Balfour Beatty

ANNUAL REPORT AND ACCOUNTS 2019

celebrating 110 years

# Shaping the future
# Build to Last

## THE BEST OF BALFOUR BEATTY

There are so many amazing things happening across Balfour Beatty. In our 110th birthday year, we asked our employees to help tell our story – by sharing their best photos of what we do and how we do it. Featured below are some of the entries from across our business showcasing our size and scale, our capabilities, our expert people, our incredible projects and our market-leading innovations.

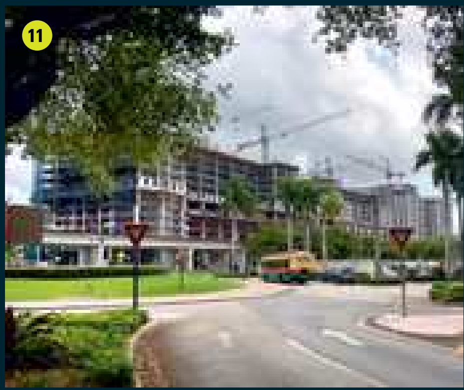
Discover more on
**instagram.com/balfourbeatty**












celebrating
110
years


**CREDITS**

1. Hinkley Point C Marine Works, Bristol
**Patrick Brady**
2. London Pride, London
**Jared Tiller**
3. Bridges to Prosperity, Rwanda
**Justin Maletic**
4. ElecLink, Kent
**Jacqueline Fowler**
5. Herefordshire Public Realm Services Contract
**Michael Mable**
6. Los Angeles Airport Automated People Mover
**Paul England**
7. Paddington to Reading Electrification
**Chris Ottley**
8. A76 Enterkinfoot, Scotland
**Chris Hodge**
9. Wickford Waste Recycling Centre, Essex
**Tom Gillett**
10. Thames Tideway Tunnel, London
**Li-Ming Cheung**
11. Gables Station, Florida
**Jorge Munoz**
12. Central Kowloon Route, Hong Kong
**Lunggy Fung**
13. Drone Technology, North Carolina
**Kelly Simpson**
14. East Slope Residences, Sussex
**Anas Akkawi**

# Creating infrastructure; supporting communities; enabling growth.

> Five years into our Build to Last transformation programme, Balfour Beatty continues to drive a culture of transparency, risk management and relentless improvement.

**Leo Quinn**
Group Chief Executive


In the following sections, discover Balfour Beatty's approach to developing and leveraging its capabilities and how the Group is adding value for all its stakeholders through continuous improvement as well as encouraging and supporting employees to develop a positive culture.

## Leading in our markets

We discuss macro trends and opportunities in our chosen markets, the way we operate and how we create value for all our stakeholders as well as the cutting edge solutions we are leveraging to meet our customers' challenges.

p10

## Expert capabilities

Our three operating divisions outline their key achievements throughout 2019 and how they are delivering our Build to Last strategy. We also look at our Investments portfolio in more detail.

p22

## Building a positive culture

Our disciplined contracting is further strengthened by our approach to building a positive culture. Our people are encouraged and supported to always do the right thing.

p38

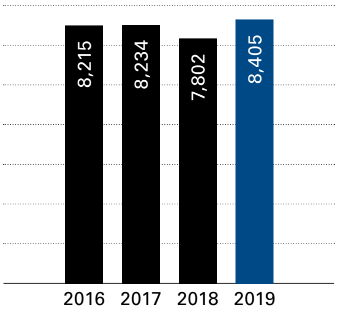
**FRONT COVER IMAGE:** Our team working on the Atelier, a 42-storey high-rise luxury residential development for Zom Living, Dallas.

**READ ABOUT OUR BUILD TO LAST STRATEGY** p08

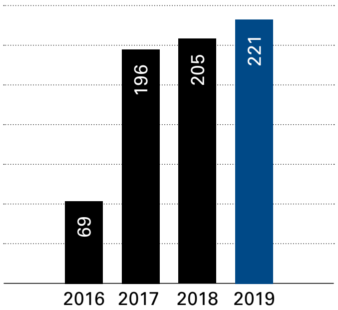
## FINANCIAL PERFORMANCE

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 60 to 66.

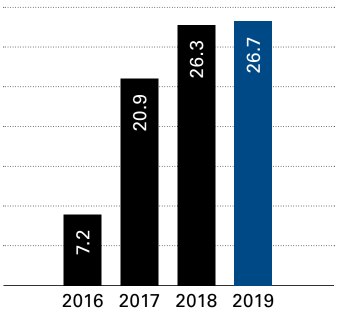
### CONTINUING UNDERLYING REVENUE[1] £m



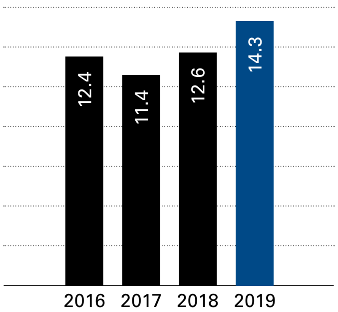

### CONTINUING UNDERLYING PROFIT FROM OPERATIONS (PFO) £m



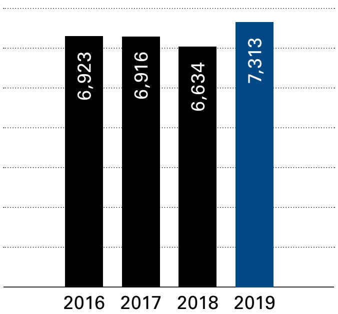

### CONTINUING UNDERLYING EARNINGS PER SHARE (BASIC) Pence



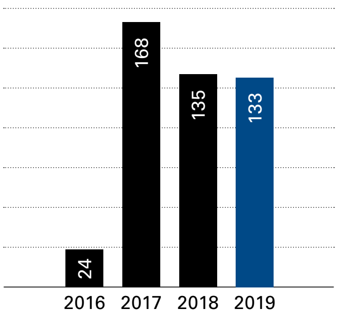

### ORDER BOOK[1] £bn



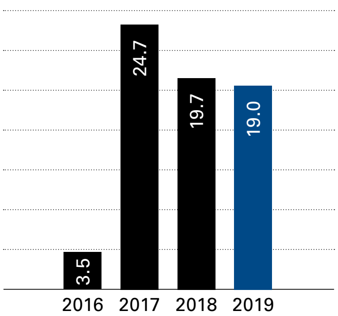

### STATUTORY REVENUE £m



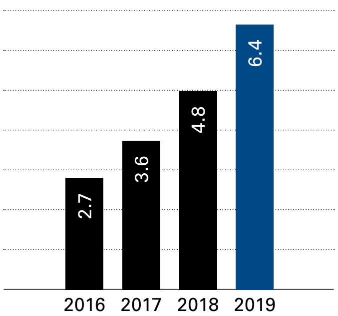

### STATUTORY PROFIT FOR THE YEAR £m




### STATUTORY EARNINGS PER SHARE (BASIC) Pence




### DIVIDENDS PER SHARE Pence




1 Including share of joint ventures and associates, before non-underlying items.

## CONTENTS

# International infrastructure experts

Balfour Beatty is leading the transformation of construction and infrastructure.

21st century challenges demand an industry to match. One with the strength and discipline to invest and innovate at world-class levels. One that works with governments, customers and partners to shape thinking, change skylines and connect communities.

One that inspires a new generation of talent to join a vital industry in shaping the future.

## Our purpose

**Creating infrastructure; supporting communities; enabling growth**

Our purpose is why we exist as a business. We finance, develop, build and maintain the vital infrastructure that we all depend on.

## Our vision

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

Our vision is what we want to be. We're structured to focus on our customers and our core markets. We're selective in the work we want to win – playing to our strengths so Balfour Beatty is always the best at what we do.

## Our values

Our three values help our employees to understand how they can contribute to building a strong, open and positive culture for everyone at Balfour Beatty.

TALK POSITIVELY

COLLABORATE RELENTLESSLY

ENCOURAGE CONSTANTLY

## Group highlights

UNDERLYING REVENUE[1]

£8.4bn

NUMBER OF EMPLOYEES

26,000

UNDERLYING PROFIT BEFORE TAX

£200m

DIRECTORS' VALUATION INVESTMENTS PORTFOLIO

£1.07bn

ORDER BOOK[1]

United Kingdom
£6.2bn

United States
£6.5bn

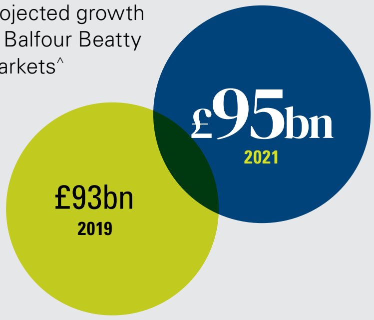
Hong Kong
£1.6bn


1 Including share of joint ventures and associates, before non-underlying items.

# Focused on growing markets

### UNITED KINGDOM

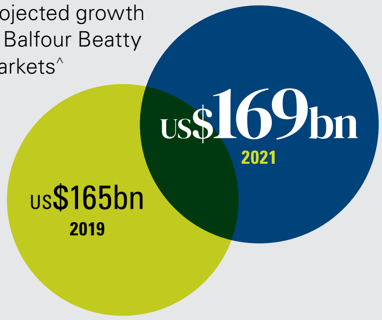
Projected growth of Balfour Beatty markets^




**Source:** Experian Construction Forecasts Autumn Update (2019)

### UNITED STATES

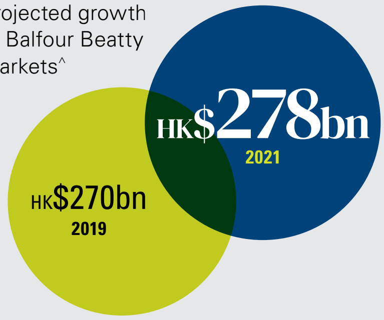
Projected growth of Balfour Beatty markets^




**Source:** Dodge Market Forecast (November, 2018)

### HONG KONG

Projected growth of Balfour Beatty markets^




**Source:** Construction Industry Council, Construction expenditure forecast for public and private sectors (2018)

^ Selected infrastructure and buildings segments.

## Expert capabilities

Balfour Beatty benefits significantly from a broad set of complementary capabilities across the Group.

### CONSTRUCTION SERVICES 24

- Our Construction Services businesses operate across infrastructure and buildings markets in the UK, the US and in joint venture in Hong Kong
- Their capabilities include civil engineering, building, ground engineering, M&E, refurbishment, fit-out and rail engineering

### SUPPORT SERVICES 30

- Our Support Services businesses operate principally in the UK, designing, upgrading, managing and maintaining critical national infrastructure
- Their capabilities span water, gas and electricity networks, rail and highways

### INFRASTRUCTURE INVESTMENTS 33

- Our Infrastructure Investments business develops and finances both public and private infrastructure projects in the UK and the US
- It operates and maintains infrastructure projects and a portfolio of military housing and student accommodation assets

## Selective bidding for contracts

Our stringent gated lifecycle process allows us to carefully control our project portfolio on an ongoing basis.

| | Construction Services | Support Services | Infrastructure Investments |
|---|---|---|---|
| | ORDER BOOK[1] **£11.1bn** | ORDER BOOK[1] **£3.2bn** | DIRECTORS' VALUATION **£1.07bn** |

## Financial performance

| Construction Services | Support Services | Infrastructure Investments |
|---|---|---|
| UNDERLYING REVENUE[1] **£6,858m** | UNDERLYING REVENUE[1] **£1,023m** | UNDERLYING REVENUE[1] **£524m** |
| UNDERLYING PROFIT FROM OPERATIONS **£125m** | UNDERLYING PROFIT FROM OPERATIONS **£47m** | UNDERLYING PROFIT BEFORE TAX **£98m** |
| STATUTORY PROFIT FROM OPERATIONS **£126m** | STATUTORY LOSS FROM OPERATIONS **£(11)m** | STATUTORY PROFIT BEFORE TAX **£93m** |

1 Including share of joint ventures and associates, before non-underlying items.

# Build to Last – continuing to delivervalue

## GROUP CHAIR'S HIGHLIGHTS

- The Build to Last transformation continues to redefine and strengthen Balfour Beatty
- The Group is robust, disciplined and holds leading positions in large growing markets – positioning us well for further profitable managed growth
- The Company's stable Board offers a diverse range of skills, experience and backgrounds – two are women, two are based in the US – with all members having been appointed since 2015

> Balfour Beatty celebrated its 110th year in 2019 with another year of profitable managed growth.

Discover more at
**balfourbeatty.com/investors**

## Dear shareholder

In my fifth year as your Chair, I am delighted with the results delivered by Balfour Beatty's transformation.

Balfour Beatty celebrated its 110th year in 2019 with another year of profitable managed growth. We have a proactive approach to risk management through robust governance, process and controls; our margins are improving and our strong balance sheet positions us well for the future.

The Build to Last transformation continues to redefine and strengthen Balfour Beatty. The Group is robust, disciplined and holds leading positions in large and growing infrastructure and construction markets, with many attractive opportunities ahead in our chosen geographies – and operationally diversified markets – of the UK, the US and Hong Kong. Over half of our business is now outside the UK.

For the fourth consecutive year, we are recommending payment of a progressive dividend.

## Markets

Balfour Beatty has a strong, sustainable and scalable business model following significant investments made to improve productivity and lower the cost base. Our capabilities are attractive to customers who rely on us to deliver excellence.

We have a growing high-quality order book on favourable commercial terms. In all of our chosen markets we continue to deliver iconic projects. We see significant pipelines of work ahead in buildings, transport and the other infrastructure that is essential for an increasingly urban population, backed by national governments' commitment to significant infrastructure investment for the decades ahead.

The recent announcement from government to proceed with building HS2 gives much needed certainty for the industry with an investment that will underpin the UK's international competitiveness for decades to come.

I am proud that Balfour Beatty will be part of the century's greatest work to amplify Britain's capabilities at home and on the world stage: pioneering innovation and technology, building skills and careers, powering up economies and providing opportunity and prosperity throughout the UK.

Global construction makes significant demands on energy and resources. In 2019, the Group has made strong progress in reducing energy and fuel consumption and emissions, improving value to customers and shareholders. During 2019, the Group achieved its 2020 carbon reduction target a year early with a 51% reduction to 20.3 tonnes of $CO_2$e/£m revenue compared to a 2010 baseline. We will continue our efforts to reduce carbon across the value chain, working collaboratively with customers, industry and the supply chain.

## Towards Zero Harm

One of our principal goals in Build to Last is Safe – our licence to operate – measured by Zero Harm (no injury, ill health or environmental incident caused by our work activities). Our lost time injury rate (excluding international joint ventures) was 0.14 in 2019, a reduction of over 50% since 2014.

Our UK and US all employee survey reported that 91% of people feel empowered to speak up in the workplace if they see anything potentially unsafe – contributing to over 212,000 safety observations made in 2019 that are helping us take action before incidents happen.

However, in a tragic illustration that we can never relax our vigilance, in 2019 one of our colleagues in the UK suffered fatal injuries following an incident involving a lifting operation at our pre-cast piling facility at Bottesford. Our Gammon joint venture in Hong Kong also had two separate fatal injuries; a colleague working on a piling operation and a subcontractor dismantling timber formwork. And at the start of January 2020, a colleague working for one of our supply chain partners was fatally injured in Birmingham, UK. Our thoughts and deepest sympathies are with colleagues, families and friends.

In remembering them, we will also continue to strive for Zero Harm in 2020 to make conditions as safe as possible for our workforce and those who work on and around our sites.

That focus includes mental health. In the UK, Balfour Beatty now has over 500 qualified mental health first aiders to help promote positive mental wellbeing. In the US there has been awareness and education around mental health and employee assistance programmes are in place across the UK, the US and Hong Kong.

In October, the American Heart Association 2019 Workplace Health Achievement Index recognised Balfour Beatty's US Buildings business for taking significant steps to build a culture of health in its workplace.

In July, Balfour Beatty was presented with the Health, Safety and Wellbeing Excellence (company) award at the prestigious Construction News awards in the UK for leading a number of collaborative initiatives including its commitment to eliminating new cases of Hand Arm Vibration Syndrome (HAVS) and its 'Zero Harm' approach to ensuring its workforce, business partners, supply chain partners, members of the public and the environment remain safe from harm. Judges praised Balfour Beatty for "setting the benchmark and leading the industry" and were "impressed by the sharing of knowledge, and the integration of health and safety into design".

In Hong Kong, the Gammon-developed artificial intelligence 'Gambot' has been introduced on over 120 projects to help collect, store and analyse site-related data. One benefit is helping people on site to report safety observations and make dynamic risk assessments.

## The Board

Balfour Beatty is committed to building a diverse workforce by attracting talented people with a broad range of skills and experience from all backgrounds – this starts with the Board. Two of our eight Board members are women and two are based in the US and I am committed to constantly reviewing this, ensuring we have the best people in place. Following our AGM in May, Stephen Billingham was appointed Senior Independent Director and Anne Drinkwater became Chair of our Remuneration Committee. Our Board now consists of members all appointed since the beginning of 2015.

## Dividend

The Group's financial performance for 2019 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 4.3 pence per ordinary share, bringing the total dividends for the year to 6.4 pence per share.

## Conclusion

It has been another year of ensuring that Balfour Beatty is in robust health to be able to use its unique and highly sought-after capabilities to capitalise on the exciting opportunities ahead and continue to deliver market-leading performance.

**Philip Aiken AM**
Group Chair
10 March 2020

### SECTION 172 STATEMENT

The Directors take their responsibilities to shareholders and stakeholders very seriously. During 2019, the Board reviewed the Group's main stakeholder groups and existing channels of engagement with each so that their views can be understood and considered in Board discussions and decision-making. In addition to having regard to the interests of the Group's stakeholders, Directors also consider the impact of the Group's activities on the communities within which it operates, the environment and the Group's reputation. The Directors seek to act in good faith in the way most likely to promote the success of the Company for the benefit of its shareholders in the long term and to act fairly between all of the Company's shareholders.

Through the Board and its Committees, Directors have taken action to promote and support these objectives across the Group, details of which can be found throughout this Annual Report as set out below:

- The Company's purpose, vision and values on page 2
- A description of key stakeholder groups and how the Board has engaged with stakeholders on pages 96 to 98
- Broader Group engagement with stakeholders and an assessment of their priorities relating to sustainability matters on pages 16, 17 and 49
- The range of activities undertaken across the Group relating to sustainability matters on pages 48 to 58
- Details of how high standards of integrity are maintained on pages 46 and 47
- The proactive and pragmatic approach of the Group toward risk on pages 72 to 84
- The framework of the Company's decision-making on page 99
- Details of our governance processes and practice on pages 87 to 140

# Benefits of Build to Last accelerating

## GROUP CHIEF EXECUTIVE'S HIGHLIGHTS

- 68% increase in average net cash to £325 million (2018: £194 million)
- 22% increase in underlying profit from operations (PFO) from earnings-based businesses to £172 million (2018: £141 million)
- 13% increase in order book to £14.3 billion (2018: £12.6 billion)
- c. 40% increase in order book with recent HS2 approval

"The 2019 results clearly demonstrate that the benefits of the Build to Last transformation programme are accelerating."

Discover more at balfourbeatty.com/investors

### Results: strong financial performance

The 2019 results clearly demonstrate that the benefits of the Build to Last transformation programme are accelerating. Year end net cash was over £500 million, with average net cash up 68%, and the Group's strong balance sheet is underpinned by the Investments portfolio of £1.1 billion. Managed growth is delivering increasing returns, with underlying profit from operations at earnings-based businesses up 22% and the year end order book up 13%. As a result, the Board has decided to recommend an 33% increase in the dividend.

### Markets: continued strategic selection

The trading environment for Balfour Beatty's chosen markets and sectors remains positive. The 13% growth in order book, driven by US Construction, was achieved while maintaining strong bidding discipline. The business is continuing to win work on more favourable terms and conditions resulting in improving margins with a lower risk profile. Within this strategy, Balfour Beatty has taken the decision to further de-risk the business by not re-bidding gas contracts under RIIO-GD2, since the terms and conditions do not meet the Group's minimum expectations. This has resulted in a non-cash non-underlying goodwill impairment of £58 million.

### HS2: transformative infrastructure scheme

The UK government's decision to proceed with Europe's largest infrastructure project gives the entire industry and its associated supply chain much needed certainty. Balfour Beatty's year end order book does not include the two HS2 civils packages and the Old Oak Common station contract which have been awarded but not yet contracted. These contracts are expected to add over £3 billion to the order book in the first half of 2020. Their inclusion would more than double the UK Construction order book and represents a c.40% increase for the Group compared to the end of 2018.

### US military housing: updated

Balfour Beatty Communities (BBC) manages more than 43,000 family housing properties across 55 Army, Navy and Air Force bases under long-term concessions. In June 2019, allegations about the handling of certain work orders were publicised about bases managed by BBC. Balfour Beatty instructed outside counsel to conduct an investigation into the allegations, and BBC proactively contacted the Department of Justice (DoJ) to notify them of the review. The DoJ subsequently announced an investigation and BBC is co-operating fully. At this stage, the investigation is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum.

In the year, the Directors' valuation of the Investments portfolio reduced to £1.1 billion (2018: £1.2 billion), primarily as a result of a £79 million reduction in the valuation of the military housing portfolio to £453 million (2018: £532 million). Assumptions, including future rental income, project costs and incentive fees, have been examined both on a project specific basis and with reference to the changing dynamics.

## Build to Last: Lean, Expert, Trusted, Safe

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

**Lean:** The governance and processes introduced during Build to Last continue to drive improved efficiency and effectiveness in all business segments. In 2019, the Group achieved industry standard margins in all earnings-based businesses for the full year.

Costs were further reduced in 2019. Since 2015, operating costs at constant exchange rates have been reduced by over 40% or around £200 million. The Group's continual focus on cash generation is best demonstrated by the average net cash of £325 million – ahead of previous guidance and 68% up on 2018.

As a key part of its strategy to create value by achieving market leadership, the Group has invested over £500 million since 2015 in equity assets (Infrastructure Investments), capex (plant and fleet) and capability (training and development), whilst retiring around £300 million of debt.

**Expert:** Customers buy Balfour Beatty's services due to the expert capabilities of the Group and its employees; therefore attracting and retaining the top talent in the industry has been and remains fundamental to the Group's strategy of delivering value from its leading positions in growing infrastructure markets.

In December 2019, Balfour Beatty came top in the Heavy Construction category in the 2019 awards for Britain's Most Admired Companies – the longest-running annual survey of UK corporate reputation. Balfour Beatty was praised for its quality of management, inspirational leadership and corporate governance, as well as its commitment to diversity and inclusion and its global competitiveness. In addition, the Company was commended for attracting, training and retaining market-leading experts to offer customers the best capabilities whilst providing the quality leadership required to drive forward world-class projects across its geographically diversified business.

In 2019, the voluntary attrition rate in the UK continued to fall, with the twelve-month rolling average at 11% (2018: 12%). The employee survey results also continued their positive trend with the participation rate increasing to 76% (2018: 72%). The employee engagement index (four questions measuring satisfaction, advocacy, motivation and retention) has risen by 6% since the introduction of the standardised measure in 2015 and is now at a new high of 66% (2018: 65%). The survey provides a clear tracker of progress in creating the kind of company and culture where people want to work and develop fulfilling careers, which is of key importance given the strong order book and growth in chosen markets.

