salary levels, time in role and the salary increase provided to the Group's UK general workforce, averaging 2.77%. It concluded that current salary levels remained appropriate. Neither executive Director has received a base salary increase since being appointed in 2015.

The next base salary review date is 1 July 2019.

	Date of appointment	Salary on appointment £	1 July 2017 £	**1 July 2018 £**	% increase
Leo Quinn	Jan 2015	800,000	800,000	**800,000**	0.0%
Philip Harrison	Jun 2015	400,000	400,000	**400,000**	0.0%

Pension

In line with stated policy, executive Directors receive a pension cash allowance equivalent to 20% of base salary.

Performance targets for the Annual Incentive Plan (AIP) in 2019

For 2019, the AIP for the executive Directors will be a maximum bonus of 150% of base salary, based on the achievement of three performance measures:

- profit before tax (40%)
- cash (35%)
- strategic business and personal objectives (25%).

The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in Balfour Beatty shares.

While the Committee has chosen not to disclose in advance the performance targets for 2019 as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in the Remuneration report for 2019.

Annual report on remuneration continued

Performance targets for Performance Share Plan (PSP) awards granted in 2019

For 2019, and consistent with 2018, the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary. The PSP awards to be granted in 2019 will be based on the achievement of three performance measures:

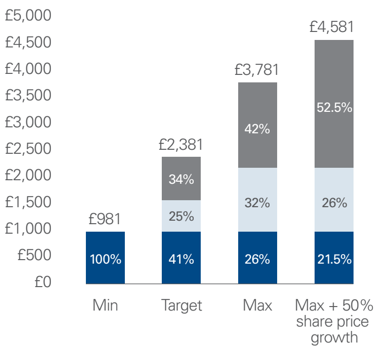
- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2019, the start of the performance period. There is no vesting for ranking below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
- EPS (33.3%) – the Group's EPS over the three-year performance period
- cash (33.3%) – cash remains critical as a long-term performance measure.

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 2019. The 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 2019.

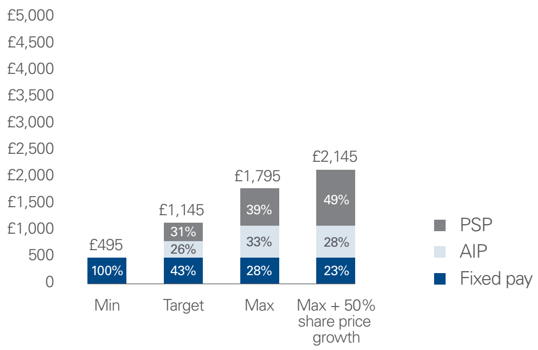
Executive Director remuneration scenarios

A significant proportion of remuneration is linked to performance, particularly at maximum performance levels. The charts below show how much the Group Chief Executive and Chief Financial Officer could earn in future periods based on different performance scenarios in respect of awards to be made in the 2019 financial year under Balfour Beatty's remuneration policy.

Leo Quinn – Group Chief Executive (£000)



Philip Harrison – Chief Financial Officer (£000)



The following assumptions have been made:

- Minimum (performance below threshold) – Fixed pay only with no vesting under any of Balfour Beatty's incentive plans
- Target – Fixed pay plus a bonus (AIP) at the mid-point of the range (giving 50% of the maximum opportunity) and vesting of 50% of the face value of the award at grant under the PSP
- Maximum (performance meets or exceeds maximum) – Fixed pay plus 100% of the bonus (AIP) opportunity and 100% of the face value of the award at grant under the PSP
- Maximum + 50% share price growth (performance meets or exceeds maximum and potential 50% increase in share price) – Fixed pay plus maximum bonus (AIP) and maximum vesting under the PSP at a 50% higher share price than when the PSP award was granted.

Fixed pay comprises:

- Salaries – base salary effective as at 1 July 2018
- Benefits – amount received in the 2018 financial year
- Pension – cash allowance in lieu of pension is 20% of base salary.

Non-executive Directors

The Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. At the annual review of fees for both the non-executive Chairman and Directors on 1 July 2018, fees were increased as set out below. The Chairman's fee had not previously been increased since he joined the Board as Chairman on 26 March 2015.

	1 July 2017 £	**1 July 2018 £**	% increase
Chairman	270,000	**277,000**	2.6%
Base fee	60,000	**61,500**	2.5%
Senior Independent Director fee	10,000	**10,000**	0%
Committee chair fee	12,500	**12,500**	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 is also the chair of a Committee, he or she receives no committee chair fee. The Senior Independent Director fee is only payable if he or she is not the chair of a Committee.

Remuneration received by Directors for the year ended 31 December 2018

The table below sets out the Directors' remuneration for the year ended 31 December 2018 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2017.

	Year	Base salary and fees[1,2] £	Taxable benefits[3,4] £	Pension cash allowance £	Annual incentive cash[5] £	Annual incentive deferred shares[5] £	Long-term incentives[6,9] £	Other[7] £	Total[9] £
Executive Directors									
Philip Harrison	**2018**	**400,000**	**14,503**	**80,000**	**207,180**	**207,180**	**424,926**	**–**	**1,333,789**
	2017	400,000	14,503	80,000	288,000	288,000	716,454	74,461	1,861,418
Leo Quinn	**2018**	**800,000**	**21,006**	**160,000**	**414,360**	**414,360**	**1,133,141**	**1,398,613**	**4,341,480**
	2017	800,000	21,006	160,000	582,000	582,000	1,979,098	1,171,881	5,295,985
Non-executive Directors									
Philip Aiken	**2018**	**273,500**	**–**	**–**	**–**	**–**	**–**	**–**	**273,500**
	2017	270,000	34	–	–	–	–	–	270,034
Stephen Billingham	**2018**	**73,250**	**–**	**–**	**–**	**–**	**–**	**–**	**73,250**
	2017	69,250	–	–	–	–	–	–	69,250
Stuart Doughty	**2018**	**73,250**	**–**	**–**	**–**	**–**	**–**	**–**	**73,250**
	2017	64,250	–	–	–	–	–	–	64,250
Anne Drinkwater[8]	**2018**	**5,125**	–	–	–	–	–	–	**5,125**
Iain Ferguson	**2018**	**73,250**	**–**	**–**	**–**	**–**	**–**	**–**	**73,250**
	2017	69,250	–	–	–	–	–	–	69,250
Michael Lucki	**2018**	**60,750**	**7,500**	**–**	**–**	**–**	**–**	**–**	**68,250**
	2017	30,000	5,000	–	–	–	–	–	35,000
Barbara Moorhouse	**2018**	**60,750**	**–**	**–**	**–**	**–**	**–**	**–**	**60,750**
	2017	34,667	–	–	–	–	–	–	34,667

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 2018 was £1,800.
3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for himself and his spouse and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for himself only and received a car allowance of £14,000 per annum.
4 Philip Aiken and Michael Lucki received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column.
5 AIP 2018: further details of these awards are set out on pages 94 to 96. For 2017, details of the AIP awards were set out in the 2017 Remuneration Report.
6 For 2018, this relates to the 2016 PSP award for which the performance period ended in 2018, with the valuation of vesting shares calculated on a 3-month average share price to 31 December 2018 of 259.8p. Further details of the 2016 PSP awards are set out on page 97. For 2017, this relates to the 2015 PSP award for which the performance period ended in 2017, details of which were set out in the 2017 Remuneration Report. For 2017, the valuation of vesting shares for the 2015 PSP has been adjusted from the valuation included in the 2017 Remuneration Report to reflect the actual valuation on the 26 June 2018 vesting date, based on a share price of 283.0p. Under the rules of the PSP scheme, the participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares.
7 Other payments relate to the conditional share awards granted to Philip Harrison and Leo Quinn to compensate them for share awards which were forfeited upon leaving their respective former employers. For 2018, Leo Quinn's award is the second tranche for which the performance period ended 2 January 2018 with the valuation of the 492,589 shares vesting calculated on the share price of 283.931p at the vesting date on 14 March 2018. For 2017, Leo Quinn's award is the first tranche for which the performance period ended 2 January 2017 with the valuation of the 423,704 shares vesting calculated on the share price of 276.58p at the vesting date on 16 March 2017. For 2017, Philip Harrison's award is the second tranche for which the performance period ended 31 December 2017 with the valuation of the 25,071 shares vesting calculated on the closing share price of 297p at 31 December 2017. Further details of these awards are set out on page 99.
8 Anne Drinkwater joined the Board effective 1 December 2018.
9 Total figures and long-term incentives figures for 2017 have been adjusted from the figures included in the 2017 Remuneration Report to reflect the actual valuation on the 26 June 2018 vesting date of shares vesting under the PSP 2015.

AIP awards for the year ended 31 December 2018

For 2018, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

- profit before tax (40%)
- cash (35%)
- strategic business and personal objectives (25%).

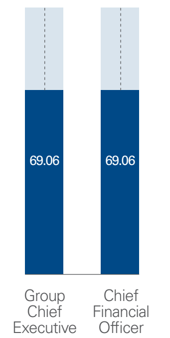
The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares. For the profit before tax element, 20% of the award would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above. For the Group total cash flow element, 5% of that element would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above.

AIP metrics and outcome

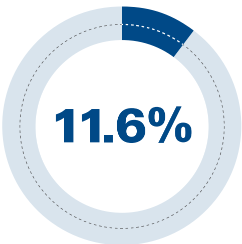
Profit before tax and non-underlying items	Group total cash flow*	Strategic business and personal objectives
Targets	Targets	Actual
Threshold: £126.0m Target: £157.5m Maximum: £173.3m	Threshold: £0m Target: £13.6m Maximum: £30.0m	100% Group Chief Executive (of maximum)
Actual	Actual	
£181m	£2m	100% Chief Financial Officer (of maximum)
100% (of maximum)	11.6% (of maximum)	

* Group total cash flow is the movement between opening and closing total net cash/(debt).

AIP out-turn
%



■ % of maximum



■ % of maximum

	Group Chief Executive	Chief Financial Officer
Lean	Met in full	Met in full
Expert	Met in full	Met in full
Trusted	Met in full	Met in full
Safe	Met in full	Met in full

Performance against the 2018 AIP strategic business and personal objectives as it relates to the executive Directors was:

Summary of key strategic objectives	Examples of achievement	Group Chief Executive Weight %	Group Chief Executive Out-turn %
Lean: Deliver Phase 2 of Build to Last (industry-standard margins by end 2018) including: – continued overhead cost out across the Group (target £19m) – Cash is our Compass – deliver higher average net cash vs. 2017	Achieved in full, including: – actual overhead reduction of £37m achieved – average net cash of £194m achieved in 2018 vs. £42m in 2017	16	16
Expert: Continue to upgrade senior leadership team including: – strengthen US leadership team – continue to improve employee engagement as measured by pulse surveys	Achieved in full, including: – new CEOs for US Buildings and US Civils appointed and performing well – employee engagement index increased from 60% in November 2017 to 65% in December 2018	56	56
Trusted: Position organisation with robust capabilities to deliver profitable growth, particularly from future 'mega projects' by: – driving cash to further strengthen balance sheet by paying down convertible bonds whilst positioning balance sheet to redeem convertible preference shares in 2020 – ensuring disciplines and processes are thoroughly embedded and applied as management tools to reduce project risk and safeguard reputation – continue to roll out J D Edwards(US) and Oracle R12(UK), and develop data analytics to support transparency of project performance across both UK and US organisations	Achieved in full, including: – convertible bonds fully repaid in December 2018 – governance around work winning and project controls has continued to improve and is embedded into normal management process – systems strategy being implemented to plan in both the UK and US	20	20
Safe: Continue to progress improvements made in safety performance in UK and US LTIR. 10% improvement required	Achieved in full, including: – LTIR improved from 0.17 in 2017 to 0.15 in 2018. Improvement greater than 10%	8	8
Total		100	100

Annual report on remuneration continued

Summary of key strategic objectives	Examples of achievement	Chief Financial Officer Weight %	Chief Financial Officer Out-turn %
Lean: Lead financial transformation to deliver 2018 cost budget together with a strategy to achieve 2019 target: – upgrade management reporting 'project on a page' to enhance efficiency and effectiveness – implement the Support Services Oracle R12 implementation and establish project plan for remaining businesses in 2019 – target further overhead cost reduction of minimum £19m – deliver higher average net cash in 2018 vs. 2017	Achieved in full, including: – significantly enhanced reporting and control framework – successful migration to plan and budget in 2018; plans in place for all future migrations – actual overhead reduction of £37m achieved – average net cash of £194m achieved in 2018 vs. £42m in 2017	28	28
Expert: Build high-calibre finance function in UK and US, with succession options, including: – appoint new finance leadership in US Buildings – develop central finance hub supporting US business	Achieved in full, including: – successful appointment of new CFO for US Buildings and Investments – implementation successful and to plan	24	24
Trusted: Deliver agreed capital structure plan for Group, including: – pay down convertible bonds and private placement notes when due – successfully realise cash budget targets for Infrastructure Investments – negotiate reduction in US surety programme letters of credit	Achieved in full, including: – convertible bonds and private placement notes fully repaid on time – achieved £184m – achieved US$84m reduction	40	40
Safe: Continue to support and role model improvement in safety culture and performance	Achieved in full, including: – demonstrated strong leadership including safety tours. LTIR improved from 0.17 in 2017 to 0.15 in 2018	8	8
Total		100	100

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of the profit performance and determined that the above payments are appropriate given the Group's strong financial performance and the personal performance of the executive Directors. The executive Directors have, in the opinion of the Committee, continued to make significant improvements to the business through Build to Last to deliver the Group's goals.

Vesting of PSP awards for the year under review

The PSP awards granted on 13 April 2016 were based on a performance period for the three years ended 31 December 2018. The performance conditions applying to one-third of each award were comparative total shareholder return measured versus the companies ranked 51-150 by market capitalisation in the FTSE All Share Index (excluding investment trusts), cash performance measured by reference to total net cash/(debt) and earnings per share. 25% of each of the total shareholder return and earnings per share parts of the award would vest for threshold performance increasing to 100% of each part of the award vesting for maximum performance or above. For the net cash/(debt) part, 25% of that part would vest for threshold performance increasing to 50% vesting of that part at target performance and then to 100% of that part at maximum performance or above.

Details of the PSP awards vesting for the year under review are therefore as follows:

PSP metrics and outcome

Total shareholder return

Targets

Threshold: Median
Maximum:
Upper quartile

Actual

Below median

0%

Total net cash/(debt)

Targets

Threshold: £(75)m
Target: £0m
Maximum: £50m

Actual

£337m

100%

(of maximum)

Earnings per share

Targets

Threshold: 20p
Maximum: 27p

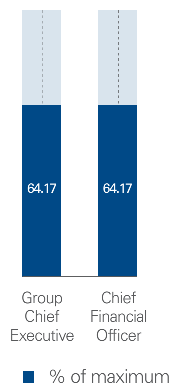
Actual

26.3p

92.5%

(of maximum)

PSP out-turn
% of maximum



Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting %
Total shareholder return	TSR against the 85 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	43 or above	21.75 or above	49.2	0%
Cash		Total net cash/(debt)	£(75)m	£50m	£337m	100%
Earnings per share		Underlying basic earnings per share from continuing operations	20p	27p	26.3p	92.5%
	Total vesting					64.17%

Name of Director	Type of award	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares[1]
Philip Harrison	2016 conditional	13 April 2019	254,885	163,559	91,326	£424,926
Leo Quinn	2016 conditional	13 April 2019	679,694	436,159	243,535	£1,133,141

1 Valuation of vesting shares calculated on a 3-month average share price to 31 December 2018 of 259.8p.

Annual report on remuneration continued

Outstanding share awards

			Maximum number of shares subject to award					
Name of Director	Share award	Date granted	At 1 January 2018	Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2018	Exercisable and/or vesting from
Philip Harrison	PSP[1]	26 June 2015	295,857	–	253,164	42,693	**–**	26 June 2018
	PSP[2,5,6]	13 April 2016	254,885	–	–	–	**254,885**	13 April 2019
	PSP[3,5,6]	7 June 2017	253,347	–	–	–	**253,347**	7 June 2020
	PSP[4,5,6,7]	27 March 2018	–	259,163	–	–	**259,163**	27 March 2021
	DBP[8,9,11,13]	31 March 2016	26,428	379	–	–	**26,807**	31 March 2019
	DBP[8,9,11,13]	31 March 2017	42,880	615	–	–	**43,495**	31 March 2020
	DBP[8,9,11,12,13]	3 April 2018	–	108,320	–	–	**108,320**	3 April 2021
	Share buyout[14]	11 June 2015	61,662	–	25,071	36,591	–	31 December 2017
Leo Quinn	PSP[1]	26 June 2015	788,954	–	699,328	89,626	–	26 June 2018
	PSP[2,5,6]	13 April 2016	679,694	–	–	–	**679,694**	13 April 2019
	PSP[3,5,6]	7 June 2017	579,080	–	–	–	**579,080**	7 June 2020
	PSP[4,5,6,7]	27 March 2018	–	592,373	–	–	**592,373**	27 March 2021
	DBP[8,10,11,13]	26 June 2015	196,027	1,635	197,662	–	**–**	26 June 2018
	DBP[8,9,11,13]	31 March 2016	90,616	1,302	–	–	**91,918**	31 March 2019
	DBP[8,9,11,13]	31 March 2017	86,527	1,244	–	–	**87,771**	31 March 2020
	DBP[8,9,11,12,13]	3 April 2018	–	218,896	–	–	**218,896**	3 April 2021
	Share buyout[14]	2 January 2015	1,208,511	–	492,589	715,922	–	2 January 2018

1 2015 PSP award: This award vested in part on 26 June 2018. Details of the Company's performance against the performance conditions were set out in the 2017 Remuneration Report. Philip Harrison and Leo Quinn also received 5,741 and 15,864 shares respectively in lieu of the dividends which would have been payable on the shares which vested. The closing middle market price of ordinary shares on the vesting date was 283.0p.

2 2016 PSP award: Further details of this award are set out on page 97.

3 2017 PSP award: This award is subject to three performance targets over a three-year performance period commencing 1 January 2017. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. No portion of the Cash Part (33.3%) will vest unless the 2019 year end Operating Cash Flow (OCF) is greater than £132 million. 25% to 50% will vest for OCF between £132 million and £164 million, rising to full vesting for OCF of £200 million or more. EPS part (33.3%), no vesting unless 2019 EPS is 19p, 25% vesting of this part at 19p, rising to full vesting at 29p or more.

4 2018 PSP award: Details are set out on page 99.

5 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 235.4p for the 2016 award, 276.3p for the 2017 award and 270.167p for the 2018 award. The closing middle market price of ordinary shares on the date of the awards was 238.3p, 271.0p and 273.0p respectively.

6 All PSP 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.

7 On 27 March 2018, for all participants in the PSP, a maximum of 3,393,943 conditional shares were awarded which are exercisable on 27 March 2021.

8 All DBP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.

9 The initial DBP awards made in March 2016, March 2017 and April 2018 will vest on 31 March 2019, 31 March 2020 and 3 April 2021 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).

10 The initial DBP awards made in March 2015 and June 2015 vested on 31 March 2018 and 26 June 2018 respectively. The closing middle market price of ordinary shares in the Company on the vesting dates was 267.6p and 283.0p respectively.

11 The shares subject to the DBP awards made on 31 March 2015, 26 June 2015, 31 March 2016, 31 March 2017 and 3 April 2018 were purchased at average prices of 241.0p, 245.0p, 252.5p, 266.4p and 269.7p respectively.

12 On 3 April 2018, for all participants in the DBP, a maximum of 734,073 conditional shares were awarded which will normally be released on 3 April 2021.

13 On 19 April 2018/6 July 2018 and 30 November 2018, a further 16,961 conditional shares and 10,854 conditional shares were granted in lieu of entitlements to the final 2017 dividend and interim 2018 dividend respectively for all participants in the DBP. These shares were allocated at average prices of 287.6p/287.6p and 267.4p respectively.

14 The share buyout awards were granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. The awards compensate Philip Harrison and Leo Quinn for incentive awards which were forfeited on leaving their previous employers. Further details of these awards are set out on page 99. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.

15 The closing market price of the Company's ordinary shares on 31 December 2018 was 249.3p. During the year, the highest and lowest closing market prices were 311.1p and 230.6p respectively.

PSP awards granted during the year

On 27 March 2018, 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
Philip Harrison	Conditional	175% of salary of £400,000	270.1p	259,163	£700,000	25%	31 December 2020	27 March 2021
Leo Quinn	Conditional	200% of salary of £800,000	270.1p	592,373	£1,600,000	25%	31 December 2020	27 March 2021

Awards will vest to executives after three years, subject to the achievement of three independently measured performance conditions as set out below:

Metric	Performance condition	Threshold	Target	Stretch
1/3rd relative TSR	Relative TSR against a comparator group of companies ranked 51-200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), straight line vesting between points	Median (25% vests)	–	Upper quartile (100% vests)
1/3rd cash	Group's Operating Cash Flow from continuing operations, straight line vesting between points	£141m (25% vests)	£176m (50% vests)	£211m (100% vests)
1/3rd EPS	Group's EPS, straight line vesting between points	22p (25% vests)	–	31p (100% vests)

Executive Directors' recruitment terms

As previously fully disclosed in our remuneration reports dating back to 2014, as part of their recruitment arrangements both executive Directors received awards compensating them for incentive awards which were forfeited upon leaving their previous employers. Awards were granted in 2015 and vested in two tranches, subject to meeting stretching share price targets. The final tranches have now vested and the Committee believes the final value delivered to both executives reflect the strong performance and strategic change they have brought to the Company since their recruitment. As this is the final year which we expect to be reporting these values, we set out below details of the awards and final vesting below:

	Date of grant	Share price on date of award	Total number of shares	Number of shares vesting	Number of shares lapsing	Vesting from	Share price on date of first vesting	Value delivered to executive Director
Philip Harrison	11 June 2015[1,3]	253.1p	30,831	21,529	9,302	31 December 2016	268.2p	£57,741
	11 June 2015[2,3]	253.1p	61,662	25,071	36,591	31 December 2017	297p	£74,461
	Total		**92,493**	**46,600**	**45,893**			**£132,202**
Leo Quinn	2 January 2015[1,3]	212.4p	604,256	423,704	180,552	2 January 2017	276.58p	£1,171,881
	2 January 2015[2,3]	212.4p	1,208,511	492,589	715,922	2 January 2018	283.931p	£1,398,613
	Total		**1,812,767**	**916,293**	**896,474**			**£2,570,494**

1 Vesting was subject to share price targets at the end of the vesting period based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p with no vesting for this part of the award for an average share price of less than 222p.

2 Vesting was subject to share price targets at the end of the vesting period based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p with no vesting for this part of the award for an average share price of less than 250p.

3 Leo Quinn's conditional award of 1,208,511 shares was the second tranche for which the performance period ended 2 January 2018 with the valuation of the 492,589 shares vesting calculated on the share price of 283.931p at the vesting date on 14 March 2018. Leo Quinn's conditional award of 604,256 shares was the first tranche for which the performance period ended 2 January 2017 with the valuation of the 423,704 shares vesting calculated on the share price of 276.58p at the vesting date on 16 March 2017. Philip Harrison's conditional award of 61,662 shares was the second tranche for which the performance period ended 31 December 2017 with the valuation of the 25,071 shares vesting calculated on the closing share price of 297p at 31 December 2017. Philip Harrison's conditional award of 30,831 shares was the first tranche for which the performance period ended 31 December 2016 with the valuation of the 21,529 shares vesting calculated on the closing share price of 268.2p at 31 December 2016.

Annual report on remuneration continued

Payments to past Directors

There were no payments to past executive Directors during 2018.

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:

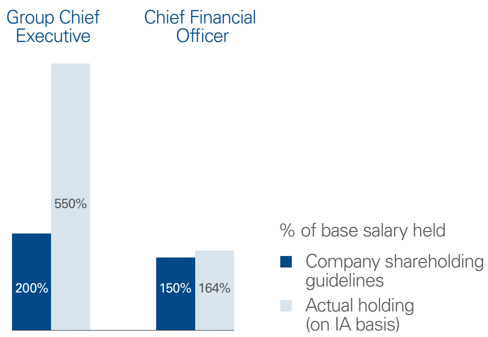
Directors	Beneficially owned at 1 January 2018[1,2]	Beneficially owned at 31 December 2018[2,3,4]	Outstanding PSP awards	Outstanding DBP awards	Beneficially owned at 31 December 2018 as a % of base salary at 31 December 2018[5]
Philip Harrison	17,744	168,049	767,395	178,622	105%
Leo Quinn	798,663	1,554,821	1,851,147	398,585	485%
Philip Aiken	15,000	15,000			
Stephen Billingham[6]	23,757	23,808			
Stuart Doughty	4,550	4,550			
Anne Drinkwater	–	–			
Iain Ferguson	55,000	55,000			
Michael Lucki	–	–			
Barbara Moorhouse	4,000	4,000			

1 Or date of appointment, if later.
2 Includes any shares held in the Company's all-employee Share Incentive Plan.
3 Or date of stepping down from the Board, if earlier.
4 As at 12 March 2019, 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 109 shares.
5 The closing market price of the Company's ordinary shares as at 31 December 2018 (249.3p) was used to calculate the value of shares beneficially owned.
6 Stephen Billingham was also interested in 36,070 convertible redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2018 and 31 December 2018.

Executive Directors' shareholding guidelines

The Group Chief Executive and Chief Financial Officer are required under the Company's shareholding guidelines to hold shares in the Company worth 200% and 150% of base salary respectively and must retain no fewer than 50% of the shares, net of taxes, vesting under their outstanding DBP and PSP awards until the required shareholding is met. Their beneficial shareholdings at 31 December 2018 as a % of base salary are shown in the table above.

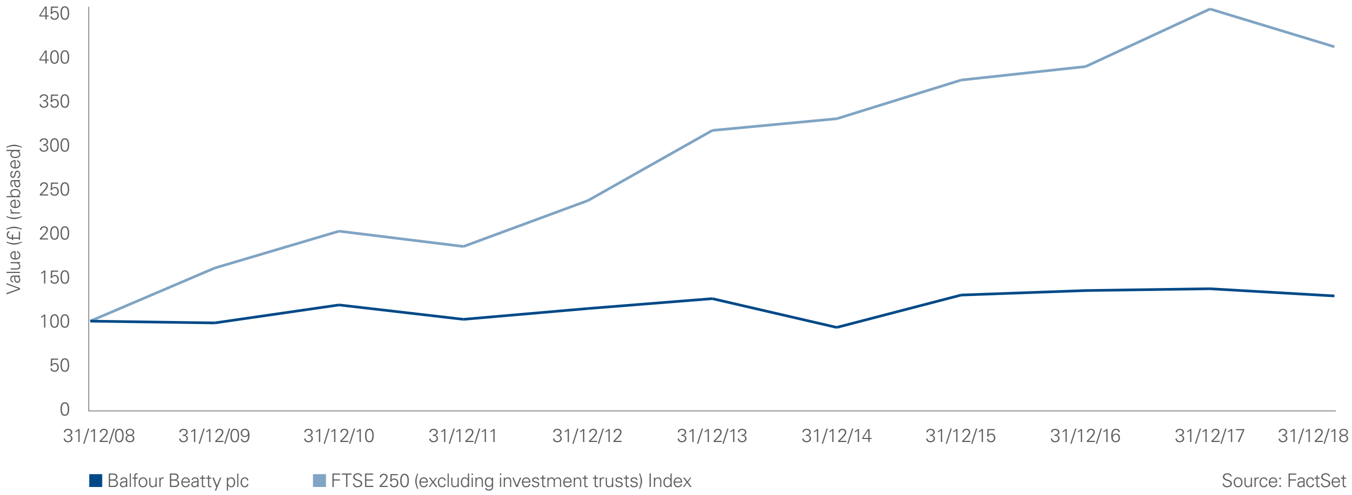
In line with the Investors Association (IA)'s guidelines, the calculations shown in the chart include shares beneficially owned at 31 December 2018 plus unvested shares, which are not subject to a further performance condition (outstanding DBP awards), on a net of tax basis. Both executive Directors' share interests met the Company's shareholding guidelines at 31 December 2018.



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-day average values.

Total Shareholder Return (TSR)



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last 10 financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

									Year ended 31 December	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Total remuneration[1,3,4]	£1,617,233	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568	£1,442,070	£1,445,250	£4,124,104	**£2,942,867**
AIP (%)[2]	60.4%	69.6%	65.3%	40.2%	21.0%	0%	47.0%	47.5%	97.0%	**69.06%**
PSP (%)	50.0%	18.4%	0%	0%	0%	0%	0%	0%	88.6%	**64.17%**

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 from 2015 onwards relate to Leo Quinn.

2 Andrew McNaughton did not qualify for any 2014 AIP.

3 Total remuneration for 2017 has been adjusted from the total figure included in the 2017 Remuneration Report to reflect the actual valuation on the 26 June 2018 vesting date of shares vesting under the PSP 2015.

4 The figures for 2017 and 2018 exclude the vesting of awards made under the recruitment terms for the Group Chief Executive. Details of the recruitment terms are set out on page 99.

Annual report on remuneration continued

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 2017 and 31 December 2018, 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.

	2017	**2018**	% change
Salary for year ended 31 December			
Group Chief Executive (£000)	800	**800**	0%
All UK employees (£m)	672	**657**	(2)%
Benefits for year ended 31 December			
Group Chief Executive (£000)	181	**181**	0%
All UK employees (£m)	47	**37**	(21)%
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000)	1,164	**829**	(29)%
All UK employees (£m)	12	**12**	0%
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	2,145	**1,810**	(16)%
All UK employees (£m)	731	**706**	(3)%

Pay ratio of Group Chief Executive to average employee

The Committee is mindful about the relationship between the Group Chief Executive's remuneration and that of the wider employee population. We are currently reviewing the calculations of the ratio of pay between the Group Chief Executive and the average employee which we intend to publish in the next Annual Report.

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:

	2017	**2018**	% change
Staff costs (£m)[1]	1,193	**1,113**	(7)%
Dividends (£m)	20	**27**	35%
Underlying pre-tax profit (£m)[2]	166	**181**	9%

1 Staff costs include base salary, benefits and bonuses for all Group employees in continuing and discontinued operations (excluding joint ventures and associates).
2 Underlying pre-tax profit is from continuing and discontinued operations.

Directors' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2018. 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.

The pension contribution level for executive Directors contrasts to the majority of senior managers who receive around 13%-15% pension contribution/cash in lieu and the wider UK workforce who typically receive around 3% to 5% contributions. We are mindful of the requirement under the UK Corporate Governance Code relating to executive Director pension contribution levels and will address this as part of our Policy review in 2019.

External appointments of executive Directors

No executive Director held external appointments in 2018.

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
- Michael Lucki
- Barbara Moorhouse.

Anne Drinkwater joined the Committee on 1 January 2019.

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
- Aon plc.

Wholly independent advice on executive remuneration and share schemes is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Aon provided a range of advice to the Committee during the year, including:

- analysis of market practice and corporate governance update
- 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.

During 2018, fees charged by Aon for advice provided to the Committee for 2018 amounted to £47,210 (excluding VAT) (2017: £38,040). In addition, the only other services provided to the Group by Aon plc or its subsidiaries are for professional services supporting the administration of the UK healthcare trust.

Statement of shareholder voting at the AGM

At the AGM on 24 May 2018, the resolution to approve the Remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	399,105,828	86.37%
Against	62,970,570	13.63%
Total votes cast	462,076,398	100%
Abstentions	73,333,706	

The resolution to approve the Remuneration Policy was approved at the AGM on 18 May 2017 and received the following votes from shareholders:

	Total number of votes	% of votes cast
For	407,216,825	77.2%
Against	120,392,331	22.8%
Total votes cast	527,609,156	100%
Abstentions	81,587	

By order of the Board

Iain Ferguson
Chair of the Remuneration Committee

12 March 2019

Independent auditor's report to the members of Balfour Beatty plc

1 Our opinion is unmodified

We have audited the financial statements of Balfour Beatty plc ("the Company") for the year ended 31 December 2018 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group Statement of Cash Flows, Group and Company Balance Sheets, and the related notes, including the accounting policies in Note 2.