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 2019, Balfour Beatty recruited 119 apprentices, 86 graduates and 22 trainees. The percentage of the UK workforce in 'earn and learn' positions at year end stood at 5.4%.

**Trusted:** Balfour Beatty is trusted to 'do what we say we will do' and is measured on this metric by customer satisfaction. The Group continues to embed a culture of active risk management by underpinning strict adherence to Build to Last disciplines with investment in IT-based processes and controls. These include the Gated Lifecycle process, the Digital Briefcase and Project on a Page. Together, these provide management with a clear, consistent line of sight on all stages of work being bid and delivered, together with key tools for managing commercial risk and project execution. In 2019, around 3,000 customer satisfaction reviews were carried out with the Group customer satisfaction score at 94% (2018: 97%).

**Safe:** Construction is an inherently dangerous industry. It is therefore essential that the health and safety 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 learned from any high potential near miss incidents as well as gauging the status of the Group's safety culture. The Group's lost time injury rate (excluding international joint ventures) continued to fall to 0.14 (2018: 0.15) and is now less than 50% of the rate when the Build to Last programme commenced. However, it is a tragedy that in 2019 one colleague in the UK and two in Gammon suffered fatal injuries following separate accidents.

## Outlook

Five years into its Build to Last transformation programme, Balfour Beatty continues to drive a culture of transparency, risk management and relentless improvement. It has focused its geographic and operational footprint while investing significantly in capability, innovation and standard systems and processes. This has created a scalable business model which together with the increasing order book gives the Board confidence that it will continue to deliver profitable managed growth and cash generation on a sustainable basis.

The Group is committed to delivering value from this performance. It is continuing to pay down borrowings with US$46 million of US private placement notes repaid in early March 2020, and £112 million of preference shares to be repaid in July 2020. In addition, the Board will review Balfour Beatty's capital structure once there is clearer understanding of the COVID-19 situation.

While COVID-19 continues to evolve, Balfour Beatty is monitoring developments closely, looking to mitigate the risk that it may have on the Group's employees, customers and supply chain. At this point in time, all sites and offices in the UK, the US and Hong Kong remain open. However, it is too early to fully assess any impact of the outbreak on the operational and financial performance of the Group.

**Leo Quinn**
Group Chief Executive
10 March 2020

# Delivering on all Build to Last goals

Launched in 2015, Build to Last is Balfour Beatty's transformation programme to drive continuous improvement and build the Company's future.

To remain at the forefront of the industry, Balfour Beatty needs to continuously improve efficiency, lead innovation and always operate safely, to sustain and shape its future as the leading engineering and infrastructure company in its chosen markets.

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

## LEAN

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

**Why is it important?**
We want to make sure that our customers get the best value for their money; we need to be relentless in driving out unnecessary costs and work with our customers to ensure their money is spent in the best way possible. Providing customers with better value for their money drives our competitiveness and provides Balfour Beatty with the capital to invest back into developing its expertise.

**Our KPI**

**NET CASH**
excluding non-recourse borrowings

**£512m**

**2018: £337m**

**UNDERLYING PROFIT FROM OPERATIONS**

**£221m**

**2018: £205m**

Read more on p149

## EXPERT

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

**Why is it important?**
We deliver world-class buildings and infrastructure for our customers by constantly driving innovation. Our strongest differentiator is our engineering, construction 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.

**Our KPI**

**EMPLOYEE ENGAGEMENT INDEX**

**66%**

**2018: 65%**

Read more on p42

## TRUSTED

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

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

**Our KPI**

**CUSTOMER SATISFACTION AVERAGE**

**94%**

**2018: 97%**

Read more on p72


## SAFE

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

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

**Our KPI**

**LOST TIME INJURY RATE**
excluding international joint ventures

**0.14**

**2018: 0.15**

Read more on p40

# Sustaining Build to Last

The following three sections highlight Balfour Beatty's unique approach to developing and leveraging its capabilities. The Group is focused on adding value for all its stakeholders, driving continuous improvement and diligent processes as well as encouraging and supporting employees to develop the culture that will sustain a market-leading position.

## Leading in our markets 10

We discuss macro trends and opportunities in our chosen markets, the way we operate and how we create value for all our stakeholders as well as the cutting edge solutions we are leveraging to meet our customers' challenges.



## Expert capabilities 22

Our three operating divisions outline their key achievements throughout 2019 and how they are delivering our Build to Last strategy. We also look at our Investments portfolio in more detail.



## Building a positive culture 38

Our disciplined contracting is further strengthened by our approach to building a positive culture – our people are encouraged and supported to always do the right thing.

# Leading in our

## VIRTUAL REALITY (VR) DIGITAL ROOM

Pictured here is our state-of-the-art virtual reality room on our M4 smart motorway project. Working in conjunction with Mission Room Limited, our engineers are able to visualise and design a project before work commences on site.

**LEAN**
We plan large-scale projects in virtual environments, helping to reduce project programme and increase efficiencies.

**EXPERT**
Our VR rooms help our experts to build solutions right first time through improved data accuracy and automation to reduce error.

**TRUSTED**
Our customers can explore their projects in a fully immersive environment enabling them to experience first-hand how their project will look and feel on completion.

**SAFE**
Our teams can plan their work from the safety of an office or training room reducing the amount of time they need to spend on a live construction site.

# markets

Build to Last is our transformation programme to drive continuous improvement and build Balfour Beatty's future. It provides common goals for all our employees and continues to re-define and strengthen Balfour Beatty in its market-leading position, transforming the construction and infrastructure industry to meet the new challenges of the future.

## MARKET REVIEW

Our chosen markets show strong underlying drivers and continue to deliver significant opportunities for the Group.

Read more on p12

## BUSINESS MODEL

We are well positioned to deliver value to all of our stakeholders by operating in attractive markets, leveraging synergies between our business units and continuing to focus on world-class delivery.

Read more on p14

## STAKEHOLDER VALUE

In striving to achieve our purpose of creating infrastructure, supporting communities and enabling growth, we touch the lives of many people.

We strive to unlock long-term value for each of our stakeholders.

Read more on p16

## INNOVATION

We invest in innovative capabilities and tomorrow's workforce to continue our journey to leverage digital and new technology. We are focused on delivering better, safer, faster, more cost-efficient outcomes for our customers.

Read more on p18

# Well positioned in our chosen markets

Balfour Beatty operates in a number of carefully selected markets, based on level of opportunity and ability to outperform its competitors.

## Macro trends

Our chosen markets show strong underlying drivers and continue to deliver significant opportunities to the Group.

### UK public sector spend

The infrastructure market outlook is positive, underpinned by government expenditure, but it may experience delays and volatility caused by political decision making processes. However, overall spend plans remain attractive.

Buildings markets are likely to remain flat in the medium term, with the short-term outlook likely to depend on the nature of the UK's future trading relationship with the EU.

### Strong infrastructure fundamentals in the US

State and county-level funding, federal initiatives and a growing P3 market are likely to contribute to increasing levels of opportunities.

Balfour Beatty's chosen markets remain appealing with state-level education bonds and increasing urbanisation presenting attractive opportunities for sub-market growth.

### Stable spend in Hong Kong

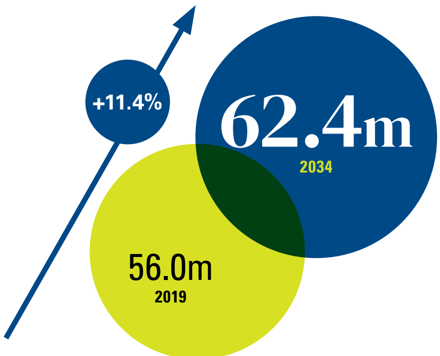
Hong Kong continues to deliver a strong pipeline of infrastructure and construction projects, benefiting from high public and private sector demand. Continued civil unrest could impact activity in the short-term, but public and private sector investment is expected to continue over the medium term.

## Strong market drivers

Over the past years Balfour Beatty has focused operations on markets with strong fundamental market drivers, underpinned by macro demographic and economic trends. The first of these is urbanisation – as populations move to major cities, Balfour Beatty is well placed to deliver new buildings and infrastructure. The second is public sector spend – as a trusted partner to public sector clients, we benefit from not only increasing spend as governments aim to upgrade infrastructure, but also long-term certainty around that spend. The final factor is around increasing partnership in mature infrastructure markets, such as the UK and the US. As client organisations mature, we are increasingly able to work with them to develop mutually beneficial models of working, sharing risk and upside appropriately.

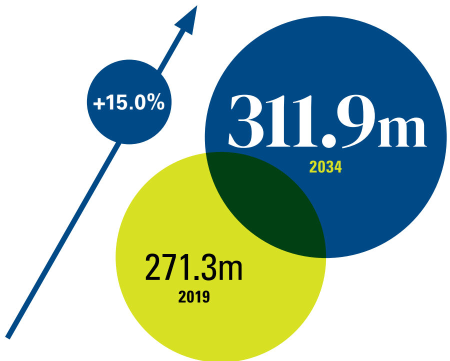
**FORECAST INCREASE IN THE UK, THE US AND HONG KONG URBAN POPULATIONS**
2019–2034 (millions)

**UNITED KINGDOM**



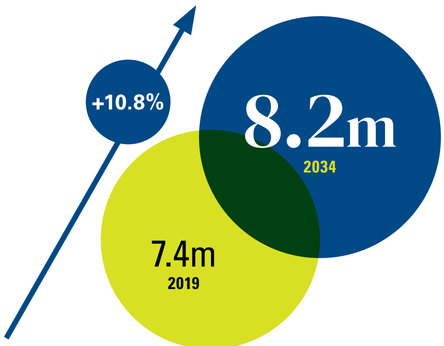

**Source:**
UN DESA – World Urbanization Prospects (2018)

**UNITED STATES**



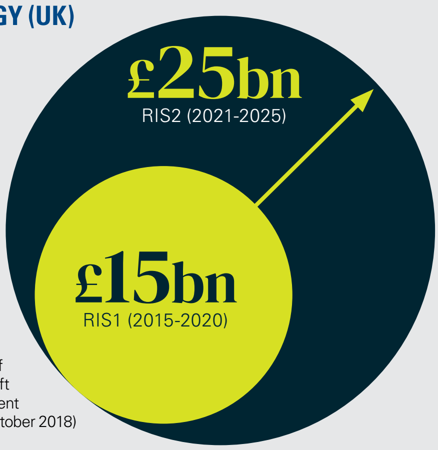

**Source:**
UN DESA – World Urbanization Prospects (2018)

**HONG KONG**




**Source:**
Hong Kong Population Projections – Census and Statistics Department

**HIGHWAYS ENGLAND ROAD INVESTMENT STRATEGY (UK)**




**Source:**
Department of Transport, Draft Road Investment Strategy 2 (October 2018)

# Construction demand

### TxDOT: 2020 Unified Transportation Program (UTP)

The Texas Department of Transportation's c.US$77 billion programme represents a step-change in the level of funding dedicated to transportation (particularly highways and bridges) in the state. As a major player in the industry, Balfour Beatty is well placed to capitalise on this spend.

### Macro frameworks

Construction procurement in the UK is evolving, presenting huge opportunities for progressive and collaborative contractors. Game-changing frameworks such as Scape Group and Crown Commercial Services (CCS) are redefining how construction is procured nationwide, and Balfour Beatty is participating as a major contractor on both.

### Highways England: unprecedented spend

The first Road Investment Strategy (RIS1, covering the 2015-2020 spending period) announced an unprecedented level of spend of over £15 billion on the nation's strategic road network. The second (RIS2) is even more ambitious, committing to £25 billion spend over the 2021–2025 period.

# Long-term infrastructure services certainty

### Unprecedented rail services spend

As the UK rail industry transitions from one Network Rail control period to the next (CP5 to CP6), the work focus is shifting towards maintenance spend. This re-positioning of spend is an opportunity for agile operators such as Balfour Beatty; offering a range of rail capabilities we are well placed to deliver this maintenance work.

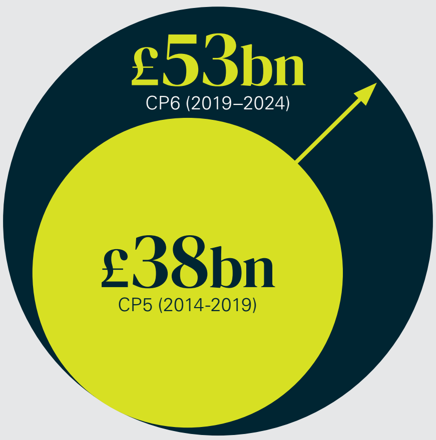
### Exciting local roads market

The local highways maintenance market is forecast to see significant reinvestment in coming years with over £700 million of outsourced contracts up for renewal between 2020 and 2025. With long-term security on its ongoing contracts, Balfour Beatty is well positioned to capitalise, winning new work and achieving sustainable growth.

### Strong power pipeline

The power transmission and distribution industry is likely to see a wave of new demand as the UK invests in renewable energy and a new generation of nuclear generation capacity.

**NETWORK RAIL'S INFRASTRUCTURE SPEND (UK)**




**Source:**
Network Rail Delivery Plan, Control Period 6

# Attractive opportunities for targeted investment

### Student accommodation: strong US/UK demand

Student accommodation remains a significant and recession-resilient, investment opportunity in the US and the UK, the two largest markets globally. Balfour Beatty will continue to leverage its strong reputation for both investment and construction in the sector.

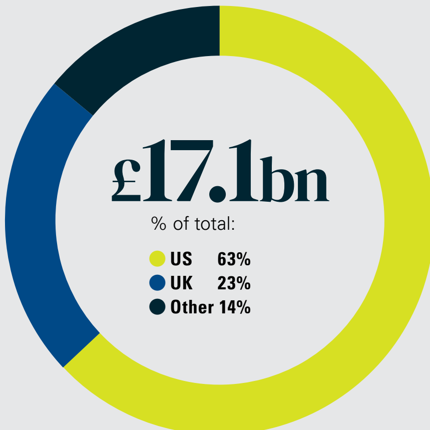
### States, counties and cities using P3

The US has become an increasingly exciting market for public-private partnership and, to date, 37 states (plus D.C.) have passed legislation allowing P3 projects. The federal FAST Act has helped expedite P3 planning processes and led to some major local projects (e.g. £8 billion Maryland Roads P3).

### Housing opportunities

Balfour Beatty Communities continues to see attractive multifamily accommodation come to market, providing ample opportunity to invest profitably in the regeneration of these properties.

**STUDENT ACCOMMODATION INVESTMENT BY GEOGRAPHY**



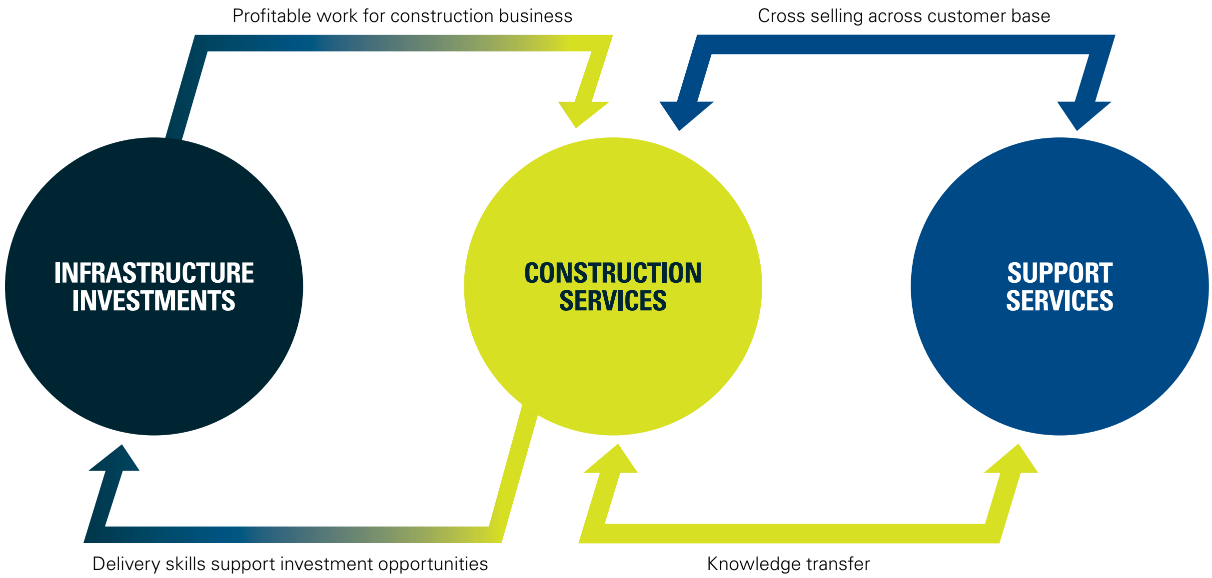

**Source:**
Savills 2019 Global Student Housing Investment

# Designed to deliver value

The Group is well positioned to deliver value to all its stakeholders by operating in attractive markets, leveraging synergies between its business units and continuing to focus on world-class delivery.

## How our Group works together

**Multi-disciplinary collaboration is core to Balfour Beatty's identity; our Construction Services, Support Services and Infrastructure Investments teams work closely together to ensure high-quality outcomes for our stakeholders.**




### WORKING COLLABORATIVELY ACROSS THE GROUP

**II CS East Wick and Sweetwater housing regeneration project, UK**

Balfour Beatty is delivering phase one of this new residential neighbourhood of over 1,500 homes on the Queen Elizabeth Olympic Park, London. Balfour Beatty has invested in the project, alongside Places for People, and is building homes and creating the neighbourhood for the London Legacy Development Corporation.

**II CS University of North Carolina student accommodation, US**

Balfour Beatty is developing and constructing this on campus student accommodation community, providing a variety of amenities and housing for over 1,800 students.

**CS SS Hinkley Point C, UK**

Balfour Beatty is delivering three critical elements of the Hinkley Point C Project, the first new nuclear power station to be built in the UK for a generation. This includes electrical and marine works for EDF, and a 400kV overhead line for National Grid which will provide power to over six million homes.

> The business is continuing to win work on more favourable terms and conditions resulting in improving margins with a lower risk profile.

**Leo Quinn,**
Group Chief Executive

# What we represent

**Balfour Beatty has built an industry-leading brand on its reputation as a partner that is Lean, Expert, Trusted and Safe – our four Build to Last Goals.**

## Expert capability

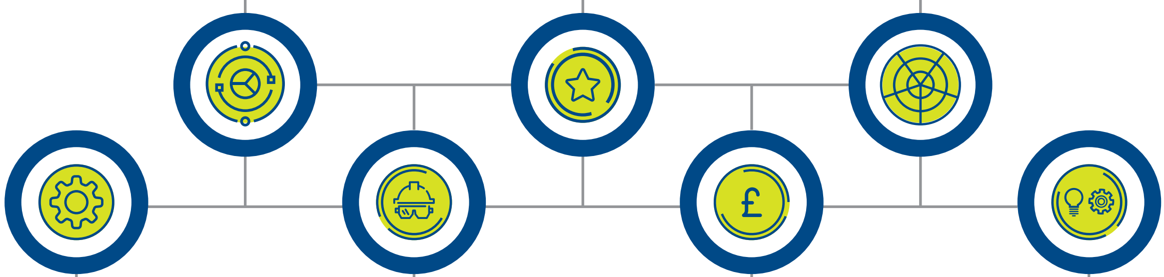
Balfour Beatty brings the collective experience of over 110 years of continuous operation, across three continents, to each of its projects. Customers choose us for the most complex and demanding construction challenges.

## Trusted for quality

Balfour Beatty aims to differentiate itself by focusing on delivering maximum value to its customers though partnership. We achieve this by hiring, and retaining the best people.

## Customer focus

Our business model works best when we can partner with customers and understand their needs. To achieve this, we require a customer-focused approach from all areas of the business.



## Lean

We set the industry standard when it comes to operational efficiency. We relentlessly target inefficiency across the business and supply chain, and we remain committed to improving every day.

## Safety

Safety is our license to operate. Ensuring our workspaces are healthy and safe places for our employees, supply chain partners and customers is at the heart of everything we do.

## Financially strong

Customers look to Balfour Beatty for reliability and longevity. Our strong balance sheet gives our partners the security that we will always be able to deliver on our commitments, be they a two-year building project or a ten-year framework.

## Innovative

From pioneering work on the power grid in the 1920s through to predictive modelling of rail asset failure today, Balfour Beatty has always been at the cutting edge of construction technology delivery.

# Sharing the value we create

In striving to achieve our purpose of creating infrastructure, supporting communities and enabling growth, Balfour Beatty touches the lives of many people. Working with its stakeholders across the industry and beyond, the Group continues to innovate, lead the market through driving change, shape the debate and inspire a new generation of talent to join a vital industry in shaping the future.

## Customers

### Why are they important?

Collaborative and long-term mutually beneficial relationships with our customers are the foundation of our success.

**Our priorities**

- Be the partner of choice by delivering on our promises
- Selective bidding to ensure we are pursuing the right opportunities with partners who value our expertise
- Deliver high-quality, safe, sustainable solutions

**2019 engagement examples**

- Regular communications with our customer base at operational, management, executive and Board level
- The use of MAP as our customer satisfaction and feedback tool. MAP is aligned to ISO 44001, the international accreditation for collaboration
- Customer account management plans

**OUTCOMES**

- **Lean, Expert, Trusted and Safe solutions**
- **Improved customer satisfaction**
- **Collaborative behaviours**

## Employees

### Why are they important?

A talented and engaged workforce committed to upholding our values, enables us to deliver our Build to Last goals, ensuring we win the best and most exciting projects.

**Our priorities**

- Zero Harm – no injury, ill health or environmental incident caused by our work
- Attraction and retention of talented people from a diverse range of backgrounds
- Improved employee engagement

**2019 engagement examples**

- Employee-led Affinity Networks for under represented groups to encourage and support diversity and inclusion
- Group-wide surveys to measure employee engagement and identify improvement priorities
- My Contribution employee-led change programme

**OUTCOMES**

- **Lean, Expert, Trusted and Safe solutions**
- **A safe, healthy and engaged workforce**
- **Improved employee retention rate**

## Supply chain and strategic partners

### Why are they important?

Our thousands of supply chain partners, large and small, are an invaluable resource fundamental to the successful delivery of all of our projects.

We also work with trusted partners in a number of long-term joint ventures which are critical to our success.

**Our priorities**

- Zero Harm – no injury, ill health or environmental incident caused by our work
- Be the partner of choice by delivering on our promises
- Digital technology implementation to enhance efficiency and consistency (UK Constructionline, e-catalogues, DocuSign)

**2019 engagement examples**

- Annual major supply chain partner conference and regional events
- Local 'Meet Balfour Beatty' supply chain events
- Membership of the UK Supply Chain Sustainability School

**OUTCOMES**

- **Lean, Expert, Trusted and Safe solutions**
- **Local employment**
- **Collaborative and long-term relationships**

> Following a visit to Balfour Beatty's site office in Wokingham, I was delighted to see such collaborative working, willingness and positivity within the team. This isn't the first time we've visited the Balfour Beatty team and came away feeling like we've received exceptional customer service.
>
> **Ian McGowan**
> Head of Highways Infrastructure Projects at Buckinghamshire County Council

## Communities

### Why are they important?

Our activities can have a lasting impact on the communities in which we operate – we strive to leave a lasting legacy.