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
– the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
– the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Overview

Materiality: Group financial statements as a whole	£10.0m (2017: £10.0m) 5.8% (2017: 6.4%) of normalised Group profit before tax from continuing operations	
Coverage	Group profit before tax: – Full scope audits 87% (2017: 95%) – Specified audit procedures 13% (2017: 5%)	
Risk of material misstatement		vs 2017
Recurring risks	Contract accounting	◀▶
	Recoverability of Group goodwill and of the parent Company's investment in subsidiaries	◀▶
New risks	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	Going concern assessment	◀▶

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were appointed as auditor by the shareholders on 19 May 2016. The period of total uninterrupted engagement is for the three financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit	**Risk vs 2017: ▲**
Refer to pages 58-66 (principal risks) and page 67 (viability statement)	
Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in recoverability of goodwill below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge** – we considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. – **Sensitivity analysis** – when addressing going concern and Recoverability of Group goodwill and of the parent Company's investment in subsidiaries and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and – **Assessing transparency** – as well as assessing individual disclosures as part of our procedures on going concern and recoverability of Group goodwill and of the parent Company's investment in subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our findings** As reported under going concern and recoverability of Group goodwill and of the parent Company's investment in subsidiaries, we found the resulting estimates and related disclosures of recoverability of Group goodwill and of the parent Company's investment in subsidiaries and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent auditor's report to the members of Balfour Beatty plc continued

The risk	Our response

Contract accounting £6,290 million (2017: £6,606 million) **Risk vs 2017: ◀▶**

Refer to pages 82-84 (Audit and Risk Committee report), Note 2.4 (Principal accounting policies – Revenue recognition), Note 2.27(a) (Judgements and key sources of estimation uncertainty), Note 4 (Revenue) and Note 25 (Provisions)

Subjective estimate

For the majority of its contracts, the Group recognises revenue over time and measures the progress based on the input method by considering the proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total forecast costs of the contract at completion.

The recognition of revenue and profit therefore relies on estimates in relation to the forecast total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and adjusted where appropriate.

The revenue on contracts may also include variations and claims, which fall under either the variable consideration or contract modification requirements of IFRS 15. These are recognised on a contract-by-contract basis when evidence supports that it is highly probable that a significant reversal in the amount of revenue recognised will not occur. In certain circumstances recoveries from insurers are also assumed when these recoveries are deemed to be virtually certain.

The effect of these matters is that, as part of our risk assessment, we determined that contract revenue and other related contract balances have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 2.27(a)) disclose the nature and extent of the estimates and judgements made by the Group.

Using a variety of quantitative and qualitative criteria, we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the detailed project review papers from the Group to support the estimates made and challenged the judgements underlying those papers with senior operational, commercial and financial management. In this area our audit procedures included:

- **Historical comparisons:** evaluating the financial performance of contracts against budget and historical trends;
- **Site visits:** visiting sites related to certain higher risk or larger value contracts, with the involvement of our industry specialists for some of these visits, inspecting the physical progress onsite for individual projects and identifying areas of complexity through observation and discussion with site personnel;
- **Benchmarking assumptions:** challenging the Group's judgement in respect of forecast contract out-turn, contingencies, settlements and the recoverability of contract balances via agreement to post year end third party certifications and confirmations and with reference to our own assessments, historical outcomes and industry norms;
- **Customer correspondence scrutiny:** analysing correspondence with customers around variations and claims to challenge the estimates of claims and variations made by the Group;
- **Legal correspondence scrutiny:** analysing correspondence with lawyers, and other legal opinions including arbitration results or other legal advice obtained by the group, around variations and claims;
- **Insurer correspondence scrutiny:** analysing correspondence with insurers around recognised insurance claims to challenge management's position taken on the contract, and inquiring directly with external legal counsel on the prospects of recovery;
- **Test of detail:** analysing the end of job forecasts on contracts tested and challenging the estimates within the forecasts by considering the amounts already procured, the amounts still to be procured, the site and time related cost forecasts against programme and run rates, and any contingency held;
- **Test of detail:** inspecting selected contracts for key clauses; identifying relevant contractual mechanisms such as pain/gain shares, design bonuses, liquidated damages and success fees and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements;
- **Our sector experience:** using our sector experience to assess whether the amounts recognised in the financial statements resulting from the estimates and assumptions made represent a balanced view of the risks and opportunities pertinent to the contract working capital positions;
- **Our sector experience:** considering whether provisions against contracts sufficiently reflect the level of risk by challenging the Group's judgement in this area with reference to our own assessments; and
- **Assessing transparency:** considering the adequacy of the Group's disclosures including those included in Note 2.27(a) around the nature of estimates and judgements.

Our findings:
We considered the amount of revenue and associated profits recognised to be acceptable.

The risk	Our response

Recoverability of Group goodwill and of the parent Company's investment in subsidiaries **Risk vs 2017: ◀▶**

Group: £851 million (2017: £825 million); parent Company: Amount within total investment in subsidiaries balance of £1,706 million (2017: £1,700 million)

Refer to pages 82-84 (Audit and Risk Committee report), Note 2.12 (Principal accounting policies – Goodwill), Note 2.27(d) (Judgements and key sources of estimation uncertainty) and Note 14 (Goodwill)

Forecast-based valuation

There is a risk that the goodwill allocated to cash generating units (CGUs) and the parent Company's investment in subsidiaries are not recoverable and should be impaired. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgement areas for our audit.

Our risk relates to the goodwill within the Construction Services and Support Services segments and to the parent Company's investment in Balfour Beatty Investment Holdings Ltd.

The Group annually carries out an impairment assessment of goodwill using a value-in-use model which is based on the net present value of the forecast earnings of the CGU. This is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use assessment has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 14 and 2.27(d)) disclose the nature and extent of the estimates and judgements made by the Group.

Our procedures included:

- **Assessing methodology**: considering the consistency and appropriateness of the allocation of businesses and related goodwill balances into CGUs;
- **Sensitivity analysis**: performing our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and margins to identify areas on which to focus our procedures, including the consideration of the possible impacts of Brexit;
- **Our sector experience**: considering the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy, current order book, and wider macro environment conditions;
- **Our valuation expertise**: challenging the assumptions used by the Group in the calculation of the discount rates, including comparisons with external data sources; 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 reflected the risks inherent in the valuation of goodwill. We also considered the adequacy of the parent Company's disclosures in respect of the investments in subsidiaries.

Our findings:
We considered the Group's assessment of the recoverability of goodwill in the Group and the parent Company's investment in subsidiaries to be acceptable.

Independent auditor's report to the members of Balfour Beatty plc continued

The risk	Our response
Going concern assessment	**Risk vs 2017: ◀▶**
Refer to pages 82-84 (Audit and Risk Committee report) and Note 1 (Basis of accounting)	
Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were : – The impact of Brexit on the Group's supply chain, including availability of labour, reduction in payment terms and possible cost inflation; and – Reduction of demand in the Buildings market reducing future revenue and increasing competition which may put pressure on margins. There are also less predictable but realistic second order impacts, such as the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: – **Assessment of cash flow model**: assessing the Group's cash flow model to identify key inputs for further enquiry. The key inputs are consistent with those identified in the goodwill impairment testing identified above. Assessing the resultant cash flow projection as an indication of whether the Group would have sufficient resources to continue to operate and meet obligations as they fall due; – **Historical comparisons**: evaluating historical forecasting accuracy of key inputs including revenue and operating margins; – **Sensitivity analysis**: reviewing sensitivity analysis of the forecasts to a number of variable factors including the possible impact of Brexit, such as impacting revenue, margin and cash, to identify whether reasonably plausible adverse scenarios could have an impact on liquidity; and – **Assessing transparency**: evaluating the adequacy of the Group's disclosures in respect of going concern. **Our findings** We found the disclosures included in Note 1 made by the Directors' to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £10.0 million (2017: £10.0 million), determined with reference to the benchmark of Group profit before tax from continuing operations of £123 million normalised to exclude one-off or exceptional items in the year as disclosed in Note 10, but excluding the charge relating to the amortisation of acquired intangible assets. Our materiality represents 5.8% (2017: 6.4%) of normalised profit before tax of £173 million (2017: £156 million). The Group team performed procedures on the items excluded from normalised Group profit before tax.

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 0.2% 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 (2017: £0.5 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

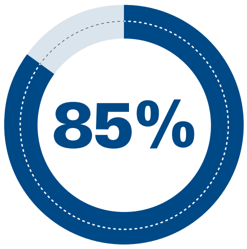
Materiality for the parent Company financial statements as a whole was set at £9.0 million (2017: £9.0 million), determined with reference to a benchmark of Company total assets, of which it represents 0.23% (2017: 0.27%).

Of the Group's 16 reporting components (2017: 16), 9 were subject to an audit for Group reporting purposes (2017: 11) and 7 (2017: 5) to specified risk-focused audit procedures. 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. For three components, the specified audit procedures were performed over revenue, and other contract accounting related balances, including costs, contract assets and liabilities and any contract provisions. For one component procedures were performed over costs and lease classification (one component) and another inventory (one component) and another on cash (one component). The components within the scope of our work accounted for 100% (2017: 100%) of Group revenue, 100% (2017: 100%) of Group profit before tax and 100% (2017: 100%) of Group total assets as illustrated right.

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

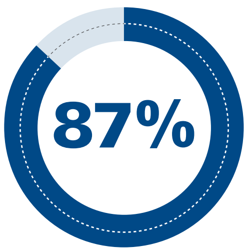
Scoping and coverage

Group revenue



Full scope audit (2017: 98%)	85%
Specific risk-focused audit procedures (2017: 2%)	15%

Group profit before tax



Full scope audit (2017: 95%)	87%
Specific risk-focused audit procedures (2017: 5%)	13%

Group total assets

Full scope audit (2017: 94%)	88%
Specific risk-focused audit procedures (2017: 6%)	12%

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 team approved the component materialities, which ranged from £1.5 million to £9.0 million, having regard to the mix of size and profile of the Group across the components. The work on 10 of the Group's 16 components was performed by the component auditors. Specified risk-focused procedures on 3 components, audit of the parent company, Group consolidation work and procedures on the items excluded from normalised Group profit before tax were performed by the Group audit team.

In 2018, the Group audit team visited 10 components in the United Kingdom, United States and Hong Kong (2017: 9 components). This included a number of visits to the United States. In addition, telephone conference meetings were held with these component auditors. At these visits and meetings, the findings reported to the Group audit team were discussed in detail.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 54 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Independent auditor's report to the members of Balfour Beatty plc continued

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 67 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and the parent Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 87, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we identified actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards.
For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.
In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

12 March 2019

Group Income Statement
For the year ended 31 December 2018

	Notes	2018 Underlying items[1] £m	2018 Non-underlying items (Note 10) £m	2018 Total £m	2017 Underlying items[1] £m	2017 Non-underlying items (Note 10) £m	2017 Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**7,802**	**12**	**7,814**	8,234	30	8,264
Share of revenue of joint ventures and associates	18.2	**(1,171)**	**(9)**	**(1,180)**	(1,340)	(8)	(1,348)
Group revenue	4	**6,631**	**3**	**6,634**	6,894	22	6,916
Cost of sales		**(6,250)**	**(13)**	**(6,263)**	(6,541)	(64)	(6,605)
Gross profit/(loss)		**381**	**(10)**	**371**	353	(42)	311
Gain on disposals of interests in investments	32.2/32.3	**80**	**–**	**80**	86	–	86
Amortisation of acquired intangible assets	15	**–**	**(8)**	**(8)**	–	(9)	(9)
Other net operating expenses		**(284)**	**(35)**	**(319)**	(302)	3	(299)
Group operating profit/(loss)		**177**	**(53)**	**124**	137	(48)	89
Share of results of joint ventures and associates	18.2	**28**	**(5)**	**23**	59	–	59
Profit/(loss) from operations	6	**205**	**(58)**	**147**	196	(48)	148
Investment income	8	**35**	**–**	**35**	42	–	42
Finance costs	9	**(59)**	**–**	**(59)**	(73)	–	(73)
Profit/(loss) before taxation		**181**	**(58)**	**123**	165	(48)	117
Taxation	11	**(2)**	**14**	**12**	(23)	68	45
Profit/(loss) for the year from continuing operations		**179**	**(44)**	**135**	142	20	162
Profit for the year from discontinued operations		**–**	**–**	**–**	1	5	6
Profit/(loss) for the year		**179**	**(44)**	**135**	143	25	168
Attributable to							
Equity holders		**179**	**(44)**	**135**	143	25	168
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit/(loss) for the year		**179**	**(44)**	**135**	143	25	168

1 Before non-underlying items (Notes 2.10 and 10).

	Notes	2018 Pence	2017 Pence
Basic earnings per ordinary share			
– continuing operations	12	**19.7**	23.7
– discontinued operations	12	**–**	1.0
	12	**19.7**	24.7
Diluted earnings per ordinary share			
– continuing operations	12	**19.5**	23.4
– discontinued operations	12	**–**	1.0
	12	**19.5**	24.4
Dividends per ordinary share proposed for the year	13	**4.8**	3.6

Commentary on the Group Income Statement*

Total profit before taxation from continuing operations for 2018 was £123m (2017: £117m), which is inclusive of a non-underlying loss of £58m (2017: £48m). The total profit after tax including discontinued operations was £135m (2017: £168m).

Background

The Group Income Statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the statement of comprehensive income. The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The income statement shows the revenue and results of continuing operations. There were no discontinued operations in the year.

Revenue

Revenue from continuing operations including non-underlying items, joint ventures and associates decreased by 6% to £7,814m from £8,264m in 2017. This is reflective of the Group's continued efforts in selective bidding as part of its Built to Last principles.

Gain on disposals of investments

The Group continued its programme of realising accumulated value in the Investments portfolio and generated income by disposing of several infrastructure concession interests in the year resulting in a total underlying gain on disposals of £80m (2017: £86m). Disposals in the year were: 5% interest in Connect Plus (M25) Holdings Ltd (£22m gain); 50% interest in Consort Healthcare (Fife) Ltd (£23m gain); 80% interest in Holyrood Holdings Ltd (£22m gain); and 81% interest in Northside Campus Partners LP (£13m gain).

These gains on disposals are recorded after recycling gains of £5m from reserves to the income statement.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 51 to 54.

Share of results of joint ventures and associates
Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

The Group's underlying profit generated from its share of joint ventures and associates decreased from the prior year primarily due to the sell down of the Group's interest in Connect Plus (M25) Holdings Ltd in 2017 resulting in less profit from operations being generated in the year. The Group also incurred a one-off £9m cost arising from the refinancing of the debt arrangements within the M25 joint venture. Within its US Civils operations, the wind down of two large projects within joint venture arrangements has also contributed to the decrease in joint venture profits in the year.

Underlying profit from continuing operations
Underlying profit from continuing operations increased to £205m from £196m in 2017. This was primarily driven by an improvement in Construction Services from a profit of £72m in 2017 to £95m in 2018 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. This increase was partially offset by a eduction in disposal gains within the Infrastructure Investments segment.

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 £58m before tax were charged to the income statement.

In 2018, the Group recognised additional losses on the Aberdeen Western Peripheral Route (AWPR) project. £10m of this charge has been recognised in non-underlying as this reflects the additional loss that the Group has suffered in fulfilling Carillion's obligations on the contract. The loss incurred on the Group's original 33% joint venture share is treated as part of the Group's underlying performance. The additional AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believes are highly probable to be agreed.

The Group recognised additional retirement benefit liabilities following the judgment on the Lloyds Banking Group High Court hearing on Guaranteed Minimum Pension (GMP) equalisation which was published on 26 October 2018. The judgment indicated that pension trustees needed to amend scheme retirement benefits to equalise for the effect of unequal GMPs and indicated an acceptable range of methods for how to do so.

This recent judgment therefore creates an obligation to equalise for both the BBPF and RPS schemes. The effect of GMP equalisation which amounted to £28m has been recognised in the Group's income statement as a plan amendment. The Group has also treated this item as non-underlying due to the size and nature of the income statement charge.

In addition to the above charges, the Group recognised an additional indemnity provision of £12m in the year following the reassessment of several projects which were indemnified by the Group as part of the sale of Heery International Inc (Heery) in 2017. This estimate is subject to final ongoing negotiations with various clients and any further gains or losses that arise as part of this indemnity obligation will be recorded within non-underlying as part of the Heery disposal.

Offsetting these charges is a provision release of £13m relating to the settlement of health and safety claims. These claims were previously included as part of the Group's overall reassessment of potential liabilities relating to historical health and safety breaches following new sentencing guidelines which was conducted in 2016.

Significant other non-underlying items included £11m of restructuring costs incurred relating to the Group's Build to Last transformation programme and amortisation of acquired intangible assets of £8m.

Net finance cost
Net finance cost of £24m in the year represents a decrease from £31m in 2017. This is primarily driven by net pension income arising this year of £2m as a result of the BBPF scheme being in surplus. Previously, the Group incurred net pension costs which amounted to £6m in 2017.

Taxation
The Group's underlying profit before tax from continuing operations for subsidiaries of £153m (2017: £106m) resulted in an underlying tax charge of £2m (2017: £23m). The tax charge in 2018 was impacted by the recognition of deferred tax assets for some of the Group's previously unrecognised UK historical tax losses.

Earnings per share
Basic earnings per share from continuing operations were 19.7p (2017: 23.7p). Underlying basic earnings per share from continuing operations were 26.3p (2017: 20.9p).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 51 to 54.

Group Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 Group £m	2018 Share of joint ventures and associates £m	2018 Total £m	2017 Group £m	2017 Share of joint ventures and associates £m	2017 Total £m
Profit for the year		**112**	**23**	**135**	108	60	168
Other comprehensive income/(loss) for the year							
Items which will not subsequently be reclassified to the income statement							
Actuarial gains/(losses) on retirement benefit liabilities	30.1	**22**	**(1)**	**21**	242	4	246
Tax on above	30.1	**–**	**–**	**–**	(37)	–	(37)
		22	**(1)**	**21**	205	4	209
Items which will subsequently be reclassified to the income statement							
Currency translation differences	30.1	**18**	**7**	**25**	(30)	(18)	(48)
Fair value revaluations – PPP financial assets	30.1	**(4)**	**9**	**5**	3	60	63
– cash flow hedges	30.1	**3**	**15**	**18**	4	11	15
– investments in mutual funds measured at fair value through OCI	30.1	**(1)**	**–**	**(1)**	3	–	3
Recycling of revaluation reserves to the income statement on disposal*	32.2/32.3	**–**	**(5)**	**(5)**	–	(85)	(85)
Tax on above	30.1	**–**	**(3)**	**(3)**	–	(13)	(13)
		16	**23**	**39**	(20)	(45)	(65)
Total other comprehensive income/(loss) for the year		**38**	**22**	**60**	185	(41)	144
Total comprehensive income for the year	30.1	**150**	**45**	**195**	293	19	312
Attributable to							
Equity holders				**195**			312
Non-controlling interests				**–**			–
Total comprehensive income for the year	30.1			**195**			312

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

Commentary on Group Statement of Comprehensive Income*

Total comprehensive income for 2018 was £195m comprising a total profit after tax of £135m and other comprehensive income after tax of £60m.

Background

The Group Statement of Comprehensive Income is presented on a total Group basis combining continuing and discontinued operations. Other comprehensive income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement.

Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit liabilities are increases or decreases in the present value of the pension liability because of:

- differences between the previous actuarial assumptions and what has actually occurred; or
- changes in actuarial assumptions used to value the obligations.

Actuarial gains for the Group including joint ventures and associates totalled £21m in 2018 compared to gains of £246m in 2017. 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 financial assets measured at fair value through OCI. 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, gilt rates remained stable resulting in a fair value gain including joint ventures and associates of £5m being taken through OCI (2017: £63m).

Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in the Group's Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements. The fair value of derivatives changes in response to prevailing market conditions. During the year, LIBOR increased resulting in a fair value gain on the interest rate swaps including joint ventures and associates of £18m being recognised in OCI (2017: £15m 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. On disposal of Infrastructure Investments' concessions in 2018, £5m of profit (including joint ventures and associates) was recycled to the income statement through OCI and 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 51 to 54.

Group Statement of Changes in Equity
For the year ended 31 December 2018

	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 2017		345	65	22	184	191	(50)	5	762
Total comprehensive income/(loss) for the year	30.1	–	–	–	19	(20)	313	–	312
Ordinary dividends	13	–	–	–	–	–	(20)	–	(20)
Joint ventures' and associates' dividends	18.1	–	–	–	(69)	–	69	–	–
Movements relating to share-based payments		–	–	–	–	6	1	–	7
Reserve transfers relating to joint venture and associate disposals	18.6	–	–	–	(21)	–	21	–	–
Minority interests		–	–	–	–	–	–	5	5
Convertible bonds repurchase	26.3	–	–	–	–	(2)	2	–	–
At 31 December 2017		345	65	22	113	175	336	10	1,066
Adjustment as a result of transitioning to IFRS 15 on 1 January 2018[2]		**–**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
Adjusted equity at 1 January 2018		**345**	**65**	**22**	**113**	**175**	**339**	**10**	**1,069**
Total comprehensive income for the year	30.1	**–**	**–**	**–**	**45**	**16**	**134**	**–**	**195**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**–**	**(27)**	**–**	**(27)**
Joint ventures' and associates' dividends	18.1	**–**	**–**	**–**	**(76)**	**–**	**76**	**–**	**–**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**4**	**–**	**–**	**4**
Transfers		**–**	**–**	**–**	**–**	**(9)**	**9**	**–**	**–**
Reserve transfers relating to joint venture and associate disposals	18.6	**–**	**–**	**–**	**(19)**	**–**	**19**	**–**	**–**
Convertible bonds repayment	26.3	**–**	**–**	**–**	**–**	**(24)**	**24**	**–**	**–**
At 31 December 2018		**345**	**65**	**22**	**63**	**162**	**574**	**10**	**1,241**

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

Commentary on Group Statement of Changes in Equity*

Total equity holders' funds of £1,241m at 31 December 2018 increased primarily due to movements in comprehensive income.

Background

The Group Statement of Changes in Equity includes the total comprehensive income attributable to equity holders of the Company and non-controlling interests and also discloses transactions which have been recognised directly in equity and not through the income statement.

Dividends

Following the declaration of an interim dividend of 1.6p in August 2018 which was paid in November 2018, the Board is recommending a final dividend of 3.2p, giving a total recommended dividend for the year of 4.8p (2017: 3.6p).

Joint ventures' and associates' dividends

Dividends of £76m (2017: £69m) were received in the year from joint ventures and associates (JVA) resulting in a transfer of this amount between JVA reserves and Group retained profits.

Reserves

Other reserves comprise: the equity components of the preference shares £18m (2017: £18m) and convertible bonds £nil (2017: £24m); hedging reserves £(25)m (2017: £(27)m); PPP financial assets revaluation reserve £24m (2017: £27m); currency translation reserve £123m (2017: £105m); and other reserves £22m (2017: £28m).

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 2018

	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 2017		345	65	22	122	578	1,132
Total comprehensive loss for the year	30.2	–	–	–	–	(35)	(35)
Ordinary dividends	13	–	–	–	–	(20)	(20)
Movements relating to share-based payments		–	–	–	2	(1)	1
Convertible bonds repurchase		–	–	–	(2)	2	–
At 31 December 2017		345	65	22	122	524	1,078
Total comprehensive income for the year	30.2	**–**	**–**	**–**	**–**	**355**	**355**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**(27)**	**(27)**
Movements relating to share-based payments		**–**	**–**	**–**	**7**	**(3)**	**4**
Convertible bonds repayment		**–**	**–**	**–**	**(24)**	**24**	**–**
At 31 December 2018		**345**	**65**	**22**	**105**	**873**	**1,410**

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 51 to 54.

Balance Sheets
At 31 December 2018

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Intangible assets – goodwill	14	**903**	874	**–**	–
– other	15	**258**	281	**–**	–
Property, plant and equipment	16	**168**	157	**–**	–
Investment properties	17	**33**	46	**–**	–
Investments in joint ventures and associates	18	**524**	531	**–**	–
Investments	19	**30**	39	**1,706**	1,700
PPP financial assets	20	**156**	163	**–**	–
Trade and other receivables	23	**212**	216	**1**	2
Retirement benefit assets	28	**171**	156	**–**	–
Deferred tax assets	27	**80**	52	**–**	–
Derivative financial instruments	38	**–**	1	**–**	–
		2,535	2,516	**1,707**	1,702
Current assets					
Inventories[2]	21	**84**	107	**–**	–
Contract assets[2]	22	**363**	–	**–**	–
Due from construction contract customers[2]		**–**	377	**–**	–
Trade and other receivables[2]	23	**902**	899	**2,083**	1,531
Cash and cash equivalents – infrastructure concessions	26	**70**	135	**–**	–
– other	26	**591**	833	**134**	134
Current tax receivable		**5**	8	**5**	3
Derivative financial instruments	38	**1**	2	**–**	–
		2,016	2,361	**2,222**	1,668
Assets held for sale	39(e)	**16**	–	**–**	–
		2,032	2,361	**2,222**	1,668
Total assets		**4,567**	4,877	**3,929**	3,370
Current liabilities					
Due to construction contract customers[2]		**–**	(535)	**–**	–
Contract liabilities[2]	22	**(489)**	–	**–**	–
Trade and other payables[2]	24	**(1,373)**	(1,542)	**(2,170)**	(1,925)
Provisions[2]	25	**(167)**	(194)	**–**	–
Borrowings – non-recourse loans	26	**(48)**	(8)	**–**	–
– other	26	**(15)**	(268)	**–**	(33)
Current tax payable		**(17)**	(15)	**–**	–
Derivative financial instruments	38	**(4)**	(5)	**–**	–
		(2,113)	(2,567)	**(2,170)**	(1,958)
Liabilities held for sale	39(e)	**(11)**	–	**–**	–
		(2,124)	(2,567)	**(2,170)**	(1,958)
Non-current liabilities					
Contract liabilities[2]	22	**(2)**	–	**–**	–
Trade and other payables[2]	24	**(143)**	(157)	**(4)**	(4)
Provisions[2]	25	**(149)**	(98)	**–**	–
Borrowings – non-recourse loans	26	**(331)**	(432)	**–**	–
– other	26	**(239)**	(230)	**(239)**	(226)
Liability component of preference shares	29	**(106)**	(103)	**(106)**	(103)
Retirement benefit liabilities	28	**(117)**	(124)	**–**	–
Deferred tax liabilities	27	**(90)**	(70)	**–**	(1)
Derivative financial instruments	38	**(25)**	(30)	**–**	–
		(1,202)	(1,244)	**(349)**	(334)
Total liabilities		**(3,326)**	(3,811)	**(2,519)**	(2,292)
Net assets		**1,241**	1,066	**1,410**	1,078
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	**63**	113	**–**	–
Other reserves	30	**162**	175	**105**	122
Retained profits[2]	30	**574**	336	**873**	524
Equity attributable to equity holders of the parent		**1,231**	1,056	**1,410**	1,078
Non-controlling interests	30	**10**	10	**–**	–
Total equity		**1,241**	1,066	**1,410**	1,078

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

On behalf of the Board

Leo Quinn
Director

Philip Harrison
Director

12 March 2019

Commentary on the Group Balance Sheet*

Total assets of £4.6bn were 6% less than last year. Total liabilities of £3.3bn decreased by 13%, resulting in an overall increase in net assets of 16%. The increase is primarily driven by increased profits generated in the year of £135m.

Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2018. 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 2018 increased to £903m (2017: £874m). The increase was due to currency translation differences of £29m. 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 £524m in 2018 from £531m in 2017. Dividends received from joint ventures and associates of £76m and disposals in the year have been offset by equity and loans advanced into other joint venture interests by the Group.

Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 118.

Borrowings

Borrowings excluding non-recourse loans

The Group's committed facilities total £400m. The purpose of these facilities is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities.

These facilities extend to December 2020. At 31 December 2018, these facilities remain fully undrawn.

In December 2018, following the partial repurchase of the Group's convertible bonds in December 2017 (£21.3m) and March 2018 (£17.7m), the Group repaid the remaining convertible bonds when they fell due for a further £213.7m.

In March 2018, the Group also repaid the first tranche of its US private placement notes amounting to £32.5m (US$45m). £239m (US$305m) remain outstanding, with the next tranche of £36m (US$46m) being due in March 2020 and the remaining loan notes falling due in March 2023 and March 2025.

The Group's borrowings include recourse borrowings to the Group arising from certain Infrastructure Investments projects in North America amounting to £15m (2017: £13m).

Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain infrastructure concessions projects.

At 31 December 2018, the Group's share of these non-recourse net borrowings amounted to £1,955m (2017: £1,724m), comprising £1,646m (2017: £1,419m) in relation to joint ventures and associates as disclosed in Note 18.2 and £309m (2017: £305m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 26.

Retirement benefit assets and liabilities

The Group's balance sheet includes net retirement benefit assets of £54m (2017: £32m) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. The increase in pension surplus in the year is due to £30m of employer contributions and £22m of net actuarial gains, partially offset by a £28m charge arising from the recognition of GMP equalisation.

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 2018, contract bonds in issue by financial institutions covered £3.9bn (2017: £3.2bn) of the contract commitments of the Group.

Equity commitments

During 2018, the Group invested £58m (2017: £35m) in a combination of equity and shareholder loans to Infrastructure Investments' project companies and at the end of the year had committed to provide a further £101m from 2019 onwards, inclusive of £30m expected for projects at preferred bidder stage. £43m of this is expected to be invested in 2019, as disclosed in Note 39(f).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 51 to 54.

Group Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Cash flows (used in)/from operating activities			
Cash (used in)/from:			
– continuing operations – underlying[1]	31.1	**(54)**	62
– non-underlying	31.1	**(78)**	(21)
Income taxes received/(paid)		**2**	(3)
Net cash (used in)/from operating activities		**(130)**	38
Cash flows from investing activities			
Dividends received from joint ventures and associates:			
– infrastructure concessions	18.5	**36**	16
– other	18.5	**40**	53
Interest received – infrastructure concessions – joint ventures	18.5	**7**	9
Interest received – infrastructure concessions – subsidiaries		**8**	12
Acquisition of businesses, net of cash and cash equivalents acquired	32.1	**(3)**	(3)
Purchases of:			
– intangible assets – infrastructure concessions^	15	**(63)**	(82)
– intangible assets – other	15	**(3)**	(5)
– property, plant and equipment	16	**(38)**	(20)
– investment properties	17	**–**	(3)
– other investments	19	**–**	(1)
Investments in and long-term loans to joint ventures and associates	18.5	**(56)**	(30)
PPP financial assets cash expenditure	20	**(2)**	(1)
PPP financial assets cash receipts	20	**14**	15
Disposals of:			
– investments in joint ventures – infrastructure concessions	18.5/32	**160**	103
– investments in joint ventures – other	18.5/32	**4**	3
– subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions	32.2.5	**21**	4
– subsidiaries net of cash disposed, separation and transaction costs – other	32.2.5	**–**	36
– property, plant and equipment		**7**	11
– investment properties		**7**	–
– other investments	19	**11**	8
Net cash from investing activities		**150**	125
Cash flows (used in)/from financing activities			
Purchase of ordinary shares	30.3	**(4)**	(2)
Proceeds from:			
– new loans – infrastructure concessions	31.3	**4**	212
Repayments of:			
– loans – infrastructure concessions	31.3	**(6)**	(4)
– loans – other	31.3	**(33)**	(52)
Repayment/repurchase of convertible bonds	31.3	**(231)**	(21)
Ordinary dividends paid	13	**(27)**	(20)
Interest paid – infrastructure concessions^		**(15)**	(10)
Interest paid – other		**(25)**	(24)
Preference dividends paid		**(12)**	(12)
Net cash (used in)/from financing activities		**(349)**	67
Net (decrease)/increase in cash and cash equivalents		**(329)**	230
Effects of exchange rate changes		**22**	(30)
Cash and cash equivalents at beginning of year		**968**	768
Cash and cash equivalents at end of year	31.2	**661**	968

1 Before non-underlying items (Notes 2.10 and 10).

^ Re-presented to include payments on capitalised interest within purchases of intangible assets in investing activities rather than within the interest paid line in financing activities.