**Our priorities**

- Work in partnership with communities to understand and support local needs
- Establish relationships with key community stakeholders to develop a programme of impactful community investment activities
- Contribute to environmental wellbeing

**2019 engagement examples**

- Local employment events to showcase careers opportunities
- Community engagement plans for projects (Involved in the UK) and (Green and Caring in Gammon)
- Communication with communities under the Considerate Constructors Scheme (UK)

**OUTCOMES**

- **Informed communities**
- **Local business spend and employment**
- **Enhanced environments**

## Governments

### Why are they important?

Public policy, laws and regulations define the business environment in which Balfour Beatty operates. Governments – and their associated bodies – are also Balfour Beatty's largest customer.

**Our priorities**

- Support governments' understanding of the potential impact of proposed new policies and legislation on the markets in which we operate and our activities
- Active engagement on key issues within the political arena
- Promote the value of the construction and infrastructure industry to wider economic prosperity

**2019 engagement examples**

- Meeting key public officials and their staff
- Provision of briefings and reports on key policy issues and Balfour Beatty activities of relevance
- Response to government consultations, inquiries and hearings

**OUTCOMES**

- **Trusted delivery partner for governments**
- **Sectors and markets conducive to industry success**

## Shareholders

### Why are they important?

Shareholders are the owners of Balfour Beatty. The Board places great importance on having positive relationships with all shareholders and seeks to ensure there is an appropriate level of dialogue with them.

**Our priorities**

- Provision of financial and non-financial information to shareholders (retail and institutional) in a timely and accurate way
- Presentation of investor feedback to the Board and management
- Enable the market to fairly reflect the fundamental value of the Company in the share price

**2019 engagement examples**

- Regular briefings via public announcements, webcasts and presentations and annual and sustainability reporting
- Regular direct engagement via meetings, conferences and site visits
- Dedicated Investor Relations department

**OUTCOMES**

- **Well informed shareholders**

# Cutting edge outcomes for our customers

Balfour Beatty continues its journey to leverage digital and new technology to deliver better, safer, faster, more cost-efficient outcomes for its customers.

Balfour Beatty's work is being delivered more effectively and efficiently by harnessing the power of cloud computing and enhanced mobile technology. Building Information Modelling (BIM) in the form of 3D digital representation of projects overlaid with 4D detail on scheduling and cost, together with augmented and virtual reality technology, enables seamless interaction between offices and sites, facilitating a 'build right first time' approach. Drones allow teams to track progress more safely and efficiently and with increased accuracy, collecting data more frequently than human surveyors. Telematics are tracking how vehicles are used, ensuring they are driven economically, safely and sustainably. Data analytics are increasingly being used to predict and prevent problems as they arise in infrastructure, rather than the slower, more expensive and less reliable 'find and fix' model on which the industry has relied for decades.

In 2019 Balfour Beatty continued on its trajectory to deliver its 25 by 2025 vision for a reduction in onsite activity by 25% by the year 2025. This involves removing complex and repetitive activities from sites by rethinking design, production and installation. Balfour Beatty is transforming how it works and investing both in innovation and new technology and in the development of employees capabilities. The following examples all help deliver against that strategy.


## MY CONTRIBUTION

Established in 2015, Balfour Beatty's Group-wide employee-led change programme, My Contribution, allows it to tap into a rich seam of creative thinking from people who understand the business better than anyone and want to make a meaningful contribution. It encourages and empowers every team member to be an innovator and for that innovation to take place across every part of the Group's business.

In 2019, the scheme was relaunched in the UK using a new Yammer based platform in association with employee idea specialists, Sideways 6, to make it easier for thousands of employees across multiple locations to share their ideas and develop them through conversation with their colleagues. Now that it is on Yammer, people can submit their ideas from their mobile devices, from on site tablets or their computer, wherever they are and whenever inspiration strikes. Conversation transcends previously siloed teams and the business is better connected than ever. By collaborating on ideas with colleagues across the business, this improves the quality of ideas, drives a culture of learning and sharing, and helps to trigger new ideas.

There has been a wide range of successful innovations delivered through My Contribution in the past year. These have delivered a range of benefits of different sizes, all of which help Balfour Beatty to be a stronger and more efficient business. Successful ideas include for example, self-delivery of multi-phase traffic management by trained defect repair gangs on the West Sussex contract, delivering a saving of £100k per annum.

MY CONTRIBUTION

**Image:** An employee submitting a MyC idea on a site-based tablet.

SMARTER WAYS OF WORKING

# Collaborating with supply chain, industry and academia

Balfour Beatty collaborates with a range of leading academic institutions and industry bodies, working together to develop new ideas, and sharing ideas and learning.

Discover more about our expert capabilities at **balfour beatty.com/TheBigIQ**

1 Balfour Beatty continues to be an active member of the UK cross-industry group led by major clients i3P – the Infrastructure Industry Innovation Platform – and contributes significantly to various initiatives, including supporting the development of a roadmap for Connected and Autonomous Plant and the many steps required to achieve this.

2 Balfour Beatty recently worked in partnership with Kelvinside Academy and NuVu – the world's leading Innovation School – as part of a contract to build a new school on Kelvinside Academy's Glasgow West End campus. NuVu is a school where students explore real-world challenges, both locally and globally, creating new views of the world and new ways to impact it positively. Students learn how to use the design process to solve complex challenges, leveraging a variety of design, technical and meta-skills such as creativity, critical thinking and collaboration. Throughout the design and construction phase of this partnership, pupils shadowed Balfour Beatty's construction and design teams, learning from industry experts, attending meetings, and providing feedback and input.

3 Omnicom Balfour Beatty and The University of York, supported by Innovate UK, developed new artificial intelligence computer software, which will revolutionise the rail track inspection process and save the rail industry £10 million in track maintenance costs per year. Attached to the front of the train, a camera moves along rail tracks in need of inspection. The technology utilises machine vision to capture high-definition images of the rail track and generates data which is then transferred through to a system that analyses the data to highlight inaccuracies and faults on the tracks. The technology also assists in identifying where faults may occur, allowing preventative fixes to be implemented as opposed to urgent repairs after an issue arises. The automated technology, which is currently being progressed from proof of concept into commercial grade software, is set to provide a quicker, more efficient and safer alternative to the current manual track inspection process.

# Leading in our markets

The next decade of construction will be characterised by trends shaping the global market today: data as an enabler; increased connectivity; and the resulting opportunities for traditional process automation resulting from the above.

At the same time Balfour Beatty's customers are demanding both an increased level of output from the industry without a compensating increase in workforce and access to operational data about their assets to help inform investment decisions, maintenance programmes or provide assurance about the quality of the underlying supply chain.

## NEW TECHNIQUES FOR A NEW DECADE

**Process digitisation**
The increasing ubiquity of mobile computer power, coupled with improved connectivity and acceptance by the workforce will lead to the wholesale replacement of traditional paper-based processes with digital capture of granular operational data at source.

**Augmented intelligence**
As inputs to processes become more standardised and data becomes an output generated from operations, the scope for applying advancements in Machine Learning and Artificial Intelligence to construction domain problems emerges. Whether through use of generative algorithms in the design process or the application of advanced models to risk analysis, expect the impact to be profound and augment experts in the field. Balfour Beatty is already seeing meaningful examples from its Omnicom Balfour Beatty business, read more on page 19.

**System and stakeholder integration**
With the maturity improvement of available operational datasets expect to see an increasing level of digital process integration in the supply chain leading to automation between enterprises and less wastage as a result.

**A smarter edge**
The combination of Digital Reality Capture; Pervasive Connectivity; Accessible Compute; and Systems Integration, will lead to the rise of a true, rich Digital Twin that is representative at all times of the current state of the asset, irrespective of position in the lifecycle. These assets and construction sites will have the ability to make controlled automated decisions within a specified framework, from autonomous plant and equipment operations through to predictive maintenance.

## Industrialising construction and Operation and Maintenance (O&M)

Balfour Beatty continues to develop, embrace and embed new technology across the business.

- Construction sites often require substantial power supplies to service offices and welfare facilities for project personnel. The switch to electric for vehicles and some construction machinery will increase the demand for power, placing additional strain on already limited power connection options. Connecting construction sites to the electricity network is time consuming and can be costly; sites often operate in areas with constrained power availability or are in hard to reach locations. As an industry, there is still a heavy reliance on off-grid power solutions, mostly in the form of diesel generators, albeit with recent advances in battery and solar technologies. The Group, in collaboration with A-Plant and Invisible Systems, has developed a combined software and hardware solution, known as EcoNet, that manages peak power demand and optimises energy usage on a construction site compound. The solution manages the flow of electricity to appliances such as office radiators, hot water tanks and drying room dehumidifiers, with the option to include car park floodlights and electric vehicle and machinery charging points. The software platform is configured to automatically balance peak power demand, so that during busy periods when supply capacities are nearly reached, non-essential appliances can be temporarily sacrificed. This approach is commonly known as load-shedding and has not been deployed in temporary building facilities such as those on construction site compounds. In 2019, the Group successfully trialled EcoNet at the Thurnscoe Construction Site of the Future with a view to rolling out its adoption in 2020. For a standard construction site with a 75-strong workforce, the EcoNet site set-up can operate with 30% lower electrical amperage, which in capacity-constrained areas reduces the burden on network operators to expand or reinforce their assets. It will therefore play a crucial role in decarbonising construction sites.
- While clash detection has previously taken place on the construction site at Hinkley Point C, as part of the marine works contract Balfour Beatty created a 3D steel reinforcement model enabling it to de-clash the rebar in a virtual space. This required close collaboration between all parties to ensure the requirements of the design and buildability were met. Due to the complex geometry, as well as direct clashes, areas of reinforcement build-up that could have exceeded the bar spacing were resolved and congestion was reduced and lapping bars were removed by introducing couplers. Over 200,000 clashes were resolved before a bar was placed on site. Without the virtual clash detection there would have been significant programme implications.

These innovations will be rolled out and adopted across the business where this will deliver benefits, ensuring that the service and solutions Balfour Beatty offers its customers use the latest, most advantageous, proven technology.

## Worldwide innovation

Balfour Beatty shares expertise and innovative solutions from projects across its international business to drive continuous improvement for its customers.

- Digital G is Gammon's dedicated digital construction technology business, concentrating on commercialising in-house innovations and working with international start ups to bring new technologies to the construction industry in Asia. Established in January 2018, the business has already received public recognition with a Hong Kong MIKE (Most Innovative Knowledge Enterprise) award which it received from the Hong Kong Polytechnic University. Digital G has worked with select partners including Converge, a UK-based start up founded by two Cambridge graduates, whose vision is to provide an Internet of Things (IoT) sensor agnostic platform for the entire construction site. Their current product, concrete strength sensors, is being used on Gammon sites in Hong Kong and Singapore. These wireless sensors provide real-time insights, allowing for time and cost savings through early formwork striking, having proven to reduce the building construction cycle time by 30%.

They have successfully been accepted for use on a number of government projects and are an approved technology for the government's Construction Innovation and Technology Fund which is helping to drive adoption of new technologies on sites.

- One of Gammon's most successful and widely used innovations is Gambot™, a software robot with artificial intelligence (AI) that collects, stores and analyses site-related data. Gambot operates as a 'mobile virtual assistant' that is integrated with many of Gammon's IT systems such as Site Diary for the collection of site photos, a concrete management system, and a quality checking system. It also provides a function to allow operational staff to submit safety observations and dynamic risk assessments. Using AI, Gambot can provide safety predictions for the day based on current tasks, workers and trades onsite and past safety observations and can highlight if workers' safety cards are near to or have expired, saving considerable employee resources previously spent checking records. The application of a computer vision algorithm within site cameras also allows it to detect objects including faces, vehicle plates and equipment, allowing project teams to monitor productivity or safeguard against entry to secured zones. Gambot is now used on all Gammon project sites and has also gained industry recognition as the recipient of four major awards including the Construction Industry Council's Innovative Safety Initiative Award and the International Data Corporation's Digital Transformation Award.
- In 2019, Balfour Beatty's engineering and design and team in India has created a new app that can be used worldwide to digitise the basic utility search process. This means that in the UK, the area to be mapped can be entered in the app and utility services will be populated automatically through requests to the utility providers. This is then available on site to the user where they can switch layers on and off to view the site services and support the service detection onsite prior to excavation.

## Conclusion

Working to its 25 by 2025 vision and collaborating and sharing ideas and best practice with experts within and beyond its business, Balfour Beatty continues to innovate and use new technology to streamline how it works in order to deliver value to its customers.

### M25 VACUUM LITTER PICKER

Balfour Beatty is using a new vehicle-mounted vacuum litter picker to improve the way the roadside of the UK's busiest motorway, the M25, is cleaned. The custom-designed hoover was developed and built by Balfour Beatty Plant and Fleet in partnership with Connect Plus Services (CPS), the company which operates and maintains the M25 on behalf of Connect Plus and Highways England. The new design enables maintenance crews to collect litter of various sizes, shapes, and weights from the roadside using a handheld vacuum pipe secured to a custom-built machine, mounted on a truck bed.

The litter is then deposited into a compartment within the vehicle, and any dust contained through a specialised filter. Following a successful trial on the M25 network, the vehicle will join CPS's fleet.

Discover more at **balfourbeatty.com/Litterpicker**


**Above:** Balfour Beatty employee using a virtual reality headset.

# Expert capab

We operate across three divisions; Construction Services, Support Services and Infrastructure Investments in three chosen geographies – the UK, the US and Hong Kong.

We work in partnership with carefully-chosen customers and dedicated local supply chains.

Our high performing and disciplined leadership teams continue to selectively bid projects for customers who value our expertise and ability to deliver consistent quality reliably and safely.

## CONSTRUCTION SERVICES

### Advanced Manufacturing Centre for the Hong Kong Science & Technology Parks Corporation

Gammon, the Group's Hong Kong-based joint venture, is delivering this HK$4.75 billion 108,000m² facility, which includes a seawater district cooling system to cool the entire building in a cost-effective and environmentally friendly way.

Read more on p24

## SUPPORT SERVICES

### National Grid's North and South 400kV Overhead Line project

This £214 million project to provide 400kV overhead lines from Hinkley Point C to Avonmouth substation will span 48 kilometres and cross through the Mendip Hills in Somerset. Balfour Beatty will design, supply, install, test and commission the new overhead line.

Read more on p30

## INFRASTRUCTURE INVESTMENTS

### Los Angeles Airport Automated People Mover

This US$1.95 billion project to develop a 2.25-mile above-ground airport transport system connecting passengers with the airline terminals will reshape the way travellers access one of the busiest destination airports.

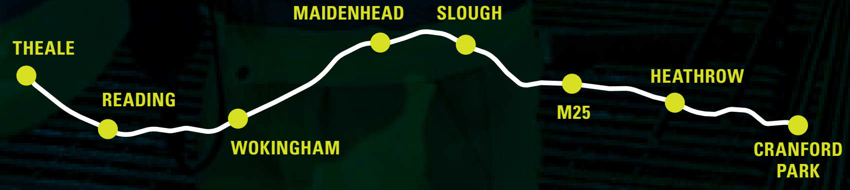
**Image:** Artist's impression.

Read more on p36

# ilities

## M4 SMART MOTORWAY UPGRADE, READING

Pictured here are employees working for our joint venture with VINCI, which is upgrading a 51-kilometre section of the M4 from Cranford Park to Theale for Highways England. Our work includes construction of 11 new overbridges and a five-lane motorway around Heathrow from Junction 4 to 4b.




### LEAN

Our team has installed automated barriers, removing the need for a gate operator, which will deliver a cost saving of £2 million over the project's lifetime.

### EXPERT

Our team is trialling a hybrid bulldozer, the first of its kind which will enhance fuel economy by 30% and take us a step closer to achieving a carbon neutral fleet.

### TRUSTED

Our team has achieved 100% customer satisfaction on this project as measured through our MAP customer feedback tool.

### SAFE

Our team used 3D visualisation to create a bridge demolition timeline identifying risks and mapping plant and fleet movements before works commenced on site to ensure a safe and efficient demolition.

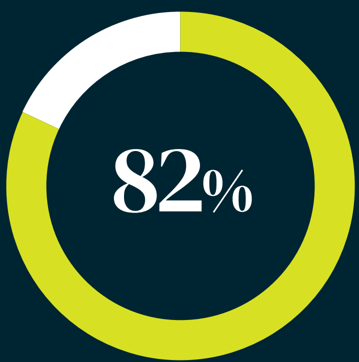
# Construction Services

Our Construction Services businesses operate across infrastructure and buildings markets in the UK, the US and in joint venture in Hong Kong.

**HIGHLIGHTS**

- 32% increase in Construction Services profit from operations (PFO)
- UK: 16% increase in revenue; full year PFO margin within 2-3% industry standard margin range for first time under Build to Last
- US: 13% (CER 8%) increase in revenue with 18% increase in PFO; margin within 1-2% industry standard range
- Gammon: Strong performance in year; with 13% increase in PFO at £26 million

**TOTAL REVENUE[1]**




**UNDERLYING REVENUE[1]**

£6,858m

2018: £6,127m

**STATUTORY REVENUE**

£5,951m

2018: £5,217m

**UNDERLYING PROFIT FROM OPERATIONS**

£125m

2018: £95m

**STATUTORY PROFIT FROM OPERATIONS**

£126m

2018: £46m

**ORDER BOOK[1]**

£11.1bn

2018: £9.8bn

Discover more at **balfourbeatty.com**

1 Including share of joint ventures and associates, before non-underlying items.

## Financial review

Construction Services continued to make good progress during 2019 with increasing revenue, profit, PFO margin and order book. Both UK Construction and US Construction achieved industry standard margins for the full year.

Underlying revenue increased by 12% to £6,858 million (2018: £6,127 million), a 9% increase at CER. Revenues increased by 16% in the UK and 13% in the US (8% at CER), whilst Gammon's revenues reduced by 1% (5% at CER).

UK Construction recorded a 2.1% underlying PFO margin, within the UK industry standard margin target range of 2–3%. The 1.4% PFO margin at US Construction was also within the US industry standard margin target range of 1–2%.

The order book at £11.1 billion (2018: £9.8 billion) increased by 13% (16% at CER) since the end of 2018 due to a 25% increase in the US (30% at CER), while UK Construction and Gammon were directly in line. The increase occurred whilst maintaining the Group's policy of selective bidding. Following approval of HS2 by the UK government in February 2020, Balfour Beatty expects to book over £3 billion of contracts in the first half of 2020.

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, the US and Gammon.

## Operational review

### UK

Underlying revenue in the UK increased by 16% to £2,213 million (2018: £1,900 million) – the first year revenue has increased during the managed growth strategy under Build to Last. Underlying profit from operations showed an improvement to £47 million (2018: £28 million) with an associated PFO margin of 2.1% (2018: 1.5%). Importantly, the Aberdeen Western Peripheral Route (AWPR) project, which had negatively impacted results in prior periods, was completed during the year.

The HS2 main civils works and Old Oak Common station contracts are not included within the £3.0 billion order book (2018: £3.0 billion). They will only be included on the final signing of the main civils works contracts, which following the recent UK government approval of the project, is now expected in the first half of 2020. The Group expects to book over £3 billion of orders relating to the HS2 awards – which would more than double the 2019 year end UK Construction order book.

The recent announcement to proceed with HS2 gives much needed certainty for the entire industry and its associated supply chain. At the same time, new nuclear power capacity at Hinkley Point C is well under construction and the second Road Investment Strategy (RIS2) for Highways England has a record budget of £25 billion for the 2020–2025 period.

Although the UK has now ceased to be a member of the EU and is in a transition period, the nature of its future trading relationship with the EU remains uncertain. Balfour Beatty continues to monitor developments in this area and potential risks arising to the Group's businesses. Specific risks and mitigations are controlled by individual strategic business units and at a project level. In addition, they are kept under review by the Executive Committee.

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

- Major Projects: focused on complex projects in key market sectors such as transportation (road and rail), heavy infrastructure and energy; and
- 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.

In February 2019, the final section of the Aberdeen Western Peripheral Route (AWPR) project was fully opened to traffic. In addition to the 58 kilometres of dual carriageway, the project included the construction of 40 kilometres of side roads, 30 kilometres of access tracks and more than 100 new structures, as well as two bridges over the rivers Dee and Don. In February 2020, the Aberdeen Roads Limited joint venture reached a commercial settlement with the client to resolve its claim on the construction of the AWPR. Balfour Beatty received £32 million as part of the agreement, with no material change to the Group's balance sheet position.

During the year, significant progress has been made on flagship projects. Since January 2019, a Balfour Beatty VINCI joint venture has been working on the M4 Smart Motorway contract. The project is converting the hard shoulder into an additional lane for traffic and introducing 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. Site works on the Western section are progressing well, with the Eastern section now mobilising.

At the UK's largest current road project, the A14 in Cambridgeshire, construction continues to progress well. The 21-mile project between Cambridge and Huntingdon is upgrading the road from two to three lanes in each direction including a brand new 12-mile bypass south of Huntingdon. Sections 1-3, including the 750-metre River Great Ouse viaduct, were opened ahead of schedule in December 2019. The full upgrade, which is due to complete in Spring 2020, includes the construction of 34 bridges and structures.

On HS2, early contractor involvement (ECI) has been ongoing on the main civils works, which were awarded as two-part design and build contracts in July 2017. Balfour Beatty/ VINCI, a 50:50 joint venture, won two Lots around Birmingham, N1 and N2.

## HS2 OLD OAK COMMON

In joint venture (JV) with VINCI and SYSTRA, Balfour Beatty will be managing the construction of HS2's c. £1 billion Old Oak Common Station in North West London. When completed, this will be one of the UK's best-connected stations, providing direct services to three major airports and eight of Britain's ten largest cities.

Working on behalf of HS2, the JV will be responsible for the final design, construction and commissioning of Old Oak Common station, delivering six underground platforms as well as up to eight platforms on the adjacent Great Western Main Line.

## CONSTRUCTION SERVICES

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Revenue[1] £m** | **PFO £m** | **PFO %** | **Order book[1] £bn** | Revenue[1] £m | PFO £m | PFO % | Order book[1] £bn |
| UK | **2,213** | **47** | **2.1** | **3.0** | 1,900 | 28 | 1.5 | 3.0 |
| US | **3,752** | **52** | **1.4** | **6.5** | 3,329 | 44 | 1.3 | 5.2 |
| Gammon | **893** | **26** | **2.9** | **1.6** | 898 | 23 | 2.6 | 1.6 |
| Underlying[2] | **6,858** | **125** | | **11.1** | 6,127 | 95 | | 9.8 |
| Non-underlying | **6** | **1** | | **–** | 12 | (49) | | – |
| **Total** | **6,864** | **126** | | **11.1** | 6,139 | 46 | | 9.8 |

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

## DUNDEE REGIONAL PERFORMANCE CENTRE FOR SPORT

Procured through the first generation Scape National Civil Engineering and Infrastructure Frameworks, during 2019 Balfour Beatty successfully completed the Regional Performance Centre for Sport in Dundee. The new facility provides a vital training and competition centre for regional squads across a wide range of sports, with a competition standard athletics track and velodrome.

In 2018, Balfour Beatty was appointed as the sole contractor to Scape Group's second generation civil engineering frameworks, valued at a combined total of up to £2.1 billion over four years (2019–2022). 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.

**UK continued**

In September 2019, HS2 also awarded a Balfour Beatty/VINCI/SYSTRA joint venture a contract to manage the construction of the Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in that joint venture, with SYSTRA having the remaining 16.5%. These contracts will only be included in the order book on signing of the main civils works contracts, which is now expected in the first half of 2020. Procurement processes are back underway on the rail systems contracts. In 2018, Balfour Beatty VINCI submitted the HS2 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).

On Crossrail, Balfour Beatty's two remaining major projects – C512 (Whitechapel Station) and C530 (Woolwich Station) – made good progress during the year. C530 is effectively complete and, in December, C512 reached Stage Completion Two. C512 is planned to complete in 2020, in line with the revised project schedule.

At Hinkley Point C, Balfour Beatty's expanding team continues to make positive progress on the project to construct 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. In Avonmouth, Balfour Beatty has built an offsite precast segment facility to make the concrete sections required to line the tunnels consistent with the Group's 25 by 2025 vision to reduce onsite activity by 25% by 2025.

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.

During Build to Last, there has been a shift towards a lower risk contract portfolio in the Regional business, with a reduction in the number of fixed price contracts offset by an increase in target cost (negotiated tender) contracts and framework agreements. Both target cost contracts and framework agreements require early contract involvement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties.

The Group's largest framework agreement is the Scape National Civil Engineering and Infrastructure framework. In October 2018, 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 over four years (2019–2022). 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. 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 2019, the Regional business completed the National Automotive Innovation Centre (NAIC) in Coventry for the University of Warwick. This 33,000 sq m development on the existing main campus of the University of Warwick included the construction of a four-storey 'L' shaped building that houses state-of-the-art teaching facilities, as well as research and development, design and engineering facilities. Other projects completed during the year included: engineering and training facilities at RAF Marham in Norfolk; piling at the One Nine Elms project in London; the Fry Building at the University of Bristol; and the Telford Footbridge project.

The Regional business has continued to make good progress at the University of Sussex student village. The first phase (East Slopes) is replacing the previous 600-bed facility on the University's campus with a new living space comprising 2,000 new bedrooms and innovative student amenities, including a new student union facility. Other material ongoing projects include: the seven-storey 'MEC Hall' building at the £287 million Manchester Engineering Campus Development (MECD) project; the £150 million Madison Tower, a 53-storey residential building in Canary Wharf, London, which topped out in June; the renovation and new-build scheme at No.1 Palace Street in St James', London; the 10-kilometre bypass connecting Caernarfon and Bontnewydd in North Wales; and phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park.

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

- Midland Met Hospital: a £267 million contract on behalf of Sandwell and West Birmingham Hospitals NHS Trust, having been appointed to complete the hospital following the liquidation of Carillion. Early works started in 2018, and the main award was signed in 2019 allowing Balfour Beatty to progress with the main construction works to the 80,000 sq m hospital including the completion of the external façade, with all associated mechanical, electrical and plumbing services, to be delivered by Balfour Beatty Kilpatrick;
- East Leeds Orbital Route: a £83 million contract for enhancements to the outer ring road (A6120) in Leeds;
- Edinburgh Futures: a £70 million contract to deliver the Edinburgh Futures Institute, a flagship refurbishment and extension project on behalf of the University of Edinburgh; and
- Community Hospitals: contracts worth a combined £38 million for the construction of two new community hospitals at Broadford (Skye) and Aviemore in Scotland.

Included in ABNC at 31 December 2019, the Group has been selected as preferred bidder for the following significant projects: the redevelopment of the Darwin Building at the University of Edinburgh; a further two retirement homes for Audley Retirement; two schools in Bishop's Stortford; and the next phase of the Lewisham Gateway scheme.

## US

Underlying revenue in the US increased by 13% in the year (8% at CER) to £3,752 million (2018: £3,329 million) following the increase in the order book during 2018. The business reported an underlying profit from operations for the year of £52 million (2018: £44 million). The underlying PFO margin was 1.4% (2018: 1.3%), within the 1-2% industry standard margin target range. The rate of progress achieved by the Buildings business has been partially offset by the Civils business.

The 25% (30% at CER) increase in the US order book since the end of 2018 to £6.5 billion (2018: £5.2 billion) follows another 12 months of strong work winning. The most notable award was the US$1.7 billion Interstate 635 LBJ East project for the Texas Department of Transportation, for which Balfour Beatty's Civils business has a 45% share in the joint venture. The Buildings business order book also increased, with the Northwest division booking more work from Microsoft's campus modernisation in Redmond, Washington and winning new projects including Block 216 in Portland, Oregon, and 1001 Office Towers in Seattle, Washington. In addition, the Texas division won more work with the Harris Methodist's Surgery Tower and Legacy West projects in the Dallas / Fort Worth area and the Florida division won a multi-phase contract for the expansion of the Broward County Convention Center. The quality of bookings is consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities.

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 operates in specifically chosen regions. 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, and significant state backed education bonds ($35 billion in California), the Group's opportunities in Buildings are robust as evidenced by the increasing order book. In Civils, the Group is focused on: road opportunities in Texas and North Carolina; mass transit rail projects in major cities across the country, including the electrification of existing lines; and water treatment and purification projects. These large and growing markets are supported by the c. US$77 billion 2020 Unified Transportation Program (UTP) from the Texas Department of Transportation (TxDOT), a number of state-backed infrastructure bonds (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.

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

In the year, Buildings completed a number of notable projects including:

- 500 Folsom: a 43-storey residential tower located in the South of Market (SOMA) district of San Francisco, California. This US$305 million project created 545 residential units;
- Disney Coronado Springs: this 15-storey, 450,000 sq ft project located in Orlando, Florida was valued at US$172 million. The project represents a continuation of previous Balfour Beatty work, and is the fastest design/delivery completed for Disney on a resort project to date;
- The Portland Building: a US$159 million renovation of a designated historical landmark in Portland, Oregon that used target-value design to complete the project early and under budget; and
- Apex High School: this new US$85 million, 384,000 sq ft high school was completed in November 2019 for Wake County Public Schools.

### IH-635 INTERSTATE

Balfour Beatty is a 45% joint venture partner with Fluor Corporation on the IH-635 Freeway project worth US$1.7 billion, commissioned by the Texas Department of Transportation. Works include the reconstruction and widening of 11 miles of the interstate highway around the North and East of Dallas in Texas.

When complete, the interstate highway will consist of 12 lanes in total, increasing the number of general purpose lanes from eight to ten, while reconstructing two existing, tolled managed lanes.

The completed project will improve safety and reduce congestion for over 200,000 drivers who use the interstate daily.

**US continued**

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

- LAX: in March 2019, the project joint venture broke ground on the Los Angeles International Airport's (LAX) Automated People Mover (APM) project for Los Angeles World Airports (LAWA). This project involves both the Buildings and Civils parts of the business;
- The University of North Carolina – Wilmington: in February 2019, Balfour Beatty broke ground on a project to deliver over 1,300 student housing beds located on campus;
- Capitol Crossing: located in Washington D.C., this project, which is due for imminent completion, is a 2.2 million sq ft multi-phase development that includes two LEED Platinum certified 12-storey office buildings and a 700,000 sq ft parking garage; and
- The Osprey: a 500,000 sq ft mixed-use facility in Atlanta, Georgia, this project topped out in June 2019 and is scheduled for completion in early 2020.

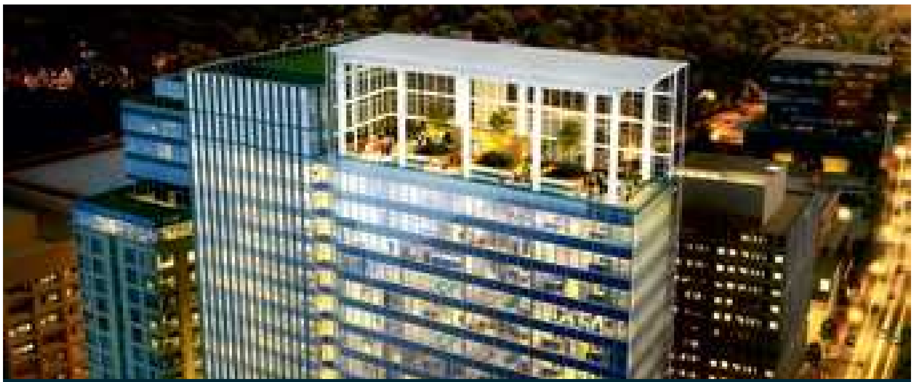
The Buildings business had several notable new contract awards in the year including:

- Broward County Convention Center: in August, Balfour Beatty signed a construction agreement for the expansion of the Broward County Convention Center and new construction of an 800-room hotel. With enabling projects underway, the five-phase US$780 million project in Fort Lauderdale, Florida, will significantly increase Broward County's meetings, convention and exhibition capacity;
- Block 216: a mixed-use US$370 million contract to build five levels of below ground garage, eight levels of offices, 11 levels of hotel, and 14 levels of high-end apartments located in Portland, Oregon;
- The Wharf: Balfour Beatty has been selected to initiate Phase 2, which consists of US$305 million work contracts for the construction of office buildings and below ground parking garages in Washington D.C.;
- 1001 Office Towers (formerly Binary Office Towers): a US$253 million project in Seattle, Washington, won in June 2019 to construct a pair of office towers, both 15 storeys;
- Harris Methodist Surgery Tower: this US$192 million project located in Fort Worth, Texas, was awarded in October 2019 and includes a 600,000 sq ft tower with three new parking garages;
- Jacksonville International Airport, Florida: the Jacksonville Aviation Authority has awarded Balfour Beatty a US$150 million contract for its terminal expansion project. The project includes construction of the new Concourse B that will add six gates;
- Legacy West: Balfour Beatty has been awarded a US$150 million 12-storey corporate office building consisting of 540,000 sq ft of office space in Plano, Texas;
- 2100 Penn: Balfour Beatty has been contracted to build the US$137 million, 12-storey, 460,000 sq ft building in Washington, D.C. with two wings connected by a ten-storey atrium, featuring new offices, 30,000 sq ft of ground floor retail and three levels of below ground parking;
- Hoffman Town Center: in November 2019, in a 50:50 joint venture with Walsh Construction, Balfour Beatty was awarded the US$252 million Hoffman Town Center Lots 4/5 project, which consists of approximately 1 million sq ft of development located in Alexandria, Virginia; and
- Juvenile Justice Center: in December 2019, a US$112 million contract for phase one of this development for the County of San Diego, California.

Included in ABNC at 31 December 2019, the business has been made preferred bidder for: a US$180 million contract for a mixed-use project on behalf of a real estate development company in Dallas, Texas; a US$100 million contract to deliver a private student housing development at Florida International University in Miami; and a US$85 million project to build a 200-unit senior living community in Kiawah Island, South Carolina.

The Civils business continues to operate in the largely regulated markets of road rail and water. In May 2019, Civils completed two rail projects in Denver, Colorado. Firstly, construction of the 11-mile Gold Line (G Line) connecting Union Station in downtown Denver to Wheat Ridge Station in the city's western suburbs and, secondly, the 2.3-mile extension of the Regional Transportation District's E, F and R light rail lines. Known as the Southeast Rail Extension during construction, the project added three new stations: Sky Ridge, Lone Tree City Center and Ridgegate Parkway. In November, the US17 bypass project, which shortens road trips in North Carolina by skirting the towns of Maysville and Pollocksville, opened to vehicles. Construction on the bypass started in October 2015 and was completed over six months early.

During the year, progress has been made on key contracts with mobilisation at both the US$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor Corporation) and US$1.08 billion Green Line extension (25% Balfour Beatty) joint venture projects. At Southern Gateway, an 11-mile stretch of road in Dallas, Texas, full scale production is underway, including roadway, bridges, walls and drainage. At Green Line, a 4.7-mile commuter rail extension in Boston, Massachusetts, the design is near complete and construction activities have commenced with activities underway including the building of noise walls, drilled shaft work and drainage.



## AVOCET TOWER

In 2019, Balfour Beatty was awarded a US$130 million contract to construct The Avocet Tower for Pickard Chilton – a new centre for convenience, style, lifestyle, and culture.

The project is an architectural landmark that aims to redefine the work-life experience in Bethesda.

Avocet Tower, the first building of its kind in Bethesda, will feature 370,000 sq ft of office space in the heart of downtown, with an outdoor plaza and a two-storey lobby. Sustainability features will include advanced mechanical systems, secure bicycle storage, electric vehicle charging stations, bio-retention basins on the roof terrace, and glazing throughout the entire office area.

At Caltrain, a US$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, full scale production is underway, with foundation works and overhead catenary system construction ongoing.

The most notable award for the Civils business in the year was the US$1.7 billion Interstate 635 LBJ East project for the Texas Department of Transportation. Balfour Beatty has a 45% share in the joint venture, with Fluor Corporation holding 55%. In October, Balfour Beatty was awarded a US$203 million contract by the North Carolina Department of Transportation to improve traffic on a 5.1-mile stretch of the US70 in James City, Craven County. The project will upgrade this section of the US70, which is one of the primary east-west corridors across eastern North Carolina, to interstate standards.

## Gammon

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of underlying revenue decreased by 1% (5% at CER) to £893 million (2018: £898 million). Underlying profit increased to £26 million (2018: £23 million), and the order book remained stable at £1.6 billion. At this stage it is too early to assess the full effects of the COVID-19 virus on the Group's operations in Hong Kong.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant upcoming opportunities including: two new terminal buildings and other works associated with the third runway at the international airport; a ten year housing target; a ten year hospital development plan; and continued investment in transportation infrastructure. The order book is spread across a number of public and private customers. In Buildings, the focus is on the use of design for manufacture and assembly and modular construction to improve productivity and efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever engineering excellence, with a key area of future work likely to be from significant infrastructure programmes in Hong Kong and in Singapore.

During the year, the Buildings business completed work on the redevelopment of Somerset House into a 48-storey office building and the Civils business completed the Tuen Mun-Chek Lap Kok (TMCLK) South Viaduct project, which included the design and construction of a dual two-lane 1.6-kilometre viaduct over the sea.

### TUEN MUN-CHEK LAP KOK SOUTH VIADUCT

Gammon, Balfour Beatty's Hong Kong joint venture, completed a HK$8 billion design and build contract for the construction of the Southern Connection Viaduct Section of the Tuen Mun-Chek Lap Kok Link (TM-CLKL) in Hong Kong, on behalf of The Government of Hong Kong's Highways Department. This is the largest solo contract ever undertaken by Gammon.

The Southern Connection Viaduct section, which is part of the 9-kilometre TM-CLKL, involves the design and construction of a dual two-lane 1.6-kilometre sea viaduct between the Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities and North Lantau. It also involves the construction of nine approach viaducts and other associated works including slope improvement, environmental protection and mitigation measures.

Work has continued on major Buildings projects including: the construction of the Lyric Theatre Complex in the West Kowloon Cultural District of Hong Kong; Lohas Park, a project to deliver three 54-56 storey residential towers; and a data centre for Global Switch in Hong Kong. Work has also continued on a number of Civils projects in Hong Kong, including Tuen Mun-Chek Lap Kok Link Northern Connection, where Gammon is providing electrical and mechanical facilitation to serve the newly constructed 5-kilometre tunnel, and the Sai Sha Road widening project.

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

- Advanced Manufacturing Centre (AMC): awarded the HK$4.75 billion works contract for the Hong Kong Science & Technology Parks Corporation. Located in Tseung Kwan O Industrial Estate, the project involves the construction of a nine-storey building block with a two-storey basement;
- Sands China: two Macau projects totalling HK$3.6 billion for Sands China. These projects will rebrand the Sands Cotai Central into the Londoner Macau;
- Kai Tak 6564 Residential Development: a HK$1.7 billion contract for two 31-storey luxury residential blocks for the Wheelock Group; and
- 139–147 Argyle Street: a HK$1.3 billion contract for three 20-storey luxury residential blocks for the Sino Group.

During the year, Gammon was chosen as a Grand Award winner at the Hong Kong Management Association Quality Awards 2019. The top award recognises the achievement of exceptional standards of quality and a lasting commitment to the process of quality management. Feedback from the judges included the comment that Gammon was a "progressive company that demonstrates effective leadership with passion and a clear focus on safety and innovations". Gammon's processes and systems were also considered to be well-deployed, enabling the company to "optimise the construction process and excel in the construction industry".

The judging panel consisted of respected captains of industry who carried out stringent assessments of management processes across seven focus areas: leadership; strategy; customers; workforce; operations; results and measurement; and analysis and knowledge management.

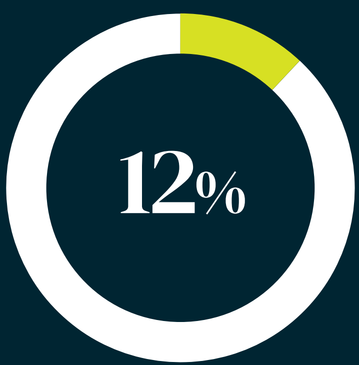
# Support Services

Our Support Services businesses operate principally in the UK, designing, upgrading, managing and maintaining critical national infrastructure.

**HIGHLIGHTS**

- Expected decline in revenue successfully offset with higher margins such that PFO maintained
- Performance of power business is now accelerating
- Not rebidding gas contracts under RIIO-GD2; creates £58 million non-cash, non-underlying impairment
- Strong transportation market with Central Track Alliance (rail) and M25 Connect Plus (road)

**TOTAL REVENUE[1]**




**UNDERLYING REVENUE[1]**

**£1,023m**

2018: £1,104m

**STATUTORY REVENUE**

**£991m**

2018: £1,076m

**UNDERLYING PROFIT FROM OPERATIONS**

**£47m**

2018: £46m

**STATUTORY PROFIT FROM OPERATIONS**

**£(11)m**

2018: £39m

**ORDER BOOK[1]**

**£3.2bn**

2018: £2.8bn

Discover more at **balfourbeatty.com**

1 Including share of joint ventures and associates, before non-underlying items.

## Financial review

Support Services had a transitional year in 2019, as an expected decline in revenue was successfully offset with higher margins such that overall underlying profit from operations increased.

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

Support Services revenue decreased by 7% to £1,023 million (2018: £1,104 million), as expected following lower volumes in the power transmission and distribution business and the conclusion of the Area 10 highways maintenance contract. Underlying profit from operations and PFO margin for the year improved to £47 million (2018: £46 million) and 4.6% (2018: 4.2%) respectively. The order book increased by 14% to £3.2 billion (2018: £2.8 billion) following the initial bookings from the 10-year Central Track Alliance contract in transportation.

Following the Group's decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts under the current RIIO-GD1 cycle, the Group has reassessed the long-term outlook for its gas and water cash-generating unit (CGU). This reassessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58 million (2018: £nil). This charge has been treated as a non-underlying item.

## Operational review

Underlying utilities revenue decreased by 15% to £551 million (2018: £651 million), driven by an expected decrease at power transmission and distribution. The utilities order book increased to £1.0 billion (2018: £0.9 billion) as an increase at power was only partially offset by the expected decline in gas and water as the current regulatory cycles approach the end of their periods in 2021 and 2020 respectively.

Performance at the power transmission and distribution business is now accelerating, following significant restructuring and cost removal, with the business consolidating its strategy to focus primarily on core clients and markets.

In the year, power transmission and distribution successfully completed the South Wales 400kV power line refurbishment for National Grid and has continued its good progress on both the Beauly-Keith and Fort Augustus-Fort William 132kV power line refurbishments for SSE. These three schemes provide critical regional refurbishments to existing lines originally constructed over 50 years ago.

The business recently won and has commenced construction on the National Grid Hinkley Point 400kV cabling project and 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.

Notable new contract awards in the year included:

- Hinkley Point Overhead Lines: 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 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 2015, the tunnelling and marine works package in 2017 and the 8.5-kilometre cabling contract won in 2018;
- Viking Link: a £90 million contract to deliver the British onshore civils works for the Viking Link Interconnector Project. Balfour Beatty will be responsible for the installation of 68 kilometres of high voltage cabling across Lincolnshire; and
- Littlebrook Power Station: a £50 million contract to replace a high voltage substation at Littlebrook Power Station in Kent on behalf of National Grid. Balfour Beatty will design, supply and construct the 400kV substation, utilising the capabilities of Balfour Beatty Ground Engineering to complete the ground engineering works. The project includes the installation of the cabling and overhead line connections to the national grid.

### WARWICKSHIRE HIGHWAYS MAINTENANCE CONTRACT

In 2019, Balfour Beatty Living Places was awarded a £34 million one-year extension to its Warwickshire Highways Maintenance Contract by Coventry City Council, Solihull Metropolitan Borough Council and Warwickshire County Council.

The project award marks the second extension on the original seven-year contract, which will see this unique and collaborative partnership run to Spring 2025, following a history of good performance, effective asset management, delivering value for money and collaborative working with the three local authorities.

## SUPPORT SERVICES

| | 2019 | 2018 | Change % |
|---|---|---|---|
| Order book[1] (£bn) | **3.2** | 2.8 | 14% |
| Revenue[1] (£m) | **1,023** | 1,104 | (7)% |
| Profit from operations[2] (£m) | **47** | 46 | 2% |
| Non-underlying items (£m) | **(58)** | (7) | |
| Statutory profit from operations (£m) | **(11)** | 39 | |
| Underlying profit margin[2] (%) | **4.6%** | 4.2% | |

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

> In December, Balfour Beatty was awarded a six-year £217 million contract by Lincolnshire County Council for the maintenance of highways assets.

## LONDON UNDERGROUND TRACK RENEWALS

Balfour Beatty has partnered with Transport for London to deliver the new London Underground track renewals contract. Through this £220 million contract, the Group will call upon its extensive experience of the London Underground to ensure the continued reliability of the 1,047-kilometre network.

Throughout the programme of works, new measures and technologies will be introduced, including remote surveying systems and viewing software to generate significant efficiencies while continuing to safely deliver the highest standard of work and reducing any potential disruption to the travelling public.

In gas, Balfour Beatty delivers network maintenance and asset enhancements 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 essential work, minimising the impact on local communities. The Group continues to manage two long-term gas contracts in the RIIO-GD1 period (until early 2021) which have historically underperformed. The gas market is no longer considered viable to the Group because of the unfavourable working capital and onerous terms and conditions.

The water business is now coming towards the end of the UK water regulatory cycle (AMP6 2015-2020). Balfour Beatty has existing contracts with Thames Water, Anglian Water and United Utilities. Bidding under the AMP7 regulatory period (2020-2025) is currently underway.

Underlying transportation revenues increased by 4% to £472 million (2018: £453 million) as higher volumes at road maintenance contracts offset the conclusion of the Area 10 highways maintenance contract. The transportation order book increased to £2.2 billion (2018: £1.9 billion), due to a number of contract wins for Network Rail. At 31 December 2019, only £0.2 billion (out of Balfour Beatty's £1.2 billion share) of the 10-year Central Track Alliance contract has been included in the order book.