Commentary on the Group Statement of Cash Flows*

Cash and cash equivalents decreased by 32% during the year to £661m. The Group used cash in operating activities in the year of £130m compared to cash generated from operating activities of £38m in the prior year. The Group also repaid £270m of debt in 2018.

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; contract assets and liabilities; trade and other receivables; trade and other payables; and provisions. Where the net working capital balance is in an asset position, ie the inventories and receivables balances are greater than the payables and provisions, this is referred to as unfavourable/positive working capital. Where this is not the case, this is referred to as favourable/negative working capital.

Working capital movements

The movement of the individual working capital balances on the balance sheet will not be reflective of the underlying movement of working capital due to the balance sheet being affected by foreign currency movements and business disposals.

Working capital movements are disclosed in Note 31.1.

The decrease in trade and other payables has resulted in a working capital outflow of £196m (2017: £92m). This is mainly attributable to the decrease in revenues in US Construction and the Group's focus on improving payment processes resulting in faster payment of suppliers compared to the prior year.

The working capital outflow from provisions of £80 million (2017: £29m inflow) predominantly relates to the significant AWPR cash outflows in 2018.

Cash used in operations

Underlying cash outflow from continuing operations of £54m (2017: £62m inflow) comprised a profit from operations of £205m (2017: £196m) and a working capital outflow of £169m (2017: £7m) including the following significant adjustment items: share of results of joint ventures and associates £28m (2017: £59m); depreciation charges of £29m (2017: £29m); pension payments including deficit funding of £30m (2017: £27m); and gain on disposal of investments in infrastructure concessions of £80m (2017: £86m).

Non-underlying cash used in continuing operations of £78m (2017: £21m) comprised a loss from operations of £58m (2017: £48m) and a working capital outflow of £60m (2017: £34m inflow), including the following principal non-cash items: loss on GMP equalisation of £28m; a £3m gain on disposal of businesses (2017: £17m); and an amortisation charge of £8m (2017: £9m) on acquired intangible assets.

Cash flows from investing activities

The Group received dividends of £76m (2017: £69m) from joint ventures and associates during the year.

During the year, the Group incurred additional spend on intangible assets of £66m (2017: £87m), of which £63m related to the construction spend on the University of Sussex student accommodation (2017: £82m) and £3m (2017: £5m) related to software and other intangible assets.

The Group disposed of a 5% interest in Connect Plus (M25) Holdings Ltd for cash consideration of £42m. In addition to the consideration for this disposal, the Group also received £62m in February 2018 from the disposal of its 7.5% interest in December 2017. In September 2018, the Group disposed of its 50% interest in Consort Healthcare (Fife) Holdings Ltd for consideration of £43m and in December 2018, the Group also disposed of an 80% interest in Holyrood Holdings Ltd for a net consideration of £21m. Finally, the Group disposed of its 81% interest in Northside Campus Partners LP for consideration amounting to £13m.

In addition to the current year's disposals, the Group also received deferred consideration with respect to disposals which took place in previous years. The Group received £3m with respect to its 2016 disposal of Balfour Beatty Infrastructure Partners and £1m in relation to its disposal of its Middle East joint ventures in 2017.

Cash flows from financing activities

In 2018, the Group repaid the remaining convertible bonds amounting to £231m. In addition to this, the Group also repaid the first tranche of the US private placement notes amounting to £33m. None of these facilities were replaced with another form of debt. The Group's entire revolving credit facilities of £400m remain undrawn at 31 December 2018.

Preference dividends of £12m (2017: £12m) were paid in the year.

Total interest payments amounted to £40m (2017: £34m) during the year, of which £15m (2017: £10m) related to infrastructure concessions and £25m (2017: £24m) related to the US private placement, convertible bonds and other finance charges.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 51 to 54.

Notes to the Financial Statements

1 Basis of accounting

The Directors have acknowledged the guidance Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 published by the Financial Reporting Council in October 2009 and consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements. Further information is provided within the Chief Financial Officer's review on page 54.

The annual financial statements have been prepared 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 2018.

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 2018 the Company reported under FRS 101 as issued by the Financial Reporting Council.

Except as noted below, the Company's accounting policies are consistent with those described in the Group's consolidated financial statements. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, related party transactions and comparative information. Where required, equivalent disclosures are given in the consolidated financial statements.

In addition to the application of FRS 101, the Company has taken advantage of Section 408 of the Act and consequently its Statement of Comprehensive Income (including the profit and loss account) is not presented as part of these accounts.

2 Principal accounting policies

2.1 Accounting standards

Adoption of new and revised standards

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to the following standards:
  - 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
- Clarifications to IFRS 15 Revenue from Contract with Customers
- Improvements to IFRSs (2014–2016).

The new and amended standards do not have a material effect on the Group except as described below:

IFRS 9 Financial Instruments

IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new models for classification of financial assets and accounting for credit losses. The Group has adopted IFRS 9 retrospectively from 1 January 2018. There was no material impact on adoption of this new standard. As disclosed in the Group's Annual Report and Accounts 2017, under the new standard the Group is able to continue to record movements in its PPP financial assets through Other Comprehensive Income (OCI) using the fair value through OCI category. This is because these financial assets are held within a business model whose objective at Group level is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset meet the "solely payments of principal and interest on the principal outstanding" criterion.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018. The Group has adopted IFRS 15 retrospectively and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2018 by a credit of £3m to reflect the impact of transitioning to IFRS 15. This adjustment primarily reflects the impact of unbundling a handful of contracts according to what the Group has assessed to be the performance obligations to be delivered to the customer.

In line with the requirements of the standard with regards to the transition option adopted, the Group has not restated its comparative information which continues to be reported under previous revenue standards, IAS 11 and IAS 18. To aid comparability, the Group has also presented its 2018 results under IAS 11 and IAS 18 which can be found in Note 40.

As a result of this new standard, the Group has also revised its accounting policies around revenue recognition (where applicable). Refer to Note 2.4.

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 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  - IAS 1 & IAS 8 Definition of Material
  - IAS 19 Plan Amendment, Curtailment or Settlement
  - IAS 28 Long-term Interests in Associates and Joint Ventures
  - IFRS 3 Business Combinations
  - IFRS 9 Prepayment Features with Negative Compensation
- Improvements to IFRSs (2015–2017)
- References to the Conceptual Framework.

Apart from IFRS 16, the Directors do not expect the other standards above to have a material quantitative effect.

2 Principal accounting policies continued

2.1 Accounting standards 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 Directors have substantially completed their assessment of IFRS 16 and the Group will adopt the new standard for the financial year ending 31 December 2019 using the modified retrospective approach. This transition option does not require the Group to restate its comparative year.

The adoption of IFRS 16 will result in a right-of-use (ROU) asset and a corresponding lease liability amounting to approximately £135m respectively being brought onto the Group's balance sheet on 1 January 2019. There will be no impact on the Group's opening equity as a result of adopting this standard. In deriving these amounts, judgement was made as to whether certain lease agreements represent a lease of an underlying asset or the provision of services by a third party. The Group chose to take the low value item and short-term hire exemptions allowed under the standard which resulted in certain leases being excluded from IFRS 16 accounting. The Group also took the practical expedient available under paragraph C10(c) which allows leases with terms ending within 12 months of the date of initial application to be treated as short-term leases in line with the short-term hire exemption.

In addition to the initial impact on the Group's balance sheet of adopting this standard, the Group's income statement will previously be impacted. Lease charges which were accounted for as and when hire charges were incurred within cost of sales or overheads will be replaced with a depreciation charge and an interest cost, resulting in a higher profit from operations and a higher interest cost. Cash payments made for these leases will also be reported within financing activities on the Group's cash flow statement rather than within cash from operations.

The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

IFRS 16 leases policies to be applied from 1 January 2019

As a lessee, the Group assesses whether a contract is, or contains, a lease at the inception of a contract. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess if a lease exists, the Group assesses whether: (i) the contract involves the use of an identified asset; (ii) the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the lease term; and (iii) the Group has the right to direct the use of the asset.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated over the lease term. The lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Group's incremental borrowing rate.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of less than 12 months and leases of low value assets. Instead, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019. There is no material impact on the Group arising from its activities as lessor as this is insignificant.

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 IFRS 9 Financial Instruments 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 (i.e. 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.

2 Principal accounting policies continued
2.2 Basis of consolidation continued
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 IFRS 9 where the investment is held by a Group entity which meets the classification of a venture capital organisation, in which case the investment will be marked to market with movements being recognised in the income statement. The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return. Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Joint operations
The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

2.3 Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Significant exchange rates used in the preparation of these financial statements are shown in Note 3.

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date. Currency translation differences arising are transferred to the Group's foreign currency translation reserve and are recognised in the income statement on disposal of the underlying investment.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward foreign exchange contracts. Refer to Note 2.26(c) for details of the Group's accounting policies in respect of such derivative financial instruments.

2.4 Revenue recognition
The Group recognises revenue when it transfers control over a product or service to its customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Where consideration is not specified within the contract and is therefore subject to variability, the Group estimates the amount of consideration to be received from its customer. The consideration recognised is the amount which is highly probable not to result in a significant reversal in future periods.

Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

The Group's activities are wide-ranging, and as such, depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Group will account for revenue over time and at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

Revenue is recognised as follows:

- revenue from construction and services activities is recognised over time and the Group uses the input method to measure progress of delivery
- revenue from manufacturing activities is recognised at a point in time when title has passed to the customer
- interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount
- dividend income is recognised when the equity holder's right to receive payment is established.

2 Principal accounting policies continued

2.5 Construction and services 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. The estimated final out-turns on contracts are continuously reviewed, and in certain limited cases, recoveries from insurers are assessed, and adjustments made 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 highly probable it will be agreed by the customer. Revenue in respect of claims is recognised only if it is highly probable not to reverse in future periods. Profit for the year includes the benefit of claims settled in the year to the extent not previously recognised 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 14 to 26.

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 recognised in full when they are received in cash.

For construction and services projects, the relevant contract is the construction or services contract respectively. With respect to PPP projects, an assessment is made as to which contractual element the pre-contract costs relate to, in order to determine the relevant period for amortisation. The relevant contract is that which gives rise to a financial or intangible asset, which is either the construction contract or the contract which transferred the asset to the project.

2.8 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

2.9 Finance costs

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method.

2.10 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be presented separately 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. The Group's underlying results exclude 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. Refer to Note 5.

2 Principal accounting policies continued

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 properties

The Group classifies land and buildings which it holds to generate capital appreciation and/or to earn rental income as investment properties. The Group has chosen to state its investment properties at cost less accumulated depreciation and impairment losses. The Group depreciates its investment properties over 25 years. Land is not depreciated.

2.15 Leasing

Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease, and depreciation is provided accordingly. The liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant effective rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2.16 Impairment of assets

Assets that have an indefinite useful life (such as goodwill arising on acquisitions) are reviewed at least annually for impairment. Other intangible assets and property, plant and equipment are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

2 Principal accounting policies continued

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.

Investments in mutual funds are measured at fair value. Gains and losses arising from changes in the fair value of these 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. Investments that are held until they reach maturity 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: (i) the Group has a present legal or constructive obligation as a result of a past event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) 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 obligations, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the scheme assets. Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

2.25 Share-based payments
Employee services received in exchange for the grant of equity-settled and cash-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 or cash payments made 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.

2 Principal accounting policies continued

2.26 Financial instruments continued

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 financial assets measured at fair value through OCI.

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 2018 are discussed below.

All the below are both judgements and estimates made by the Group.

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 both estimates and judgements to be made of both cost and income recognition on each contract. On the cost side, estimates of forecasts are made on the final out-turn of each contract in addition to potential costs to be incurred for any maintenance and defects liabilities. On the income side, estimates and judgements are made on variations to consideration which typically include variations due to changes in scope of work, recoveries of claim income from customers, and potential liquidated damages that may be levied by the customer. The Group's estimates also include assessments of recoveries from insurers. Judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary.

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

2 Principal accounting policies continued

2.27 Judgements and key sources of estimation uncertainty continued

b) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures. This may involve a significant amount of judgement as tax legislation can be complex and open to different interpretation in particular in relation to the basis of taxation on one-off or unusual transactions. Management uses both in-house and external tax experts and previous experience when assessing tax risks. These judgements are prone to changes in future periods. Each potential liability or contingency is revisited annually, and where actual expected tax liabilities differ from the provisions, adjustments are made which can have a material impact on the Group's profit for the year.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is probable that future taxable profit will arise against which the temporary differences will be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and level of future taxable profits. Refer to Note 27.

c) Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be presented separately 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. Certain items within non-underlying also require a degree of estimation. A total non-underlying loss after tax of £44m was charged (2017: £25m credited) to the income statement for the year ended 31 December 2018. 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. Judgement is also required when determining the appropriateness of these assumptions as well as the underlying cash flows and the timing at which they arise. The carrying value of goodwill at 31 December 2018 was £903m (2017: £874m). Refer to Note 14.

e) Financial assets measured at fair value through OCI

At 31 December 2018, £1,898m (2017: £2,006m) of PPP financial assets constructed by the Group's subsidiary, joint venture and associate companies were classified as financial assets measured at fair value through OCI. 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 4.2% to 7.8% (2017: 2.2% to 7.7%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. Refer to Note 38.

A £5m gain was taken to other comprehensive income in 2018 (2017: £63m gain) and a cumulative fair value gain of £274m had arisen on these financial assets as a result of market-related movements in the fair value of these financial assets at 31 December 2018 (2017: £269m gain).

f) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The range of potential outcomes as a result of uncertain future events could result in a materially positive or negative swing to profitability and cash flow.

More specifically on the Group's provisions set aside for any liabilities arising due to defects, there is a latent defect period for which the provision is held, but where there are known identified issues then the provision may be required to cover rectification work over a more extended period.

The Group recognised provisions at 31 December 2018 of £316m (2017: £292m). Refer to Note 25.

g) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 28, including tables showing the sensitivity of the pension scheme obligations and assets to different actuarial assumptions.

At 31 December 2018, the net retirement benefit assets recognised on the Group's balance sheet were £54m (2017: £32m). 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 2018, the Group recognised net actuarial gains of £21m (2017: £246m) in OCI, including its share of the actuarial gains and losses arising in joint ventures and associates.

In 2018, the Group recognised additional liabilities following the judgment on the Lloyds Banking Group High Court hearing on Guaranteed Minimum Pension (GMP) equalisation which was published on 26 October 2018. The judgment indicated that pension trustees needed to amend scheme benefits to equalise for the effect of unequal GMPs and indicated an acceptable range of methods for how to do so.

This recent judgment therefore creates an obligation to equalise for both the BBPF and RPS schemes. The effect of GMP equalisation which amounted to £28m has been recognised in the Group's income statement as a plan amendment. The Group has also treated this item as non-underlying due to the size and nature of the income statement charge. Any future changes in relation to GMP equalisation will be treated as part of the Group's actuarial gains/losses which are recognised within OCI. Refer to Note 28.1.

3 Exchange rates

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

Average rates

£1 buys	2018	2017	Change
US$	**1.33**	1.29	3.1%
HK$	**10.46**	10.07	3.9%
Euro	**1.13**	1.14	(0.9)%

Closing rates

£1 buys	2018	2017	Change
US$	**1.27**	1.35	(5.9)%
HK$	**9.97**	10.56	(5.6)%
Euro	**1.11**	1.13	(1.8)%

4 Revenue

4.1 Nature and services of goods

4.1.1 Construction Services

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

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction services, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit-out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However for certain types of contracts, services relating to fit-out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small scale infrastructure works 24 to 60 months for large scale complex construction	The Group provides construction services to three main types of infrastructure assets: highways, railways and other large scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK and the US. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway construction services primarily in the UK and US include design and managing the construction of railway systems delivering major multi-disciplinary projects, track work, electrification and power supply. The Group serves both public and private railways including high-speed passenger railways, freight and mixed traffic routes, dense commuter networks, metros and light rail. Other infrastructure assets include construction, design and build services on large scale complex assets predominantly servicing the waste, water and energy sectors. Contracts entered into relating to these infrastructure assets can take the form of fixed price or target-cost contracts with shared pain/gain mechanisms. Contract lengths vary according to the size and complexity of the asset build and can range from a few months for small scale infrastructure works to 4–5 years for large scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses the maintenance element as a separate PO and revenue from this PO is recognised in the Support Services segment. Refer to Note 4.1.2.

4 Revenue continued

4.1 Nature and services of goods continued

4.1.2 Support Services

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

Types of assets	Nature, timing of satisfaction of performance obligations and significant payment terms
Utilities	Within the Group's services contracts, the Group provides support services to various types of utility assets. For contracts servicing utility assets, the Group provides services such as renewal, upgrade and expansion of underground main pipelines for assets within the gas network. Within the water network, services include clean and waste water mains renewal and repair, metering and treatment facilities. Contracts are typically delivered through framework agreements which are normally granted on a regulatory cycle period of five years for water contracts and eight years for gas contracts. Individual instructions delivered under the framework agreements can vary in size and duration but usually last between one to six weeks for smaller projects or up to one to two years for major projects. Each instruction is accounted for as a separate PO. Payments are normally set according to a schedule of rates and may include a pain/gain element. For contracts servicing power transmission and distribution assets, the Group constructs and maintains electricity networks, including replacement or new build of overhead lines, underground cabling, cable tunnels and offshore windfarm maintenance. Contracts entered into are normally fixed-price and contract lengths can vary from 12 to 36 months, and up to 20 years for offshore windfarm maintenance contracts. Each contract is normally assessed to contain one PO. However, where a contract contains both a construction phase and a maintenance phase, these are assessed to contain two separate POs.
Infrastructure	The Group provides maintenance, asset and network management and design services in respect of highways, railways and other publicly available assets. The customer in this area of the Group is mainly government bodies. Types of contract include a fixed schedule of rates, fixed price, target cost arrangements and cost-plus. Contract terms range from 1 to 25 years. Where contracts include lifecycle elements, this is accounted for as a separate PO and recognised when the work is delivered.

4.1.3 Infrastructure Investments

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

Types of services	Nature, timing of satisfaction of performance obligations and significant payment terms
Service concessions	The Group operates a UK and North America portfolio of service concession assets comprising of assets in the roads, healthcare, schools, student accommodation, biomass and waste and offshore transmission sectors. The Group accounts for these assets under IFRIC 12 Service Concession Arrangements. Where the Group constructs and maintains these assets, the two services are deemed to be separate performance obligations and accounted for separately. If the maintenance phase includes lifecycle elements, then this is considered to be a separate PO. Contract terms can be up to 40 years. The Group recognises revenue over time using the input method. Consideration is paid through a fixed unitary payment charge spread over the life of the contract. Revenue from this service is presented across Buildings, Infrastructure or Utilities in Note 4.2.
Management services	The Group provides real estate management services such as property, development and asset management services. Contract terms can be up to 50 years. The Group recognises revenue over time as and when service is delivered to the customer. Revenue from this service is presented within Buildings in Note 4.2.
Housing development	The Group also develops housing units on land that is owned by the Group. Revenue is recognised on the sale of individual units at a point in time, which depicts when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. Revenue from this service is presented within Buildings in Note 4.2.

Notes to the Financial Statements continued

4 Revenue continued

4.2 Disaggregation of revenue

Following the implementation of IFRS 15 from 1 January 2018, the Group presents a disaggregation of its revenue according to the primary geographical markets in which the Group operates as well as the types of assets serviced by the Group. The nature of the various services provided by the Group is explained in Note 4.1. This disaggregation of revenue is also presented according to the Group's reportable segments as described in Note 5.

The revenue disaggregation below represents the Group's underlying revenue excluding the Group's revenue generated by Rail Germany which is presented as non-underlying.

For the year ended 31 December 2018

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	1,885	3,324	918+	6,127
	Group revenue	1,885	3,309	20+	5,214
Support Services	Revenue including share of joint ventures and associates	1,041	–	63	1,104
	Group revenue	1,041	–	35	1,076
Infrastructure Investments	Revenue including share of joint ventures and associates	238	298	35	571
	Group revenue	124	214	3	341
Total revenue	**Revenue including share of joint ventures and associates**	**3,164**	**3,622**	**1,016**	**7,802**
	Group revenue	**3,050**	**3,523**	**58**	**6,631**

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	3,891	1,840+	391	5	6,127
	Group revenue	3,363	1,459+	387	5	5,214
Support Services	Revenue including share of joint ventures and associates	–	444	651	9	1,104
	Group revenue	–	444	623	9	1,076
Infrastructure Investments	Revenue including share of joint ventures and associates	398	127	43	3	571
	Group revenue	336	3	–	2	341
Total revenue	**Revenue including share of joint ventures and associates**	**4,289**	**2,411**	**1,085**	**17**	**7,802**
	Group revenue	**3,699**	**1,906**	**1,010**	**16**	**6,631**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	6,120+	1,096	536	7,752
At a point in time	7	8	35	50
Revenue including share of joint ventures and associates	**6,127**	**1,104**	**571**	**7,802**
Over time	5,207+	1,068	306	6,581
At a point in time	7	8	35	50
Group revenue	**5,214**	**1,076**	**341**	**6,631**

+ Excludes revenue earnt in Rail Germany of £12m including share of joint ventures and associates or £3m excluding share of joint ventures and associates.

4.3 Transaction price allocated to the remaining performance obligations (excluding joint ventures and associates)

	2019 £m	2020 £m	2021 onwards £m	Total £m
Construction Services	4,019	1,921	1,858	7,798
Support Services	667	292	1,497	2,456
Infrastructure Investments	309	75	2,257	2,641
Total transaction price allocated to remaining performance obligations	**4,995**	**2,288**	**5,612**	**12,895**

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earnt by the Group for distinct goods and services which the Group has promised to deliver to its customers. These include promises which are partially satisfied at the period end or those which are unsatisfied but which the Group has committed to providing. In deriving this transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future.

The transaction price above does not include any estimated revenue to be earned on framework contracts for which a firm order or instruction has not been received by the customer.

5 Segment analysis

Reportable segments of the Group:

- Construction Services – activities resulting in the physical construction of an asset
- Support Services – activities which support existing assets or functions such as asset maintenance and refurbishment
- Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment also includes the Group's housing development division.

5.1 Total Group

Income statement – performance by activity from continuing operations	**Construction Services 2018 £m**	**Support Services 2018 £m**	**Infrastructure Investments 2018 £m**	**Corporate activities 2018 £m**	**Total 2018 £m**
Revenue including share of joint ventures and associates[1]	**6,127**	**1,104**	**571**	**–**	**7,802**
Share of revenue of joint ventures and associates[1]	**(913)**	**(28)**	**(230)**	**–**	**(1,171)**
Group revenue[1]	**5,214**	**1,076**	**341**	**–**	**6,631**
Group operating profit/(loss)[1]	**67**	**48**	**95**	**(33)**	**177**
Share of results of joint ventures and associates[1]	**28**	**(2)**	**2**	**–**	**28**
Profit/(loss) from operations[1]	**95**	**46**	**97**	**(33)**	**205**
Non-underlying items:					
– additional loss on the AWPR contract as a result of Carillion's liquidation	**(10)**	**–**	**–**	**–**	**(10)**
– amortisation of acquired intangible assets	**(3)**	**–**	**(5)**	**–**	**(8)**
– other non-underlying items	**(36)**	**(7)**	**3**	**–**	**(40)**
	(49)	**(7)**	**(2)**	**–**	**(58)**
Profit/(loss) from operations	**46**	**39**	**95**	**(33)**	**147**
Investment income					**35**
Finance costs					**(59)**
Profit before taxation					**123**

1 Before non-underlying items (Notes 2.10 and 10).

Income statement – performance by activity from continuing operations	Construction Services 2017 £m	Support Services 2017 £m	Infrastructure Investments 2017 £m	Corporate activities 2017 £m	Total 2017 £m
Revenue including share of joint ventures and associates[1]	6,649	1,061	524	–	8,234
Share of revenue of joint ventures and associates[1]	(1,074)	(30)	(236)	–	(1,340)
Group revenue[1]	5,575	1,031	288	–	6,894
Group operating profit/(loss)[1]	42	41	87	(33)	137
Share of results of joint ventures and associates[1]	30	–	29	–	59
Profit/(loss) from operations[1]	72	41	116	(33)	196
Non-underlying items:					
– additional loss on the AWPR contract as a result of Carillion's liquidation	(44)	–	–	–	(44)
– amortisation of acquired intangible assets	(4)	–	(5)	–	(9)
– other non-underlying items	12	(2)	(1)	(4)	5
	(36)	(2)	(6)	(4)	(48)
Profit/(loss) from operations	36	39	110	(37)	148
Investment income					42
Finance costs					(73)
Profit before taxation					117

1 Before non-underlying items (Notes 2.10 and 10).

Notes to the Financial Statements continued

5 Segment analysis continued
5.1 Total Group continued

Assets and liabilities by activity	Construction Services 2018 £m	Support Services 2018 £m	Infrastructure Investments 2018 £m	Corporate activities 2018 £m	Total 2018 £m
Contract assets[2]	**251**	**97**	**15**	**–**	**363**
Contract liabilities – current[2]	**(411)**	**(76)**	**(2)**	**–**	**(489)**
Inventories[2]	**46**	**12**	**26**	**–**	**84**
Trade and other receivables – current[2]	**741**	**126**	**28**	**7**	**902**
Trade and other payables – current[2]	**(1,117)**	**(195)**	**(43)**	**(18)**	**(1,373)**
Provisions – current[2]	**(128)**	**(8)**	**(7)**	**(24)**	**(167)**
Working capital from continuing operations*	**(618)**	**(44)**	**17**	**(35)**	**(680)**

* Includes non-operating items and current working capital.

Total assets[2]	**2,171**	**509**	**1,162**	**725**	**4,567**
Total liabilities[2]	**(1,966)**	**(289)**	**(509)**	**(562)**	**(3,326)**
Net assets	**205**	**220**	**653**	**163**	**1,241**

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

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

* Includes non-operating items and current working capital.

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

Other information – continuing operations	Construction Services 2018 £m	Support Services 2018 £m	Infrastructure Investments 2018 £m	Corporate activities 2018 £m	Total 2018 £m
Capital expenditure on property, plant and equipment (Note 16)	**18**	**19**	**–**	**1**	**38**
Capital expenditure on intangible assets (Note 15)	**1**	**2**	**63**	**–**	**66**
Depreciation (Note 16 and Note 17)	**11**	**10**	**3**	**5**	**29**
Gain on disposals of interests in investments (Note 32.2)	**–**	**–**	**80**	**–**	**80**

Other information – continuing operations	Construction Services 2017 £m	Support Services 2017 £m	Infrastructure Investments 2017 £m	Corporate activities 2017 £m	Total 2017 £m
Capital expenditure on property, plant and equipment (Note 16)	5	9	–	6	20
Capital expenditure on investment properties (Note 17)	–	–	3	–	3
Capital expenditure on intangible assets (Note 15)	–	–	82	5	87
Depreciation (Note 16 and Note 17)	13	8	3	5	29
Gain on disposals of interests in investments (Note 32.2)	–	–	86	–	86

5 Segment analysis continued
5.1 Total Group continued

Performance by geographic destination – continuing operations	United Kingdom	United States	Rest of world	Total
	2018 £m	2018 £m	2018 £m	2018 £m
Revenue including share of joint ventures and associates	**3,164**	**3,622**	**1,028**	**7,814**
Share of revenue of joint ventures and associates	**(114)**	**(99)**	**(967)**	**(1,180)**
Group revenue	**3,050**	**3,523**	**61**	**6,634**

Performance by geographic destination – continuing operations	United Kingdom	United States	Rest of world	Total
	2017 £m	2017 £m	2017 £m	2017 £m
Revenue including share of joint ventures and associates	3,200	3,819	1,245	8,264
Share of revenue of joint ventures and associates	(139)	(55)	(1,154)	(1,348)
Group revenue	3,061	3,764	91	6,916

Major customers
Included in Group revenue are revenues from continuing operations of £1,334m (2017: £1,276m) from the US Government and £1,058m (2017: £1,093m) 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 2018 £m	Share of joint ventures and associates (Note 18.2)+ 2018 £m	Total 2018 £m	Group 2017 £m	Share of joint ventures and associates (Note 18.2)+ 2017 £m	Total 2017 £m
UK^	**9**	**(17)**	**(8)**	9	15	24
North America	**24**	**19**	**43**	30	14	44
Gain on disposals of interests in investments	**80**	**–**	**80**	86	–	86
	113	**2**	**115**	125	29	154
Bidding costs and overheads	**(18)**	**–**	**(18)**	(38)	–	(38)
	95	**2**	**97**	87	29	116

Net assets/(liabilities)	Group 2018 £m	Share of joint ventures and associates 2018 £m	Total 2018 £m	Group 2017 £m	Share of joint ventures and associates 2017 £m	Total 2017 £m
UK^	**360**	**242**	**602**	418	253	671
North America	**179**	**181**	**360**	103	160	263
	539	**423**	**962**	521	413	934
Non-recourse borrowings net of associated cash and cash equivalents (Note 26)	**(309)**	**–**	**(309)**	(305)	–	(305)
Total Infrastructure Investments net assets	**230**	**423**	**653**	216	413	629

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Singapore.
1 Before non-underlying items (Notes 2.10 and 10).

Notes to the Financial Statements continued

6 Profit/(loss) from operations

6.1 Profit/(loss) from continuing operations is stated after charging/(crediting)

	2018 £m	2017 £m
Research and development costs	–	1
Depreciation of property, plant and equipment	28	28
Depreciation of investment properties	1	1
Amortisation of intangible assets	20	22
Net credit of trade receivables impairment provision	(1)	–
Impairment of property, plant and equipment	2	–
Impairment of intangible assets	2	–
Profit on disposal of property, plant and equipment	(5)	(6)
Cost of inventory recognised as an expense	86	82
Exchange gains and losses	–	3
Auditor's remuneration	3	3
Operating lease rentals	45	50

6.2 Analysis of auditor's remuneration – continuing and discontinued operations

	2018 £m	2017 £m
Services as auditor to the Company	0.5	0.5
Services as auditor to Group subsidiaries	2.1	2.2
Total audit fees	**2.6**	2.7
Audit-related assurance fees	0.4	0.4
Other assurance fees	–	0.1
Total non-audit fees	**0.4**	0.5
Total fees in relation to audit and other services	3.0	3.2

7 Employee costs

7.1 Group

Employee costs during the year	2018 £m	2017 £m
Wages and salaries	1,113	1,193
Underlying redundancy costs	9	3
Non-underlying redundancy costs (Note 10.1.3.1)	4	8
Social security costs	95	98
Pension costs (Note 28)	56	52
Non-underlying GMP equalisation costs (Note 10.1.3.3)	28	–
Share-based payments (Note 33)	8	9
	1,313	1,363

Average number of Group employees	2018 Number	2017 Number
Construction Services	12,273	13,429
Support Services	5,833	5,917
Infrastructure Investments	1,520	1,448
Corporate	142	146
Continuing operations	19,768	20,940

At 31 December 2018, the total number of Group employees was 19,474 (2017: 20,238).

Detailed disclosures of items of remuneration, including those accruing under the Company's equity-settled share-based payment arrangements can be found within the Remuneration report on pages 88 to 103.

7.2 Company

The Company did not have any employees and did not incur any employee costs in the year (2017: £nil). Balfour Beatty Group Employment Ltd, which was established in February 2013, remains the employing entity for the Balfour Beatty Group's UK employees.