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 December, Balfour Beatty was awarded a six-year £217 million contract by Lincolnshire County Council for the maintenance of highways assets. There is an option to extend the contract for a further six years. The Group will work with the Council to provide a safe and sustainable local road network through the maintenance of 9,000 kilometres of highways, carriageways and footpaths. Further, in July, Balfour Beatty was awarded a £34 million, one-year extension for its Warwickshire Highways Maintenance Contract. This latest award, which extends the contract to 2025, marks the second extension on the original seven-year contract following a history of good performance and effective asset management.

The rail services business won two significant contracts in the year as follows:

- Central Track Alliance: selected for Network Rail's £1.5 billion Central Track Alliance contract, Balfour Beatty has an 80% share in the 10-year alliance which will be responsible for the development, design and delivery of track renewals and crossings, as well as associated infrastructure works across the London North West, London North East and East Midland routes; and
- London Underground: Transport for London reappointed Balfour Beatty in February 2019 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, were instrumental in securing the contract.

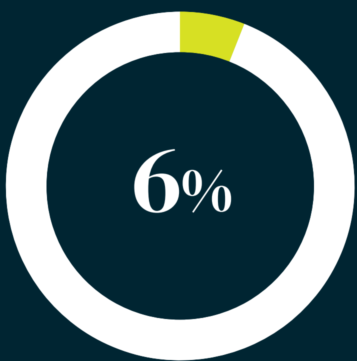
# Infrastructure Investments

Our Infrastructure Investments business develops and finances both public and private infrastructure projects in the UK and the US.

**HIGHLIGHTS**

- Operating profit decreased following significant disposals in 2018
- 10 disposals during 2019 and five new projects added to the portfolio in the year
- All disposals at, or above, Directors' valuation
- Directors' valuation decreased to £1.1 billion (2018: £1.2 billion); US military housing valuation reduced by £79 million

**TOTAL REVENUE[1]**




**UNDERLYING REVENUE[1]**

£524m

2018: £571m

**STATUTORY REVENUE**

£371m

2018: £341m

**UNDERLYING PROFIT BEFORE TAX**

£98m

2018: £113m

**STATUTORY PROFIT BEFORE TAX**

£93m

2018: £111m

**DIRECTORS' VALUATION**

£1.07bn

2018: £1.15bn

Discover more at **balfourbeatty.com**

1 Including share of joint ventures and associates, before non-underlying items.

## Financial review

The business continues its strategy of optimising value through the disposal of operational assets, whilst also continuing to invest in new opportunities.

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.

Pre-disposals underlying operating profit was broadly consistent with prior year at £13 million (2018: £15 million). Underlying profit from operations at £82 million (2018: £97 million) was lower than the prior year, due to a decrease in profit on disposals. Net interest income remained consistent at £16 million (2018: £16 million) with underlying profit before tax at £98 million (2018: £113 million).

## Operational review

Under the Military Housing Privatization Initiative (MHPI) established in the US in 1996, Balfour Beatty Communities (BBC) manages more than 43,000 family housing properties across 55 Army, Navy and Air Force bases under long-term concessions. This spans financing the project development, designing and constructing new houses and community amenities, renovating older legacy properties inherited from the military so that they meet modern requirements, and managing day-to-day property leasing and maintenance services, within the project's budget that is approved by the government.

In June 2019, allegations about the handling of certain work orders were publicised about bases managed by BBC. Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct an investigation into the allegations, and BBC proactively contacted the Department of Justice (DoJ) to notify them of the review. The DoJ subsequently announced an investigation and BBC is co-operating fully. At this stage, the investigation is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum. BBC has also undertaken an extensive internal review of its work order processes and other procedures. Based on this internal review, BBC has implemented a number of changes to the way in which work orders are handled.

BBC recognises it has faced operational challenges at some of the military bases where it manages properties.

Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required BBC to develop a comprehensive Performance Improvement Plan. The plan, which includes a variety of objectives and performance metrics, was submitted in December 2019 and agreed with the Air Force in February 2020. A number of the initiatives set out in the plan have already been completed, including implementing a significant management restructuring to better align technical support and resident services and appointing a Transformation Director. BBC is working with the Air Force to ensure all the objectives are met. BBC is committed to improving the quality of service it provides to meet the expectations of its residents and military partners across the entire portfolio.

In response to these challenges, all military housing assumptions, including future rental income, project costs and incentive fees have been examined both on a project specific basis and with reference to the changing dynamics in the military housing sector which resulted in a reduction to the valuation of the military housing portfolio by £69 million. When incorporating distributions received, unwind of discount and foreign exchange movements in the year, the overall reduction in value was £79 million with the year end military housing portfolio valued at £453 million (2018: £532 million).

The military housing portfolio is made up of 21 special purpose vehicles which have the following characteristics. Each project is entitled to receive rent from the housing it manages (effective gross rent – EGR). From this income the project pays the operating costs including utilities, maintenance and insurance. In addition, it pays management fees based on a percentage of EGR to the property manager.

## UNIVERSITY OF IOWA, ASPIRE AT WEST CAMPUS

In 2019, Balfour Beatty sold its 100% stake in the Aspire at West Campus student accommodation project at the University of Iowa in Iowa City.

In 2014, the University of Iowa selected Balfour Beatty to finance, develop, construct and manage one-two bedroom University apartments on the West Campus at the University of Iowa to replace ageing inventory and to attract and retain students.

The design concept placed 13 residential buildings around a central park area to foster community and interaction among the residents.

In addition to the residential buildings, a community centre was included in the plan to act as a central hub for mail, and provide leasing offices and laundry, fitness and multi-function spaces.

## INFRASTRUCTURE INVESTMENTS

| | 2019 £m | 2018 £m | Change % |
|---|---|---|---|
| Pre-disposals operating profit[2] | 13 | 15 | (13)% |
| Profit on disposals[2] | 69 | 82 | (16)% |
| Profit from operations[2] | 82 | 97 | (15)% |
| Net interest income from PPP concessions[+] | 16 | 16 | – |
| Profit before tax[2] | 98 | 113 | (13)% |
| Non-underlying items | (5) | (2) | |
| **Statutory profit before tax** | **93** | 111 | |

2 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.

The net operating income is the net of the gross rent and the costs above. From the net operating income the project must service the debt (interest and principal) incurred to construct, renovate and maintain the housing. After debt service, the project pays an incentive fee to the property manager, also based on a percentage of EGR but subject to a performance matrix of key performance indicators.

After this, the project pays a preferred return to the project owners based on a percentage of their initial investment. The residual cash flow after all of these payments is then split between the project owners and a re-investment account held on behalf of the military which is intended to be used to pay for future renovation and development of the housing stock of the project. These residual cash flow payments to the project owners are capped in some cases at a percentage of the equity initially invested. When money is spent from the re-investment account, there is also a percentage paid to the property manager from this account, for managing the renovation and development spend.

As project owner and property manager, Balfour Beatty receives the following income streams:

- base management fees (based on a percentage of EGR);
- incentive fees (based on a percentage of EGR, subject to performance);
- from the residual cash flow, preferred returns (based on a percentage of the original investment) and equity cash flow split (typically 10% of the residual cash flow); and
- renovation and development fees (based on a percentage of renovation and development spend).

The updated portfolio valuation has been negatively impacted by the following two key line items:

- operating costs: increases have been agreed with the Military, partly to improve the military family housing experience and partly to cover higher insurance costs. The higher costs lead to a lower equity cash flow split and renovation and development fees; and
- incentive fees: the prospective incentive fee matrix includes a higher discretionary portion than the historical agreement. Without a clear track record in the current environment, the Group has taken a more conservative view with regard to assumptions for the discretionary element of incentive fees.

In the private rented and regeneration sector, the North American business purchased 50% interests in each of: the 278-unit Waterchase Apartments in Largo, Florida; the Legends of Wolfchase 300-unit community in Bartlett, Tennessee; the 330-unit Landings at Lake Grey in Jacksonville, Florida; the 260-unit Paces Brook residential community development in Columbia, South Carolina; and the 270-unit Schillinger residential community development in Mobile, Alabama.

Balfour Beatty Communities (BBC) will perform property management services for the properties, leveraging its existing capabilities as the Group continues to focus on growth through value-add multifamily investments. The Group focuses on markets within the mid-Atlantic, Southeastern and Southwestern regions of the US where it has an existing footprint. BBC seeks opportunities that allow the in-house renovations and operations group to make capital improvements and elevate property performance to more effectively compete with top-tier communities in the marketplace. Yield requirements are competitive and commensurate with the risks attributed to each opportunity.

In the year, the Group disposed of the following 10 assets:

- Borden Data Centre: its entire 50% interest in the Borden Data Centre project in Ontario, Canada;
- ITE College: its entire 50% interest in the ITE College West project in Singapore;
- North Island Hospitals: its entire 50% interest in the North Island Hospitals project in Vancouver Island, Canada which comprises the Campbell River and Comox Valley hospitals;
- Iowa student accommodation: its 100% interest in the Aspire at West Campus student accommodation project at the University of Iowa in Iowa City;
- Reno student accommodation: its 100% interest in the Ponderosa Village student accommodation project at the University of Nevada, Reno; and
- Multifamily housing: the Group disposed of its entire interests in five multifamily housing projects (Ranch at Pinnacle Point, Dallas 5 Portfolio, Mobile Alabama portfolio, Evergreen portfolio and Townlake of Coppell).

In addition, the Group reached financial close on the first phase of the East Wick and Sweetwater project. At 31 December 2019, two projects had not yet reached financial close (2018: three projects).

## EAST SLOPE RESIDENCES

Balfour Beatty is designing and building the University of Sussex's new £179 million on campus student accommodation development, and will operate it for the next 50 years. Balfour Beatty is the University's investment partner for the project, which is part of a £500 million programme of investment for the campus.

The new development will replace an existing 600-bed facility on the University's campus with a new living space for 2,113 students. Comprising 27 new buildings, the village will also incorporate innovative student amenities such as social hubs and a new Students' Union building.

Alongside its investment capability, Balfour Beatty is combining engineering expertise and technologies from across the Group to achieve both programme and cost savings through a holistic approach to construction.

The team worked closely with the customer to develop the design with 'buildability' in mind, whilst maintaining the architectural vision for the project.

# Continuing to realise value from the Investments portfolio

Our track record of disposals demonstrates portfolio valuation.

## Directors' valuation

The Directors' valuation decreased by 7% to £1,068 million (2018: £1,151 million), as the number of disposals in the year and negative operational performance, including re-evaluation of the military housing portfolio, more than offset the unwind of discount. The number of projects in the portfolio decreased to 69 (2018: 74).

The Group invested £64 million (2018: £58 million) in new and existing projects. Cash yield from distributions amounted to £65 million (2018: £89 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. 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.

In 2019, the Group received: £6 million from a sale of its 50% interest in Borden Data Centre in Canada; £25 million from the sale of its 50% interest in the ITE College West project in Singapore; £17 million from the sale of its entire 50% interest in the North Island Hospitals project in Vancouver Island, Canada; £14 million from the sale of its 100% interest in the student accommodation project at the University of Iowa in Iowa City; £7 million from the sale of its 100% interest in the student accommodation project at the University of Nevada, Reno; and £33 million

## PORTFOLIO VALUATION DECEMBER 2019

### Value by sector

| Sector | 2019 No. projects | 2018 No. projects | 2019 £m | 2018 £m |
|---|---|---|---|---|
| Roads | 13 | 13 | 206 | 205 |
| Healthcare | 3 | 3 | 112 | 109 |
| Student accommodation | 4 | 4 | 59 | 43 |
| OFTOs | 3 | 3 | 53 | 50 |
| Waste and biomass | 4 | 4 | 60 | 41 |
| Other | 4 | 5 | 24 | 43 |
| UK total | 31 | 32 | 514 | 491 |
| US military housing | 21 | 21 | 453 | 532 |
| Healthcare and other PPP | 2 | 4 | 17 | 35 |
| Student accommodation | 5 | 7 | 40 | 46 |
| Residential housing | 10 | 10 | 44 | 47 |
| North America total | 38 | 42 | 554 | 660 |
| **Total** | **69** | 74 | **1,068** | 1,151 |

### Value by phase

| Phase | 2019 No. projects | 2018 No. projects | 2019 £m | 2018 £m |
|---|---|---|---|---|
| Operations | 62 | 64 | 954 | 1,003 |
| Construction | 5 | 7 | 114 | 130 |
| Preferred bidder | 2 | 3 | – | 18 |
| **Total** | **69** | 74 | **1,068** | 1,151 |

### Value by income type

| Income type | 2019 No. projects | 2018 No. projects | 2019 £m | 2018 £m |
|---|---|---|---|---|
| Availability based | 22 | 25 | 389 | 414 |
| Demand – operationally proven (2+ years) | 38 | 40 | 517 | 614 |
| Demand – early stage (less than 2 years) | 9 | 9 | 162 | 123 |
| **Total** | **69** | 74 | **1,068** | 1,151 |

## MOVEMENT IN VALUE 2018 TO 2019

| £m | 2018 | Equity invested | Distributions received | Sales proceeds | Unwind of discount | New project wins | Gains on sales | Operational performance | Foreign exchange | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| UK | 491 | 31 | (19) | (25) | 38 | – | 9 | (11) | – | **514** |
| North America | 660 | 33 | (46) | (77) | 49 | 13 | 16 | (75) | (19) | **554** |
| Total | 1,151 | 64 | (65) | (102) | 87 | 13 | 25 | (86) | (19) | **1,068** |

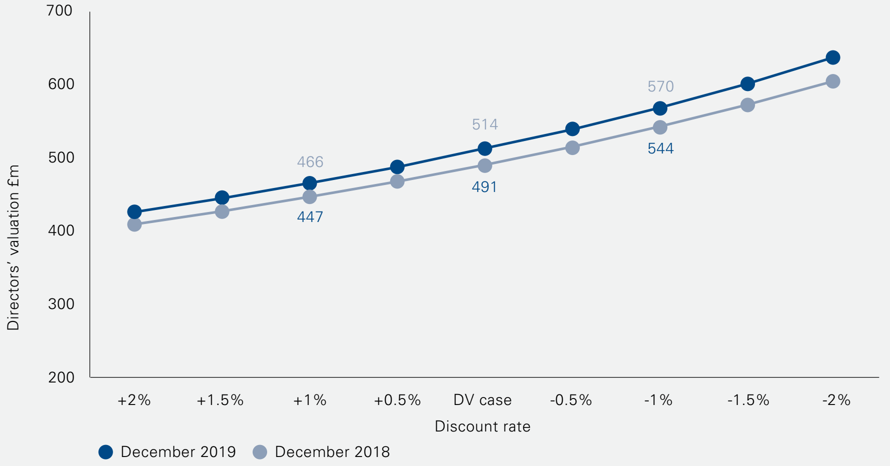
from the sale of its interests in five multifamily housing projects (Ranch at Pinnacle Point, Dallas 5 Portfolio, Mobile Alabama portfolio, Evergreen portfolio and Townlake of Coppell). Unwind of discount at £87 million (2018: £96 million) is a function of moving the valuation date forward by one year with the result that future cash flows are discounted by one year less. Operational performance movements resulted in an £86 million decrease, primarily as a result of the re-evaluation of the military housing portfolio.

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 (IFRS) rather than using a discounted cash flow approach.

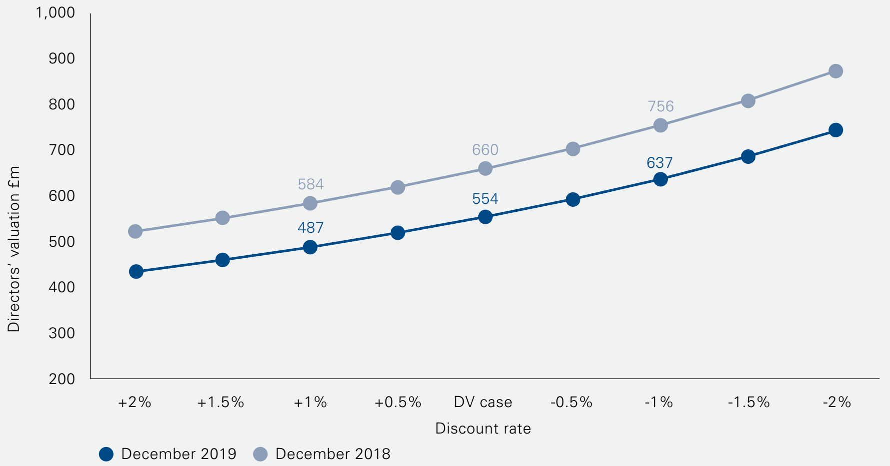
The Investments portfolio is slightly more weighted to North America (UK 48%, North America 52%) at 31 December 2019. Within the UK, roads is still the largest sector, whilst in North America US military housing represents the majority of the portfolio. The Investments portfolio includes over £900 million of projects that have completed the construction phase and are operational.

Discount rates applied to the UK portfolio range between 7% and 10.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.3% (2018: 8.5%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.3% (2018: 8.2%). 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. A 1% change in discount rate would change the value of the UK portfolio by approximately £52 million. A 1% change in the discount would change the value of the North American portfolio by approximately £75 million.

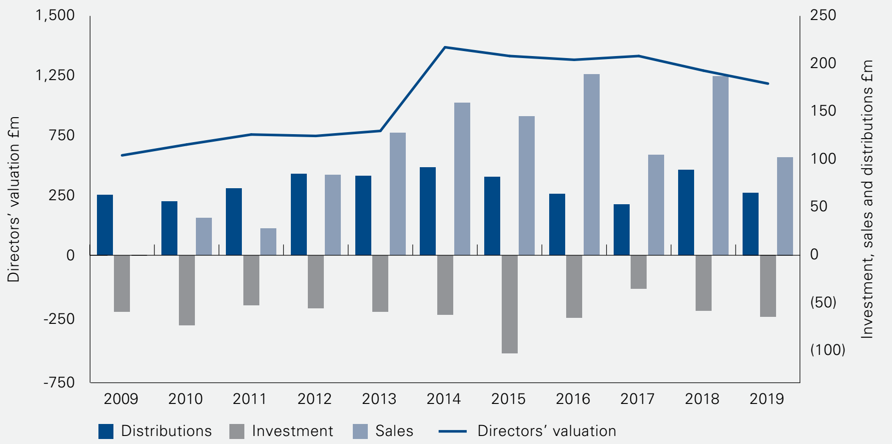
## VALUATION – THE PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES
### UK portfolio




## VALUATION – THE PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES
### North America portfolio




## PORTFOLIO INVESTMENT, DIVESTMENT AND DISTRIBUTIONS SINCE 2009
### £m



# Building a positive


## THE ATELIER, A 42-STOREY RESIDENTIAL TOWER, DALLAS

As pictured, we're constructing a luxury high-rise building for Zom Living in the Dallas Art District consisting of 417 multi-family resident units, below ground parking and amenities.

| LUXURY RESIDENTIAL UNITS | SQ FT OF AMENITY SPACE |
|---|---|
| 417 | 26,000 |

DALLAS, TX

**LEAN**
Our team built temporary construction offices to improve stakeholder collaboration and to deliver a US$100,000 cost saving.

**EXPERT**
Our experts are utilising Building Information Modelling (BIM) for all trade coordination of our supply chain prior to installation, as well as using a 360 degree camera for quality control inspections.

**TRUSTED**
Our pre-construction team worked closely with the customer for over three years to develop the project through early contractor involvement.

**SAFE**
We specified onsite precast concrete stairs in lieu of traditional metal pan stairs, eliminating the need for ladders and improving safety for our workforce.

# culture

Our disciplined contracting is further strengthened by our approach to building the right culture – where people are encouraged and supported to always do the right thing, achieve high performance and deliver continuous improvement, every day.


## BUSINESS INTEGRITY

Embedding a culture of ethics and integrity enables our employees and partners to make the right choices, empowering them to speak up and challenge if anything doesn't feel right.

Read more on p46

## HEALTH, SAFETY AND WELLBEING

The health, safety and wellbeing of all those who work for us and the communities we touch remains at the heart of our culture and is our licence to operate.

Read more on p40

## BUILDING A SUSTAINABLE BUSINESS

Our sustainability blueprint drives economic, social and environmental outcomes.

Read more on p48

## OUR PEOPLE

As part of the Build to Last transformation, our people priorities of 'develop, execute and grow' aim to build capability, retain talent and create a strong leadership pipeline.

Read more on p42

## RISK MANAGEMENT

A robust and dynamic risk management framework ensures that risks are mitigated and that the Group adheres to both regulatory requirements and industry good practice when identifying assessing and monitoring risk.

Read more on p72

# Committed to creating a safe and healthy workplace

Collaborating relentlessly. Treating Health like Safety. Leading the industry.

'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 its activities. Zero Harm is Balfour Beatty's vision, where no injury, ill health or environmental incident is caused by its work activities, and all operations are charged with constantly improving performance and sharing learning and best practice.

The Zero Harm objective is supported by the Health, Safety, Environment and Sustainability (HSES) strategy. The strategy is based around 12 key areas, such as supply chain engagement and health and safety by design. Each of these key areas has associated three-year rolling action plans, designed to drive continual improvement.

Each year a calendar is produced, setting out central business-wide initiatives linked to Zero Harm. These are proactive initiatives based on evidence and risk profile, and include focused campaigns and Group-wide stand downs on key topics. Each individual site or project is encouraged to take ownership of the material and make safety personal to their part of the business. In 2019, these included high-risk topics such as work at height, segregation of plant and people, driving, mechanical lifting and tool tethering.

Many parts of Balfour Beatty's business reached millions of hours incident free during 2019, demonstrating Zero Harm is achievable. The Group's leading key performance indicators trended positively. Leading indicators include but are not limited to supervisor development programmes, behavioural safety programme roll-out, mental health training courses delivered, executive site visits, and observations. Observations continue to be a key engagement indicator and rose a further 17% across the Group to over 212,000. The Group's lost time injury rate (LTIR) improved for the fifth consecutive year, from 0.15 to 0.14 excluding the Group's international joint ventures (IJVs).

Sadly, despite the Group's continued focus on Zero Harm throughout the year, one colleague in the UK lost his life while carrying out a lifting operation working on a Balfour Beatty site. Gammon, our joint venture based in Hong Kong also had two separate fatal injuries in 2019; a colleague working on a piling operation and a subcontractor dismantling timber formwork. Lessons have been shared across the Group and the industry.

Central to sustainable delivery of Zero Harm is Balfour Beatty's Making Safety Personal (MSP) behavioural safety programme, based around four simple golden rules: be fit for work; always receive a briefing; report all unsafe events; and stop work if anything changes. The Group continues to review, refresh and evolve the programme.
The focus in 2019 was around direct and subcontract supervisors and Balfour Beatty now has a UK-wide supervisor forum to advise and support wider health, safety and wellbeing engagement.

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 of, and co-chairs, the UK-wide Health in Construction Leadership Group (HCLG) bringing together industry leaders, customers and contractors to collaborate and lead on health. Of particular focus has been: health by design; dust; vibration; musculoskeletal disorders; and mental health. Balfour Beatty is an active supporter of the Mates in Mind charity for UK construction workers and is committed to continuing the roll-out of the Mates in Mind support programme. Through this roll-out, 74% of all directly employed Balfour Beatty personnel in the UK had received Mates in Mind's 'Start the Conversation' sessions by the end of 2019, encouraging them to speak out if they were suffering from mental health issues and to identify signs when others may be struggling. In all cases this has been supported by a comprehensive network of qualified mental health first aiders across all businesses.

The business won many awards in 2019 for its health and safety performance, including the coveted UK Construction News Health Safety and Wellbeing Excellence (company) award and 22 Considerate Constructors awards.

The June 2019 employee survey results rated consistently highly on health and safety questions, a strong indicator of engagement, with 91% of respondees feeling confident to speak up if they see something potentially unsafe, and 88% saying they saw evidence of Zero Harm being applied at their workplace.

In the US, bi-monthly national safety and quality calls were introduced in 2019 to provide a combined operational and HSE leadership forum to share lessons learned, best practices and innovations across the business.

The UK business continues to work closely with supply chain partners through the HSES Supply Chain Forum. This collaboration has implemented a number of health and safety innovations in 2019. These include combating the risks posed by overturning articulated dump trucks, people plant interface and developing two ground-breaking apps to eliminate hand/arm vibration syndrome.

Balfour Beatty continues to learn and share with its Hong Kong joint venture Gammon, which is an active member of the Group's HSES forum. 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. Gammon is represented on each of the Group fatal risk groups to share learning and drive towards Zero Harm.

In 2020, the Group will continue its relentless focus and leadership on Zero Harm within the business and wider leadership in health, safety and wellbeing.

ZERO HARM
MAKE SAFETY PERSONAL

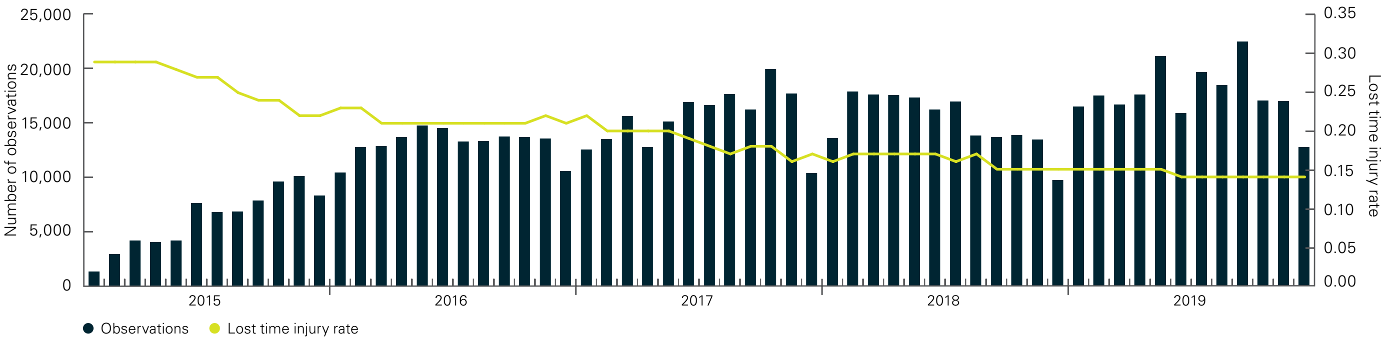
**BRITISH OCCUPATIONAL HYGIENE SOCIETY CHAMPIONS**

306

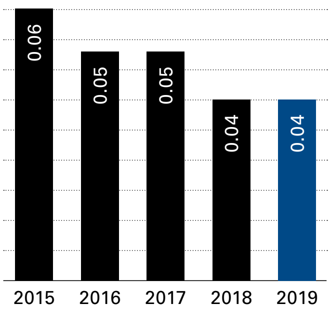
**UK MY CONTRIBUTION SAFETY IDEAS**

800+

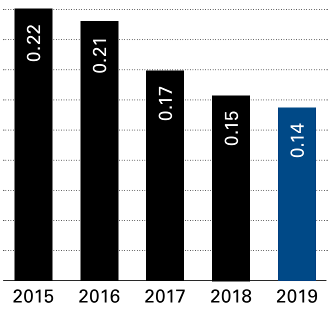
### BALFOUR BEATTY GROUP OBSERVATIONS AND LOST TIME INJURY RATE*




### MAJOR INJURY RATE*




### LOST TIME INJURY RATE*




* Excluding international joint ventures.

> Balfour Beatty is setting the benchmark and leading in the industry. We were impressed by the sharing of knowledge, and the integration of health and safety into design.

**UK Construction News judging panel**
Health Safety and Wellbeing Excellence (company) award

## SURF CITY BRIDGE PROJECT

This US$54 million complex highway and bridge project was delivered over two and half years and nearly 300,000 working hours. The project was constrained by limited site access, weight restrictions on existing structures, annual fish moratorium restrictions, challenging weather conditions (including the aftermath of Hurricane Florence), and high levels of tourist traffic.

Despite the difficulties, Balfour Beatty's project team delivered the project 289 days ahead of schedule with no lost time incidents and no environmental infractions.

The project was awarded a Carolinas Associated General Contractors Pinnacle award in recognition of its efforts, was designated as a Building Star Site by the North Carolina Department of Labor, was designated Project of the Year by the Pile Driving Contractors Association, and received the ENR Southeast 2019 Award of Merit.

## M6 SMART MOTORWAY

In 2019, the Balfour Beatty VINCI joint venture (JV) won the UK Construction News Health Safety and Wellbeing (project) award for its M6 smart motorway project.

The judges said: "This project showed really strong leadership and there was extensive evidence of innovation throughout. They followed the criteria and exceeded the client requirements for proactive health and safety risk management."

Drones, virtual reality and laser beams were used to ensure workers on the M6 smart motorway project remained safe, while the project team introduced additional 'Wake up to Safety' briefings to reinforce key safety messages. A wellbeing room for use by employees and customers was also set up on the project.

The JV also worked with Asset International to pilot a drill rig that removed the need for the operator to touch the equipment, eliminating exposure to dust and harmful vibration. The dust-extractor system within the drill also removed the exposure to dust.

# Creating a culture of personal development

As part of the Build to Last transformation, our people priorities of 'develop, execute and grow' aim to build capability, retain talent and create a strong leadership pipeline.

## Leadership and talent development

Balfour Beatty is committed to investing in future leadership capability across the Group, developing new and innovative programmes which, wherever possible, feature the transfer of knowledge and collaboration.

In the US, over 60 executives have completed the four-month Executive Leader Development Programme (ELDP), which aims to create developmental opportunities through topics covering leadership philosophy, culture, strategy execution, emotional intelligence, innovation and leader responsibilities. A priority for the US in 2020 will be the launch of a Manager Development programme to develop a deeper pipeline of talent. This year-long programme will focus on topics such as coaching, building trust and relationships, situational leadership, building effective teams, and conflict management.

In the UK, the leadership and talent programmes are well established at various levels within the business, including the Future Leaders programme, which brings together talent with potential for future senior roles. The programme, now in its third year, continues to be a success and has been completed by 79 employees, half of whom have been promoted into more senior leadership roles. Below this level there are more than 200 employees engaged on the Aspiring Leaders programme which builds readiness for more senior positions.

Balfour Beatty continues to build its talent ecosystem, encouraging all employees to maximise their potential. The UK and US businesses have launched similar Career Development Tools (CDT) to facilitate development conversations, set clear expectations for role performance, and identify areas where an employee may require further development opportunities. Managers will also be able to use the CDT during recruitment, new employee onboarding, staffing meetings, and talent sharing.

Development webinars have also been launched in the UK in 2019 to complement the classroom learning approach. Many development topics were covered, with more than 750 employees joining online. Internal coaching and mentoring arrangements continue to be developed and embedded across the UK business. 10 internal coaches have been trained to support talent programmes, performance and career coaching requirements, with over 350 coaching hours being recorded in 2019.

### ENHANCING LEADERSHIP

Balfour Beatty's Hong Kong joint venture, Gammon, has been supporting employees to enhance their leadership capability by nominating five potential senior managers to participate in the INSEAD Business School's Inspire programme and Orchestrating Winning Performance programme at IMD Business School to help prepare them to move up to senior positions.

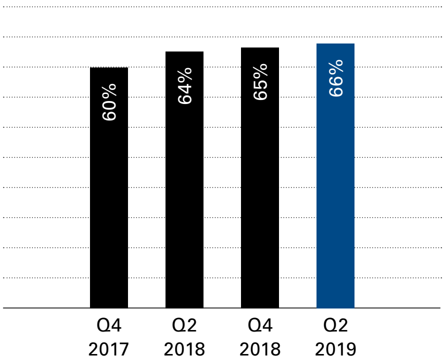
## Our people priority pillars

**DEVELOP**
Provide great career opportunities for our people, ensuring they have the skills development, experience and capability to delight our customers.

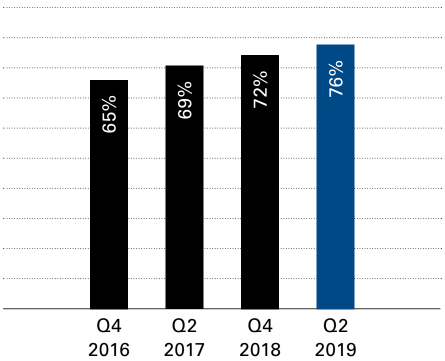
**EXECUTE**
Support the business to drive operational excellence in all that we do, ensuring our projects and businesses can outperform.

**GROW**
Grow an innovative, collaborative and customer-focused culture that is technology enabled, creating an exciting and successful future for our employees, customers and shareholders.

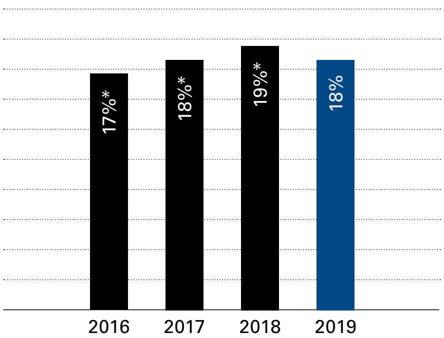
## EMPLOYEE ENGAGEMENT INDEX SCORE* %




## EMPLOYEE SURVEY RESPONSE RATES* %




## FEMALE EMPLOYEES ACROSS THE WORKFORCE %




* Excluding international joint ventures

> Attracting and retaining the top talent in the industry has been and remains fundamental to the Group's strategy.
>
> **Leo Quinn**
> Group Chief Executive

The UK's Empower Career Development programme has supported the career development of more than 200 female employees.

To support and enhance leadership capability, Gammon launched a Soft Power Series for managers and junior leaders. This covered areas such as influencing, coaching, self-awareness and presentation skills, resulting in 138 managers and 119 junior leaders receiving soft skills training in 2019.

## Engagement

Employee engagement remains a key focus to support and enhance business performance. Balfour Beatty is creating a culture where continuous conversations and two-way listening are part of how the Group operates.

The US and UK businesses continue to conduct employee surveys and provide immediate feedback on results, ensuring complete transparency to build trust in the surveys.

Balfour Beatty is proud to have again exceeded previous results in 2019 by achieving a response rate of 76% and an employee engagement index score of 66%.

Feedback from the UK survey highlighted the importance of two-way communication with line managers and, as a result, the line manager toolkit and best practice guides have been launched in the UK. Feedback from the US survey included 84% of employees reporting Balfour Beatty's culture is inclusive to all people irrespective of background.

In the US, to further understand how employees feel at the start of their career at Balfour Beatty, an onboarding survey was conducted after the first 30 days of their employment. The results showed that 98% of new employees felt they were making a positive contribution to their team and Balfour Beatty, and 84% were satisfied or extremely satisfied with their onboarding experience.

### BUILDING INCLUSIVE ENVIRONMENTS

The annual groundbreaking Women in Construction conference was held in the US to bring women and men together to help the industry grow in the areas of gender inclusion and diversity.

The president of Balfour Beatty's US Buildings operations helped lead a panel discussion, 'Executive Ideals and the Realities of Inclusion', on what men in executive positions can do to help increase the number of women in construction and influence diversity and inclusion efforts.

The panel discussed the business case for inclusion and diversity, the pay gap, retaining and advancing women, and actions their companies are taking, including conducting bias training, encouraging women-led groups, and further integrating diversity and inclusion into recruiting efforts.

## Engagement continued

In response to the feedback from its 2018 Happiness Survey, Gammon implemented an action plan that incorporates a health and wellbeing programme. This includes initiatives such as yoga, running clubs and green Mondays.

In 2019, the non-executive Directors commenced an enhanced programme of employee engagement activities to complement the well-established site and office visit programmes. The aim of these activities is to create meaningful, regular dialogue with all levels of the workforce, listen, respond and build positive engagement. Feedback from the Board highlighted that the projects visited were "nurturing a great team spirit" and "doing a great job of translating the values and culture into reality on the ground".

## 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, the Board-level sponsor for diversity and inclusion (D&I), is supported by a steering committee that sets the direction for D&I, and a working party that leads and co-ordinates diversity initiatives. Within the UK, Affinity Networks are sponsored by a member of the senior leadership team and have over 1,000 members.

The UK business has a rolling three-year 'Include Everyone' D&I Action Plan which drives activity to nurture a culture of inclusion and improve diversity and includes actions to address barriers for BAME and female employees and support the reduction of the gender pay gap over time. The US business has a five-year strategic plan that focuses on three areas of opportunity and growth: gender; race/ethnicity; and veterans.

Key achievements in 2019 include the continued success of the Returners' programme, bringing talented people back into the workplace after a career break, and a Reverse Mentoring programme which includes members of the Executive Committee and employees from under-represented groups. Major Projects has also hosted a second Inspiring Women Conference and has working groups in place to drive progress on four priority areas.

Balfour Beatty continues to demonstrate advocacy for the Armed Forces, employing veterans and supporting reservists.

In 2019, the US business established a data-driven approach to understand the local and national employee demographic, talent pipelines and talent sources. Using this data, local leader conversations were held to identify ongoing initiatives and best practices

### NATIONAL INCLUSION WEEK

In 2019 Balfour Beatty celebrated National Inclusion Week across the UK with a number of events taking place to share best practice and how to become more inclusive as a business.

This included educational webinars informing employees on topics such as LGBT+ in construction, managing disabilities, neurodiversity as a competitive advantage and how to remove barriers for BAME employees. These webinars were hosted by members of the Affinity Networks and aimed to highlight the challenges some employees may face day to day, but also to indicate the benefits of having a diverse workforce.

On sites, there were a number of toolbox talks conducted and magazine interviews about how Balfour Beatty is building a more diverse workforce by one of many Affinity Network co-chairs and senior leadership blogs. There were also many personal pledges from colleagues in the business about how they can be more inclusive and what inclusion means to them.

A colleague said:"The creation of an inclusive environment where everyone feels respected and valued will enable us to all perform to our best, no matter our background."

### RECOGNITION IN DIVERSITY

**WINNER**
CECA: UK Inspiring Change Workplace Company Award

**WINNER**
Inspire: UK Most Inspiring Contractor Award

**19 FINALISTS, 3 WINNERS**
European WICE Awards

**WINNER**
The Greater Los Angeles African American Chamber of Commerce (GLAACC) with Public Works Contractor of the Year Award in 2019

**BRONZE**
American Heart Association 2019 Workplace Health Achievement Index

that could scale through the business, and external diversity events and outreach programmes to engage in. In 2019, Balfour Beatty participated in four national Women in Construction events in the US at which several Balfour Beatty keynote speakers and panellists provided thought leadership.

The D&I Champions group in Gammon focuses on investigating issues around gender. In 2019, D&I Champions conducted a survey and a focus group exploring the experiences of operational and technical staff and reported the results to management. The experience of women engineers on Gammon projects has also been highlighted while promoting D&I during sustainability month in November, raising awareness of common issues and behaviours.

In the UK, Balfour Beatty helps its supply chain to improve workforce diversity and inclusivity by sharing best practice at industry forums and participating in the Fairness, Inclusion and Respect (FIR) programme which aims to improve equality, diversity and inclusion practice at all tiers in the supply chain. Since 2013, Balfour Beatty's UK business has spent more than £8 billion 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.

## Emerging talent

Balfour Beatty is committed to investing in its future talent pipeline and continues to support The 5% Club. The Group continues to invest in new Emerging Talent programmes supported by a range of work experience, placement opportunities and volunteering.

In 2019, the UK business recruited 86 graduates, 119 apprentices and 22 trainees. The proportion of the UK workforce in 'earn and learn' positions has increased from 3.1% in 2014, to 5.4% at the end of 2019. At 31 December 2019, the UK business supported 243 graduates, 304 apprentices, 111 trainees and 26 year-out industrial placement students on a range of development schemes. In the UK, the focus in 2019 has been to launch ET+, which is a range of activities designed to help the emerging talent transition from their initial period of structured programmes by providing the tools to manage their careers.

Gammon dedicates its efforts to recruiting graduates, with 85 joining in 2019. Relevant training in diverse areas is offered to graduates to prepare for the chartership review. Gammon also recruited 33 apprentices in 2019 to join its apprentice programme.

In the US, Balfour Beatty hired 109 college interns for 2019 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.

## Summary

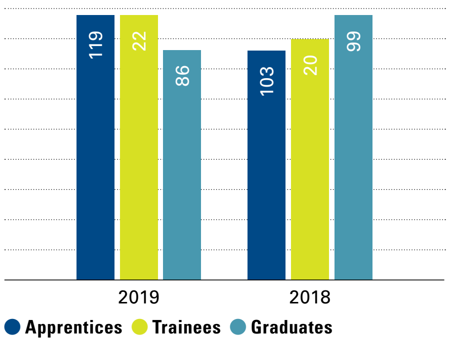
The Group's Build to Last transformation programme continues to improve business performance and contributes to the creation of a great place to work.

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

**UK EARN AND LEARN WORKFORCE**

**5.4%**

**UK EMERGING TALENT RECRUITS**




**GAMMON EMERGING TALENT HIRES**

**118**

**COLLEGE INTERNS IN THE US**

**109**

## GENDER BREAKDOWN

| At 31 December 2019 | Male | Female | Total | % Male | % Female |
|---|---|---|---|---|---|
| Board | 6 | 2 | 8 | 75.0% | 25.0% |
| Senior managers[1] | 79 | 25 | 104 | 76.0% | 24.0% |
| Directors of subsidiaries not included above[2] | 34 | 10 | 44 | 77.3% | 22.7% |
| Employees[3] | 21,365 | 4,765 | 26,130 | 81.8% | 18.2% |

1 Senior managers are employees of the Company and its subsidiaries who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of it, excluding Directors of Balfour Beatty plc.

2 Directors of all subsidiaries have not been included as senior managers as this would not accurately reflect the Group's executive pipeline.

3 All employees of the Company and its subsidiaries, together with all employees of Gammon, the Group's 50:50 joint venture with Jardine Matheson based in Hong Kong.

# Ensuring integrity within the business

Putting 'doing the right thing' at the heart of what we do.

Over recent years the Business Integrity programme (the programme) has steadily built on the underlying principles as set out in the Balfour Beatty Code of Conduct and supplemented by the Suppliers Code of Conduct. In essence, they put 'doing the right thing' at the heart of what we do.

The Code of Conduct, as a standalone website, is accessible from any device with an internet connection (www.balfourbeattycodeofconduct.com). This approach means everyone working for and with Balfour Beatty can access its content. 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 is now well established with processes and controls in place to provide assurance in areas such as third-party risk, anti-corruption and competition law. Training and compliance declarations are completed by all employees and in 2020 all employees and others that work with Balfour Beatty will continue to be provided with guidance to always do the right thing.

The Group continues to develop a network of Business Integrity advisers who support the Business Integrity team with messaging, initiatives and investigations and provide a local point of contact for employees who may wish to raise concerns.

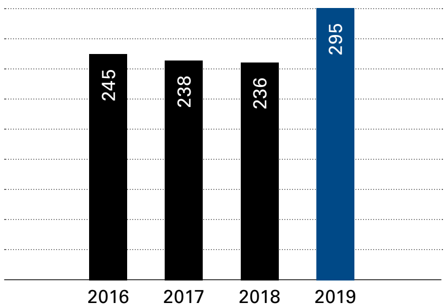
The June 2019 employee survey reported a disappointing decrease compared to responses in 2018 in the number of UK respondents who stated that they knew how to raise issues and challenge unethical behaviour using the Speak Up helpline.

The Group will respond to this drop in awareness by including, within its programme for 2020, specific training and communications on how employees can raise concerns. Additionally, the programme will put emphasis on the following areas:

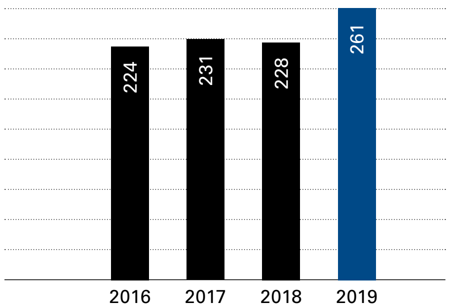
- managers are critical to the success of the programme and the Business Integrity function will work with them to ensure they cultivate and encourage the correct culture in their businesses;
- the Code of Conduct assessment, which tests knowledge in 12 key risk areas, has proven to be a more effective and engaging method of training and will be rolled out to all employees in 2020; and
- to reinforce individual responsibility, all employees are required to provide a declaration about their own behaviour in regard to the Code of Conduct and associated processes.

For further information about the business conduct/compliance risks please refer to page 82.

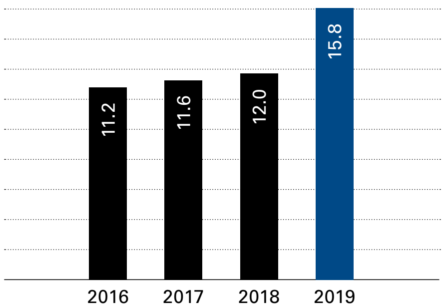
**SPEAK UP HELPLINE CASES**
**Number**



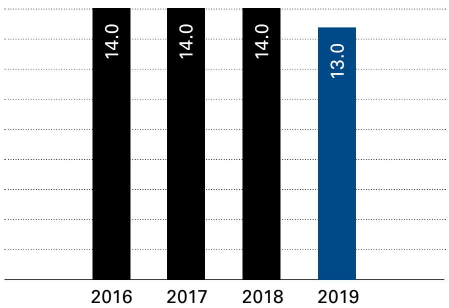

**SPEAK UP HELPLINE CASES (EXCLUDING HR GRIEVANCES) Number**




**CASES PER 1,000 EMPLOYEES (BALFOUR BEATTY) Number**




**CASES PER 1,000 EMPLOYEES (GLOBAL BENCHMARK) Number**




| Question | Q2 2018 | Q2 2019 |
|---|---|---|
| I understand what is expected of me in the Balfour Beatty Code of Conduct | 95% | **94%** |
| I am encouraged to do the right thing in everything that I do at work | 84% | **85%** |
| I am able to raise issues and challenge unethical, dishonest or unacceptable behaviour using the Speak Up helpline | 82% | **67%** |

## 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 2019 increased by 25% on 2018's numbers which, despite the June 2019 employee survey response, provides further assurance that people feel able to report concerns. This increase has led to a further increase in the number of cases per 1,000 employees which now stands at 15.8. This number compares favourably to global benchmarking numbers currently stood at 13.0.

Ensuring all in-scope cases are investigated remains an important priority for the business and this continued in 2019 with 100% of in-scope cases investigated.