8 Investment income

Continuing operations	2018 £m	2017 £m
Subordinated debt interest receivable	**21**	26
Interest receivable on PPP financial assets	**9**	11
Gain on foreign currency deposits	**–**	1
Other interest receivable and similar income	**3**	4
Net finance income on pension scheme assets and obligations (Note 28.2)	**2**	–
	35	42

9 Finance costs

Continuing operations		2018 £m	2017 £m
Non-recourse borrowings	– bank loans and overdrafts	**14**	13
Preference shares	– finance cost	**12**	12
	– accretion	**3**	3
Convertible bonds	– finance cost	**4**	5
	– accretion	**5**	7
US private placement	– finance cost	**12**	13
Other interest payable	– committed facilities	**1**	1
	– letter of credit fees	**3**	4
	– other finance charges	**5**	9
Net finance cost on pension scheme assets and obligations (Note 28.2)		**–**	6
		59	73

10 Non-underlying items

		2018 £m	2017 £m
Items (charged against)/credited to profit			
10.1	**Continuing operations**		
10.1.1	Trading results of Rail Germany (including £nil (2017: £2m) of other net operating expenses)	**–**	–
10.1.2	Amortisation of acquired intangible assets	**(8)**	(9)
10.1.3	Other non-underlying items:		
	– Build to Last transformation costs	**(11)**	(12)
	– additional loss on the AWPR contract as a result of Carillion's liquidation	**(10)**	(44)
	– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**(28)**	–
	– provision release relating to settlements of health and safety claims	**13**	–
	– additional gain on disposal of Balfour Beatty Infrastructure Partners	**3**	–
	– (loss)/gain on disposal of Heery International Inc	**(12)**	18
	– loss on disposal of Blackpool Airport	**–**	(1)
Total other non-underlying items from continuing operations		**(45)**	(39)
		(53)	(48)
10.1.4	Share of results of joint ventures and associates		
	– costs relating to the liquidation of the Malaysia joint venture	**(5)**	–
Charged against profit before taxation from continuing operations		**(58)**	(48)
10.1.5	Tax credits:		
	– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	**5**	–
	– tax on other items above	**9**	2
	– tax effect as a result of the reduction in US Federal corporate income tax rate	**–**	32
	– non-underlying recognition of deferred tax assets in the UK	**–**	34
Total tax credit on continuing operations		**14**	68
Non-underlying items (charged against)/credited to profit for the year from continuing operations		**(44)**	20
10.2	**Discontinued operations**		
10.2.1	Gain on disposal of Dutco Balfour Beatty LLC and BK Gulf LLC	**–**	5
Non-underlying items credited to profit for the year from discontinued operations		**–**	5
(Charged against)/credited to profit for the year		**(44)**	25

10 Non-underlying items continued

Continuing operations

10.1.1 Rail Germany's results continue to be presented as part of the Group's non-underlying items within continuing operations as the Group remains committed to exiting its Mainland European rail businesses and does not consider its operations part of the Group's underlying activity. In 2018, the remaining parts of Rail Germany generated a £nil profit or loss before tax (2017: £nil).

10.1.2 The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £5m (2017: £6m) and customer relationships £3m (2017: £3m). These have been included as non-underlying items as they relate to costs arising on acquisition of businesses.

The charge was recognised in the following segments: Construction Services £3m (2017: £4m) and Infrastructure Investments £5m (2017: £5m).

10.1.3.1 In 2018, the Group continued its Build to Last transformation programme initially launched 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 £11m were incurred in 2018 relating to: Construction Services £6m; and Support Services £5m. These restructuring costs comprise: redundancy costs £4m; property-related costs £5m; and other restructuring costs £2m.

In 2017, the Group incurred restructuring costs of £12m relating to: Construction Services £6m; Support Services £2m; and Corporate £4m. These restructuring costs comprise: redundancy costs £8m; property-related costs £3m; and other restructuring costs £1m.

10.1.3.2 As a result of Carillion filing for liquidation on 15 January 2018, the Group and its remaining joint operations partner on the AWPR project, Galliford Try plc, became jointly liable to deliver Carillion's remaining obligations on the contract in addition to each partner's existing 33% share. This has resulted in the Group now having a 50% interest in the AWPR contract.

In 2018, the Group recognised additional losses on this project. £10m of this charge has been recognised in non-underlying as this reflects the additional loss that the Group has suffered in fulfilling Carillion's obligations on the contract. The loss incurred on the Group's original 33% joint venture share is treated as part of the Group's underlying performance. The additional AWPR loss represents a net charge made up of cost increases on the project partially offset by recovery positions that the Group believes are highly probable to be agreed. These losses have been recognised in the Construction Services segment.

10.1.3.3 In 2018, the Group recognised additional retirement benefit liabilities following the judgment on the Lloyds Banking Group High Court hearing on Guaranteed Minimum Pension (GMP) equalisation which was published on 26 October 2018. The judgment indicated that pension trustees needed to amend scheme retirement benefits to equalise for the effect of unequal GMPs and indicated an acceptable range of methods for how to do so.

This recent judgment therefore creates an obligation to equalise for both the BBPF and RPS schemes. The effect of GMP equalisation which amounted to £28m has been recognised in the Group's income statement as a plan amendment. The Group has also treated this item as non-underlying due to the size and nature of the income statement charge. Any future changes in relation to GMP equalisation will be treated as part of the Group's actuarial gains/losses which are recognised within OCI. Refer to Note 28.2.

The charge was recognised in the following segments: Construction Services £15m and Support Services £13m.

10.1.3.4 In 2018, the Group recognised a provision release of £13m relating to the settlement of health and safety claims. These claims were previously included as part of the Group's overall reassessment of potential liabilities relating to historical health and safety breaches following new sentencing guidelines which was conducted in 2016. As a result of this reassessment, a non-underlying charge of £25m was recognised in the first half of 2016.

The credit was recognised in the following segments: Construction Services £2m and Support Services £11m.

10.1.3.5 In 2018, the Group received further consideration of £3m relating to its previously disposed interest in Balfour Beatty Infrastructure Partners in 2016. The additional consideration relates to the earn-out agreement that was entered into with the buyer as part of the disposal. At the time of disposal, the Group did not include an estimate of the potential earn-out within its assessment of the gain on disposal as there was significant uncertainty as to whether the earn-out hurdles would be met. This additional gain has been recognised within non-underlying consistent with the Group's treatment of the gain on disposal previously recognised in 2016. This gain has been included in the Infrastructure Investments segment.

10 Non-underlying items continued

Continuing operations continued

10.1.3.6 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc (Heery) for a cash consideration of £43m. The disposal resulted in a net gain of £18m being recognised as a non-underlying item. Refer to Note 32.3.3. This gain on disposal was included in the Construction Services segment.

In 2018, an additional indemnity provision of £12m was recognised in the year following the reassessment of several projects which were indemnified by the Group as part of the sale. This estimate is subject to final ongoing negotiations with various clients and any further gains or losses that arise as part of this indemnity obligation will be recorded within non-underlying as part of the Heery disposal.

10.1.3.7 On 12 September 2017, the Group disposed of its entire interest in Regional & City Airports (Blackpool) Holdings Ltd for a cash consideration of £4m. The disposal resulted in a £1m loss being recognised as a non-underlying item. Refer to Note 32.3.2. This loss has been included in the Infrastructure Investments segment.

10.1.4.1 In 2018, the decision was made to enter the Group's 70% joint venture Balfour Beatty Rail Sdn. Bhd. into voluntary liquidation. In light of this decision, an assessment of the joint venture's balance sheet was carried out which resulted in the Group's investment balance and associated goodwill being written off. This write-off amounted to £5m and has been recognised within the Construction Services segment.

10.1.5.1 As explained in Note 10.1.3.3, a non-underlying charge of £28m was recognised in 2018 to take into account the effect of GMP equalisation. This charge has given rise to a deferred tax credit of £5m.

10.1.5.2 The remaining non-underlying items charged against the Group's operating profit from continuing operations gave rise to a tax credit of £9m comprising: £3m credit arising on the impact of additional indemnity provisions recognised on the disposal of Heery; £2m credit on the additional loss recognised for the AWPR contract; £2m credit on Build to Last restructuring costs; and £2m credit on amortisation of acquired intangible assets (2017: £1m charge on the gain on disposal of Heery; and £3m credit on amortisation of acquired intangible assets).

10.1.5.3 The US Government reduced the Federal corporate income tax rate from 35% to 21% with effect from 1 January 2018. The net impacts of this change in 2017 were a non-underlying £32m tax credit to the income statement and a £1m credit to equity.

10.1.5.4 In 2017, significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of a deferred tax liability. Refer to Note 27.1. This in turn led to the recognition of additional UK deferred tax assets in 2017 of £34m. Given the size and nature of the credit resulting from the increase to actuarial gains in the BBPF, the credit was included as a non-underlying item.

Discontinued operations

10.2.1 On 1 March 2017, the Group disposed of its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC to its joint venture partner for a total cash consideration of £11m, resulting in a gain on disposal of £5m. Refer to Note 32.3.1.

Notes to the Financial Statements continued

11 Income taxes
11.1 Income tax credit

Continuing operations[x]	Underlying items[1] 2018 £m	Non-underlying items (Note 10) 2018 £m	Total 2018 £m	Total 2017 £m
Total UK tax	**(18)**	**(8)**	**(26)**	(30)
Total non-UK tax	**20**	**(6)**	**14**	(15)
Total tax charge/(credit)	**2**	**(14)**	**(12)**	(45)
UK current tax				
– current tax	**5**	**(3)**	**2**	4
– adjustments in respect of previous periods	**–**	**–**	**–**	(1)
	5	**(3)**	**2**	3
Non-UK current tax				
– current tax	**5**	**(3)**	**2**	3
– adjustments in respect of previous periods	**(2)**	**–**	**(2)**	(6)
	3	**(3)**	**–**	(3)
Total current tax	**8**	**(6)**	**2**	–
UK deferred tax				
– origination and reversal of temporary differences	**(29)**	**(6)**	**(35)**	(36)
– UK corporation tax rate change	**6**	**1**	**7**	3
	(23)	**(5)**	**(28)**	(33)
Non-UK deferred tax				
– origination and reversal of temporary differences	**15**	**(3)**	**12**	18
– US Federal corporate income tax rate change	**–**	**–**	**–**	(32)
– adjustments in respect of previous periods	**2**	**–**	**2**	2
	17	**(3)**	**14**	(12)
Total deferred tax	**(6)**	**(8)**	**(14)**	(45)
Total tax charge/(credit) from continuing operations	**2**	**(14)**	**(12)**	(45)

x Excluding joint ventures and associates.
1 Before non-underlying items (Notes 2.10 and 10).

The Group has recognised £14m of tax credits (2017: £68m) within non-underlying items in the year. Refer to Note 10.1.5.

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.

The Group's underlying tax charge for the year benefits from the recognition of deferred tax assets for some of the Group's previously unrecognised historical UK tax losses.

In addition to the Group tax charge, tax of £3m is charged (2017: £50m) directly to other comprehensive income, comprising: a deferred tax charge of £nil for subsidiaries (2017: £37m); and a deferred tax charge in respect of joint ventures and associates of £3m (2017: £13m). Refer to Note 30.1.

11 Income taxes continued

11.2 Income tax reconciliation

Continuing operations	2018 £m	2017 £m
Profit before taxation including share of results from joint ventures and associates	**123**	117
Less: share of results of joint ventures and associates	**(23)**	(59)
Profit before taxation	**100**	58
Add: non-underlying items charged excluding share of joint ventures and associates	**53**	48
Underlying profit before taxation for subsidiaries[1]	**153**	106
Tax on profit before taxation at standard UK corporation tax rate of 19% (2017: 19.25%)	**29**	20
Adjusted for the effects of:		
Expenses not deductible for tax purposes and other permanent items	**6**	3
Non-taxable disposals+	**(13)**	(16)
Tax levied at Group level on share of joint ventures' and associates' profits#	**4**	9
Preference share dividends not deductible	**2**	2
Deferred tax assets not recognised^	**–**	1
Recognition of losses not previously recognised*	**(38)**	(1)
Effect of tax rates in non-UK jurisdictions	**6**	10
UK corporation tax rate change	**6**	–
Adjustments in respect of previous periods	**–**	(5)
Total tax charge on underlying profit	**2**	23
Less: credit on non-underlying tax items (Note 10.1.5)	**(14)**	(68)
Total tax credit on profit from continuing operations	**(12)**	(45)

+ 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 in 2017 on certain losses where these amounts were not expected to be recovered against future forecasted taxable profits.
* In line with meeting Build to Last Phase Two targets additional UK tax losses of £197m have been recognised in 2018.
1 Before non-underlying items (Notes 2.10 and 10).

12 Earnings per ordinary share

Earnings

	Basic 2018 £m	Diluted 2018 £m	Basic 2017 £m	Diluted 2017 £m
Continuing operations				
Earnings	**135**	**135**	162	162
Amortisation of acquired intangible assets – net of tax credit of £2m (2017: £3m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £12m (2017: £65m)	**38**	**38**	(26)	(26)
Underlying earnings	**179**	**179**	142	142
Discontinued operations				
Earnings	**–**	**–**	6	6
Other non-underlying items	**–**	**–**	(5)	(5)
Underlying earnings	**–**	**–**	1	1
Total operations				
Earnings	**135**	**135**	168	168
Amortisation of acquired intangible assets – net of tax credit of £2m (2017: £3m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £12m (2017: £65m)	**38**	**38**	(31)	(31)
Underlying earnings	**179**	**179**	143	143

	Basic 2018 m	Diluted 2018 m	Basic 2017 m	Diluted 2017 m
Weighted average number of ordinary shares	**682**	**687**	680	688

Earnings per share

	Basic 2018 Pence	Diluted 2018 Pence	Basic 2017 Pence	Diluted 2017 Pence
Continuing operations				
Earnings per ordinary share	**19.7**	**19.5**	23.7	23.4
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**5.7**	**5.6**	(3.6)	(3.5)
Underlying earnings per ordinary share	**26.3**	**26.0**	20.9	20.7
Discontinued operations				
Earnings per ordinary share	**–**	**–**	1.0	1.0
Other non-underlying items	**–**	**–**	(0.9)	(0.9)
Underlying earnings per ordinary share	**–**	**–**	0.1	0.1
Total operations				
Earnings per ordinary share	**19.7**	**19.5**	24.7	24.4
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**5.7**	**5.6**	(4.5)	(4.4)
Underlying earnings per ordinary share	**26.3**	**26.0**	21.0	20.8

13 Dividends on ordinary shares

	Per share 2018 Pence	Amount 2018 £m	Per share 2017 Pence	Amount 2017 £m
Proposed dividends for the year				
Interim – current year	**1.6**	**11**	1.2	8
Final – current year	**3.2**	**22**	2.4	16
	4.8	**33**	3.6	24
Recognised dividends for the year				
Final – prior year		**16**		12
Interim – current year		**11**		8
		27		20

The final 2017 dividend was paid on 6 July 2018 and the interim 2018 dividend was paid on 30 November 2018. Subject to approval at the Annual General Meeting on 16 May 2019, the final 2018 dividend will be paid on 5 July 2019 to holders on the register on 17 May 2019 by direct credit or, where no mandate has been given, by cheque posted on 5 July 2019. The ordinary shares will be quoted ex-dividend on 16 May 2019.

14 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2017	1,110	(173)	937
Currency translation differences	(48)	2	(46)
Disposal of Blackpool Airport (Notes 32.3.2 and 32.3.6)	(4)	4	–
Disposal of Heery International Inc (Note 32.3.3 and 32.3.6)	(21)	4	(17)
At 31 December 2017	1,037	(163)	874
Currency translation differences	**34**	**(5)**	**29**
At 31 December 2018	**1,071**	**(168)**	**903**

Carrying amounts of goodwill by segment

			2018			2017
	United Kingdom £m	**United States £m**	**Total £m**	United Kingdom £m	United States £m	Total £m
Construction Services	**260**	**460**	**720**	260	434	694
Support Services	**131**	**–**	**131**	131	–	131
Infrastructure Investments	**–**	**52**	**52**	–	49	49
Group	**391**	**512**	**903**	391	483	874

Carrying amounts of goodwill by cash-generating unit

		2018		2017
	£m	**Pre-tax discount rate %**	£m	Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.1**	248	10.3
Balfour Beatty Construction Group Inc	**438**	**11.0**	413	11.0
Rail UK	**68**	**10.1**	68	10.4
Gas & Water	**58**	**10.0**	58	10.4
Balfour Beatty Communities US	**52**	**11.3**	49	11.0
Other	**39**	**10.0–11.0**	38	10.2–11.0
Group total	**903**		874	

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 2019 to 2021. 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.

14 Intangible assets – goodwill continued

The Group is working constructively with industry bodies and the UK Government to identify and manage any challenges caused by the UK's exit from the European Union. Balfour Beatty recognises the inherent uncertainty arising from this and has been planning for all outcomes. The Group has contingency plans in place to ensure it can continue to deliver on current and future work commitments.

It is anticipated that the US construction market will remain stable, 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 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.

	2018			2017		
	Inflation rate %	**Real growth rate %**	**Nominal long-term growth rate applied %**	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	**2.0**	**1.2**	**3.2**	2.1	0.1	2.2
Balfour Beatty Construction Group Inc	**2.0**	**0.9**	**2.9**	2.0	1.4	3.4
Rail UK	**2.0**	**1.2**	**3.2**	2.1	0.1	2.2
Gas & Water	**2.0**	**1.2**	**3.2**	2.1	0.1	2.2
Balfour Beatty Communities US	**2.0**	**0.1**	**2.1**	1.9	0.1	2.0
Other	**2.0**	**1.1**	**3.1**	2.1	0.2	2.3

Sensitivities

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

A reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs. Sensitivity analysis carried out on the UK Regional and Engineering Services CGU factored in potential adverse implications that may arise from a 'no-deal' exit from the European Union. No impairment was triggered as a result of this. The Group considers that the stabilisation and recovery of the Gas & Water business to more normal levels of performance is a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill. In particular, a reduction of 260 basis points in margin within the Gas & Water CGU would reduce its headroom to £nil.

15 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Infrastructure Investments intangibles £m	Software and other £m	Total £m
Cost						
At 1 January 2017	238	50	4	78	125	495
Currency translation differences	(20)	(5)	–	–	(1)	(26)
Additions	–	–	–	82	5	87
Removal of fully amortised intangible asset	–	–	(1)	–	–	(1)
At 31 December 2017	218	45	3	160	129	555
Currency translation differences	**13**	**3**	**–**	**–**	**1**	**17**
Additions	**–**	**–**	**–**	**63**	**3**	**66**
Removal of fully amortised intangible asset	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Disposal of interest in Holyrood Holdings Ltd (Notes 32.2.3 and 32.2.5)	**–**	**–**	**–**	**(77)**	**–**	**(77)**
At 31 December 2018	**231**	**48**	**3**	**146**	**132**	**560**
Accumulated amortisation						
At 1 January 2017	(152)	(31)	(4)	(2)	(81)	(270)
Currency translation differences	13	3	–	–	1	17
Charge for the year	(6)	(3)	–	(2)	(11)	(22)
Removal of fully amortised	–	–	1	–	–	1
At 31 December 2017	(145)	(31)	(3)	(4)	(91)	(274)
Currency translation differences	**(9)**	**(3)**	**–**	**–**	**–**	**(12)**
Charge for the year	**(5)**	**(3)**	**–**	**(2)**	**(10)**	**(20)**
Impairment charge	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Removal of fully amortised intangible asset	**–**	**–**	**–**	**–**	**1**	**1**
Disposal of interest in Holyrood Holdings Ltd (Notes 32.2.3 and 32.2.5)	**–**	**–**	**–**	**5**	**–**	**5**
At 31 December 2018	**(159)**	**(37)**	**(3)**	**(1)**	**(102)**	**(302)**
Carrying amount						
At 31 December 2018	**72**	**11**	**–**	**145**	**30**	**258**
At 31 December 2017	73	14	–	156	38	281

The Group recognises certain assets held as part of service concession arrangements as Infrastructure Investments intangibles where the Group bears demand risk under IFRIC 12 Service Concession Arrangements. On 17 December 2018, the Group disposed of an interest in the Edinburgh Student Accommodation through an 80% disposal of Holyrood Holdings Ltd (refer to Note 32.2.3). The Group retains a 20% interest which is accounted for as a joint venture post-disposal. In 2018, the Group continued construction on its remaining IFRIC 12 asset, at the University of Sussex, incurring a spend of £63m (2017: £82m) in the year (including interest capitalised of £6m (2017: £6m)). Construction on this project is anticipated to complete in 2020. The Infrastructure Investments intangible assets are amortised on a straight-line basis over the life of the projects, which is 50 years.

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 of up to 50 years.

Software assets recognised in the UK are amortised on a basis matching their usage profile over their seven-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 £m	Total £m
Cost or valuation					
At 1 January 2017	93	309	68	–	470
Currency translation differences	(3)	(7)	(6)	–	(16)
Transfers	(1)	5	–	(4)	–
Additions	6	7	–	7	20
Reclassified from inventory	–	5	–	–	5
Removal of fully depreciated assets/assets scrapped	–	(5)	–	–	(5)
Disposals	(4)	(22)	–	–	(26)
Disposal of Blackpool Airport (Notes 32.3.2 and 32.3.6)	(15)	–	–	–	(15)
Disposal of Heery International Inc (Notes 32.3.3 and 32.3.6)	(4)	(6)	–	–	(10)
At 31 December 2017	72	286	62	3	423
Currency translation differences	**2**	**4**	**4**	**–**	**10**
Transfers	**–**	**3**	**–**	**(3)**	**–**
Additions	**8**	**28**	**–**	**2**	**38**
Removal of fully depreciated assets/assets scrapped	**(9)**	**(20)**	**–**	**–**	**(29)**
Disposals	**–**	**(20)**	**–**	**–**	**(20)**
At 31 December 2018	**73**	**281**	**66**	**2**	**422**
Accumulated depreciation					
At 1 January 2017	(50)	(236)	(3)	–	(289)
Currency translation differences	2	6	–	–	8
Transfers	1	(1)	–	–	–
Charge for the year	(8)	(18)	(2)	–	(28)
Removal of fully depreciated assets/assets scrapped	–	5	–	–	5
Disposals	2	19	–	–	21
Disposal of Blackpool Airport (Notes 32.3.2 and 32.3.6)	9	–	–	–	9
Disposal of Heery International Inc (Notes 32.3.3 and 32.3.6)	3	5	–	–	8
At 31 December 2017	(41)	(220)	(5)	–	(266)
Currency translation differences	**(1)**	**(4)**	**–**	**–**	**(5)**
Transfers	**(1)**	**1**	**–**	**–**	**–**
Charge for the year	**(7)**	**(19)**	**(2)**	**–**	**(28)**
Impairment charge	**(2)**	**–**	**–**	**–**	**(2)**
Removal of fully depreciated assets/assets scrapped	**9**	**20**	**–**	**–**	**29**
Disposals	**–**	**18**	**–**	**–**	**18**
At 31 December 2018	**(43)**	**(204)**	**(7)**	**–**	**(254)**
Carrying amount					
At 31 December 2018	**30**	**77**	**59**	**2**	**168**
At 31 December 2017	31	66	57	3	157

Infrastructure leasehold improvements comprise student accommodation projects in Iowa and Reno, for which all buildings are held under short leaseholds and are depreciated over 40 years.

The carrying amount of the Group's property, plant and equipment held under finance leases was £nil (2017: £nil). 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 and plant and equipment is depreciated at 4% to 33% per annum.

16.2 Analysis of carrying amount of land and buildings

	Group 2018 £m	Group 2017 £m
Freehold	**7**	7
Long leasehold – over 50 years unexpired	**1**	1
Short leasehold	**22**	23
	30	31

17 Investment properties

	Cost £m	Accumulated depreciation £m	Carrying amount £m
Cost or valuation			
At 1 January 2017	36	–	36
Additions	4	–	4
Reclassified from inventories	7	–	7
Depreciation charge for the year	–	(1)	(1)
At 31 December 2017	47	(1)	46
Depreciation charge for the year	**–**	**(1)**	**(1)**
Disposals	**(12)**	**–**	**(12)**
At 31 December 2018	**35**	**(2)**	**33**

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 remaining investment properties, the Group has secured non-recourse project specific financing amounting to £26m (2017: £26m), which is secured through a floating charge over the property. No interest has been capitalised on the asset in 2018 as the construction on the property was completed in 2017 (2017: £1m).

Once a property is ready for use, the Group ceases capitalisation of interest cost and commences depreciation on the property, on a straight-line basis over 25 years.

The fair value of the Group's investment properties at 31 December 2018 approximates the carrying value. The Group generated £3m (2017: £1m) of rental income from its investment properties.

18 Investments in joint ventures and associates

18.1 Movements

	Net assets £m	Loans £m	Total £m
At 1 January 2017	426	202	628
Currency translation differences	(21)	–	(21)
Income recognised	60	–	60
Fair value revaluation of PPP financial assets (Note 30.1)	60	–	60
Fair value revaluation of cash flow hedges (Note 30.1)	10	–	10
Actuarial movements on retirement benefit liabilities (Note 30.1)	4	–	4
Tax on items taken directly to equity (Note 30.1)	(13)	–	(13)
Dividends	(69)	–	(69)
Additions	29	–	29
Disposal of interest in Connect Plus M25 (Note 32.3.4)	(121)	(39)	(160)
Loans advanced^	–	4	4
Reclassify profit generated by Dutco# to provisions (Note 25)	(1)	–	(1)
At 31 December 2017	364	167	531
Currency translation differences	**11**	**–**	**11**
Income recognised	**23**	**–**	**23**
Fair value revaluation of PPP financial assets (Note 30.1)	**9**	**–**	**9**
Fair value revaluation of cash flow hedges (Note 30.1)	**15**	**–**	**15**
Actuarial movements on retirement benefit obligations (Note 30.1)	**(1)**	**–**	**(1)**
Tax on items taken directly to equity (Note 30.1)	**(3)**	**–**	**(3)**
Dividends	**(76)**	**–**	**(76)**
Additions	**32**	**–**	**32**
Disposal of interest in Connect Plus M25 (Note 32.2.1)	**(30)**	**(11)**	**(41)**
Disposal of Consort Healthcare (Fife) (Note 32.2.2)	**9**	**(9)**	**–**
Disposal of University of Texas Northside Campus (Note 32.2.4)	**(1)**	**–**	**(1)**
Retained interest in Holyrood Holdings Ltd (Note 32.2.3 and 32.2.5)	**3***	**3**	**6**
Reclassified to asset held for sale	**(5)**	**–**	**(5)**
Loans advanced	**–**	**27**	**27**
Loans repaid	**–**	**(3)**	**(3)**
At 31 December 2018	**350**	**174**	**524**

^ Includes £3m of subordinated debt interest expense which has been capitalised into the carrying amount of the loan.
# 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.
* Retained interest in net assets of Holyrood Holdings Ltd are presented at fair value.

The principal joint ventures and associates are shown in Note 39.

The amount of the Group's share of borrowings of joint ventures and associates which was supported by the Group and the Company was £nil (2017: £nil), 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 2048. 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.

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 2018 £m	Support Services 2018 £m	Infrastructure Investments UK^ 2018 £m	Infrastructure Investments North America 2018 £m	Infrastructure Investments Total 2018 £m	Total 2018 £m
Revenue[1]	913	28	124	106	230	1,171
Underlying operating profit/(loss)[1]	30	(2)	(5)	21	16	44
Investment income	3	–	94	14	108	111
Finance costs	–	–	(104)	(16)	(120)	(120)
Profit/(loss) before taxation[1]	33	(2)	(15)	19	4	35
Taxation	(5)	–	(2)	–	(2)	(7)
Profit/(loss) after taxation before non-underlying items	28	(2)	(17)	19	2	28
Share of results within non-underlying items	(5)	–	–	–	–	(5)
Profit/(loss) after taxation	23	(2)	(17)	19	2	23
Balance sheet						
Non-current assets						
Intangible assets – goodwill	31	–	–	–	–	31
– Infrastructure Investments intangible	–	–	45	–	45	45
– other	–	–	15	–	15	15
Property, plant and equipment	25	–	38	–	38	63
Investment properties	–	–	–	114	114	114
Investments in joint ventures and associates	2	–	–	–	–	2
PPP financial assets	–	–	1,485	257	1,742	1,742
Military housing projects	–	–	–	110	110	110
Other non-current assets	76	–	23	1	24	100
Current assets						
Cash and cash equivalents	328	–	131	28	159	487
Other current assets	184	–	43	200	243	427
Total assets	646	–	1,780	710	2,490	3,136
Current liabilities						
Borrowings – non-recourse	(44)	–	(42)	–	(42)	(86)
Other current liabilities	(441)	–	(137)	(19)	(156)	(597)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,255)	(508)	(1,763)	(1,763)
Other non-current liabilities	(61)	(3)	(275)	(2)	(277)	(341)
Total liabilities	(546)	(3)	(1,709)	(529)	(2,238)	(2,787)
Net assets	100	(3)	71	181	252	349
Loans to joint ventures and associates	–	4	171	–	171	175
Total investment in joint ventures and associates	100	1	242	181	423	524

^ Including Singapore.
1 Before non-underlying items (Notes 2.10 and 10).

The Group's investment in military housing joint ventures' and associates' projects is recognised at its remaining equity investment plus the value of the Group's accrued returns from the underlying projects. The military housing joint ventures and associates have total non-recourse net borrowings of £2,466m (2017: £2,340m). 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 2018, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £1m (2017: £9m).

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

^ Including Singapore.
1 Before non-underlying items (Notes 2.10 and 10).

18.3 Aggregate information of joint ventures and associates

	Joint ventures 2018 £m	**Associates 2018 £m**	**Total 2018 £m**
The Group's share of profit from continuing operations	**15**	**8**	**23**
Aggregate carrying amount of the Group's interest	**412**	**112**	**524**

	Joint ventures 2017 £m	Associates 2017 £m	Total 2017 £m
The Group's share of profit from continuing operations	49	10	59
Aggregate carrying amount of the Group's interest	425	106	531

18 Investments in joint ventures and associates continued

18.4 Details of material joint ventures

	Gammon@		Connect Plus (M25) Ltd+	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Proportion of the Group's ownership interest in the joint venture	**50%**	50%	**15%**	20%
Income statement – continuing operations				
Revenue	**1,803**	2,040	**148**	118
Underlying operating profit	**47**	35	**3**	3
Investment income	**16**	15	**139**	138
Finance costs	**(7)**	(12)	**(169)**	(111)
Income tax charge	**(7)**	(6)	**5**	(6)
Profit/(loss) and total comprehensive income/(loss) (100%)	**49**	32	**(22)**	24
Group's share of profit/(loss) and total comprehensive income/(loss)	**24**	16	**(3)**	10
Dividends received by the Group during the year	**23**	37	**6**	–
Balance sheet				
Non-current assets	**366**	319	**2,203**	2,123
Current assets				
Cash and cash equivalents	**641**	622	**152**	197
Other current assets	**341**	387	**85**	69
	982	1,009	**237**	266
Current liabilities				
Trade and other payables	**(657)**	(699)	**(84)**	(86)
Provisions	**(44)**	(54)	**–**	–
Borrowings – non-recourse	**(94)**	(70)	**(19)**	(6)
Other current liabilities	**(143)**	(123)	**(19)**	(45)
	(938)	(946)	**(122)**	(137)
Non-current liabilities				
Trade and other payables	**(89)**	(76)	**–**	–
Provisions	**(23)**	(21)	**–**	–
Borrowings – non-recourse	**(107)**	(109)	**(1,253)**	(1,027)
Other non-current liabilities (including shareholder loans)	**(42)**	(36)	**(433)**	(618)
	(261)	(242)	**(1,686)**	(1,645)
Net assets (100%)	**149**	140	**632**	607
Reconciliation of the above summarised financial information to the carrying amount of the interest in the above joint ventures recognised in the consolidated financial statements:				
Net assets of joint venture (100%)	**149**	140	**632**	607
Group's share of net assets	**75**	70	**95**	121
Add: Group's interest in shareholder loans	**–**	–	**28**	39
Goodwill	**31**	29	**–**	–
Carrying amount of the Group's interest in the joint venture	**106**	99	**123**	160

@ Represents the combined results of Gammon China Ltd and Gammon Capital (West) Pte. Ltd as both joint ventures have common ownership and report under the same management structure.