## Security

In 2019, Business Integrity recruited a new UK Security Manager, who is working closely with the business units to develop, implement and support an enhanced security strategy for the protection of Company assets.

## Modern slavery

Modern slavery is a brutal form of organised crime in which people are treated as commodities and exploited for criminal gain. 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 2020 can be accessed here: www.balfourbeatty.com/modern_slavery.

## Data protection

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.

Balfour Beatty has continued, as the GDPR programme is ongoing, to carry out impact assessments on its high-risk IT systems, supplier processors and corporate websites. Balfour Beatty's Group Data Protection Officer has chaired a GDPR steering board to review GDPR programme activity and to track data incidents, subject access requests, data protection impact assessments (DPIA) and general compliance. An automated process for conducting data protection impact assessments and data mapping has continued to operate along with an update of key processor terms, and privacy notices, as well as delivery of corporate training on data protection principles.

Throughout 2019, in the UK, Balfour Beatty assessed c. 60 data incidents, one of which was notified to the Information Commissioner's Office, processed c. 160 subject access requests and logged c. 800 data protection impact assessments. Balfour Beatty appointed a new Group Data Protection Officer in September 2019 who will focus on building on and continuously improving the GDPR programme and compliance culture. Current initiatives include creating a Data Privacy Champions network, enhancing the subject access request process, automating DPIA and records of processing, creating a data protection compliance toolkit for SBU projects and implementing recommendations following an audit review by internal audit in 2019. Balfour Beatty's Group data protection team has also worked with Balfour Beatty's US legal team on readiness for the California Consumer Privacy Act which came into force on 1 January 2020.

For further information about the data protection risks please refer to page 79.

## 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; and
- 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.

For further information on legal and regulatory risks refer to page 83.

### 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.

# Our sustainability blueprint

Driving economic, environmental and social outcomes.

**HIGHLIGHTS**

**51.1%**
reduction in carbon since 2010 baseline year

**£0.5m**
in energy savings

**97.5%**
waste avoided from landfill

**42.3%**
increase in UK STEM ambassadors

**41.5**
UK average Considerate Constructors Score (UK CCS)

## 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.

- Building construction and operations accounted for the largest share of both global final energy use (36%) and energy-related $CO_2$ emissions (39%) in 2018.[1]
- On a global scale, buildings use around 40% of resources, 25% of water and 40% of energy, and they account for around one third of greenhouse gas emissions.[2]
- The construction, renovation and demolition of buildings account for about 40% of solid waste streams in developed countries.[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 wastewater 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 offsite 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.

1 2019 Global Status Report for Buildings and Construction: Towards a zero-emissions, efficient and resilient buildings and construction sector. p12. https://www.worldgbc.org/sites/default/files/2019%20Global%20Status%20Report%20for%20Buildings%20and%20Construction.pdf.

2 UN Environment, Assessing Global Resource Use, 2018, p64, https://www.resourcepanel.org/reports/assessing-global-resource-use.

3 UN Environment, Assessing Global Resource Use, 2018, p65, https://www.resourcepanel.org/reports/assessing-global-resource-use (listed as referencing United Nations Environment 3Programme (UNEP) (2012a). Building Design and Construction: forging resource efficiency and sustainable development. The Sustainable Buildings and Climate Initiative. M. Comstock, C., Garrigan and S. Pouffary).

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 were 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 Build to Last goals, outlined on pages 8 and 9, 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 51 to 58. For details on Our Blueprint, please visit www.balfourbeatty.com/ourblueprint.

Other themes such as resource efficiency or developing skills and talent have supportive commitments such as the 25 by 2025 vision and membership of The 5% Club.

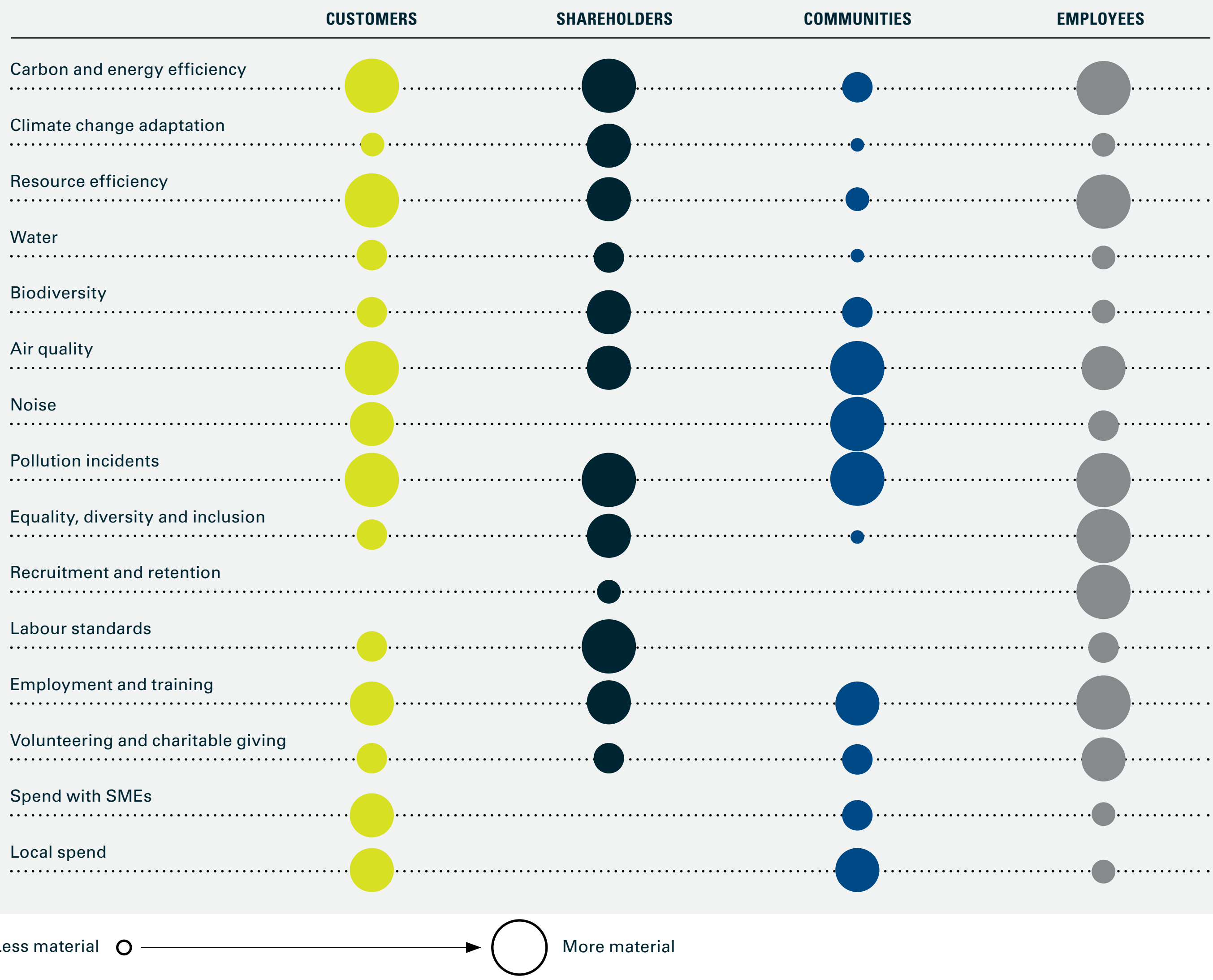
In 2019 the Group undertook a survey to identify the sustainability topics that mattered to stakeholders. Perhaps unsurprisingly, carbon, energy and climate change featured prominently alongside resource efficiency.

Other topics such as environmental protection, employment practices and community engagement featured highly, as illustrated in the table below.

This feedback is informing the development of Balfour Beatty's new sustainability framework that will be launched in 2020.

## STAKEHOLDER PRIORITIES

The table below illustrates the key priorities for different stakeholders, but is by no means exhaustive and can be subjective. The information is based on desktop reviews, customer and people surveys and interviews, but may not represent the views of all stakeholders. The size of the bubble demonstrates the importance of the topic to the stakeholder group.



## How we manage sustainability

### Board

Safety and Sustainability Committee

### Strategic business units

Executive Leaders

### Sustainability priorities

| | |
|---|---|
| **LEAN** | We seek to continually improve the value we deliver to customers through a relentless focus on resource efficiency and best practice in supply chain management. |
| **EXPERT** | We offer resilient engineering, design and delivery solutions and collaborate with partners to bring innovative sustainable solutions to the market.<br>Our ability to attract, retain and develop employees is a measure of our commitment to invest in our people. |
| **TRUSTED** | We aim to deliver on our promises to customers and improve the value we offer by investing in local communities and agreeing sustainability targets with our customers.<br>Our business integrity programme is designed to help embed ethical behaviour and integrity across our business. |
| **SAFE** | Health and safety standards, occupational health and environmental compliance are all manifestations of working safely. |

Internal & external audit

FTSE4Good

### Our Blueprint continued

For many investors Environmental, Social and Governance (ESG) matters are becoming increasingly important, which is why Balfour Beatty participates and is listed in the FTSE4Good index.

### 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 reviews the Group's sustainability strategy and monitors progress against Our Blueprint. This ensures governance and accountability for delivery and performance at Board level. The Board has overall responsibility for setting Balfour Beatty's sustainability policy and overseeing how ESG matters are managed.

Each strategic business unit is responsible for developing and updating its own sustainability action plan that communicates its priorities, sets out its targets, and describes the arrangements it has put in to place to deliver against Our Blueprint. 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.

The sustainability leads are responsible for cascading Our Blueprint through the business, as and when new projects mobilise, reviewing and sharing best practice and identifying opportunities for improvement.

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 2019, the total value of projects in progress that related to green infrastructure was £1.06 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 2019. 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. Since appointment, Balfour Beatty has secured contracts worth £41 million in 2019.

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. Indeed Balfour Beatty is helping its customers, and the people they serve, transition to a low carbon economy.

Balfour Beatty was awarded a £70 million contract to deliver renewable electricity to the west of Scotland by constructing and engineering a new 37-kilometre, 275kV double circuit overhead line on behalf of Scottish Hydro Electric Transmission.

Over Christmas Balfour Beatty, working on behalf of Network Rail, successfully completed the electrification of 77 kilometres of the Great Western Railway (GWR) line between Bristol and Cardiff; a significant contribution to Network Rail's overall Greater West Electrification Programme to electrify 275 kilometres of train line between Cardiff and London, which will significantly reduce carbon emissions by allowing the public to undertake train journeys rather than use other means of transport.

Balfour Beatty was also awarded a £90 million contract to deliver the British onshore civils works for the Viking Link Interconnector Project on behalf of joint venture delivery partners, National Grid and Energinet. Balfour Beatty will be responsible for the civil engineering and installation of 68 kilometres of high voltage cabling connecting Denmark to Great Britain at National Grid's Bicker Fen substation, which will supply renewable electricity to 1.4 million homes and improve the security of electricity supply in both countries. It will contribute to the UK Government's commitment to reduce all greenhouse emissions to net zero by 2050.

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 reduce leaks.

The US Construction business completed six LEED® buildings in 2019. Gammon, the Group's joint venture based in Hong Kong, completed 15 buildings, all of which have provisional LEED® or equivalent certificates in place.

**GREEN INFRASTRUCTURE PROJECTS IN PROGRESS**

**£1.06bn**

**BUILDINGS CREATED WITH CERTIFICATION**

| | |
|---|---|
| UK | 1 |
| US | 6 |
| Gammon | 15 |

## PHOTOVOLTAIC RENEWABLE ENERGY SYSTEM

Gammon also invested in a 200kWp capacity photovoltaic (PV) renewable energy system at Gammon Technology Park in Tseung Kwan O Industrial Estate. The 624 mono-crystalline silicon terrestrial PV system was installed on the roof of the mixed-use building and started generating electricity in July. It will produce around 276 megawatt-hours (MWh) of electricity per year, equivalent to the annual consumption of about 60 households. While Gammon has been involved in the installation of PV panels for clients on their projects – such as the Zero Carbon Building, the Midfield Concourse and One Taikoo Place – this is the third and largest PV system that's been installed on its own sites.

The first was commissioned in December 2018 at the Sai Sha Road Widening project (recently expanded from 45 to 50kWp capacity), followed by the Highways Department Central Kowloon Route Kai Tak West contract site offices (132kWp), and now the third at Gammon's own premises in Tseung Kwan O.

Discover more at
**balfourbeatty.com/Solar**

# 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 a reduction in carbon emissions intensity in 2019 compared to 2018 from 24.5 tonnes of $CO_2$ equivalent ($CO_2$e)/ £m revenue to 20.3 tonnes of $CO_2$e/£m revenue.

Since establishing a baseline in 2010, the tonnes of $CO_2$e/£m revenue have dropped by 51.1% from 41.5 tonnes of $CO_2$e/£m revenue to 20.3 tonnes of $CO_2$e/£m revenue. The Group has therefore met its 2020 target of 50% reduction of Scope 1 and 2 emissions per £ million revenue against a 2010 baseline a year early. Balfour Beatty's 2025 goal is to achieve a 60% 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. Furthermore, a science-based target for 2030 is being considered by the business.

The Group's total Scope 1 and 2 emissions also reduced by 6.1% from 224,430 $CO_2$e tonnes in 2018 to 210,632 $CO_2$e tonnes in 2019. These are the Group's lowest Scope 1 and 2 absolute emissions since the 2010 baseline was established representing a reduction of 147,351 tonnes of $CO_2$e (41.2%).

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 2019, the Group has continued to: improve the fuel efficiency of its fleet; expand electric plant and fleet options; 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 $CO_2$e. This equates to an energy saving of over £0.5m.

As illustrated, the UK accounts for 41% of the Group's Scope 1 and 2 emissions, the US 15% and the Rest of the World 44%.

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

## Energy use in MWh

| Fuel | 2017 | 2018 | 2019 |
|---|---|---|---|
| Electricity | 130,653 | 100,333 | **88,061** |
| Heat and steam | 12,836 | 14 | **–** |
| Natural gas | 16,924 | 15,242 | **8,691** |
| Industrial gases | 3,866 | 3,013 | **4,095** |
| 5% biodiesel blend | 391,905 | 434,524 | **414,387** |
| 5% biofuel petrol blend | 76,447 | 72,190 | **63,305** |
| Biodiesel different blend | 456 | 67 | **104** |
| E85 petrol | 99 | 603 | **1,278** |
| Gas oil (red diesel) | 213,012 | 191,374 | **197,590** |
| 100% mineral diesel | 15,381 | 15,372 | **13,298** |
| 100% mineral petrol | 3,848 | 6,076 | **–** |
| LPG | 256 | 261 | **187** |
| CNG | 1 | – | **–** |
| Boiler fuel | – | 653 | **214** |
| **Global total** | 865,684 | 839,722 | **791,210** |
| **UK energy use % of total** | 41.5% | 36.2% | **45.4%** |

**REDUCTION IN SCOPE 1 & 2 EMISSIONS IN 2019**

**6.1%**

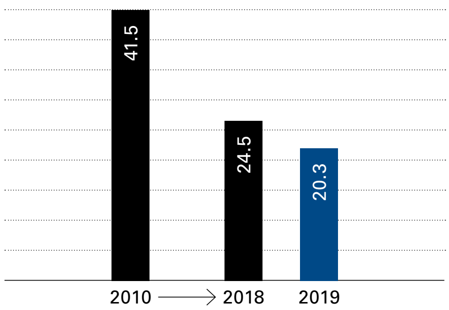
**TONNES OF SCOPE 1 & 2 $CO_2$e PER GEOGRAPHY**

| | |
|---|---|
| UK | 87,114 |
| North America | 32,113 |
| Rest of the World | 91,405 |

**TONNES OF SCOPE 1 & 2 $CO_2$e/£m REVENUE IN 2019**

**20.3**

**TONNES OF SCOPE 1 & 2 $CO_2$e/£m REVENUE**




**REDUCTION IN TONNES OF SCOPE 1 & 2 $CO_2$e/£m REVENUE AGAINST 2010 BASELINE**

**51.1%**

## 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 2019 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 52 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 reduced by 6.1% (13,798 tonnes) from 2018 to 2019, energy use measured in MWh dropped by 5.8% (48,512 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 12% reduction in electricity use and a 43% reduction in natural gas use since 2018 as the Group rationalised its property portfolio and improved energy efficiency. Overall fuel usage for most fuel types has reduced, except for gas oil.

The energy use table has been updated to include energy use from mileage and restated for previous years accordingly.

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 2019 to calculate its emissions into equivalent tonnes of carbon dioxide ($CO_2e$) and the IEA's November 2019 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.

PwC LLP was engaged to undertake an independent limited assurance engagement of the Group's Scope 1 and 2 emissions, reporting to Balfour Beatty plc, using the assurance standards ISAE 3000 and ISAE 3410 over the GHG data that has been highlighted in this report with the symbolⒶ. PwC LLP's 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 its opinion, PwC LLP performed a range of testing procedures over the GHG data. A summary of the work PwC LLP performed is included within its 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 the 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.

## 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 2019, over 3,116,849 tonnes of waste that Balfour Beatty produced were avoided from landfill. This equates to 97.5% of the total amount of waste that Balfour Beatty produced in 2019, 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 from 16 tonnes/£m revenue in 2017 to 7 tonnes/£m revenue in 2019. This includes both materials sent to landfill and materials that are recycled.

On the £2.4 million A285 safer roads project in West Sussex, the team applied closed-loop recycling methods using material stripped from the existing road to maximise the recycling of Hydraulic Bound Macadam (HBM) back into the network. This eliminated waste and prevented the need for the production and transportation of new virgin materials, diverting 6,735 tonnes of material from landfill and allowing 3,500 tonnes of tar contaminated material to be recycled (part of the total reused). A recycling centre was set up at Balfour Beatty's depot, within 10 kilometres of the site, reducing HGV movements and associated carbon emissions.

## Scope 1 and 2 GHG emissions

| | Absolute tonnes of $CO_2e$ | | | | | |
|---|---|---|---|---|---|---|
| | Base year 2010 | 2015 | 2016 | 2017 | 2018 | **2019** |
| Scope 1 | 283,821 | 238,083 | 220,355 | 170,937 | 175,065 | **167,071**Ⓐ |
| Scope 2 (location-based) | 74,162 | 71,007 | 77,943 | 71,170 | 49,365 | **43,561**Ⓐ |
| **Total Scope 1 and 2 carbon emissions** | 357,983 | 309,090 | 298,298 | 242,107 | 224,430 | **210,632** |
| **Total Scope 1 and 2 carbon emissions per £m revenue** | 41.5 | 35.0 | 29.4 | 22.1 | 24.5 | **20.3** |

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

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

Ⓐ Included within PwC LLP's limited assurance scope.

## Waste intensity continued

Any tar contaminated material was safely encapsulated into the HBM for reuse on the project, reducing the amount of waste sent to landfill. Materials excavated during the final stages of the project were recycled, creating 2,000 tonnes of material for reuse on other projects within the council's works programme. This reduced the need to move materials and saved 80,000 HGV miles. The method saved more than 60 tonnes of $CO_2$ and led to the project being awarded a Green Apple award for environmental best practice.

## 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.

The Group has seen a decrease in its water intensity in the areas of its business where water is monitored from 160m$^3$ /£m revenue in 2018 to 110m$^3$/£m revenue in 2019.

## Supply chain and collaboration

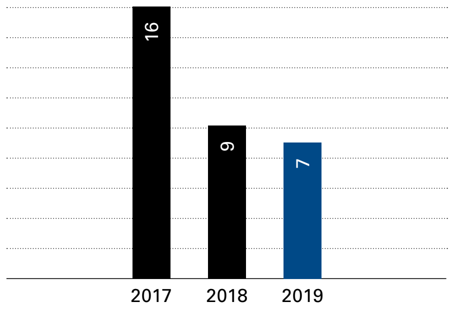
Balfour Beatty recognises the critical role of its supply chain partners in helping to make it a more sustainable business. The Group has continued to improve its approach to sustainable procurement in 2019 by working with its supply chain to deliver social value outcomes and agree improvement plans across key categories. Much of the Group's work is undertaken collaboratively. For instance, in 2019 Balfour Beatty worked with A-Plant and Invisible Systems to develop a demand side energy management system that reduces energy consumption of site compounds by one-third. The Group has worked with its supply chain partners to improve their low carbon product offering as technology and solutions evolve. For instance, over the last two years the fuel consumption of towerlights has been reduced from approximately 2 litres per hour to 0.28 litres per hour.

Since 2017, when it became the first company to implement and be assessed against ISO 20400:2017 the international standard for sustainable procurement for its UK operations, Balfour Beatty has continued to improve its processes to drive sustainability by targeting specific opportunities and risks.

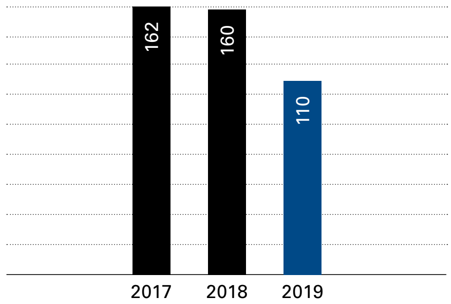
Similarly, since Gammon became the first Asian company to be assessed against ISO 20400:2017, it has continued to have ongoing regular dialogue with its supply chain partners. It holds workshops with them to communicate its expectations in a number of key areas, as well as provide an opportunity for the suppliers to discuss any issues they may have or propose alternative solutions or products. For more information visit: https://www.gammonconstruction.com/en/sustainability-report.php.

One example of Gammon's recent collaboration is the Enertainer. Gammon collaborated with a Hong Kong start-up, Ampd Energy, to develop a replacement for noisy, polluting diesel generators on construction sites, as illustrated on page 55.

**TONNES OF WASTE LANDFILLED**
**per £m revenue**




**CUBIC METRES OF WATER**
**per £m revenue**




### COUNTY OF SAN DIEGO – NORTH COASTAL LIVE WELL HEALTH CENTRE

Balfour Beatty and HMC Architects provided design-build services to deliver the new North Coastal Health and Human Services Agency building. Designed to serve ageing and independence services, a military and veterans resource centre, community health promotions, regional administration, public health and behavioural health services, the County of San Diego wanted the 36,000 sq ft facility to be energy efficient with little or no operating costs and integrate with its natural surroundings. The new facility maximises the use of sustainable design principles and offers its residents a space to re-integrate into life. The architecture, engineering, landscaping and building systems were designed for efficiency and ease of maintenance. The facility achieved LEED Platinum Certification and is the only Zero Net Energy project listed in California that is a County-owned medical office.

It features several water and energy conservation measures and maximises passive cooling techniques as well as the use of renewables.

The facility was completed within an 18-month design to occupancy schedule with a limited budget and offers an example of what can be achieved through sustainable design.

> The Group has worked with its supply chain partners to improve their low carbon product offering as technology and solutions evolve.

Balfour Beatty and Gammon invite supply chain partners to various conferences and engagement sessions including the safety and sustainability conference.

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 2,760, an increase of 5.9% from 2018.

## 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 C rating was achieved in 2019, which is a reduction from the previous year's rating.

This is in part due to the questions changing, and there being a greater focus on items such as Taskforce on Climate-related Financial Disclosures reporting, Science Based Targets and quantifying and verifying Scope 3 emissions.