+ The Group disposed of a 20% interest in Connect Plus (M25) Ltd in December 2017 and a further 5% in February 2018. Refer to Notes 32.2.1 and 32.3.4.

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^ 2018 £m	Infrastructure Investments North America 2018 £m	Other 2018 £m	Total 2018 £m	Infrastructure Investments UK^ 2017 £m	Infrastructure Investments North America 2017 £m	Other 2017 £m	Total 2017 £m
Dividends from joint ventures and associates	**9**	**27**	**40**	**76**	2	14	53	69
Subordinated debt interest received	**7**	**–**	**–**	**7**	9	–	–	9
Investments in and loans to joint ventures and associates	**(31)**	**(25)**	**–**	**(56)**	(4)	(26)	–	(30)
Equity	**(7)**	**(25)**	**–**	**(32)**	(3)	(26)	–	(29)
Subordinated debt invested	**(27)**	**–**	**–**	**(27)**	(1)	–	–	(1)
Subordinated debt repaid	**3**	**–**	**–**	**3**	–	–	–	–
Disposal of investments in joint ventures	**150**	**13**	**1**	**164**	103	–	3	106
Net cash flow from/(to) joint ventures and associates	**135**	**15**	**41**	**191**	110	(12)	56	154

^ Including Singapore.

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 2017	91	(198)	227	64	184
Currency translation differences	–	–	–	(18)	(18)
Income recognised	60	–	–	–	60
Fair value revaluation of PPP financial assets	–	–	60	–	60
Fair value revaluation of cash flow hedges	–	11	–	–	11
Actuarial movements on retirement benefit liabilities	4	–	–	–	4
Tax on items taken directly to equity	(1)	(2)	(10)	–	(13)
Dividends	(69)	–	–	–	(69)
Recycling of revaluation reserves to the income statement on disposal	–	58	(143)	–	(85)
Reserves disposed	(20)	(1)	–	–	(21)
At 31 December 2017	65	(132)	134	46	113
Currency translation differences	**–**	**–**	**–**	**7**	**7**
Income recognised	**23**	**–**	**–**	**–**	**23**
Fair value revaluation of PPP financial assets	**–**	**–**	**9**	**–**	**9**
Fair value revaluation of cash flow hedges	**–**	**15**	**–**	**–**	**15**
Actuarial movements on retirement benefit liabilities	**(1)**	**–**	**–**	**–**	**(1)**
Tax on items taken directly to equity	**–**	**(2)**	**(1)**	**–**	**(3)**
Dividends	**(76)**	**–**	**–**	**–**	**(76)**
Recycling of revaluation reserves to the income statement on disposal	**–**	**51**	**(55)**	**(1)**	**(5)**
Reserves disposed	**(19)**	**–**	**–**	**–**	**(19)**
At 31 December 2018	**(8)**	**(68)**	**87**	**52**	**63**

19 Investments

19.1 Group

	Corporate bonds £m	Investments in mutual funds £m	Total £m
At 1 January 2017	22	23	45
Currency translation differences	–	(2)	(2)
Fair value gains	–	3	3
Additions	–	1	1
Maturities/disposals	(5)	(3)	(8)
At 31 December 2017	17	22	39
Currency translation differences	**–**	**1**	**1**
Fair value gains	**–**	**1**	**1**
Maturities/disposals	**(8)**	**(3)**	**(11)**
At 31 December 2018	**9**	**21**	**30**

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 1.76% (2017: 0.73%) and weighted average life of 3.9 years (2017: 2.2 years). The fair value of the bonds is £8m (2017: £17m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2018 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The investments in mutual funds comprise holdings in a number of funds, based on employees' investment elections, in respect of the deferred compensation obligations of the Group as disclosed in Note 28.2. The fair value of these investments is £21m (2017: £22m), determined by the market price of the funds at the reporting date.

19.2 Company

	2018 £m	2017 £m
Investment in subsidiaries	**1,732**	1,802
Provisions	**(26)**	(102)
	1,706	1,700

Due to the liquidation of a number of dormant subsidiaries in the year, the Company has written off its investment in these subsidiaries which have all been fully provided for in previous years, resulting in a decrease in both its cost of investments and provisions against investments of £76m respectively. The remaining increase of investment in subsidiaries of £6m relate to new capital injected into the Company's existing subsidiaries. Including provisions recognised to date, the Directors have assessed the Company's investment in subsidiaries to be fully recoverable.

20 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
At 1 January 2017	31	132	163
Income recognised in the income statement:			
– interest income (Note 8)	3	8	11
Gains/(losses) recognised in the statement of comprehensive income:			
– fair value movements	(1)	4	3
Other movements:			
– cash expenditure	1	–	1
– cash received	(4)	(11)	(15)
At 31 December 2017	30	133	163
Income recognised in the income statement:			
– interest income (Note 8)	**2**	**7**	**9**
Losses recognised in the statement of comprehensive income:			
– fair value movements	**(1)**	**(3)**	**(4)**
Other movements:			
– cash expenditure	**1**	**1**	**2**
– cash received	**(4)**	**(10)**	**(14)**
At 31 December 2018	**28**	**128**	**156**

Assets constructed by PPP subsidiary concession companies are classified as financial assets measured at fair value through OCI and are denominated in sterling. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets.

There were no impairment provisions in 2018 or 2017.

21 Inventories

	2018 £m	2017 £m
Unbilled non-construction work in progress[2]	**–**	55
Raw materials and consumables[2]	**53**	20
Development and housing land and work in progress	**26**	27
Finished goods and goods for resale	**5**	5
	84	107

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

22 Contract balances

The timing of revenue recognition, billings and cash collection results in trade receivables (billed amounts), contract assets (unbilled amounts) and customer advances and deposits (contract liabilities) on the Group's balance sheet. For services in which revenue is earned over time, amounts are billed in accordance with contractual terms, either at periodic intervals or upon achievement of contractual milestones. The timing of revenue recognition is measured in accordance with the progress of delivery on a contract which could either be in advance or in arrears of billing, resulting in either a contract asset or a contract liability.

Contract assets	2018 £m
At 1 January 2018[2]	**414**
Currency translation differences	**8**
Transfers from contract assets recognised at the beginning of the year to receivables	**(329)**
Increase related to services provided in the year	**322**
Reclassified from contract provisions (Note 25)	**(37)**
Impairments on contract assets recognised at the beginning of the year	**(15)**
At 31 December 2018	**363**

Contract liabilities	2018 £m
At 1 January 2018[2]	**(476)**
Currency translation differences	**(17)**
Revenue recognised against contract liabilities at the beginning of the year	**429**
Increase due to cash received, excluding amounts recognised as revenue during the year	**(427)**
At 31 December 2018	**(491)**

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

The amount of revenue recognised in 2018 from performance obligations satisfied (or partially satisfied) in previous periods amounted to £45m.

23 Trade and other receivables

	Group 2018[2] £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Current				
Trade receivables	**599**	536	**–**	–
Less: provision for impairment of trade receivables	**(5)**	(7)	**–**	–
	594	529	**–**	–
Due from subsidiaries	**–**	–	**2,083**	1,531
Due from joint ventures and associates	**24**	23	**–**	–
Due from joint operation partners	**19**	25	**–**	–
Contract retentions receivable[#]	**192**	185	**–**	–
Accrued income[2]	**3**	18	**–**	–
Prepayments	**30**	35	**–**	–
Due on disposals	**1**	63	**–**	–
Other receivables	**39**	21	**–**	–
	902	899	**2,083**	1,531
Non-current				
Due from joint ventures and associates	**51**	38	**1**	2
Contract retentions receivable[#]	**150**	173	**–**	–
Due on disposals	**5**	4	**–**	–
Other receivables	**6**	1	**–**	–
	212	216	**1**	2
Total trade and other receivables	**1,114**	1,115	**2,084**	1,533
Comprising				
Financial assets (Note 38)	**1,084**	1,080	**2,084**	1,533
Non-financial assets – prepayments	**30**	35	**–**	–
	1,114	1,115	**2,084**	1,533

Including £339m (2017: £352m) construction contract retentions receivable.
2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

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.

Movement in the provision for impairment of trade receivables

	Group 2018 £m	Group 2017 £m
At 1 January	**(7)**	(7)
(Charged)/credited to the income statement:		
– additional provisions	**(1)**	(2)
– unused amounts reversed	**2**	2
Utilised during the year	**1**	–
At 31 December	**(5)**	(7)

Maturity profile of impaired trade receivables and trade receivables past due but not impaired

	Impaired		Past due but not impaired	
	Group 2018 £m	Group 2017 £m	Group 2018 £m	Group 2017 £m
Up to three months	**1**	–	**63**	31
Three to six months	**–**	–	**12**	9
Six to nine months	**–**	1	**6**	5
Nine to 12 months	**–**	–	**8**	3
More than 12 months	**4**	6	**18**	27
	5	7	**107**	75

At 31 December 2018, trade receivables of £107m (2017: £75m) 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 2018[2] £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Current				
Trade and other payables+	**758**	833	**–**	1
Accruals	**580**	604	**6**	7
Deferred income[2]	**–**	1	**–**	–
VAT, payroll taxes and social security	**26**	68	**–**	–
Advance payments on contracts[2]	**–**	16	**–**	–
Due to subsidiaries	**–**	–	**2,158**	1,911
Due to joint ventures and associates	**–**	11	**–**	–
Dividends on preference shares	**6**	6	**6**	6
Due on acquisitions	**3**	3	**–**	–
	1,373	1,542	**2,170**	1,925
Non-current				
Trade and other payables	**108**	120	**1**	1
Accruals	**18**	19	**–**	–
Due to joint ventures and associates	**9**	7	**3**	3
Due on acquisitions	**8**	11	**–**	–
	143	157	**4**	4
Total trade and other payables	**1,516**	1,699	**2,174**	1,929
Comprising				
Financial liabilities (Note 38)	**1,484**	1,585	**2,174**	1,929
Non-financial liabilities:				
– accruals not at amortised cost	**6**	29	**–**	–
– deferred income[2]	**–**	1	**–**	–
– VAT, payroll taxes and social security	**26**	68	**–**	–
– advance payments on contracts[2]	**–**	16	**–**	–
	1,516	1,699	**2,174**	1,929

+ Included within the Group's trade and other payables balance is thirty three thousand pounds (2017: £0.2m) relating to payments due to UK suppliers who are on bank-supported supply chain finance arrangements. The Group settles these amounts in accordance with the relevant supplier's standard payment terms, normally 30 days. As at 31 December 2018, the Group decided to close down this scheme. The remaining balance outstanding on the scheme was fully settled in January 2019.

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

Maturity profile of the Group's non-current financial liabilities at 31 December

	Trade and other payables 2018 £m	**Accruals 2018 £m**	**Due to joint ventures and associates 2018 £m**	**Due on acquisitions 2018 £m**	**Total 2018 £m**
Due within one to two years	**82**	**7**	**–**	**3**	**92**
Due within two to five years	**23**	**9**	**1**	**5**	**38**
Due after more than five years	**3**	**2**	**8**	–	**13**
	108	**18**	**9**	**8**	**143**

	Trade and other payables 2017 £m	Accruals 2017 £m	Due to joint ventures and associates 2017 £m	Due on acquisitions 2017 £m	Total 2017 £m
Due within one to two years	104	13	–	3	120
Due within two to five years	12	5	–	8	25
Due after more than five years	4	1	7	–	12
	120	19	7	11	157

The Directors consider that the carrying values of current and non-current trade and other payables approximate their fair values. The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

25 Provisions

	Contract provisions[2] £m	Employee provisions £m	Other provisions £m	Total £m
At 1 January 2017	146	61	66	273
Currency translation differences	(3)	–	(1)	(4)
Transfers	4	3	(7)	–
Reclassified from accruals and due to construction contract customers	13	–	1	14
Charged/(credited) to the income statement:				
– additional provisions	122	29	12	163
– unused amounts reversed	(38)	(7)	(10)	(55)
– profits generated by Dutco	–	–	(1)	(1)
Utilised during the year	(51)	(24)	(10)	(85)
Disposal of Dutco (Note 32.3.1)	–	–	(11)	(11)
Disposal of Heery International Inc (Note 32.3.3 and 32.3.6)	(2)	–	–	(2)
At 31 December 2017	191	62	39	292
Adjustment as a result of transitioning to IFRS 15 on 1 January 2018[2]	**98**	**–**	**–**	**98**
Adjusted balance at 1 January 2018	**289**	**62**	**39**	**390**
Currency translation differences	**4**	**–**	**–**	**4**
Reclassified from accruals	**12**	**(3)**	**–**	**9**
Charged/(credited) to the income statement:				
– additional provisions	**140**	**12**	**8**	**160**
– unused amounts reversed	**(31)**	**(6)**	**(14)**	**(51)**
Utilised during the year	**(141)**	**(10)**	**(8)**	**(159)**
Reclassified to contract assets	**(37)**	**–**	**–**	**(37)**
At 31 December 2018	**236**	**55**	**25**	**316**

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

	Contract provisions[2] 2018 £m	**Employee provisions 2018 £m**	**Other provisions 2018 £m**	**Total 2018 £m**	Contract provisions 2017 £m	Employee provisions 2017 £m	Other provisions 2017 £m	Total 2017 £m
Due within one year	**139**	**17**	**11**	**167**	148	22	24	194
Due within one to two years	**62**	**10**	**5**	**77**	20	7	6	33
Due within two to five years	**29**	**14**	**6**	**49**	16	9	6	31
Due after more than five years	**6**	**14**	**3**	**23**	7	24	3	34
	236	**55**	**25**	**316**	191	62	39	292

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

Contract provisions include construction insurance liabilities, principally in the Group's captive insurance arrangements, loss provisions, and defect and warranty provisions on contracts, primarily construction contracts, that have reached practical completion. There is a latent defect period for which the provision is held, but where there are known identified issues then the provision may be required to cover rectification work over a more extended period.

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's captive insurance arrangements and provisions for employee termination liabilities arising from the Group's restructuring programmes.

Other provisions principally comprise: motor and other insurance liabilities in the Group's captive insurance arrangements; legal claims and costs, where provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress; property-related provisions, mainly onerous lease commitments, some of which arise from the Group's restructuring programmes; and environmental provisions.

The Group takes actuarial advice when establishing the level of provisions in the Group's captive insurance arrangements and certain other categories of provision.

Insurance-related provisions within these categories were £67m (2017: £62m) as follows: Contract provisions £35m (2017: £32m); Employee provisions £28m (2017: £26m); and Other, mainly motor, provisions £4m (2017: £4m).

Restructuring provisions within these categories were £7m (2017: £6m) as follows: Employee provisions £5m (2017: £1m); and Other, mainly property-related, provisions £2m (2017: £5m).

26 Cash and cash equivalents and borrowings

26.1 Group

	Current 2018 £m	Non-current 2018 £m	Total 2018 £m	Current 2017 £m	Non-current 2017 £m	Total 2017 £m
Unsecured borrowings at amortised cost						
– US private placement (Note 26.2)	**–**	**(239)**	**(239)**	(33)	(226)	(259)
– liability component of convertible bonds (Note 26.3)	**–**	**–**	**–**	(226)	–	(226)
– other loans	**(15)**	**–**	**(15)**	(9)	(4)	(13)
	(15)	**(239)**	**(254)**	(268)	(230)	(498)
Cash and deposits at amortised cost	**587**	**–**	**587**	717	–	717
Term deposits at amortised cost	**4**	**–**	**4**	116	–	116
Cash and cash equivalents (excluding infrastructure concessions)	**591**	**–**	**591**	833	–	833
	576	**(239)**	**337**	565	(230)	335
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2072	**(48)**	**(331)**	**(379)**	(8)	(432)	(440)
Infrastructure concessions cash and cash equivalents	**70**	**–**	**70**	135	–	135
	22	**(331)**	**(309)**	127	(432)	(305)
Net cash/(borrowings)	**598**	**(570)**	**28**	692	(662)	30

The loans relating to project finance arise under non-recourse facilities taken out by project-specific subsidiary companies. The loans of each company are secured by a combination of fixed and floating charges over that company's interests in its project's assets and revenues and the shares in the company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

Included in cash and cash equivalents is restricted cash of: £18m (2017: £25m) held by the Group's captive insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations; £51m (2017: £12m) held within construction project bank accounts; and £70m (2017: £135m) 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 £318m (2017: £261m).

Maturity profile of the Group's borrowings at 31 December

	Non-recourse project finance 2018 £m	Other borrowings 2018 £m	Total 2018 £m	Non-recourse project finance 2017 £m	Other borrowings 2017 £m	Total 2017 £m
Due on demand or within one year	**(48)**	**(15)**	**(63)**	(8)	(268)	(276)
Due within one to two years	**(4)**	**(36)**	**(40)**	(70)	(4)	(74)
Due within two to five years	**(48)**	**(164)**	**(212)**	(22)	(34)	(56)
Due after more than five years	**(279)**	**(39)**	**(318)**	(340)	(192)	(532)
	(379)	**(254)**	**(633)**	(440)	(498)	(938)

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 2018 £m	Other borrowings 2018 £m	Total 2018 £m	Non-recourse project finance 2017 £m	Other borrowings 2017 £m	Total 2017 £m
Expiring in one year or less	**–**	**–**	**–**	1	25	26
Expiring in more than one year but not more than two years	**–**	**400**	**400**	–	–	–
Expiring in more than two years	**–**	**–**	**–**	–	375	375
	–	**400**	**400**	1	400	401

The Group has committed facilities of £400m which expire in December 2020. The entire facilities remain undrawn at 31 December 2018.

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. On 7 March 2018, the Group repaid the first tranche of these notes amounting to US$45m (£32.5m). At 31 December 2018, US$305m (£239m) remain with an average coupon of 5.1% and a remaining average maturity of 4.1 years.

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 had a coupon of 1.875% per annum payable semi-annually in arrears and the initial conversion price was set at £3.6692 per share. On 23 April 2014, the conversion price was revised to £3.6212 per share.

From 14 January 2014 until 14 days prior to final maturity, one bond was convertible at the option of the holder into one preference share in Balfour Beatty Finance No 2 Ltd which would immediately be transferred to the Company in exchange for the issue of ordinary shares in the Company.

The bonds were compound instruments, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was £220m estimated using the prevailing market interest rate of 4.29% per annum for a similar non-convertible instrument. The difference between the net proceeds of issue of the convertible bonds after the transaction costs and the fair value assigned to the liability component, representing the value of the equity conversion component, was included in equity holders' funds. Refer to Note 29.3.

In 2018, following the partial repurchase of bonds in December 2017 (£21.3m) and March 2018 (£17.7m), the Group repaid the remaining convertible bonds for a further £213.7m as it fell due on 3 December 2018. As a result of this settlement, the remaining amount previously held in other reserves which related to the equity conversion component of the bonds was transferred in full to retained earnings. Refer to Note 30.1.

Liability component recognised in the Balance Sheet

	2018 £m	2017 £m
Liability component at 1 January at amortised cost	**226**	240
Accretion	**5**	7
Repayment/repurchase of bonds	**(231)**	(21)
Liability component at 31 December at amortised cost	**–**	226

26.4 Company

	Current 2018 £m	**Non-current 2018 £m**	**Total 2018 £m**	Current 2017 £m	Non-current 2017 £m	Total 2017 £m
Cash and deposits	**134**	**–**	**134**	134	–	134
US private placement (Note 26.2)	**–**	**(239)**	**(239)**	(33)	(226)	(259)
Net borrowings	**134**	**(239)**	**(105)**	101	(226)	(125)

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 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Deferred tax assets	**80**	52	**–**	–
Deferred tax liabilities	**(90)**	(70)	**–**	(1)
	(10)	(18)	**–**	(1)

Movement for the year in the net deferred tax position

	Group £m	Company £m
At 1 January 2017	(26)	(2)
Currency translation differences	7	–
Credited to income statement#	45	1
Charged to equity#	(37)	–
Research and development tax credit	1	–
Disposal of Blackpool Airport (Notes 32.3.2 and 32.3.6)	1	–
Disposal of Heery International Inc (Notes 32.3.3 and 32.3.6)	(9)	–
At 31 December 2017	(18)	(1)
Currency translation differences	**(6)**	**–**
Credited to income statement	**14**	**1**
Research and development tax credit	**1**	**–**
Disposal of interest in Holyrood Holdings Ltd (Notes 32.2.3 and 32.2.5)	**(1)**	**–**
At 31 December 2018	**(10)**	**–**

The movement in 2017 also included a £32m credit to the income statement and £1m credit to equity in relation to changes in the US Federal corporate income rate taxes.

27 Deferred tax continued

27.1 Group continued

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority.

Net deferred tax position

	Depreciation in excess of capital allowances £m	Retirement benefits £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Preference shares £m	Fair value adjustments £m	Derivatives £m	Other GAAP differences £m	Research and development credit £m	Total £m
At 1 January 2017	17	22	62	2	44	(2)	(79)	7	(99)	–	(26)
Currency translation differences	–	(1)	(4)	–	1	–	4	–	7	–	7
Credited/(charged) to income statement	2	(5)	21	2	(16)	–	14	–	27	–	45
Credited/(charged) to equity	–	(37)	–	1	–	–	–	(1)	–	–	(37)
Research and development tax credit	–	–	–	–	–	–	–	–	–	1	1
Disposal of Blackpool Airport (Notes 32.3.2 and 32.3.6)	–	–	–	–	–	–	–	–	1	–	1
Disposal of Heery International Inc (Notes 32.3.3 and 32.3.6)	–	–	–	–	(3)	–	4	–	(10)	–	(9)
At 31 December 2017	19	(21)	79	5	26	(2)	(57)	6	(74)	1	(18)
Currency translation differences	**–**	**–**	**2**	**–**	**–**	**–**	**(3)**	**–**	**(5)**	**–**	**(6)**
Transfers	**(1)**	**–**	**(4)**	**–**	**1**	**–**	**–**	**–**	**4**	**–**	**–**
Credited/(charged) to income statement	**(2)**	**–**	**35**	**(1)**	**–**	**1**	**(8)**	**–**	**(11)**	**–**	**14**
Credited/(charged) to equity	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**(1)**	**–**	**–**	**–**
Research and development tax credit	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Disposal of interest in Holyrood Holdings Ltd (Notes 32.2.3 and 32.2.5)	**2**	**–**	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
At 31 December 2018	**18**	**(21)**	**109**	**4**	**27**	**(1)**	**(67)**	**5**	**(86)**	**2**	**(10)**

At the reporting date the Group had unrecognised tax losses from operations (excluding capital losses) that arose over a numbers of years of approximately £754m (2017: £922m) which are available for offset against future profits. £16m (2017: £8m) 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 2019. The remaining losses may be carried forward indefinitely.

The Group has recognised deferred tax assets for UK corporation tax trading losses of £405m (2017: £245m). The Group has UK corporation tax trading losses of £437m (2017: £612m) which are not recognised as deferred tax assets. As set out in Note 11, the Group has recognised £197m of additional UK tax losses in the period consistent with meeting Phase Two Build to Last targets. The Group also had temporary differences relating to retirement benefits on which a deferred tax asset has not been recognised of £44m (2017: £62m).

Deferred tax liabilities on fair value adjustments of £67m relate to temporary differences arising on goodwill and intangibles. Deferred tax liabilities on other GAAP differences of £86m relate to temporary differences arising on joint ventures.

At the reporting date the undistributed reserves for which deferred tax liabilities have not been recognised were £nil (2017: £nil) in respect of subsidiaries and £nil (2017: £nil) in respect of joint ventures and associates. No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated.

27.2 Company

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 and liabilities

	Deferred tax liabilities	Deferred tax assets		
	Preference shares £m	Provisions £m	Share-based payments £m	Net deferred tax assets/(liabilities) £m
At 1 January 2017	(2)	–	–	(2)
Credited to income statement	–	–	1	1
At 31 December 2017	(2)	–	1	(1)
Credited to income statement	**1**	**–**	**–**	**1**
At 31 December 2018	**(1)**	**–**	**1**	**–**

28 Retirement benefit assets and liabilities

28.1 Introduction

The Group, through trustees, operates a number of defined contribution and defined benefit pension schemes.

Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

Defined benefit schemes are schemes other than defined contribution schemes where the Group's obligation is to provide specified benefits on retirement.

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

Balfour Beatty Pension Fund

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

On 1 July 2015, the Group established a Scottish Limited Partnership (SLP) structure into which its investment in Consort Healthcare (Birmingham) Holdings Ltd (Consort Birmingham), which owns the Group's 40% interest in the Birmingham Hospital PFI investment, was transferred. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in Consort Birmingham for other investments from time to time. On 29 December 2016 the Group transferred into the SLP its investment in Holyrood Student Accommodation Holdings Ltd, which owned the Group's 100% interest in the Edinburgh student accommodation project. In December 2018, the Group extracted from the SLP the investment in Holyrood Student Accommodation Holdings Ltd and in its place, the Group transferred in its 15% share of the Connect Plus (M25) asset.

Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension surplus presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. In 2018, the BBPF received distributions of £1m from the SLP (2017: £1m).

28 Retirement benefit assets and liabilities continued

28.1 Introduction continued

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; £5m in 2017; and a further £7m in 2018. Following this, £9m will be due in 2019; £13m due in 2020; £17m due in 2021; £22m due in 2022; and £25m due in 2023.

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2016. As a result, the Group made ongoing deficit payments in addition to those set out above of £22m in 2017 and £18m in 2018. The Group will make further contributions of £19m per annum from January 2019 and £11m in 2020.

If the dividend cover ratio is below an agreed trigger level then the contributions set out above may need to be accelerated.

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

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.

Because of a declining population of active members, it has become less likely that the Group's costs of meeting any deficits would be capped in line with its strict legal obligation of 60% as members might only be able to afford to fund a small proportion of the scheme deficit. From 1 January 2016 it has been assumed that the Group will be responsible for 100% of any deficit and the balance sheet assets and obligations disclosed, therefore, are equal to 100% of the total scheme assets and obligations.

The RPS invests in a range of pooled investment funds intended to generate a combination of capital growth and income and, as determined by the trustee, taking account of the characteristics of the obligations and the trustee's attitude to risk. The majority of the RPS' assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled growth fund. This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time. The remaining assets in the RPS are principally fixed and index-linked bonds.

Following the formal triennial funding valuation carried out as at 31 December 2016, the Group agreed to make ongoing fixed deficit contributions of £6m per annum which should reduce the deficit to zero by 2027. This agreement constitutes a MFR under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the RPS would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the RPS have been settled.

Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe, the majority of which are closed to new entrants, and deferred compensation schemes in North America, where an element of employees' compensation is deferred and invested in investments in mutual funds (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.

The Group also participates in The Plumbing & Mechanical Services Industry Pension Scheme ("Plumbers Scheme"), which is an industry-wide non-associated multi-employer defined benefit scheme. As the Plumbers Scheme does not segregate assets and liabilities between the different participating employers, the Group's only obligation to the Plumbers Scheme is to pay the contributions requested by the scheme Trustees as they fall due. In accordance with IAS 19, this obligation has been accounted for on a defined contribution basis and the relevant employer contributions have been charged to the income statement.

Notes to the Financial Statements continued

28 Retirement benefit assets and liabilities continued
28.1 Introduction continued
Membership of the principal schemes

	Balfour Beatty Pension Fund 2018			Railways Pension Scheme 2018			Balfour Beatty Pension Fund 2017			Railways Pension Scheme 2017		
	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	**8**	**3**	**17**	**104**	**44**	**22**	10	3	17	93	43	22
– deferred pensioners	**11,121**	**1,602**	**22**	**1,217**	**137**	**22**	11,753	1,692	23	1,234	139	22
– pensioners, widow(er)s and dependants	**17,922**	**1,711**	**11**	**1,746**	**196**	**13**	18,186	1,817	11	1,709	209	13
Defined contribution	**13,582**	**–**	**–**	**–**	**–**	**–**	13,534	–	–	–	–	–
Total	**42,633**	**3,316**	**16**	**3,067**	**377**	**17**	43,483	3,512	17	3,036	391	17

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 2018 %	**Railways Pension Scheme 2018 %**	Balfour Beatty Pension Fund 2017 %	Railways Pension Scheme 2017 %
Discount rate		**2.80**	**2.80**	2.55	2.55
Inflation rate	– RPI	**3.20**	**3.20**	3.15	3.15
	– CPI	**2.20**	**2.20**	2.05	2.05
Future increases in pensionable salary		**2.20**	**2.20**	2.05	2.05
Rate of increase in pensions in payment (or such other rate as is guaranteed)		**2.95**	**2.30**	2.95	2.20

In 2018, the Group recognised additional liabilities following the judgment on the Lloyds Banking Group High Court hearing on GMP equalisation which was published on 26 October 2018. The judgment indicated that pension trustees needed to amend scheme retirement benefits to equalise for the effect of unequal GMPs and indicated an acceptable range of methods for how to do so.

This recent judgment therefore creates an obligation to equalise for both the BBPF and RPS schemes. The effect of GMP equalisation, which amounted to £26m for the BBPF scheme and £2m for the RPS scheme, has been recognised in the Group's income statement as a plan amendment. The Group has also treated this item as non-underlying due to the size and nature of the income statement charge. Any future changes in relation to GMP equalisation will be treated as part of the Group's actuarial gains/losses which are recognised within OCI.

Following independent advice from the Group's actuaries, the Group reassessed the difference between RPI and CPI measures of price inflation from 1.1% at December 2017 to 1.0% at December 2018. This resulted in an actuarial loss of £16m being recognised within the Statement of Comprehensive Income.

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (42,633 members at 31 December 2018) 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 2018 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2017 to 31 March 2018. The mortality tables adopted for the 2018 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2017: SAPS S2 tables) with a multiplier of 102% for all male and female members (2017: 102%) and 106% for female widows and dependants (2017: 106%); all with future improvements in line with the CMI 2017 core projection model (2017: CMI 2016 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2017: 1.25% per annum and 1.00% per annum).

	2018 Average life expectancy at 65 years of age		2017 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.7**	**23.5**	21.9	23.6
Members not yet in receipt of a pension (current age 50)	**22.8**	**24.5**	23.0	24.6

28 Retirement benefit assets and liabilities continued

28.2 IAS 19 accounting valuations continued

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 £444m (2017: £460m) have been excluded from the tables on pages 164 to 166. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

	Balfour Beatty Pension Fund 2018 £m	**Railways Pension Scheme 2018 £m**	**Other schemes 2018 £m**	**Total 2018 £m**	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Other schemes 2017 £m	Total 2017 £m
Group								
Current service cost	**(2)**	**(1)**	**(2)**	**(5)**	(2)	(1)	(3)	(6)
Administrative expenses	**–**	**(1)**	**–**	**(1)**	–	–	–	–
Defined contribution charge	**(45)**	**–**	**(5)**	**(50)**	(43)	–	(3)	(46)
Included in employee costs (Note 7)	**(47)**	**(2)**	**(7)**	**(56)**	(45)	(1)	(6)	(52)
Past service cost as a result of GMP equalisation (Note 10.1.3.3)	**(26)**	**(2)**	**–**	**(28)**	–	–	–	–
Interest income	**92**	**8**	**–**	**100**	89	7	–	96
Interest cost	**(87)**	**(10)**	**(1)**	**(98)**	(90)	(10)	(2)	(102)
Net finance income/(cost) (Notes 8 and 9)	**5**	**(2)**	**(1)**	**2**	(1)	(3)	(2)	(6)
Total charged to income statement	**(68)**	**(6)**	**(8)**	**(82)**	(46)	(4)	(8)	(58)

Amounts recognised in the Statement of Comprehensive Income

	Balfour Beatty Pension Fund 2018 £m	**Railways Pension Scheme 2018 £m**	**Other schemes 2018 £m**	**Total 2018 £m**	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Other schemes 2017 £m	Total 2017 £m
Actuarial movements on pension scheme obligations	**123**	**11**	**5**	**139**	72	20	2	94
Actuarial movements on pension scheme assets	**(108)**	**(9)**	**–**	**(117)**	129	19	–	148
Total actuarial movements recognised in the Statement of Comprehensive Income (Note 30.1)	**15**	**2**	**5**	**22**	201	39	2	242
Cumulative actuarial movements recognised in the Statement of Comprehensive Income	**(118)**	**(66)**	**(22)**	**(206)**	(133)	(68)	(27)	(228)

The actual return on plan assets was a loss of £17m (2017: gain of £244m).

Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2018 £m	**Railways Pension Scheme 2018 £m**	**Other schemes† 2018 £m**	**Total 2018 £m**	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Other schemes† 2017 £m	Total 2017 £m
Present value of obligations	**(3,316)**	**(377)**	**(49)**	**(3,742)**	(3,512)	(391)	(53)	(3,956)
Fair value of plan assets	**3,487**	**309**	**–**	**3,796**	3,668	320	–	3,988
Asset/(liabilities) in the balance sheet	**171**	**(68)**	**(49)**	**54**	156	(71)	(53)	32

† Investments in mutual funds of £21m (2017: £22m) are held to satisfy the Group's deferred compensation obligations (Note 19.1).

The defined benefit obligations comprise £49m (2017: £53m) arising from wholly unfunded plans and £3,693m (2017: £3,903m) arising from plans that are wholly or partly funded.

28 Retirement benefit assets and liabilities continued
28.2 IAS 19 accounting valuations continued
Movement in the present value of obligations

	Balfour Beatty Pension Fund 2018 £m	**Railways Pension Scheme 2018 £m**	**Other schemes 2018 £m**	**Total 2018 £m**	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Other schemes 2017 £m	Total 2017 £m
At 1 January	**(3,512)**	**(391)**	**(53)**	**(3,956)**	(3,683)	(416)	(56)	(4,155)
Currency translation differences	**–**	**–**	**(2)**	**(2)**	–	–	2	2
Current service cost	**(2)**	**(1)**	**(2)**	**(5)**	(2)	(1)	(3)	(6)
Past service cost as a result of GMP equalisation	**(26)**	**(2)**	**–**	**(28)**	–	–	–	–
Interest cost	**(87)**	**(10)**	**(1)**	**(98)**	(90)	(10)	(2)	(102)
Actuarial movements from changes in discount rate methodology	**–**	**–**	**–**	**–**	110	13	–	123
Actuarial movements from reassessing the difference between RPI and CPI	**(12)**	**(4)**	**–**	**(16)**	(20)	(5)	–	(25)
Other financial actuarial movements	**115**	**13**	**5**	**133**	(64)	(7)	2	(69)
Actuarial movements from changes in demographic assumptions	**23**	**3**	**–**	**26**	40	4	–	44
Experience (losses)/gains	**(3)**	**(1)**	**–**	**(4)**	6	15	–	21
Total actuarial movements	**123**	**11**	**5**	**139**	72	20	2	94
Benefits paid	**188**	**16**	**4**	**208**	191	16	4	211
At 31 December	**(3,316)**	**(377)**	**(49)**	**(3,742)**	(3,512)	(391)	(53)	(3,956)

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2018 £m	**Railways Pension Scheme 2018 £m**	**Total 2018 £m**	Balfour Beatty Pension Fund 2017 £m	Railways Pension Scheme 2017 £m	Total 2017 £m
At 1 January	**3,668**	**320**	**3,988**	3,621	303	3,924
Interest income	**92**	**8**	**100**	89	7	96
Actuarial movements	**(108)**	**(9)**	**(117)**	129	19	148
Contributions from employer						
– regular funding	**2**	**1**	**3**	1	1	2
– ongoing deficit funding+	**21**	**6**	**27**	19	6	25
Administrative expenses	**–**	**(1)**	**(1)**	–	–	–
Benefits paid	**(188)**	**(16)**	**(204)**	(191)	(16)	(207)
At 31 December	**3,487**	**309**	**3,796**	3,668	320	3,988

+ Ongoing deficit funding contributions in 2018 presented above for BBPF of £21m are less than the amounts prescribed in the funding agreement of £25m due to £4m of BBPF running costs which are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

28 Retirement benefit assets and liabilities continued

28.2 IAS 19 accounting valuations continued

Fair value of the assets held by the schemes at 31 December

	2018			2017		
	Balfour Beatty Pension Fund £m	**Railways Pension Scheme† £m**	**Total £m**	Balfour Beatty Pension Fund £m	Railways Pension Scheme† £m	Total £m
Return-seeking	**1,114**	**170**	**1,284**	1,126	222	1,348
– Developed nation equities	**297**	**–**	**297**	384	–	384
– Emerging market equities	**28**	**–**	**28**	36	–	36
– Hedge funds	**361**	**–**	**361**	337	–	337
– Return-seeking growth pooled funds	**–**	**170**	**170**	–	222	222
– Other return-seeking assets	**428**	**–**	**428**	369	–	369
Liability-matching bond-type assets	**1,784**	**139**	**1,923**	2,060	86	2,146
– Corporate bonds	**456**	**–**	**456**	621	–	621
– Fixed interest gilts^	**456**	**–**	**456**	397	–	397
– Index-linked gilts^	**719**	**–**	**719**	887	–	887
– Liability-matching pooled funds	**–**	**139**	**139**	–	86	86
– Interest and inflation rate swaps	**153**	**–**	**153**	155	–	155
Property	**194**	**–**	**194**	215	–	215
Secure income assets	**177**	**–**	**177**	115	–	115
Other	**218**	**–**	**218**	152	12	164
Total	**3,487**	**309**	**3,796**	3,668	320	3,988

† The amounts represent 100% of the scheme's assets.
^ Of the assets above, £1,175m (2017: £1,248m) are assets that have quoted prices in active markets. The remaining assets that are neither quoted nor traded on an active market are stated at fair value estimates provided by the manager of the investment or fund.

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2019

	Balfour Beatty Pension Fund 2019 £m	**Railways Pension Scheme 2019 £m**	**Total 2019 £m**
Regular funding	**2**	**1**	**3**
Ongoing deficit funding	**28**	**6**	**34**
Total required by schedule of contributions	**30**	**7**	**37**
Estimated BBPF running costs to be funded from ongoing deficit contributions*	**(4)**	**–**	**(4)**
Estimated total cash contributions	**26**	**7**	**33**

* The running costs of the BBPF are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

28 Retirement benefit assets and liabilities continued

28.2 IAS 19 accounting valuations continued

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 2018 to different actuarial assumptions

	Percentage points/ Years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Increase in discount rate	**0.5%**	**(7.5)%**	**(278)**
Increase in market expectation of RPI inflation	**0.5%**	**5.3%**	**196**
Increase in salary growth	**0.5%**	**0.0%**	**1**
Increase in life expectancy	**1 year**	**4.0%**	**149**

Sensitivity of the Group's retirement benefit assets at 31 December 2018 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	**(8.1)%**	**(306)**
Increase in market expectation of RPI inflation	**0.5%**	**5.1%**	**192**

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

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of obligations	**(3,742)**	(3,956)	(4,155)	(3,397)	(3,518)
Fair value of assets	**3,796**	3,988	3,924	3,251	3,390
Surplus/(deficit)	**54**	32	(231)	(146)	(128)
Experience adjustment for obligations	**(4)**	21	76	1	(7)
Experience adjustment for assets	**(117)**	148	704	(154)	574
Total deficit funding	**27**	25	41	66	49

28.3 Latest formal triennial funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal triennial funding valuation	31/03/2016	31/12/2016
Scheme deficit		
Market value of assets	3,536	319
Present value of obligations	(3,642)	(367)
Deficit in defined benefit scheme	(106)	(48)
Funding level	97.1%	86.9%

29 Share capital

29.1 Ordinary shares of 50p each

	Million	Issued £m
At 31 December 2017 and 2018	**690**	**345**

All issued ordinary shares are fully paid. Ordinary shares carry no right to fixed income but each share carries the right to one vote at general meetings of the Company. No ordinary shares were issued during the current or prior year.

29.2 Cumulative convertible redeemable preference shares of 1p each

	Million	Issued £m
At 31 December 2017 and 2018	**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 2018 in respect of the six months ended 30 June 2018. A preference dividend of 5.375p per cumulative convertible redeemable preference share of 1p was paid on 1 January 2019 in respect of the six months ended 31 December 2018.

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 2018 (2017: £112m).

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 24.69136 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances. The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30-day period exceeds 810p, subject to adjustment in certain circumstances.

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding up of the Company. On winding up the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares.

The preference shares are a compound instrument, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13.5% per annum for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, at the date of issue, representing the equity conversion component at £18m, was included in equity holders' equity, net of deferred tax.

Liability component recognised in the Balance Sheet

	2018 £m	2017 £m
Redemption value of shares in issue at 1 January	**112**	112
Equity component	**(18)**	(18)
Interest element	**9**	6
Liability component at 1 January at amortised cost	**103**	100
Interest accretion	**3**	3
Liability component at 31 December at amortised cost	**106**	103

The fair value of the liability component of the preference shares at 31 December 2018 amounted to £120m (2017: £126m). The fair value is determined by using the market price of the preference shares at the reporting date and attributing a fair value to the equity component.

Interest expense on the preference shares is calculated using the effective interest method.

29.3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds for net proceeds of £246m. The convertible bonds were 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.

In 2018, following the partial repurchase of bonds in December 2017 (£21.3m) and March 2018 (£17.7m), the Group repaid the remaining convertible bonds as they fell due for a further £213.7m. As a result of this settlement, the remaining amount previously held in other reserves which related to the equity conversion component of the bonds was transferred in full to retained earnings. Refer to Note 30.1.

30 Movements in equity

30.1 Group

	Called-up share capital 2018 £m	Share premium account 2018 £m	Special reserve 2018 £m	Share of joint ventures' and associates' reserves (Note 18.6) 2018 £m	Other reserves: Equity component of preference shares and convertible bonds 2018 £m	Other reserves: Hedging reserves 2018 £m	Other reserves: PPP financial assets 2018 £m	Other reserves: Currency translation reserve 2018 £m	Other reserves: Other 2018 £m	Retained profits 2018 £m	Non-controlling interests 2018 £m	Total 2018 £m
At 31 December 2017	345	65	22	113	42	(27)	27	105	28	336	10	1,066
Adjustment as a result of transitioning to IFRS 15 on 1 January 2018[2]	–	–	–	–	–	–	–	–	–	3	–	3
Adjusted equity at 1 January 2018	**345**	**65**	**22**	**113**	**42**	**(27)**	**27**	**105**	**28**	**339**	**10**	**1,069**
Profit for the year	–	–	–	**23**	–	–	–	–	–	**112**	–	**135**
Currency translation differences	–	–	–	**7**	–	–	–	**18**	–	–	–	**25**
Actuarial movements on retirement benefit liabilities	–	–	–	**(1)**	–	–	–	–	–	**22**	–	**21**
Fair value revaluations												
– PPP financial assets	–	–	–	**9**	–	–	**(4)**	–	–	–	–	**5**
– cash flow hedges	–	–	–	**15**	–	**3**	–	–	–	–	–	**18**
– investments in mutual funds measured at fair value through OCI	–	–	–	–	–	–	–	–	**(1)**	–	–	**(1)**
Recycling of revaluation reserves to the income statement on disposal@	–	–	–	**(5)**	–	–	–	–	–	–	–	**(5)**
Tax on items recognised in other comprehensive income@	–	–	–	**(3)**	–	**(1)**	**1**	–	–	–	–	**(3)**
Total comprehensive income/(loss) for the year	–	–	–	**45**	–	**2**	**(3)**	**18**	**(1)**	**134**	–	**195**
Ordinary dividends	–	–	–	–	–	–	–	–	–	**(27)**	–	**(27)**
Joint ventures' and associates' dividends	–	–	–	**(76)**	–	–	–	–	–	**76**	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	**4**	–	–	**4**
Transfers	–	–	–	–	–	–	–	–	**(9)**	**9**	–	–
Reserve transfers relating to joint venture and associate disposals	–	–	–	**(19)**	–	–	–	–	–	**19**	–	–
Convertible bonds repayment	–	–	–	–	**(24)**	–	–	–	–	**24**	–	–
At 31 December 2018	**345**	**65**	**22**	**63**	**18**	**(25)**	**24**	**123**	**22**	**574**	**10**	**1,241**

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

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

30 Movements in equity continued

30.1 Group continued

	Called-up share capital 2017 £m	Share premium account 2017 £m	Special reserve 2017 £m	Share of joint ventures' and associates' reserves (Note 18.6) 2017 £m	Other reserves: Equity component of preference shares and convertible bonds 2017 £m	Other reserves: Hedging reserves 2017 £m	Other reserves: PPP financial assets 2017 £m	Other reserves: Currency translation reserve 2017 £m	Other reserves: Other 2017 £m	Retained profits/ (losses) 2017 £m	Non-controlling interests 2017 £m	Total 2017 £m
At 1 January 2017	345	65	22	184	44	(30)	25	135	17	(50)	5	762
Profit for the year	–	–	–	60	–	–	–	–	–	108	–	168
Currency translation differences	–	–	–	(18)	–	–	–	(30)	–	–	–	(48)
Actuarial movements on retirement benefit liabilities	–	–	–	4	–	–	–	–	–	242	–	246
Fair value revaluations												
– PPP financial assets	–	–	–	60	–	–	3	–	–	–	–	63
– cash flow hedges	–	–	–	11	–	4	–	–	–	–	–	15
– investments in mutual funds measured at fair value through OCI	–	–	–	–	–	–	–	–	3	–	–	3
Recycling of revaluation reserves to the income statement on disposal@	–	–	–	(85)	–	–	–	–	–	–	–	(85)
Tax on items recognised in other comprehensive income@	–	–	–	(13)	–	(1)	(1)	–	2	(37)	–	(50)
Total comprehensive income/(loss) for the year	–	–	–	19	–	3	2	(30)	5	313	–	312
Ordinary dividends	–	–	–	–	–	–	–	–	–	(20)	–	(20)
Joint ventures' and associates' dividends	–	–	–	(69)	–	–	–	–	–	69	–	–
Movements relating to share-based payments	–	–	–	–	–	–	–	–	6	1	–	7
Reserve transfers relating to joint venture and associate disposals	–	–	–	(21)	–	–	–	–	–	21	–	–
Minority interests+	–	–	–	–	–	–	–	–	–	–	5	5
Convertible bonds repurchase	–	–	–	–	(2)	–	–	–	–	2	–	–
At 31 December 2017	345	65	22	113	42	(27)	27	105	28	336	10	1,066

@ Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.
+ Representing the minority interest's share of the impact of fair valuing the loan instrument which was injected into the related Group subsidiary.

30 Movements in equity continued

30.2 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 2017	345	65	22	44	78	578	1,132
Loss for the year	–	–	–	–	–	(54)	(54)
Currency translation differences	–	–	–	–	–	19	19
Total comprehensive loss for the year	–	–	–	–	–	(35)	(35)
Ordinary dividends	–	–	–	–	–	(20)	(20)
Movements relating to share-based payments	–	–	–	–	2	(1)	1
Convertible bonds repurchase	–	–	–	(2)	–	2	–
At 31 December 2017	345	65	22	42	80	524	1,078
Profit for the year	**–**	**–**	**–**	**–**	**–**	**362**	**362**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**355**	**355**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(27)**	**(27)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**7**	**(3)**	**4**
Convertible bonds repayment	**–**	**–**	**–**	**(24)**	**–**	**24**	**–**
At 31 December 2018	**345**	**65**	**22**	**18**	**87**	**873**	**1,410**

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 profit for the financial year ended 31 December 2018 of £362m (2017: £54m loss).

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £nil occurred in 2018 (2017: £nil).

30.3 Balfour Beatty Employee Share Ownership Trust

The retained profits in the Group and the retained profits of the Company are stated net of investments in Balfour Beatty plc ordinary shares acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Performance Share Plan, the Executive Buyout Scheme, the Deferred Bonus Plan and the Restricted Share Plan. In 2018, 1.5m (2017: 0.6m) shares were purchased at a cost of £4.0m (2017: £1.7m). The market value of the 6.4m (2017: 9.7m) shares held by the Trust at 31 December 2018 was £15.9m (2017: £28.7m). The carrying value of these shares is £16.2m (2017: £24.1m).

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 2018, 3.0m shares were transferred to participants in relation to the June 2015 awards under the Performance Share Plan (2017: 0.5m shares were transferred to participants in relation to the March 2014 awards under the Performance Share Plan), 0.5m shares were transferred to participants in relation to the January 2015 awards under the Executive Buyout Scheme (2017: 0.4m), 0.6m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2017: 0.3m shares) and 0.7m shares were transferred to participants in relation to awards under the Restricted Share Plan (2017: 20 thousand 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 £7.5m (2017: £10.1m) relating to unvested Performance Share Plan awards, £3.5m (2017: £3.1m) relating to unvested Restricted Share Plan awards, £2.6m (2017: £2.4m) relating to unvested Deferred Bonus Plan awards and £nil (2017: £1.2m) relating to unvested Executive Buyout Scheme awards.

31 Notes to the statement of cash flows

31.1 Cash from/(used in) operations

	Notes	Continuing operations Underlying items[1] 2018 £m	Continuing operations Non-underlying items (Note 10) 2018 £m	2018 £m	2017 £m
Profit/(loss) from operations		**205**	**(58)**	**147**	154
Share of results of joint ventures and associates	18	**(28)**	**5**	**(23)**	(60)
Depreciation of property, plant and equipment	16	**28**	**–**	**28**	28
Depreciation of investment properties	17	**1**	**–**	**1**	1
Amortisation of other intangible assets	15	**12**	**8**	**20**	22
Impairment of IT intangible assets	15	**–**	**2**	**2**	–
Impairment of property, plant and equipment	16	**2**	**–**	**2**	–
Pension payments including deficit funding	28.2	**(30)**	**–**	**(30)**	(27)
Movements relating to share-based payments	33	**8**	**–**	**8**	9
Gain on disposal of investments in infrastructure concessions	32.2	**(80)**	**–**	**(80)**	(86)
Net gain on disposal of other businesses	32.2	**–**	**(3)**	**(3)**	(22)
Loss on disposal of investment properties		**2**	**–**	**2**	–
Profit on disposal of property, plant and equipment		**(5)**	**–**	**(5)**	(6)
Loss on GMP equalisation		**–**	**28**	**28**	–
Other non-cash items		**–**	**–**	**–**	1
Operating cash flows before movements in working capital		**115**	**(18)**	**97**	14
(Increase)/decrease in operating working capital		**(169)**	**(60)**	**(229)**	27
Inventories[2+]		**(16)**	**–**	**(16)**	(12)
Contract assets[2+]		**53**	**–**	**53**	–
Trade and other receivables[2+]		**8**	**4**	**12**	95
Contract liabilities[2+]		**(2)**	**–**	**(2)**	–
Trade and other payables[2+]		**(185)**	**(11)**	**(196)**	(92)
Provisions[2+]		**(27)**	**(53)**	**(80)**	29
Due from construction contract customers[2+]		**–**	**–**	**–**	(14)
Due to construction contract customers[2+]		**–**	**–**	**–**	21
Cash (used in)/from operations		**(54)**	**(78)**	**(132)**	41

1 Before non-underlying items (Notes 2.10 and 10).

2 The Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1 and 40).

+ The movement in working capital has been presented to exclude movements arising from IFRS 15 reclassification adjustments. Refer to Note 40 for a re-presentation of the Group's balance sheet at 1 January 2018 under IFRS 15.

31.2 Cash and cash equivalents

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash and deposits	**587**	717	**133**	71
Term deposits	**4**	116	**1**	63
Cash balances within infrastructure concessions	**70**	135	**–**	–
	661	968	**134**	134

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of less than three months.

31 Notes to the statements of cash flows continued

31.3 Analysis of movement in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Convertible bonds £m	Loans under committed facilities £m	Other £m	Total £m
At 1 January 2017	(240)	(285)	(240)	(50)	(14)	(829)
Currency translation differences	4	26	–	–	–	30
Accretion on convertible bonds	–	–	(7)	–	–	(7)
Proceeds from new loans	(212)	–	–	–	–	(212)
Repayments of loans	4	–	21	50	2	77
Amortisation of arrangement fees	–	–	–	–	(1)	(1)
Fair value adjustment on loan attributable to minority interest	4	–	–	–	–	4
At 31 December 2017	(440)	(259)	(226)	–	(13)	(938)
Currency translation differences	**(2)**	**(13)**	**–**	**–**	**(1)**	**(16)**
Accretion on convertible bonds	**–**	**–**	**(5)**	**–**	**–**	**(5)**
Proceeds from new loans	**(4)**	**–**	**–**	**–**	**–**	**(4)**
Repayments of loans	**6**	**33**	**231**	**–**	**–**	**270**
Disposal of interest in Holyrood Holdings Ltd (Notes 32.2.3 and 32.2.5)	**61**	**–**	**–**	**–**	**–**	**61**
Amortisation of arrangement fees	**–**	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2018	**(379)**	**(239)**	**–**	**–**	**(15)**	**(633)**

During the year ended 31 December 2018, the Group repaid the remaining convertible bonds for £231m. In addition to this, the Group also repaid the first tranche of the US private placement notes amounting to £33m (US$45m). None of these borrowings were replaced with another form of debt. In relation to the Group's non-recourse loans, £61m of these loans were disposed as part of the Group's disposal of an 80% interest in Holyrood Holdings Ltd. Refer to Note 32.2.3. The Group's entire revolving credit facilities of £400m remain undrawn at 31 December 2018.

32 Acquisitions and disposals

32.1 Current and prior year acquisitions

There were no material acquisitions in 2018.

Deferred consideration paid during 2018 in respect of acquisitions completed in earlier years was £3m (2017: £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
32.2.1	19 February 2018	Connect Plus (M25) Holdings Ltd^	5%	**42**	**(41)**	**21**	**–**	**22**
32.2.2	18 September 2018	Consort Healthcare (Fife) Holdings Ltd^	50%	**43**	**(3)+**	**(17)**	**–**	**23**
32.2.3	17 December 2018	Holyrood Holdings Ltd*	80%	**24**	**(7)**	**–**	**5**	**22**
32.2.4	28 December 2018	Northside Campus Partners LP^	81%	**13**	**(1)**	**1**	**–**	**13**
				122#	**(52)**	**5**	**5**	**80**

* Subsidiary.

^ Joint venture.

\+ Net assets disposed include £4m of accrued subordinated debt receivable which was settled as part of the disposal. The balance also includes £1m of excess bid costs recovered which were released and credited to the gain on disposal.

\# Total cash consideration received by the Group also includes £3m of cash received in respect of the Group's disposal of Balfour Beatty Infrastructure Partners in 2016 (Note 10.1.3.5) and £1m of deferred cash consideration received in respect of the Group's disposal of its Middle Eastern joint ventures in 2017 (Note 32.3.1).

32.2.1 On 19 February 2018, the Group agreed to dispose of a further 5% interest in Connect Plus (M25) Holdings Ltd to Equitix for a cash consideration of £42m, resulting in a gain on disposal of £22m in the first half of 2018.

In addition to the consideration for this disposal, the Group also received £62m on 23 February 2018 from the disposal of a 7.5% interest in December 2017, which was structured as an unconditional right to sell the stake to Dalmore for an identical price if Equitix failed to exercise its right to acquire this interest. The Group assessed that a loss of control was triggered as a result of this agreement and therefore the gain on disposal for this tranche was recognised in 2017 and £62m of consideration held as amounts due on disposal. Equitix subsequently exercised its right to acquire in 2018 and together with its acquisition of the further 5% stake in 2018, paid a consideration to the Group of £104m. The Group retained a 15% interest in Connect Plus (M25) Holdings Limited.

32.2.2 On 18 September 2018, the Group disposed of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd for a cash consideration of £43m. The infrastructure concession disposal resulted in a net gain of £23m being recognised in underlying operating profit, comprising: a gain of £40m in respect of the investment in the joint venture and a loss of £17m related to the recycling of revaluation reserves to the income statement.

32.2.3 On 17 December 2018, the Group disposed of 80% of its interest in Holyrood Holdings Ltd for a cash consideration of £24m. The disposal resulted in a gain of £22m being recognised in underlying operating profit which includes a fair value uplift of £5m relating to the remaining 20% interest which the Group retained. The disposal included cash disposed of £3m.

32.2.4 On 28 December 2018, the Group disposed of an 81% interest in Northside Campus Partners LP (Texas Dallas) for a cash consideration of £13m. The infrastructure concession disposal resulted in a £13m gain being recognised in underlying operating profit, comprising a gain of £12m in respect of the Group's investment in the joint venture and a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal. The Group retained a 10% interest in Northside Campus Partners LP.

32 Acquisitions and disposals continued

32.2.5 Subsidiaries net assets disposed

Net assets disposed	Notes	Holyrood Holdings Ltd £m
Intangible assets – other	15	**72**
Deferred taxation	27.1	**1**
Trade and other payables		**(7)**
Cash		**3**
Non-recourse borrowings	31.3	**(61)**
Net assets of interest retained		**(1)**
		7
Fair value uplift on interest retained		**(5)**
Cash consideration		**(24)**
Gain on disposal		**(22)**
Net cash flow effect		
Total consideration		**24**
Cash and cash equivalents disposed		**(3)**
Net cash consideration		**21**

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	1 March 2017	Dutco Balfour Beatty LLC & BK Gulf LLC^	49%	11#	(6)+	–	–	–	5
32.3.2	12 September 2017	Regional & City Airports (Blackpool) Holdings Ltd*	100%	4	(5)	–	–	–	(1)
32.3.3	27 October 2017	Heery International Inc*	100%	43	(21)	6	(10)	–	18
32.3.4	21 & 29 December 2017	Connect Plus (M25) Holdings Ltd^	20%	165@	(164)&	85	–	86	–
				223	(196)	91	(10)	86	22

* Subsidiary.
^ Joint venture.
\+ Net assets disposed include loan receivables due to the Company from BK Gulf LLC of £17m which were settled as part of the disposal.
\# Cash consideration above reflects elements which have been deferred and were therefore discounted at year end. These amounted to £5m and were included in due on disposals within trade and other receivables.
@ Of this amount, £103m was received in 2017. The remaining £62m was included in due on disposals within trade and other receivables and was subsequently received on 23 February 2018.
& Net assets disposed include £6m of subordinated debt receivable which was settled as part of the disposal. The balance also includes £2m of excess bid costs recovered which were released and credited to the gain on disposal.

32 Acquisitions and disposals continued

32.3 Prior year disposals continued

32.3.1 On 26 January 2017, the Group reached agreement to sell its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC to its joint venture partner for a total cash consideration of £11m, an element of which was deferred. The sale subsequently completed on 1 March 2017. The Group's share of results in these entities was presented as part of its discontinued operations with comparatives restated accordingly. The £5m gain on the disposal was presented as non-underlying within discontinued operations.

32.3.2 On 12 September 2017, the Group disposed of its entire 100% interest in Regional & City Airports (Blackpool) Holdings Ltd for a cash consideration of £4m. The disposal resulted in a £1m loss being recognised as a non-underlying item within continuing operations.

32.3.3 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc for a cash consideration of £43m. The disposal resulted in a net gain of £18m being recognised as a non-underlying item within continuing operations in 2017, comprising a gain of £12m in respect of net assets disposed (after direct costs and indemnity provisions incurred of £10m) and a gain of £6m in respect of cumulative foreign exchange reserves recycled to the income statement. The disposal included cash disposed of £5m. In 2018, an additional indemnity provision of £12m was recognised following the reassessment of several projects which were indemnified by the Group in the sale agreement. This has been recognised as a loss within non-underlying items in 2018. Refer to Note 10.1.3.6.

32.3.4 On 21 December 2017, the Group disposed of a 12.5% interest in Connect Plus (M25) Holdings Ltd to Dalmore for a cash consideration of £103m. Subsequently on 29 December 2017, the Group disposed of a further 7.5% interest in the joint venture for a cash consideration of £62m. On this date, the Group ceased to jointly control this 7.5% interest as Equitix had the right to acquire this stake for a cash consideration of £62m which was exercisable up until 13 March 2018. At the same time, the Group had an unconditional right to sell the stake to Dalmore for an identical price if Equitix failed to exercise its right to acquire. The completion of this portion of the disposal was ongoing at 31 December 2017 and therefore the consideration of £62m was included in trade and other receivables as amounts due on disposals. Refer to Note 23. This consideration was subsequently received on 23 February 2018 following completion of the disposal to Equitix.

These disposals resulted in a net gain of £86m being recognised within underlying operating profit, comprising a gain of £1m in respect of the Group's investment in the joint venture and a gain of £85m in respect of revaluation reserves recycled to the income statement on disposal.

32.3.5 On 21 November 2016, the Group reached agreement to dispose of its 49% interest in Balfour Beatty Sakti Indonesia to its joint venture partner for a payment by the Group of £3m reflecting the Group's share of the net liabilities of the joint venture. This was recognised as a disposal in 2016 as completion of the sale was not subject to any substantive terms at 31 December 2016. The Group subsequently completed the disposal in March 2017. A payment of £3m was made by the Group to the purchaser following the completion of this disposal.

32.3.6 Prior year subsidiaries net assets disposed

Net assets disposed	Notes	Region & City Airports (Blackpool) Holdings Ltd £m	Heery International Inc £m	Total £m
Intangible assets – goodwill	14	–	17	17
Property, plant and equipment	16.1	6	2	8
Deferred taxation	27.1	(1)	9	8
Due to construction contract customers		–	(6)	(6)
Trade and other receivables		–	18	18
Trade and other payables		–	(22)	(22)
Provisions	25	–	(2)	(2)
Cash		–	5	5
		5	21	26
Costs directly related to the sale		–	10	10
		5	31	36
Cash consideration		(4)	(43)	(47)
Amounts recycled from reserves		–	(6)	(6)
Loss/(gain) on disposal		1	(18)	(17)
Net cash flow effect				
Total consideration		4	43	47
Cash and cash equivalents disposed		–	(5)	(5)
Transaction costs paid		–	(2)	(2)
Net cash consideration		4	36	40

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 £8m in 2018 (2017: £9.4m). Refer to the Remuneration report for details of the various schemes.

In 2017, the Company introduced two cash-settled share-based payment arrangements, namely the Shadow PSP (SPSP) and the Shadow RSP (SRSP). These share-based payment arrangements mirror the conditions of the equity-settled PSP and RSP plans, the only difference being they are settled in cash.

Movements in share plans

Equity-settled share-based payment awards

2018 number of awards	EBS conditional awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	1,270,173	9,905,225	1,709,075	3,142,660
Granted during the year	–	3,393,943	734,073	1,226,338
Awards in lieu of dividends	–	–	27,815	41,988
Forfeited during the year	(752,513)	(1,064,305)	(43,734)	(354,101)
Exercised during the year	(517,660)	(3,006,009)	(587,604)	(773,203)
Expired during the year	–	–	–	–
Outstanding at 31 December	–	9,228,854	1,839,625	3,283,682
Exercisable at 31 December	–	–	–	–
Weighted average remaining contractual life (years)	–	1.3	1.4	1.5
Weighted average share price at the date of exercise for awards exercised in the year	287.6p	280.8p	270.7p	278.7p

2017 number of awards	EBS conditional awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	1,905,260	8,128,097	1,464,322	1,936,946
Granted during the year	–	3,087,443	632,308	1,539,448
Awards in lieu of dividends	–	–	19,054	28,974
Forfeited during the year	(189,854)	(821,131)	(76,848)	(342,624)
Exercised during the year	(445,233)	(489,184)	(329,761)	(20,084)
Expired during the year	–	–	–	–
Outstanding at 31 December	1,270,173	9,905,225	1,709,075	3,142,660
Exercisable at 31 December	61,662	–	–	–
Weighted average remaining contractual life (years)	–	1.3	1.3	1.6
Weighted average share price at the date of exercise for awards exercised in the year	271.6p	139.3p	272.1p	274.6p

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 2018 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
27 March 2018	PSP award	273.0	27.62	3.0	0.94	167.0

For the 66.7% of the PSP awards granted in 2018 subject to non-market conditions and for the DBP and RSP awards granted in 2018, the fair value of the awards is the closing share price on the date of grant.

Cash-settled share-based payment awards

2018 number of awards	SPSP conditional awards	SRSP conditional awards
Outstanding at 1 January	3,125,765	–
Granted during the year	2,651,931	381,754
Awards in lieu of dividends	–	–
Forfeited during the year	(6,261)	(12,000)
Exercised during the year	–	–
Expired during the year	–	–
Outstanding at 31 December	5,771,435	369,754
Exercisable at 31 December	–	–
Weighted average remaining contractual life (years)	1.6	2.3
Weighted average share price at the date of exercise for awards exercised in the year	–	–

34 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £7m (2017: £2m) in the Group and £nil (2017: £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 2018 £m	**Other 2018 £m**	Land and buildings 2017 £m	Other 2017 £m
Due within one year	**20**	**27**	22	33
Due between one and five years	**37**	**38**	47	48
Due after more than five years	**20**	**2**	15	3
	77	**67**	84	84

The Company did not have any future operating lease expenditure commitments as at 31 December 2018 (2017: £nil).

Future committed operating lease income

	Land and buildings 2018 £m	Land and buildings 2017 £m
Due within one year	**5**	7
Due between one and five years	**2**	6
	7	13

The Company did not have any future committed operating lease income as at 31 December 2018 (2017: £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 £269m (2017: £279m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 23 and 24 respectively.

Transactions with non-Group members

The Group also entered into transactions and had amounts outstanding with related parties which are not members of the Group as set out below. These companies were related parties as they are controlled or jointly controlled by a non-executive director of Balfour Beatty plc.

	2018 £m	2017 £m
Anglian Water Group Ltd		
Sale of goods and services	**26**	18
Amounts owed by related parties	**–**	3
URENCO Ltd		
Sale of goods and services	**19**	72
Amounts owed by related parties	**2**	–

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 year for bad or doubtful debts in respect of the amounts owed by related parties.

36 Related party transactions continued

Compensation of key management personnel of the Company

	2018 £m	2017 £m
Short-term benefits	**2.724**	2.938
Share-based payments	**1.728**	2.584
	4.452	5.522

Key management personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors. The compensation included above is in respect of the period of the year during which the individuals were Directors. Further details of Directors' emoluments, post-employment benefits and interests are set out in the 2018 Remuneration report on pages 88 to 103.

37 Events after the reporting date

As at 12 March 2019, there were no material post balance sheet events arising after the reporting date.

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; convertible redeemable preference shares as disclosed in Note 29.2; US private placement 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 2017.

Categories of financial instruments

	Loans and receivables at amortised cost, cash and deposits 2018 £m	Financial liabilities at amortised cost 2018 £m	Financial assets at fair value through OCI 2018 £m	Financial assets at amortised cost 2018 £m	Derivatives 2018 £m	Loans and receivables at amortised cost, cash and deposits 2017 £m	Financial liabilities at amortised cost 2017 £m	Financial assets at fair value through OCI 2017 £m	Financial assets at amortised cost 2017 £m	Derivatives 2017 £m
Financial assets										
Fixed rate bonds and treasury stock	**–**	**–**	**–**	**9**	**–**	–	–	–	17	–
Mutual funds	**–**	**–**	**21**	**–**	**–**	–	–	22	–	–
PPP financial assets	**–**	**–**	**156**	**–**	**–**	–	–	163	–	–
Cash and deposits	**661**	**–**	**–**	**–**	**–**	968	–	–	–	–
Trade and other receivables	**1,084**	**–**	**–**	**–**	**–**	1,080	–	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**1**	–	–	–	–	3
Total	**1,745**	**–**	**177**	**9**	**1**	2,048	–	185	17	3
Financial liabilities										
Liability component of preference shares	**–**	**(106)**	**–**	**–**	**–**	–	(103)	–	–	–
Trade and other payables	**–**	**(1,484)**	**–**	**–**	**–**	–	(1,585)	–	–	–
Unsecured borrowings	**–**	**(254)**	**–**	**–**	**–**	–	(498)	–	–	–
Infrastructure concessions non-recourse term loans	**–**	**(379)**	**–**	**–**	**–**	–	(440)	–	–	–
Derivatives	**–**	**–**	**–**	**–**	**(29)**	–	–	–	–	(35)
Total	**–**	**(2,223)**	**–**	**–**	**(29)**	–	(2,626)	–	–	(35)
Net	**1,745**	**(2,223)**	**177**	**9**	**(28)**	2,048	(2,626)	185	17	(32)
Current year comprehensive income/(loss) excluding share of joint ventures and associates	**25**	**(59)**	**4**	**1**	**3**	31	(67)	17	1	4

38 Financial instruments continued

Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2018 £m	**Non-current 2018 £m**	**Total 2018 £m**	**Current 2018 £m**	**Non-current 2018 £m**	**Total 2018 £m**	Current 2017 £m	Non-current 2017 £m	Total 2017 £m	Current 2017 £m	Non-current 2017 £m	Total 2017 £m
Foreign currency contracts												
Designated as cash flow hedges	**1**	**–**	**1**	**–**	**–**	**–**	2	1	3	(1)	–	(1)
Interest rate swaps												
Designated as cash flow hedges	**–**	**–**	**–**	**(4)**	**(25)**	**(29)**	–	–	–	(4)	(30)	(34)
	1	**–**	**1**	**(4)**	**(25)**	**(29)**	2	1	3	(5)	(30)	(35)

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 2018 £m	**Other borrowings 2018 £m**	**Other financial liabilities 2018 £m**	**Total non-derivative financial liabilities 2018 £m**	**Discount 2018 £m**	**Carrying value 2018 £m**
Due on demand or within one year	**(50)**	**(15)**	**(1,341)**	**(1,406)**	**2**	**(1,404)**
Due within one to two years	**(6)**	**(36)**	**(207)**	**(249)**	**8**	**(241)**
Due within two to five years	**(57)**	**(164)**	**(36)**	**(257)**	**10**	**(247)**
Due after more than five years	**(513)**	**(39)**	**(12)**	**(564)**	**233**	**(331)**
	(626)	**(254)**	**(1,596)**	**(2,476)**	**253**	**(2,223)**
Discount	**247**	**–**	**6**	**253**		
Carrying value	**(379)**	**(254)**	**(1,590)**	**(2,223)**		

	Non-recourse project finance 2017 £m	Other borrowings 2017 £m	Other financial liabilities 2017 £m	Total non-derivative financial liabilities 2017 £m	Discount 2017 £m	Carrying value 2017 £m
Due on demand or within one year	(11)	(274)	(1,448)	(1,733)	9	(1,724)
Due within one to two years	(84)	(4)	(99)	(187)	14	(173)
Due within two to five years	(30)	(34)	(138)	(202)	17	(185)
Due after more than five years	(398)	(191)	(13)	(602)	58	(544)
	(523)	(503)	(1,698)	(2,724)	98	(2,626)
Discount	83	5	10	98		
Carrying value	(440)	(498)	(1,688)	(2,626)		

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 2018 £m	**Receivable 2018 £m**	**Net payable 2018 £m**	Payable 2017 £m	Receivable 2017 £m	Net payable 2017 £m
Due on demand or within one year	**(30)**	**27**	**(3)**	(21)	18	(3)
Due within one to two years	**(10)**	**7**	**(3)**	(7)	3	(4)
Due within two to five years	**(9)**	**–**	**(9)**	(10)	–	(10)
Due after more than five years	**(20)**	**–**	**(20)**	(24)	–	(24)
Total	**(69)**	**34**	**(35)**	(62)	21	(41)

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 2017.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros and Hong Kong dollars. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Whenever a current or future foreign currency exposure is identified with sufficient reliability, Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer.

Refer to page 179 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures.

As at 31 December 2018, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £17m (2017: £13m) receivable and £18m (2017: £12m) payable with related cash flows expected to occur within two years (2017: one year). 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 £16m (2017: £8m) receivable and £15m (2017: £9m) payable as cash flow hedges against highly probable cash flows which are expected to occur within two years (2017: four years). Fair value losses on these contracts of £2m (2017: £1m gains) have been taken to hedging reserves through other comprehensive income.

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the income statement in relation to any foreign exchange cash flow hedges.

The Group's investments in foreign operations are exposed to foreign currency translation risks. The Group does not enter into forward foreign exchange or other derivative contracts to hedge foreign currency denominated net assets.

In March 2013, the Group raised US$350m through a US private placement which has been designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements. On 7 March 2018, the Group repaid the first tranche of this loan amounting to US$45m. The Group has reassessed this hedge and has concluded that the hedge continues to be effective. Exchange movements in the year totalled £16m (2017: £26m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a £11m decrease (2017: £12m)/£13m increase (2017: £14m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

The hedging policy is reviewed periodically. At the reporting date there had been no change to the hedging policies since 2017.

(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 financial assets measured at fair value through OCI. 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 2018 and 2017, the Group's non-recourse project subsidiaries' borrowings at variable rates of interest were denominated in sterling and US dollars.

38 Financial instruments continued

The notional principal amounts of the subsidiaries' interest rate swaps outstanding at 31 December 2018 totalled £109m (2017: £113m) with maturities that match the maturity of the underlying borrowings ranging from one year to 21 years.

At 31 December 2018, the fixed interest rates range from 3.5% to 5.1% (2017: 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 £5m increase (2017: £6m)/£7m decrease (2017: £8m) in amounts taken directly to other comprehensive income by the Group in relation to the Group's exposure to interest rates on the PPP financial assets and cash flow hedges of its Infrastructure Investments subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and other borrowings. The majority of the debt of the Group is held at fixed interest rates. A 50 basis point increase/decrease in the interest rate of each currency in which these financial instruments are held would lead to a £3.2m decrease (2017: £2.8m)/£3.2m increase (2017: £1.4m) 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 2018, £nil (2017: £1m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances, however no losses are anticipated from these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board of Directors for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables, credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at the reporting date is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 26.1. The maturity profile of the Group's financial liabilities is set out on page 179.

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 during 2018 or 2017.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds investments in mutual funds measured at fair value through OCI 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.

38 Financial instruments continued

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 £6m decrease (2017: £7m)/£7m increase (2017: £7m) in the fair value of the assets taken through equity. Refer to Note 20 for a reconciliation of the movement from the opening balance to the closing balance.

Financial instruments at fair value	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**2018 Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	2017 Total £m
Investments in mutual fund financial assets	**21**	**–**	**–**	**21**	22	–	–	22
Financial assets – foreign currency contracts	**–**	**1**	**–**	**1**	–	3	–	3
PPP financial assets	**–**	**–**	**156**	**156**	–	–	163	163
Total assets measured at fair value	**21**	**1**	**156**	**178**	22	3	163	188
Financial liabilities – foreign currency contracts	**–**	**–**	**–**	**–**	–	(1)	–	(1)
Financial liabilities – infrastructure concessions interest rate swaps	**–**	**(29)**	**–**	**(29)**	–	(34)	–	(34)
Total liabilities measured at fair value	**–**	**(29)**	**–**	**(29)**	–	(35)	–	(35)

39 Principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries

	Country of incorporation or registration
Construction and Support Services	
Balfour Beatty Group Ltd	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Construction, LP	Canada
Balfour Beatty Infrastructure Inc	US
Infrastructure Investments (Note 39)	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Campus Solutions LLC	US
Balfour Beatty Investments, LP	Canada
Balfour Beatty Communities, LP	Canada
Other	
Balfour Beatty Holdings Inc.	US
Delphian Insurance Company Ltd*	Isle of Man

(b) Principal joint ventures and associates

	Country of incorporation or registration	Ownership interest %
Construction and Support Services		
Gammon China Ltd	Hong Kong	50.0
Infrastructure Investments (Note 39)		
Connect Plus (M25) Ltd		15.0+

(c) Principal joint operations

The Group carries out a number of its larger contracts in joint arrangements with other contractors so as to share resources and risk. The principal joint projects in progress during the year are shown below.

Crossrail		26.7
M25 Maintenance		52.5
Aberdeen Western Peripheral Route		50.0
Area 10 ASC		70.0
A14		33.3
Bergstrom/CRC	US	45.0
Regional Rail Partners/North Metro	US	50.0

Notes
(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.
(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.
* Indicates held directly by Balfour Beatty plc.
\+ Previously 20%, the Group disposed of a 5% interest in February 2018. Refer to Note 32.2.1.

A full list of the Group's related undertakings is included in Note 42.

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	15%	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	2019

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 three 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
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	2019

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Woodland View Project Co Ltd which is registered in and conducts its principal operations in Scotland and Healthcare Centres PPP Ltd which is registered in and conducts its principal operations in Ireland.

Student accommodation

Balfour Beatty is a promoter, developer and investor in four student accommodation projects. On Holyrood, Sussex and Aberystwyth, the principal agreement is between the concession company and the university and the assets transfer to the customer at the end of the concession. On Glasgow Residences the building is owned outright by Balfour Beatty and rooms will be let to individual students.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Holyrood Student Accommodation SPV Ltd	Edinburgh	82	20%	July 2013	50	2016
Aberystwyth Student Accommodation Ltd	Aberystwyth	51	100%	July 2013	35	2015
Glasgow Residences (Kennedy Street) SPV Ltd	Glasgow	40	100%	April 2016	n/a	2017
East Slope Residencies Student Accommodation LLP	Sussex	218	80%	March 2017	50	2020

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Holyrood Student Accommodation SPV Ltd and Glasgow Residences (Kennedy Street) SPV Ltd which are registered in and conduct their principal operations in Scotland.

39 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK continued

Other concessions

Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex. Gammon Capital (West) Pte Ltd has a contract with the Institute of Technical Education (ITE) College West of Singapore to design, build and finance the ITE and provide long-term facilities management services for the remainder of the 27-year project. Balfour Beatty Fire and Rescue NW Ltd is contracted by the local authority to design, construct, fund and provide facilities for 16 community firestations in Merseyside, Cumbria and Lancashire. UBB Waste (Essex) Ltd and UBB Waste (Gloucestershire) Ltd have contracts with the local authorities to design, build and operate sustainable waste treatment facilities. Thanet involves the operation of transmission assets for the 300MW offshore windfarm project located off the Kent coast. Gwynt y Môr involves the operation of transmission assets for the 576MW offshore wind farm in the Irish Sea. Humber involves the operation of transmission assets for the 219MW offshore wind farm in the North Sea. Thanet, Gwynt y Môr and Humber operate and maintain the transmission assets under the terms of perpetual licences granted by Ofgem which contain the right to be paid a revenue stream over a 20-year period on an availability basis. Birmingham Bio Power involves the design, construction, financing, operation and maintenance of a 9.3MW waste wood gasifier located at Tyseley Energy Park, Birmingham. Welland Bio Power involves the design, construction, financing, operation and maintenance of a 10.4MW waste wood gasifier located at Pebble Hall Farm, Thredingworth. With the exception of the Birmingham Bio Power and Welland Bio Power plants, all assets transfer to the customer at the end of the relevant concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Pevensey Coastal Defence Ltd	Sea defences	3	25%	July 2000	25	n/a
Gammon Capital (West) Pte Ltd	Technical education college	100	50%	August 2008	27	2010
Balfour Beatty Fire and Rescue NW Ltd	Fire stations	55	100%	February 2011	25	2013
UBB Waste (Essex) Ltd	Waste processing plant	146	30%	May 2012	28	2015
UBB Waste (Gloucestershire) Ltd	Waste processing plant	223	49.5%	January 2016*	25	2019
Thanet OFTO Ltd	Offshore transmission	197	20%	December 2014	20	n/a
Gwynt y Môr OFTO plc (ii)	Offshore transmission	256	60%	February 2015	20	n/a
Birmingham Bio Power Ltd	Waste wood gasifier	53	37.5%	December 2013	n/a	2018
Welland Bio Power Ltd	Waste wood gasifier	17	25%	March 2015	n/a	2018
Humber Gateway OFTO Ltd	Offshore transmission	187	20%	September 2016	20	n/a

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Gammon Capital (West) Pte Ltd which is registered in and conducts its principal operations in Singapore.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

* Due to delays in achieving planning, UBB Waste (Gloucestershire) Ltd reached a second financial close in January 2016.

(e) Balfour Beatty Investments North America

Military housing

Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 55 US government military bases which includes 55 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 43,000 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.

39 Principal subsidiaries, joint ventures and associates continued
(e) Balfour Beatty Investments North America continued
Military housing continued

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.

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	138	November 2003	46	2004
– Fort Carson expansion		102	November 2006	43	2010
– Fort Carson GTA expansion		78	April 2010	39	2013
– Fort Carson GTA II expansion		53	June 2015	34	2018
Stewart Hunter Housing LLC	Two Army bases	294	November 2003	50	2012
Fort Hamilton Housing LLC	Army base	48	June 2004	50	2009
Fort Detrick/Walter Reed Army Medical Center Housing LLC	Two Army bases	88	July 2004	50	2008
Northeast Housing LLC	Seven Navy bases	389	November 2004	50	2010
Fort Eustis/Fort Story Housing LLC	Two Army bases	137	March 2005	50	2011
– Fort Eustis expansion		6	July 2010	45	2011
– Fort Eustis – Marseilles Village		21	March 2013	42	2015
Fort Bliss/White Sands Missile Range Housing LP	Two Army bases	336	July 2005	50	2011
– Fort Bliss expansion		36	December 2009	46	2011
– Fort Bliss GTA expansion phase I		122	July 2011	44	2014
– Fort Bliss GTA expansion phase II		115	November 2012	43	2016
Fort Gordon Housing LLC	Army base	86	May 2006	50	2012
Carlisle/Picatinny Family Housing LP	Two Army bases	66	July 2006	50	2011
– Carlisle Heritage Heights phase II		17	October 2012	44	2014
AETC Housing LP	Four Air Force bases	282	February 2007	50	2012
Southeast Housing LLC	11 Navy bases	438	November 2007	50	2013
Vandenberg Housing LP	Air Force base	122	November 2007	50	2012
Leonard Wood Family Communities LLC	Army base	181	Acquired June 2008	47	2014
AMC West Housing LP	Three Air Force bases	336	July 2008	50	2015
West Point Housing LLC	Army base	173	August 2008	50	2016
Fort Jackson Housing LLC	Army base	142	October 2008	50	2013
Lackland Family Housing LLC	Air Force base	82	Acquired December 2008	50	2013
Western Group Housing LP	Four Air Force bases	258	March 2012	50	2017
Northern Group Housing LLC	Six Air Force bases	328	August 2013	50	2019
ACC Group Housing LLC	Two Air Force bases	44	June 2014	50	2018
Military unaccompanied personnel housing					
Stewart Hunter Housing LLC		28	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.

39 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Military housing continued

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts was evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects.

Hospitals

Summary Balfour Beatty is a developer, operator and investor in two hospital projects in Canada.

Contractual arrangements The principal contract is the project agreement between the concession companies and the authorities. An inflation-indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. The construction services for the BC Children's and BC Women's Hospitals project were subcontracted to a joint venture in which the Group had a 50% participation and the facilities maintenance services were subcontracted to a joint venture in which the Group has a 50% participation. The soft facilities management services at North Island Hospital were subcontracted to a Group company and the hard facilities management services were subcontracted to a third party. The payments for the soft facilities management services, at both projects, are initially market adjusted after the third year of operations and then every six years thereafter. All assets transfer to the authorities at the end of the concession.

Hospitals (i)	Project	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
Affinity Partnerships (ii)	BC Children's and BC Women's Hospitals	262	70%	April 2014	33	2017
THP Partnerships	North Island Hospital	295	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 PPP concessions

Summary Balfour Beatty is a developer, operator and investor in a data centre located at the Canadian Forces base in Borden, Ontario and in the automated people mover at the Los Angeles airport. The people mover will be a 2.25 mile, above ground airport transport system.

Contractual arrangements The principal contracts are the respective project agreements between the concession partnership and the authorities. All assets transfer to the authorities at the end of the concession.

Concession partnership	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
UIP GP (i)	Borden Data Centre	89	50%	May 2016	25	2018
LAX Integrated Express Solutions LLC (ii)	LINXS	2,158	27%	June 2018	30	2023

Notes
(i) Registered in the province of Ontario in Canada and the principal operations of the project are conducted in Ontario, Canada.
(ii) Registered in the US and the principal operations of the project are conducted in the US.

Residential investments

Summary Balfour Beatty is a developer, operator and investor in 10 multifamily residential projects.

Contractual arrangements Balfour Beatty has formed joint ventures to acquire residential apartment buildings for 10 multifamily residential projects. For the Dallas 5 Portfolio, Townlake of Coppell, Mobile Alabama portfolio, Evergreen, Carolina Cove, Riverchase, Zephyr Ridge, Lexington and Southwind 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. In November 2018, the RAPP-BB Associates LLC joint venture restructured into a tenancy-in-common ownership, resulting in Balfour Beatty holding a 100% shareholding in BBC-TIC Owner LLC which owns 50% of the Pinnacle Point project. The Group's share of assets and liabilities within that project has been presented as held for sale at 31 December 2018 and the project was subsequently sold in January 2019.

Residential investments (i)	Total project funding £m	Shareholding	Financial close	Renovation completion
BBC-TIC Owner LLC (Pinnacle Point, Arkansas)	34	100%	February 2015	2018
DFW 5 Holdings, LLC (Dallas 5 Portfolio, Texas)	135	10%	May 2015	2018
Coppell Properties, LLC (Texas)	40	10%	May 2015	2018
BBC – Apexone Mobile Eastern, LLC (Alabama)	20	50%	January 2016	2018
Carolina Cove (Wilmington) Owner LLC (North Carolina)	38	50%	December 2017	2018
TBB Evergreen Holdings, LLC (Atlanta, Georgia)	65	15%	June 2017	2021
Riverchase Landing (Hoover) Owner, LLC (Alabama)	33	8%	March 2018	2022
Zephyr Ridge (Zephyrhills) Owner, LLC (Tampa, Florida)	24	50%	August 2018	2021
Lexington (Ridgeland) Owner, LLC (Jackson, Mississippi)	19	50%	August 2018	2021
Southwind (Memphis) Owner, LLC (Tennessee) (ii)	31	20%	December 2018	2023

Note
(i) Registered in the US and the principal operations of each project are conducted in the US.
(ii) Under the joint venture terms, Balfour Beatty maintains a 20% voting ownership interest in the entity and a 15% economic ownership in regard to distributions.

39 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Student accommodation

Summary Through its subsidiary, Balfour Beatty Campus Solutions LLC, Balfour Beatty is a manager on one student accommodation project, where it also acted as a developer. Balfour Beatty is also a developer and owner of five additional student accommodation projects.

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)	79	(ii)	March 2010	30	2011
BBCS-Hawkeye Housing LLC (Iowa) Phase 1	24	100%	June 2013	41	2014
BBCS-Hawkeye Housing LLC (Iowa) Phase 2	26	100%	May 2015	39	2016
BBCS-UN Reno Housing LLC (Reno)	17	100%	August 2013	43	2014
Northside Campus Partners LP (Texas Dallas)	42	10%	March 2015	61	2016
Northside Campus Partners 2, LP (Texas Dallas)	49	10%	February 2017	61	2018
Balfour Beatty-Walsh Housing LLC (Purdue)	68	67%	January 2018	45	2019

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	2019 £m	2020 £m	2021 £m	2022 onwards £m	Total £m
UK					
Student accommodation	6	17	–	–	23
Waste and biomass+	27	–	–	–	27
Other UK+	9	4	2	15	30
	42	21	2	15	80
North America					
Aviation	–	–	–	20	20
Multibuild housing	1	–	–	–	1
	1	–	–	20	21
	43	21	2	35	101
Projects at financial close	34	17	–	20	71
Projects at preferred bidder stage	9	4	2	15	30
Total	43	21	2	35	101

Note
\+ These categories have been presented within Other concessions in Note 39(d).

40 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers

40.1 Impact areas

Except for the adoption of IFRS 15, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition and the new policy is detailed in Notes 2.4 and 2.5.

The Group has applied IFRS 15 using the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. The details of the significant changes and the quantitative impact of the changes are set out below:

Adjustment 1: Relates to the recognition of the impact on transition to IFRS 15 at 1 January 2018 of a £3m credit to equity. The adjustment relates to the unbundling of certain contracts according to the Group's assessment of each contract's performance obligations to be delivered to its customers.

Adjustment 2: In addition to the impact on equity following transition to IFRS 15 at 1 January 2018, the Group's consolidated balance sheet is impacted as a result of moving away from IAS 11 balance sheet captions to those prescribed by IFRS 15. The main reclassification adjustment is in relation to reclassifying amounts due to/from construction contract customers to contract assets or contract liabilities. In addition to this, provision balances which were previously presented within amounts due to/from construction contract customers for contracts that were ongoing at that time in line with the requirements of IAS 11 have now been presented within provisions as appropriate.

40 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers continued

40.2 Impact on the financial statements on transition at 1 January 2018

The cumulative effect of the changes made to the Group's consolidated balance sheet at 1 January 2018 for the adoption of IFRS 15 is as follows:

	31 December 2017 £m	Adjustment (1) £m	Adjustment (2) £m	1 January 2018 £m
Non-current assets				
Investments in joint ventures and associates	531	–	–	531
PPP financial assets	163	–	–	163
Trade and other receivables	216	–	–	216
Deferred tax assets	52	–	–	52
Other non-current assets	1,554	–	–	1,554
	2,516	–	–	2,516
Current assets				
Inventories and non-construction work in progress	107	–	(53)	54
Contract assets	–	2	412	414
Due from construction contract customers	377	–	(377)	–
Trade and other receivables	899	–	31	930
Other current assets	978	–	–	978
	2,361	2	13	2,376
Total assets	4,877	2	13	4,892
Current liabilities				
Due to construction contract customers	(535)	–	535	–
Contract liabilities	–	5	(481)	(476)
Trade and other payables	(1,542)	(4)	30	(1,516)
Provisions	(194)	–	(90)	(284)
Current tax payable	(15)	–	–	(15)
Other current liabilities	(281)	–	–	(281)
	(2,567)	1	(6)	(2,572)
Non-current liabilities				
Trade and other payables	(157)	–	1	(156)
Provisions	(98)	–	(8)	(106)
Deferred tax liabilities	(70)	–	–	(70)
Other non-current liabilities	(919)	–	–	(919)
	(1,244)	–	(7)	(1,251)
Total liabilities	(3,811)	1	(13)	(3,823)
Net assets	1,066	3	–	1,069
Equity				
Retained profits	336	3	–	339
Other reserves not affected by IFRS 15	720	–	–	720
Equity attributable to equity holders of the parent	1,056	3	–	1,059
Non-controlling interests	10	–	–	10
Total equity	1,066	3	–	1,069

40.3 Impact of adopting IFRS 15 on the Group's 2018 results

Impact on the Group's consolidated income statement for the year ended 31 December 2018

The Group's consolidated income statement for the year ended 31 December 2018 is impacted by Adjustment (1). At 31 December 2018, the Group would have recognised an additional loss of £1m if it had continued to apply IAS 11 and IAS 18 in 2018. There is no other impact on the Group's consolidated income statement for the year as a result of applying previous revenue accounting standards.

Impact on the Group's consolidated balance sheet at 31 December 2018

In addition to the impact arising from Adjustment 1, the Group's consolidated balance sheet is also impacted by balance sheet reclassifications as a result of adopting balance sheet captions prescribed by IFRS 15 in place of IAS 11 requirements. The reclassification adjustments to convert the Group's consolidated balance sheet at 31 December 2018 back to what it would have been if the Group had continued to apply previous revenue accounting standards is set out on page 190.

Notes to the Financial Statements continued

40 Impact of the adoption of IFRS 15 Revenue from Contracts with Customers continued
40.3 Impact of adopting IFRS 15 on the Group's 2018 results continued

Consolidated balance sheet	31 December 2018 as reported under IFRS 15 £m	Adjustment (1) £m	Adjustment (2) £m	31 December 2018 reported under IAS 11/ IAS18 £m
Non-current assets				
Investments in joint ventures and associates	524	–	–	524
PPP financial assets	156	–	–	156
Trade and other receivables	212	–	–	212
Deferred tax assets	80	–	–	80
Other non-current assets	1,563	–	–	1,563
	2,535	–	–	2,535
Current assets				
Inventories and non-construction work in progress	84	–	7	91
Contract assets	363	–	(363)	–
Due from construction contract customers	–	2	395	397
Trade and other receivables	902	–	(75)	827
Other current assets	667	–	–	667
	2,016	2	(36)	1,982
Assets held for sale	16	–	–	16
	2,032	2	(36)	1,998
Total assets	4,567	2	(36)	4,533
Current liabilities				
Due to construction contract customers	–	(5)	(461)	(466)
Contract liabilities	(489)	–	489	–
Trade and other payables	(1,373)	(1)	(12)	(1,386)
Provisions	(167)	–	12	(155)
Current tax payable	(17)	–	–	(17)
Other current liabilities	(67)	–	–	(67)
	(2,113)	(6)	28	(2,091)
Liabilities held for sale	(11)	–	–	(11)
	(2,124)	(6)	28	(2,102)
Non-current liabilities				
Contract liabilities	(2)	–	–	(2)
Trade and other payables	(143)	–	–	(143)
Provisions	(149)	–	8	(141)
Deferred tax liabilities	(90)	–	–	(90)
Other non-current liabilities	(818)	–	–	(818)
	(1,202)	–	8	(1,194)
Total liabilities	(3,326)	(6)	36	(3,296)
Net assets	1,241	(4)	–	1,237
Equity				
Retained profits	574	(4)	–	570
Other reserves not affected by IFRS 15	657	–	–	657
Equity attributable to equity holders of the parent	1,231	(4)	–	1,227
Non-controlling interests	10	–	–	10
Total equity	1,241	(4)	–	1,237

41 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

42 Details of related undertakings of Balfour Beatty plc as at 31 December 2018

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 2018 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 2018 and are wholly owned and consolidated into the Group's results, except where indicated.

Subsidiary undertakings incorporated in the United Kingdom

Name of undertaking	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX	
Aberystwyth Student Accommodation Ltd	Infrastructure concession
Balfour Beatty Fire and Rescue NW Holdings Ltd	Investment holding company
Balfour Beatty Fire and Rescue NW Intermediate Ltd	Infrastructure concession
Balfour Beatty Fire and Rescue NW Ltd	Infrastructure concession
Balfour Beatty Infrastructure Investments Ltd (i)	Investment holding company
Balfour Beatty Infrastructure Partners Member Ltd	Investment holding company
Balfour Beatty Infrastructure Projects Investments Ltd	Investment holding company
Balfour Beatty Investments Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty OFTO Holdings Ltd	Investment holding company
BBI Holdings Australia Ltd	Investment holding company
BBPF LLP (iv)	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 (ii)	Infrastructure concession
East Slope Residencies Student Accommodation LLP (ii) (iv)	Infrastructure concession
Education Investments Holdings Ltd	Investment holding company
Initial GP1 Ltd	Investment holding company
Manchester Residences (New Cross) Ltd	Infrastructure concession
West Stratford Developments Ltd	Investment holding company
5 Churchill Place, Canary Wharf, London E14 5HU	
Avatar Ltd	Dormant
Balfour Beatty Build Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Building Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty CE Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civils Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Const Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Northern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Services (HY) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Group Employment Ltd	Employer for UK workforce
Balfour Beatty Group Ltd	Construction and support services
Balfour Beatty Homes Ltd	Agent of Manring Homes Ltd
Balfour Beatty International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Investment Holdings Ltd (i)	Investment holding company
Balfour Beatty Management Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Nominees Ltd	Nominee company
Balfour Beatty Overseas Investments Ltd	Investment holding company
Balfour Beatty Overseas Ltd	Investment holding company
Balfour Beatty Property Ltd (i)	Agent of Balfour Beatty plc
Balfour Beatty Rail Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Projects Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Technologies Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Track Systems Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Refurbishment Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Kilpatrick Ltd	Dormant
Balvac Ltd	Agent of Balfour Beatty Group Ltd
Bical Construction Ltd	Agent of Balfour Beatty Group Ltd
Bignell & Associates Ltd	Agent of Balfour Beatty Group Ltd
Birse Group Ltd	Investment holding company
Birse Metro Ltd	Construction and support services
Bnoms Ltd (i)	Nominee company
BPH Equipment Ltd	Hire of plant and transport
Cowlin Group Ltd	Investment holding company
Guinea Investments Ltd	Investment holding company
Haden Building Services Ltd	Investment holding company
Haden Young Ltd (i)	Dormant
Hall & Tawse Western Ltd	Dormant
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
Office Projects (Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Omnicom Engineering Ltd	Construction services
Raynesway Construction Ltd	Agent of Balfour Beatty Group Ltd
Strata Construction Ltd	Dormant

42 Details of related undertakings of Balfour Beatty plc as at 31 December 2018 continued

Subsidiary undertakings incorporated in the United Kingdom continued

Name of undertaking	Principal activity
Hereford Steel Works, Holmer Road, Hereford HR4 9SW	
Painter Brothers Ltd	Agent of Balfour Beatty Group Ltd
Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ	
Balfour Beatty Pension Trust Ltd (i)	Pension fund trustee
C/O Mc Griggors LLP, Arnott House, 12-16 Bridge Street, Belfast, BT1 1LS Northern Ireland	
Balfour Kilpatrick Northern Ireland Ltd	Dormant
The Curve Building, Axis Business Park, Hurricane Way, Langley, Berkshire, SL3 8AG	
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
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ	
Balfour Beatty Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Scottish & Southern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Kilpatrick Limited	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Residuary Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
BBPFS LP (iv)	Investment partnership
Glasgow Residences (Kennedy Street) Holdings Ltd	Investment holding company
Glasgow Residences (Kennedy Street) LLP (iv)	Infrastructure concession
Glasgow Residences (Kennedy Street) SPV Ltd	Infrastructure concession
Hall & Tawse Ltd	Dormant
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

Name of undertaking	Principal activity
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 (iii)	Agent of Balfour Beatty Group Ltd
BB Indonesia Ltd	Support services
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, Tower Bridge House, St Katharine's Way, London E1W 1DD	
Balfour Beatty Homes (South Western) Ltd	Dormant – in liquidation
Balfour Beatty Power Networks (Distribution Services) Ltd	Dormant – in liquidation
Birse Construction Ltd	Investment holding company – in liquidation
Birse Rail Ltd	Dormant – in liquidation
Dean & Dyball Developments Ltd	Dormant – in liquidation
Dean & Dyball Rail Ltd	Dormant – in liquidation
Dean & Dyball Workforce Ltd	Dormant – in liquidation
Edgar Allen Engineering Ltd	Dormant – in liquidation
Eastern Infrastructure Maintenance Company Ltd	Dormant – in liquidation
Footprint Furniture Ltd	Dormant – in liquidation
Heery International Ltd	Dormant – in liquidation
Mansell plc	Investment holding company – in liquidation
Multibuild Interiors Ltd	Dormant – in liquidation
Multibuild Hotels and Leisure Ltd	Dormant – in liquidation
Office Projects Group Ltd	Investment holding company – in liquidation
Office Projects Ltd	Dormant – in liquidation
South East Infrastructure Maintenance Company Ltd	Dormant – in liquidation

Name of undertaking	Principal activity
Southern Track Renewals Company Ltd	Dormant – in liquidation
West Service Road, Raynesway, Derby DE21 7BG	
Balfour Beatty Plant & Fleet Services Ltd	Hire of plant and transport
C/O Mazars LLP, 100 Queen Street, Glasgow, G1 3DN, Scotland	
Aberdeen Construction Group Ltd	Dormant – in liquidation

Notes:
(i) Held directly by Balfour Beatty plc.
(ii) 80% owned.
(iii) Preference shares and/or deferred shares also held.
(iv) Partnership interests held.

42 Details of related undertakings of Balfour Beatty plc as at 31 December 2018 continued
Subsidiary undertakings incorporated outside the United Kingdom

Name of undertaking	Principal activity
Australia	
Allens Corporate Services Pty Ltd, Level 4 Deutsche Bank Place, 126 Phillip Street, Sydney NSW 2000	
Balfour Beatty Australia Pty Ltd	Construction and support services
Balfour Beatty Holdings Australia Pty Ltd	Investment holding company
Bahamas	
The Alexander Corporate Group Limited, One Millars Court, PO Box N-7117, Nassau	
Balfour Beatty Bahamas Ltd	Dormant
Brazil	
Avenida Brigadeiro Faria Lima, No. 1478, Suites 105, 1st Floor, Jardim Paulistano, São Paulo, 01.451–001	
RHA do Brasil Serviços de Infraestrutura Ltda	Construction services
Canada	
Boren Ladner Gervais LLP, 22 Adelaide Centre East Tower Toronto ON M5H 4E3	
BB Group Canada Inc	Investment holding company
BB UIP Inc	Infrastructure Investment
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	Construction services
Balfour Beatty Construction, LP (iii)	Construction services
Balfour Beatty CWH Holdings Inc	Infrastructure concession
Balfour Beatty Investments GP, Inc	Infrastructure investment
Balfour Beatty Investments, LP (iii)	Infrastructure investment
Balfour Beatty THP Holdings, Inc.	Infrastructure concession
BB CWH, LP (iii)	Infrastructure investment
BB CWH GP, Inc	Infrastructure investment
BB NIH, LP (iii)	Infrastructure investment
BB NIH GP, Inc	Infrastructure investment

Name of undertaking	Principal activity
Chile	
Vicuna MacKenna Poniente 6843, Oficina 209, La Florida, Santiago	
Balfour Beatty Chile SA	Construction services
China	
Beijing Landmark Towers Building 2, Room 511-514, No 8 Dongsanhuan North Road, Chaoyang District, Beijing	
Balfour Beatty Rail Electrification Equipment Trading (Beijing) Ltd	Construction services
Germany	
Garmischer Strasse 35, 81373 Munich	
Balfour Beatty Capital GmbH	Dormant
Balfour Beatty Offshore Transmission Germany GmbH	Dormant
Balfour Beatty Rail GmbH	Construction services
BICC Holdings GmbH	Investment holding company
Schreck-Mieves GmbH	Dormant
Hong Kong	
Level 54, Hopewell Centre, 183 Queen's Road East	
Balfour Beatty Hong Kong Ltd	Construction and support services
India	
3rd Floor, Municipal No. 1, Service Road, 11 VB Colony, Outer Ring Road, Ward No. 88, Bansawadi, Banglore, Karnataka-KA	
Balfour Beatty Infrastructure India Pvt. Ltd	Engineering design consultancy
Ireland	
City Junction Business Park, Northern Cross, Malahide Road, Dublin 17	
Balfour Beatty Ireland Ltd (ii)	Support services
C/O Mazars, Block 3, Harcourt Centre, Harcourt Road, Dublin 2	
Kenton Utilities & Developments (Ireland) Ltd	Dormant – in liquidation
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

Name of undertaking	Principal activity
Malaysia	
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya	
Balfour Beatty Rail Design International Sdn Bhd	Support services
Netherlands	
Prins Bernhardplein 200, 1097 JB, Amsterdam	
BICC Finance BV	Dormant – in liquidation
Rapenburgerstraat 177/B, 1011 VM, Amsterdam	
Balfour Beatty Netherlands BV	Investment holding company
New Zealand	
C/O Price Waterhouse Coopers, Level 8, Price Waterhouse Coopers Tower, 188 Quay Street, Private Bag 92162, Auckland	
Balfour Beatty New Zealand Ltd	Construction and support services
Romania	
23 General Ernest Brosteanu Street, 1st District, 010527 Bucharest	
SC Balfour Beatty Rail SRL	Dormant
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	Dormant – in liquidation
Thailand	
9 Soi Santisuk, Sithisarn Road, Huay Kwang, Bangkok	
Asia Trade Development Co Ltd	Dormant
Balfour Beatty Construction (Thailand) Co Ltd	Dormant
Balfour Beatty Holdings (Thailand) Co Ltd	Dormant
Balfour Beatty Thai Ltd	Dormant
Linwood Co Ltd	Dormant

Notes to the Financial Statements continued

42 Details of related undertakings of Balfour Beatty plc as at 31 December 2018 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
999 Peachtree Street NE, Atlanta, Georgia 30309-39764	
Balfour Beatty Infrastructure, Inc	Construction services
Corporation Service Company, 505 5th Avenue Suite 729, Des Moines, IA 50309	
BBCS Condominium Association, Inc	Infrastructure concession
Corporation Service Company, 1127 Broadway Street NE, Suite 310, Salem OR 97301	
Balfour Beatty Rock Springs LLC	Construction services
Corporation Service Company, 1703 Laurel Street, Columbia SC 29201	
National Casualty and Assurance, Inc	Insurance company
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808	
Balfour Beatty Campus Solutions, LLC	Infrastructure holding company
Balfour Beatty Communities, LLC	Infrastructure investment
Balfour Beatty Construction D.C., LLC	Construction services
Balfour Beatty Construction, LLC	Construction services
Balfour Beatty Equipment, LLC	Construction services
Balfour Beatty Investments, Inc	Investment company
Balfour Beatty Management Inc	Business services
Balfour Beatty Military Housing Development LLC	Infrastructure investment
Balfour Beatty Military Housing Investments LLC	Investment holding company
Balfour Beatty Military Housing Management LLC	Infrastructure investment
Balfour Beatty – Worthgroup, LLC	Construction services
BBC – D5 Investors, LLC (iv)	Investment company
BBC AF Housing Construction LLC	Infrastructure investment
BBC AF Management/ Development LLC	Infrastructure investment
BBC – Evergreen, LLC	Investment company
BBC Independent Member I, Inc	Infrastructure investment
BBC Independent Member II, Inc	Infrastructure investment
BBC Military Housing – ACC Group, LLC	Infrastructure concession
BBC Military Housing – AETC General Partner LLC	Infrastructure concession
BBC Military Housing – AETC Limited Partner LLC	Infrastructure concession
BBC Military Housing – AMC General Partner LLC	Infrastructure concession
BBC Military Housing – AMC Limited Partner LLC	Infrastructure concession
BBC Military Housing – Bliss/ WSMR General Partner LLC	Infrastructure concession
BBC Military Housing – Bliss/ WSMR Limited Partner LLC	Infrastructure concession
BBC Military Housing – Carlisle/ Picatinny General Partner LLC	Infrastructure concession
BBC Military Housing – Carlisle/ Picatinny Limited Partner LLC	Infrastructure concession
BBC Military Housing – FDWR LLC	Infrastructure concession
BBC Military Housing – Fort Carson LLC	Infrastructure concession
BBC Military Housing – Fort Gordon LLC	Infrastructure concession
BBC Military Housing – Fort Hamilton LLC	Infrastructure concession
BBC Military Housing – Fort Jackson LLC	Infrastructure concession
BBC Military Housing – Hampton Roads LLC	Infrastructure concession
BBC Military Housing – Lackland LLC	Infrastructure concession
BBC Military Housing – Leonard Wood LLC	Infrastructure concession
BBC Military Housing – Navy Northeast LLC	Infrastructure concession
BBC Military Housing – Navy Southeast LLC	Infrastructure concession
BBC Military Housing – Northern Group, LLC	Infrastructure concession
BBC Military Housing – Stewart Hunter LLC	Infrastructure concession
BBC Military Housing – Vandenberg General Partner LLC	Infrastructure concession
BBC Military Housing – Vandenberg Limited Partner LLC	Infrastructure concession
BBC Military Housing – West Point LLC	Infrastructure concession
BBC Military Housing – Western General Partner, LLC	Infrastructure concession
BBC Military Housing – Western Limited Partner, LLC	Infrastructure concession
BBC Multifamily Holdings, LLC	Infrastructure investment
BBCS – Hawkeye Housing, LLC	Infrastructure concession
BBCS – Northside Campus, LLC	Infrastructure concession
BBCS – UN Reno Housing, LLC	Infrastructure concession
BBCS Development, LLC	Infrastructure investment
BBC – TIC Owner, LLC	Investment company
BICC Cables Corporation	Business services
Corporation Service Company, 300 Deschutes Way SW, Suite 304, Tumwater WA 98501	
Howard S Wright Construction Co	Construction services
HSW, Inc	Construction services
CSC – Nevada, C/O CSC Services of Nevada, Inc., 502 East John Street, Carson City, Nevada, 89706	
Balfour Beatty – Golden Construction Company	Construction services
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 2018, 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.

42 Details of related undertakings of Balfour Beatty plc as at 31 December 2018 continued

Joint ventures incorporated in the United Kingdom

Name of undertaking	% held by the Group	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX		
BBDE Orbital Holdings, LLP (iii)	37.5	Investment holding company
Connect A30/A35 Holdings Ltd (iv)	20	Investment holding company
Connect A30/A35 Ltd (iv)	20	Infrastructure concession
Connect A50 Ltd (iv)	25	Infrastructure concession
Connect CNDR Holdings Ltd (iv)	25	Investment holding company
Connect CNDR Intermediate Ltd (iv)	25	Infrastructure concession
Connect CNDR Ltd (iv)	25	Infrastructure concession
Connect M1-A1 Holdings Ltd (i) (iv)	20	Investment holding company
Connect M1-A1 Ltd (iv)	20	Infrastructure concession
Connect M77/GSO Holdings Ltd (ii) (iv)	85	Investment holding company
Connect M77/GSO plc (ii) (iv)	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 (iv)	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 (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 1) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 2) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 3) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 4) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 5) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 6) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Phase 7) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Finance (Holdings) Ltd (iv)	50	Infrastructure concession
East Wick and Sweetwater Projects (Finance) Ltd (iv)	50	Infrastructure concession
Gwynt y Mor OFTO Holdings Ltd (ii) (iv)	60	Investment holding company
Gwynt y Mor OFTO Intermediate Ltd (ii) (iv)	60	Infrastructure concession
Gwynt y Mor OFTO plc (ii) (iv)	60	Infrastructure concession
Humber Gateway OFTO Holdings Ltd (iv)	20	Investment holding company
Humber Gateway OFTO Intermediate Ltd (iv)	20	Infrastructure concession
Humber Gateway OFTO Ltd (iv)	20	Infrastructure concession
Thanet OFTO Holdco Ltd (iv)	20	Investment holding company
Thanet OFTO Intermediate Ltd (iv)	20	Infrastructure concession
Thanet OFTO Ltd (iv)	20	Infrastructure concession
Blythe House, Blythe Park, Cresswell, Stoke on Trent, Staffordshire ST11 9RD		
Birmingham Bio Power Ltd	37.5	Infrastructure concession
Pebblehall Bio Power Ltd	25	Investment holding company
Tyseley Bio Power Ltd	37.5	Investment holding company
Welland Bio Power Ltd	25	Infrastructure concession
Connect Plus House St Albans Road, South Mimms, Hertfordshire EN6 3NP		
Connect Plus (M25) Holdings Ltd (iii) (iv)	15	Investment holding company
Connect Plus (M25) Intermediate Ltd (iii) (iv)	15	Infrastructure concession
Connect Plus (M25) Issuer Plc (iii) (iv)	15	Infrastructure concession
Connect Plus (M25) Ltd (iii) (iv)	15	Infrastructure concession
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ		
Aberdeen Roads (Finance) plc	33.3	Infrastructure concession
Aberdeen Roads Holdings Ltd	33.3	Investment holding company
Aberdeen Roads Ltd	33.3	Infrastructure concession
Holyrood Holdings Ltd	20	Investment holding company
Holyrood Student Accommodation Holdings Ltd	20	Investment holding company
Holyrood Student Accommodation Intermediate Ltd	20	Infrastructure concession
Holyrood Student Accommodation plc	20	Infrastructure concession
Holyrood Student Accommodation SPV Ltd	20	Infrastructure concession
Westminster House, Crompton Way, Segensworth West, Fareham, Hampshire PO15 5SS		
Pevensey Coastal Defence Ltd	25	Infrastructure concession

Notes:
(i) Held directly by Balfour Beatty plc.
(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.
(iii) The Group owned 37.5% of BBDE Orbital Holdings LLP at 31 December 2018. Connect Plus (M25) Holdings Ltd and its subsidiaries are 40% owned by BBDE Orbital Holdings LLP.
(iv) 31 March year end.

42 Details of related undertakings of Balfour Beatty plc as at 31 December 2018 continued
Joint ventures incorporated outside the United Kingdom

Name of undertaking	% held by the Group	Principal activity
Bermuda		
Conyers Dill & Pearman Limited, 2 Clarendon House, 2 Church Street, Hamilton HM 11		
CP Bay Carry A LP	20	Infrastructure concession
CP Bay Carry B LP	20	Infrastructure concession
British Virgin Islands		
Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110		
Gammon Asia Ltd	50	Management 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 Limited Partnership (i) (iv)	70	Infrastructure investment
Affinity Partnerships	70	Infrastructure investment
CWH Facilities Management, LP (iv)	50	Infrastructure investment
CWH FM GP Inc	50	Infrastructure investment
CWH Design – Build GP (iv)	50	Construction services
Gracorp Balfour Beatty THP Holdings Inc	50	Infrastructure concession
Ledcor Balfour Beatty Affinity Holdings Inc	50	Investment holding company
THP GBB Inc	50	Infrastructure investment
THP GP Inc	50	Infrastructure investment
THP Limited Partnership (iv)	50	Infrastructure investment
THP Partnership	50	Infrastructure concession
Forum House at Brookfield Place, Scotia Plaza, 181 Bay Street, EP210, Toronto, ON M5J 2T3		
UIP GP	50	Infrastructure concession
Germany		
Luisenstr. 38, 10117 Berlin		
InoSig GmbH	50	Construction services
Hong Kong		
28th Floor, Devon House, Taikoo Place, 979 King's Road		
Gammon China Ltd	50	Investment holding company
Gammon Construction Ltd (iii)	50	Construction services
Ireland		
Dunmoy House, St Margaret's Road, Finglas, Dublin 11		
Balfour Beatty CLG Ltd	50	Support services
C/O Sweett Group, 2nd Floor, Cathedral Court, New Street South, Dublin 8		
Healthcare Centres PPP Holdings Ltd	40	Investment holding company
Healthcare Centres PPP Ltd	40	Infrastructure concession
Malaysia		
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya		
Balfour Beatty Ansaldo Systems JV Sdn Bhd (ii)	60	Construction services – in liquidation
Balfour Beatty Rail Sdn Bhd (ii)	70	Construction services – 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 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)	10	Infrastructure concession
Northside Campus Partners 2, LP (iv)	10	Infrastructure concession
Northside Campus General Partner, LLC	50	Infrastructure concession
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808		
Balfour Beatty/Benham Military Communities LLC (i)	90	Infrastructure investment
Balfour Beatty/PHELPS Military Communities LLC (i)	90	Infrastructure investment
BBC – ApexOne Carolina Cove, LLC	50	Infrastructure investment
BBC – ApexOne Lexington, LLC	50	Infrastructure investment
BBC – ApexOne Riverchase Landing, LLC	50	Infrastructure investment
BBC – ApexOne Southwind, LLC	50	Infrastructure investment
BBC – ApexOne Mobile Eastern, LLC	50	Infrastructure investment
BBC – ApexOne Zephyr Ridge, LLC	50	Infrastructure investment
BBC Army Integrated, LLC	50	Infrastructure investment
Carolina Cove (Wilmington) Owner, LLC	50	Infrastructure investment
Coppell Properties, LLC	10	Infrastructure investment
LAX Integrated Express Solutions Holdco, LLC	27	Infrastructure concession
LAX Integrated Express Solutions, LLC	27	Infrastructure concession
Lexington (Ridgeland) Owner, LLC	50	Infrastructure investment
Northside Campus Limited Partner, LLC (i)	10	Infrastructure concession
Park Place (Foley) Owner, LLC	50	Infrastructure investment
Riverchase Landing (Hoover) Owner, LLC	7.5	Infrastructure investment
Southwind (Memphis) Owner, LLC	20	Infrastructure investment
Southwind (Memphis) Holdings, LLC	20	Infrastructure investment
Summer Trace (Gulf Shores) Owner, LLC	50	Infrastructure investment
T-BBA Riverchase Holdings, LLC	7.5	Infrastructure investment
Windscape (Daphne) Owner, LLC	50	Infrastructure investment
Zephyr Ridge (Zephyrhills) Owner, LLC	50	Infrastructure investment
430 Eastwood Road, Wilmington, NC 28403		
New Energy Alliance LLC	50	Construction and support services
Northside Campus Limited Partner, LLC (i)	10	Infrastructure concession
430 Eastwood Road, Wilmington, NC 28403		
New Energy Alliance LLC	50	Construction and support services

Notes:
(i) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.
(ii) The Group holds a 70% interest in Balfour Beatty Rail Sdn Bhd, which holds a 60% interest in Balfour Beatty Ansaldo Systems JV Sdn Bhd. Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of these companies, the Directors consider that the Group does not control these companies and they have been accounted for as joint ventures.
(iii) Preference shares and/or deferred shares also held.
(iv) Partnership interests held.

42 Details of related undertakings of Balfour Beatty plc as at 31 December 2018 continued

Associated undertakings incorporated in the United Kingdom

Name of undertaking	% held by the Group	Principal activity
United Kingdom		
Newington House, 237 Southwark Bridge Road, London SE1 6NP		
Power Asset Development Company Ltd	25	Infrastructure concession
UK Power Networks Services Powerlink Ltd	10	Infrastructure concession
Ashford House, Grenadier Road, Exeter, EX1 3LH		
UBB Waste (Essex) Holdings Ltd	30	Investment holding company
UBB Waste (Essex) Intermediate Ltd	30	Infrastructure concession
UBB Waste (Essex) Ltd	30	Infrastructure concession
UBB Waste (Gloucestershire) Holdings Ltd	49.5	Investment holding company
UBB Waste (Gloucestershire) Intermediate Ltd	49.5	Infrastructure concession
UBB Waste (Gloucestershire) Ltd	49.5	Infrastructure concession

Associated undertakings incorporated outside the United Kingdom

Name of undertaking	% held by the Group	Principal activity
United States		
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808		
ACC Group Housing, LLC (i)	80	Infrastructure concession
AETC Housing LP (i)(ii)	100	Infrastructure concession
AMC West Housing LP (i)(ii)	100	Infrastructure concession
Balfour Beatty-Walsh Housing, LLC	67	Infrastructure concession
Carlisle/Picatinny Family Housing LP (ii)	10	Infrastructure concession
DFW 5 – Josey Ranch, LLC	10	Infrastructure investment
DFW 5 – Madison Parkway, LLC	10	Infrastructure investment
DFW 5 – Round Grove, LLC	10	Infrastructure investment
DFW 5 – Wimberly, LLC	10	Infrastructure investment
DFW 5 – Wimbledon Oaks, LLC	10	Infrastructure investment
DFW 5 Holdings, LLC	10	Infrastructure investment
FDWR Parent LLC	10	Infrastructure concession
Fort Bliss/White Sands Missile Range Housing LP (ii)	10	Infrastructure concession
Fort Carson Family Housing LLC	10	Infrastructure concession
Fort Detrick/Walter Reed Army Medical Center Housing LLC	9	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
Nesbit Palisades, LLC	15	Infrastructure investment
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
TBB Evergreen Commons, LLC	15	Infrastructure investment
TBB Evergreen Holdings, LLC	15	Infrastructure investment
TBB Evergreen Park, LLC	15	Infrastructure investment
TBB Evergreen Terrace, LLC	15	Infrastructure investment
Vandenberg Housing LP (i)(ii)	90	Infrastructure concession
Western Group Housing, LP (i)(ii)	100	Infrastructure concession
West Point Housing 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

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income					
Revenue including share of joint ventures and associates	**7,814**	8,264	8,368	8,262	8,616
Share of revenue of joint ventures and associates	**(1,180)**	(1,348)	(1,445)	(1,307)	(1,352)
Group revenue from continuing operations	**6,634**	6,916	6,923	6,955	7,264
Underlying profit/(loss) from continuing operations	**205**	196	69	(74)	(43)
Underlying net finance costs	**(24)**	(31)	(7)	(17)	(22)
Underlying profit/(loss) before taxation	**181**	165	62	(91)	(65)
Amortisation of acquired intangible assets	**(8)**	(9)	(9)	(10)	(11)
Other non-underlying items	**(50)**	(39)	(43)	(66)	(213)
Profit/(loss) from continuing operations before taxation	**123**	117	10	(167)	(289)
Taxation on profit/(loss) from continuing operations	**12**	45	(8)	(7)	3
Profit/(loss) from continuing operations after taxation	**135**	162	2	(174)	(286)
Profit/(loss) from discontinued operations after taxation	**–**	6	22	(32)	227
Profit/(loss) for the year attributable to equity holders	**135**	168	24	(206)	(59)
Capital employed					
Equity holders' funds	**1,231**	1,056	757	826	1,227
Liability component of preference shares	**106**	103	100	98	96
Net non-recourse borrowings – infrastructure concessions	**309**	305	233	365	445
Net cash – other	**(337)**	(335)	(173)	(163)	(219)
	1,309	1,129	917	1,126	1,549

	2018 Pence	2017 Pence	2016 Pence	2015 Pence	2014 Pence
Statistics					
Underlying earnings/(loss) per ordinary share from continuing operations*	**26.3**	20.9	7.2	(15.0)	(9.4)
Basic earnings/(loss) per ordinary share from continuing operations	**19.7**	23.7	0.2	(25.5)	(41.8)
Diluted earnings/(loss) per ordinary share from continuing operations	**19.5**	23.4	0.2	(25.5)	(41.8)
Proposed dividends per ordinary share	**4.8**	3.6	2.7	–	5.6
Underlying profit/(loss) from continuing operations before net finance costs including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	**2.6%**	2.4%	0.8%	(0.9)%	(0.5)%

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

	2019
16 May	Ex-dividend date for final 2018 ordinary dividend
16 May	Annual General Meeting
17 May	Final 2019 ordinary dividend record date
23 May	Ex-dividend date for July 2019 preference dividend
24 May	July 2019 preference dividend record date
1 July	Preference dividend payable
5 July	Final 2018 ordinary dividend payable
14 August*	Announcement of 2019 half-year results
24 October*	Ex-dividend date for interim 2019 ordinary dividend
25 October*	Interim 2019 ordinary dividend record date
21 November	Ex-dividend date for January 2020 preference dividend
22 November	January 2020 preference dividend record date
6 December*	Interim 2019 ordinary dividend payable
	2020
1 January	Preference dividend payable

Note
* Provisional date.

Registrars

The Balfour Beatty share register is maintained by the Company's Registrars, Link Asset Services. All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Link Asset Services, clearly stating your registered address and, if available, your shareholder reference number. Please write to:

Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone: 0871 664 0300 from the UK.

Calls cost 12p per minute plus your phone company's access charge. If you are outside the UK, please call +44 (0)371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday 9.00 am to 5.30pm, UK time, excluding public holidays in England and Wales. Alternatively, you can email: enquiries@linkgroup.co.uk.

Link Asset Services can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; or record the death of a shareholder.

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). The Registrars can provide a dividend mandate form. A dividend reinvestment plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at www.balfourbeatty-shares.com.

International payment service

Shareholders outside the UK may elect to receive dividends direct into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars on +44 (0)371 664 0391 (from outside the UK) or 0871 664 0385 from the UK. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

Shareholder information on the internet and electronic communications

Our website www.balfourbeatty.com provides a range of information about the Company, our people and businesses and our policies on corporate governance and corporate responsibility. It should be regarded as your first point of reference for information on any of these matters. The share price can also be found there.

You can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to: view your holdings and indicative share price and valuation; view movements on your holdings and your dividend payment history; register a dividend mandate to have your dividends paid directly into your bank account; change your registered address; sign up to receive e-communications or access the online proxy voting facility; and download and print shareholder forms.

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: Shareportal@caslink.co.uk.

Unsolicited telephone calls

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports on the Company.

If you receive any unsolicited investment advice:

- always ensure the firm is on the Financial Conduct Authority (FCA) Register and is allowed to give financial advice before handing over your money. You can check via www.fsa.gov.uk/register/home.do
- double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. If there are no contact details on the FCA Register or you are told that they are out of date, or if you have any other doubts, call the FCA Consumer Helpline on 0800 111 6768
- if you are approached about a share scam, please visit the FCA's ScamSmart website at www.fca.org.uk/scamsmart where you can access information about the various types of scam, including share and boiler room fraud, see the FCA's Warning List and reports on firms about whom consumers have expressed concerns. Alternatively, you can call the FCA Consumer Helpline (see above). If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong
- you should also report any approach to Action Fraud, which is the UK's national fraud reporting centre, at www.actionfraud.police.uk, or by calling 0300 123 2040.

Shareholder information continued

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £27m has been given to more than 2,600 charities.

The relevant share transfer form may be obtained from the Registrars. For more information visit www.sharegift.org.

Share dealing services

Link Asset Services (a trading name of Link Market Services Trustees Limited) provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, telephone: 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate. Lines are open Monday to Friday 8.00 am to 4.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can log on to www.linksharedeal.com.

Link Market Services Trustees Limited is authorised and regulated by the Financial Conduct Authority and is also authorised to conduct cross border business within the EEA under the provisions of the EU Markets in Financial Instruments Directive.

London Stock Exchange Codes

The London Stock Exchange Daily Official List (SEDOL) codes are: Ordinary shares: 0096162. Preference shares: 0097820.

The London Stock Exchange ticker codes are: Ordinary shares: BBY; Preference shares: BBYB.

Capital gains tax (CGT)

For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

Consolidated tax vouchers

Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank accounts. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars. A copy of the consolidated tax voucher may be downloaded from the Share Portal at www.balfourbeatty-shares.com.

Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

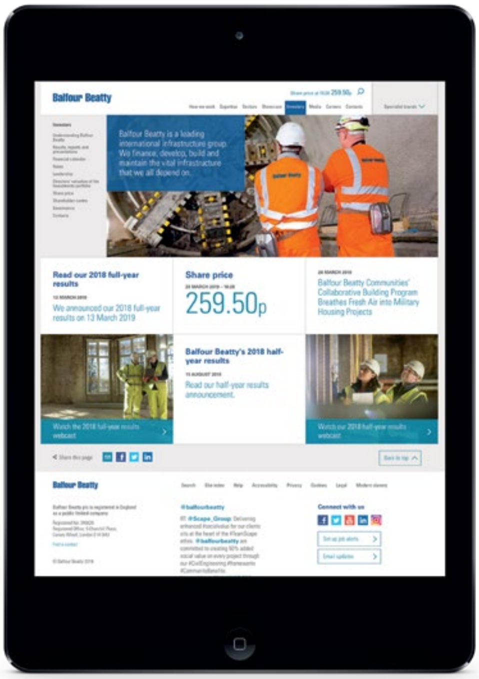
Balfour Beatty plc Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU. Registered in England and Wales, registered number 395826.

Forward-looking statements

This document may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty'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 Balfour Beatty in good faith based on the information available to it at the date of this report and reflect the beliefs and expectations of Balfour Beatty. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 58 to 66 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, and projections are not guarantees of future performance. Forward-looking statements speak only as at the date of this document and Balfour Beatty and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this document. No statement in the presentation is intended to be, or intended to be construed as, a profit forecast or profit estimate or to be interpreted to mean that Balfour Beatty plc's earnings per share for the current or future financial years will necessarily match or exceed its historical earnings per share. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.



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