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.

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 fluctuations in energy costs;
- sustainability performance failing to keep pace with demands; and
- 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; and
- improved reputation and ability to win work through our capability.

## Environmental compliance

In 2019, three environmental incidents resulted in fines totalling £8,688. Two of these related to noise pollution incidents and the third to waste disposal.

### GAMMON – BATTERY STORAGE SYSTEM

Gammon, the Group's joint venture in Hong Kong, developed a detailed decarbonisation action plan in 2019 that led to it signing Pathway 1 of the Hong Kong Business Environment Council's Low Carbon Charter, pledging to reduce carbon. Its action plan focuses on reducing carbon from power use, by lowering diesel use on site and using early grid connections.

Gammon collaborated with a Hong Kong start-up, Ampd Energy, to develop a replacement for noisy, polluting diesel generators on construction sites.

The result is the Enertainer, a battery storage system intended as the primary source of power for machinery with high peak demand onsite which significantly reduces $CO_2$ generation.

# 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; and
- 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.

Balfour Beatty also increased the number of its science, technology, engineering and mathematics (STEM) ambassadors over the year by 42.3% from 281 to 400.

The June 2019 engagement survey showed that 73% of the Group's UK and US employees thought that "Our projects/ contracts enable us to give something back to the community". The focus areas for the Group's charitable work have been on:

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

## NUNEATON – VETERANS' CONTACT POINT

Balfour Beatty and Warwickshire County Council partnered up to refurbish the Veterans' Contact Point (VCP) which provides a free and confidential space for veterans and their families Nuneaton, Leicestershire. The goal was to leave a lasting positive legacy in the region with the VCP properly equipped to serve the local veteran community.

Run by the veterans, for veterans, the volunteers, alongside other charitable groups, offer a range of support services including: employment advice, shelter and housing guidance, mental and physical health support, and other vital services designed to help veterans and their family's transition to a civilian life.

The works included an extension, energy efficient heating system, new furniture and improved access road and landscaping.

Together with the hard work of the project team and the VCP volunteers, the raised profile of the VCP has helped to achieve the following outcomes since its reopening:

- Approximately £340k worth of time, labour and materials donated by 59 suppliers
- 30% increase in usable space
- 12 new veterans have accessed services in the VCP
- Four veterans signposted to potential jobs using the employment advice on offer, with one offered full-time employment with Balfour Beatty

Alongside the general VCP services, 10 organisations have improved their use of the facilities and offer their services to the veterans on a regular basis.

> We are grateful to Balfour Beatty, Warwickshire County Council and all of the supply chain partners who dedicated their time and money to refurbishing the VCP. The new centre will provide invaluable support to veterans in the Warwickshire and Coventry communities.

**Len Hardy**
Executive Officer of the Veterans' Contact Point

Discover more at
**balfourbeatty.com/VCP**

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 2019, 118 of the Group's UK sites were assessed against the scheme, with an average score of 41.5 out of 50 against an industry average of 36.73. Of these sites, 81.4% exceeded Balfour Beatty's internal target score of 40.

The £13 million Scarborough Spa Slope Stabilisation Scheme scored a massive 48 out of 50 under the CCS. The whole team got involved in ensuring the CCS assessment was a success, through encouraging best practice within the team and creating a positive image of construction within the local community.

This included:

- engaging with local school and college students through career fairs, mock interviews and site visits;
- communication with the local community and businesses to keep them up to date on the project through meetings, newsletters and display boards;
- charity coffee mornings and donations of food and toys to support children the local children's hospice; and
- Health awareness talks organised for staff and operatives.

Innovation points were awarded for:

- innovative redesign of geotechnical slope rigs to increase accessibility to difficult locations;
- hosting a Construction Live broadcast that engaged young people across the country; and
- development of equipment to reduce manual handling for operatives when working with grout plants.


## DELIVERING SOCIAL VALUE ON THE MANCHESTER ENGINEERING CAMPUS DEVELOPMENT (MECD)

The MECD Project is one of the single largest construction projects undertaken by a higher education institution in the UK for the University of Manchester. The £400 million new development has eight floors and a floorspace of over 76,000 sq m (approximately the size of 11 football pitches) and is due for completion in early 2021.

Using the Social Value Portal, MECD delivered over £19.7 million of social value through local employment, apprenticeships, work experience, local spend and numerous other initiatives, from November 2016 to October 2019. This was achieved with the support of supply chain partners, and collaborative partnerships with the University of Manchester (via The Works and its Construction Academy), local schools, colleges and community groups. The results included:

- 100 local jobs created (target of 80)
- 95 new/sustained apprenticeships created (target of 30)
- 10 internships provided
- 10 mentoring opportunities created
- 600 individuals seeking employment engaged
- 27 STEM activities delivered to local schools
- 23 careers focused activities and site visits delivered to University of Manchester students
- 3,000+ local pupils and college students engaged
- 45/50 scored on the Considerate Constructors Scheme (target of 40)
- 43 local community groups and causes supported
- £18k+ fundraised for charities

With a focus on those furthest from the job market, of the 100 new local job roles that have been created on the project to date:

- 24 were previously classed as Not in Employment Education or Training (NEET)
- 14 were long-term unemployed
- 10 were rehabilitated offenders (25+ years)
- Five were rehabilitated young offenders
- One was a 'looked after child'

Some of those helped back into work included:

Edgar was being supported by Embassy, a local homelessness charity. After being offered a work trial with the plastering and dry lining subcontractor, he has recently moved into his own accommodation.

David was previously unemployed for over 13 years until he was offered a 4-week unpaid work placement. Three weeks into his placement he was offered a full-time role and has now been employed since July 2017.

James was an armed forces leaver who joined the project through a partnership with Project RECCE, a pre-employment group supporting military leavers. He joined originally as a labourer but has retrained and is now the waste manager for the logistics subcontractor.

Discover more at
**balfourbeatty.com/MECD**

## Community investment through charitable fundraising

The Balfour Beatty Shaping 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 2019, employees raised over £7,068 through Shaping Better Futures. The Company matched this with an additional contribution and donated a total of £90,000. Since 2013, the Trust has raised £236,916 to support Barnardo's, helping over 4,900 young people to gain new skills, qualifications and stable work. Since 2010, the Trust has contributed over £509,000 to Coram, funding vital services for children and young people.

In addition to the support Barnardo's received through Shaping Better Futures, the Group, in partnership with Network Rail, has helped to raise over £137,775 for Barnardo's following a six-day event held at the iconic Forth Bridge.

The Group has worked closely with The Prince's Trust since the beginning of the partnership and has raised over £1.4 million for the charity. Through The Prince's Trust, the funding from 2019 will support 50 young people into positive outcomes in employment, education and training, transforming their life chances and developing their confidence and employability skills. In the UK and Ireland, a further £190,178 was raised by employees for charitable purposes. Across the Group's operations, employees volunteered 13,034 hours for charitable causes and donated £94,481 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$328,000 to charitable causes in 2019. Some of the organisations receiving donations were:

- Bridges to Prosperity
- American Heart Association
- Mary's Center
- Good Samaritan Foundation
- Tustin Public Schools
- ACE-Mentor Program
- Make-A-Wish® Foundation
- Grace Medical Home
- Dallas CASA
- Oregon Harbor of Hope
- DC Students Construction Trades Foundation
- Ronald McDonald House
- Sharefest
- Urban Ministry Center

In 2019, two 10-member teams of Balfour Beatty employees from across the US travelled to Rwanda in conjunction with Bridges to Prosperity (B2P) to complete two different bridge-building projects. Requiring months of planning, these two footbridges (50 and 56 metres in length) were completed to facilitate access to healthcare, education and economic opportunities for the communities of Kiruri and Kirumbi. Each team raised over US$80,000, with a combined total raised of over US$171,000 from colleagues, friends, family and Balfour Beatty business partners to fund the trip.

Florida teammates hosted their annual golf tournament at the Isleworth Golf & Country Club and raised US$55,000 for Grace Medical Home, a non-profit healthcare provider that seeks to help Floridians that cannot afford vital medical care otherwise.

Balfour Beatty proudly teamed with Omniplan to design and construct children's playhouses for the Dallas CASA 24th annual Parade of Playhouses. This year, local architects, contractors, organisations, and corporations have teamed to deliver 17 new playhouses for children in the Dallas/Fort Worth area. The mission of Dallas CASA is to provide the support and guidance necessary to help find safe, permanent homes for children in the foster care system.

The Raleigh office's fifth Annual Golf Outing, benefiting Make-A-Wish of Eastern North Carolina raised more than US$75,000 in 2019 and provided a fun day for both sponsors and volunteers who helped grant wishes for kids in their community. Since 2015, the Balfour Beatty Make-a-Wish Golf Outing has raised more than US$205,000.

In 2019, Gammon, its staff and partners contributed to over 69 activities and community events in Hong Kong and provided over HK$1.7 million in charity donations.

Gammon runners joined the Lighthouse Club Lap Dog Challenge in November 2019, a competition that involved a team of five runners competing to run as many 400-metre laps as they could in five hours for charity. Gammon was first runner-up out of nine teams, completing 519 laps in five hours and raising nearly HK$70,000 for the Lighthouse Club Hong Kong Benevolent Fund.

To promote environmental awareness, Gammon supported the Highways Department of the HKSAR Government's organisation of the 'Tuen Mun – Chek Lap Kok Link Southern Connection Community Planting Day' at the Hong Kong Port. Students from two primary schools, Tung Chung Catholic School and Ching Chung Hou Po Woon Primary School, were invited to join the activity to learn more about plants and experience the fun of planting, while raising their awareness on environmental protection.

## AWARDS

**Sustainability and Resource Recovery Initiative of the Year, Water Industry Awards 2019**
Balfour Beatty's collaboration with GenQuip GroundHog and Hogen Systems

**Sustainability and Environmental Excellence, Rail Business Awards 2019**
Thameslink Key Output 2 (KO2) Programme

**Winner, Britain's Most Admired Companies 2019**
Heavy Construction category

**Considerate Constructors Scheme**

- 6 gold (of which 1 was a Most Considerate Site Runner Up)
- 4 silver
- 2 bronze

**Green Apple Awards 2019**

- 4 gold
- 1 bronze
- 1 green champion

## 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 | Our sustainability blueprint | **pages 48–58** |
| | Sustainability policy | | |
| | Sustainable procurement policy | | |
| | Environmental policy | | |
| | ISO 14001:2014 & ISO 20400:2017 | | |
| **Employees** | Health and safety policy | Committed to creating a safe and healthy workplace | **pages 40–41** |
| | Code of Conduct | Creating a culture of personal development | **pages 42–45** |
| | | Ensuring integrity within the business | **pages 46–47** |
| **Social and community matters** | Social value policy | Healthy communities | **pages 56–58** |
| | Code of Conduct | Ensuring integrity within the business | **pages 46–47** |
| **Respect for human rights** | Modern slavery statement | Ensuring integrity within the business | **pages 46–47** |
| | Code of Conduct | | |
| **Anti-corruption and bribery matters** | Supplier Code of Conduct | Ensuring integrity within the business | **pages 46–47** |
| | Code of Conduct | | |
| **Innovation** | | Cutting edge outcomes for our customers | **pages 18–21** |
| **Description of the business model** | | Balfour Beatty at a glance | **pages 2–3** |
| | | Our strategy: Build to Last | **pages 8–9** |
| | | Market review | **pages 12–13** |
| | | Business model | **pages 14-15** |
| **Stakeholders** | | Sharing the value we create | **page 16–17** |
| | | Stakeholder priorities | **page 49** |
| **Description of principal risks and impact of business activity** | | Risk management | **pages 72–76** |
| | | Principal risks | **pages 77–84** |
| **Non-financial key performance indicators** | | Our strategy: Build to Last | **pages 8–9** |
| | | Committed to creating a safe and healthy workplace | **pages 40–41** |
| | | Creating a culture of personal development | **pages 42–45** |
| | | Ensuring integrity within the business | **pages 46–47** |
| | | Our sustainability blueprint | **pages 48–58** |

Discover more about
the Group's policies at
**balfourbeatty.com/policies**

# 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 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.

### Operating Cash Flow (OCF)

The Group uses an internally defined measure of OCF to measure the performance of its earnings-based businesses and subsequently to determine the amount of incentive awarded to employees in these businesses under the Group's Annual Incentive Plan (AIP). This measure also aligns to one of the vesting conditions attributable to the Group's 2017, 2018 and 2019 PSP awards. The 2017 PSP awards will vest in June 2020 based on performance conditions achieved as at 31 December 2019. Refer to page 132.

## 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 157 to 163.

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

### Performance measures

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

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

#### a) Order book

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

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

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

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 (i).

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

| | **2019 £m** | 2018 £m |
|---|---|---|
| Order book (performance measure) | **14,339** | 12,625 |
| Less: Share of orders included within the Group's joint ventures and associates | **(1,987)** | (2,013) |
| Less: Estimated orders under framework agreements included in the order book disclosure | **(114)** | (358) |
| Add: Transaction price allocated to remaining performance obligations in Infrastructure Investments* | **1,866** | 2,641 |
| Transaction price allocated to remaining performance obligations for the Group* (statutory measure) | **14,104** | 12,895 |

* Refer to Note 4.3.

## Measuring the Group's performance continued

### Performance measures continued

#### 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;
- 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); and
- impairment of goodwill.

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 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 2019 statutory results to performance measures

| | | Non-underlying items | | | | | |
|---|---|---|---|---|---|---|---|
| | **2019 statutory results £m** | Impairment of goodwill £m | Intangible amortisation £m | Provision release on health & safety claims £m | Results of Rail Germany £m | UK deferred tax asset £m | **2019 performance measures £m** |
| **Revenue including share of joint ventures and associates (performance)** | **8,411** | – | – | – | (6) | – | **8,405** |
| Share of revenue of joint ventures and associates | **(1,098)** | – | – | – | 5 | – | **(1,093)** |
| **Group revenue (statutory)** | **7,313** | – | – | – | (1) | – | **7,312** |
| Cost of sales | **(6,931)** | – | – | – | 1 | – | **(6,930)** |
| **Gross profit** | **382** | – | – | – | – | – | **382** |
| Gain on disposals of interests in investments | **40** | – | – | – | – | – | **40** |
| Amortisation of acquired intangible assets | **(6)** | – | 6 | – | – | – | **–** |
| Other net operating expenses | **(323)** | 58 | – | (2) | – | – | **(267)** |
| **Group operating profit** | **93** | 58 | 6 | (2) | – | – | **155** |
| Share of results of joint ventures and associates | **66** | – | – | – | – | – | **66** |
| **Profit from operations** | **159** | 58 | 6 | (2) | – | – | **221** |
| Investment income | **34** | – | – | – | – | – | **34** |
| Finance costs | **(55)** | – | – | – | – | – | **(55)** |
| **Profit before taxation** | **138** | 58 | 6 | (2) | – | – | **200** |
| Taxation | **(5)** | – | – | – | – | (9) | **(14)** |
| **Profit for the year** | **133** | 58 | 6 | (2) | – | (9) | **186** |

Reconciliation of 2019 statutory results to performance measures by segment

| | | Non-underlying items | | | | | |
|---|---|---|---|---|---|---|---|
| **Profit/(loss) from operations** | **2019 statutory results £m** | Impairment of goodwill £m | Intangible amortisation £m | Provision release on health & safety claims £m | Results of Rail Germany £m | UK deferred tax asset £m | **2019 performance measures £m** |
| **Segment** | | | | | | | |
| Construction Services | **126** | – | 1 | (2) | – | – | **125** |
| Support Services | **(11)** | 58 | – | – | – | – | **47** |
| Infrastructure Investments | **77** | – | 5 | – | – | – | **82** |
| Corporate activities | **(33)** | – | – | – | – | – | **(33)** |
| **Total** | **159** | 58 | 6 | (2) | – | – | **221** |

### Reconciliation of 2018 statutory results to performance measures

| | 2018 statutory results £m | Non-underlying items: 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 | Non-underlying items: 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 |

### c) Underlying profit before tax

As mentioned on page 60, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Underlying profit from operations (section (b) and Note 5) | **82** | 97 |
| Add: Subordinated debt interest receivable* | **20** | 21 |
| Add: Interest receivable on PPP financial assets* | **9** | 9 |
| Less: Non-recourse borrowings finance cost* | **(13)** | (14) |
| Underlying profit before tax (performance) | **98** | 113 |
| Non-underlying items (section (b) and Note 5) | **(5)** | (2) |
| Statutory profit before tax | **93** | 111 |

* Refer to Note 8 and Note 9.

## Measuring the Group's performance continued

### Performance measures continued

#### 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 basis. The table below reconciles this to the statutory earnings per share.

Reconciliation from statutory basic EPS to performance EPS

| | **2019 pence** | 2018 pence |
|---|---|---|
| Statutory basic earnings per ordinary share | **19.0** | 19.7 |
| Amortisation of acquired intangible assets net of tax | **0.9** | 0.9 |
| Other non-underlying items net of tax | **6.8** | 5.7 |
| Underlying basic earnings per ordinary share (performance) | **26.7** | 26.3 |

#### 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 (j).

#### f) Operating cash flow from operations (OCF)

The table below reconciles the Group's internal performance measure of OCF to the statutory measure of cash generated from operating activities as reported in the Group's Statement of Cash Flows (page 155).

Reconciliation from statutory cash generated from operations to OCF

| | **2019 £m** |
|---|---|
| Cash generated from operating activities (statutory) | **211** |
| Add back: Pension payments including deficit funding (Note 30.2) | **33** |
| Less: Repayment of lease liabilities (including lease interest payments) (Note 28) | **(51)** |
| Add: Operational dividends received from joint ventures and associates (Note 19.5) | **54** |
| Add back: Cash flow movements relating to non-operating items | **3** |
| Less: Operating cash flows relating to non-recourse activities | **(7)** |
| Operating cash flow from operations (OCF) (performance) | **243** |

The Group includes/excludes these items to reflect the true cash flows generated from or used in the Group's operating activities:

Pension payments including deficit funding (£33 million): the Group has excluded pension payments which are included in the Group's statutory measure of cash flows from operating activities from its internal OCF measure as these primarily relate to deficit funding of the Group's main pension fund, Balfour Beatty Pension Fund (BBPF). The payments made for the deficit funding are in accordance with an agreed journey plan with the trustees of the BBPF and are not directly linked to the operational performance of the Group.

Repayment of lease liabilities (including lease interest payments) (£51 million outflow): the payments made for the Group's leasing arrangements are included in the Group's OCF measure as these payments are made to third-party suppliers for the lease of assets that are used to deliver services to the Group's customers, and hence to generate revenue. Under IFRS, these payments are excluded from the Group's statutory measure of cash flows from operating activities as these are considered debt in nature under accounting standards.

Operational dividends received from joint ventures and associates (£54 million inflow): dividends received from joint ventures and associates which are generated from non-disposal activities are included in the Group's OCF measure as these are cash returns to the Group from cash flows generated from operating activities within joint ventures and associates. Under IFRS, these returns are classified as investing activities.

Cash flow movements relating to non-operating items (£3 million): the Group's OCF measure excludes certain working capital movements that are not directly attributable to the Group's operating activities.

Operating cash flows relating to non-recourse activities (£7 million): the Group's OCF measure is specifically targeted to drive performance improvement in the Group's earnings-based businesses and therefore any operating cash flows relating to non-recourse activities are removed from this measure. Under IFRS, there is no distinction between recourse and non-recourse cash flows.

### g) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the year 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. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, as a result of adopting IFRS 16 Leases on 1 January 2019, the Group has recognised £129 million of lease liabilities on its balance sheet, which are also deemed to be debt in nature under statutory measures. Refer to Note 2.1.

The Group has excluded these debt elements from its measure of net cash/borrowings as these liabilities are excluded from the definition of net debt set out in the Group's borrowing facilities.

Net cash/borrowings reconciliation

| | 2019 statutory £m | Adjustment £m | 2019 performance £m | 2018 statutory £m | Adjustment £m | 2018 performance £m |
|---|---|---|---|---|---|---|
| **Total cash within the Group** | **778** | **(35)** | **743** | 661 | (70) | 591 |
| Cash and cash equivalents – infrastructure concessions | **35** | **(35)** | **–** | 70 | (70) | – |
| – other | **743** | **–** | **743** | 591 | – | 591 |
| **Total debt within the Group** | **(798)** | **567** | **(231)** | (739) | 485 | (254) |
| Borrowings – non-recourse loans | **(337)** | **337** | **–** | (379) | 379 | – |
| – other | **(231)** | **–** | **(231)** | (254) | – | (254) |
| Liability component of preference shares | **(110)** | **110** | **–** | (106) | 106 | – |
| Lease liabilities | **(120)** | **120** | **–** | – | – | – |
| **Net (borrowings)/cash** | **(20)** | **532** | **512** | (78) | 415 | 337 |

### h) 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, the liability component of the Company's preference shares and the lease liabilities recognised as a result of adopting IFRS 16 on 1 January 2019. This performance measure shows average net cash of £325 million for 2019 (2018: £194 million).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and the lease liabilities) gives average net borrowings of £49 million for 2019 (2018: £76 million).

### i) Directors' valuation of the Investments portfolio

The Group uses a different methodology to assess the value of its Investments portfolio. As described on pages 36 and 37, 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 £1.07 billion at year end (2018: £1.15 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

| | 2019 £m | 2018 £m |
|---|---|---|
| Net assets of the Infrastructure Investments segment (refer to Note 5.1) | **676** | 653 |
| Less: Recourse loans presented within Corporate activities relating to Infrastructure Investments projects | **–** | (15) |
| Less: Net assets not included within the Directors' valuation – Housing division | **(30)** | (25) |
| Comparable statutory measure of the Investments portfolio under IFRS | **646** | 613 |

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

| | 2019 £m | 2018 £m |
|---|---|---|
| Statutory measure of the Investments portfolio (as above) | **646** | 613 |
| 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:<br>– historical cost<br>– amortised cost<br>– fair value | **422** | 538 |
| Directors' valuation (performance measure) | **1,068** | 1,151 |

## Measuring the Group's performance continued

### Performance measures continued

#### i) Directors' valuation of the Investments portfolio continued

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

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 37, 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.

#### j) 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:

2019 statutory growth compared to performance growth

| | Construction Services | | | | | | |
|---|---|---|---|---|---|---|---|
| | UK | US | Gammon | Total | Support Services | Infrastructure Investments | Total |
| **Revenue (£m)** | | | | | | | |
| 2019 statutory | 2,214 | 3,737 | – | 5,951 | 991 | 371 | 7,313 |
| 2018 statutory | 1,903 | 3,314 | – | 5,217 | 1,076 | 341 | 6,634 |
| Statutory growth (%) | 16% | 13% | – | 14% | (8)% | 9% | 10% |
| 2019 performance* | 2,213 | 3,752 | 893 | 6,858 | 1,023 | 524 | 8,405 |
| 2018 performance retranslated* | 1,900 | 3,465 | 937 | 6,302 | 1,105 | 584 | 7,991 |
| Performance CER growth (%) | 16% | 8% | (5)% | 9% | (7)% | (10)% | 5% |
| **Order book (£bn)** | | | | | | | |
| 2019 | 3.0 | 6.5 | 1.6 | 11.1 | 3.2 | – | 14.3 |
| 2018 | 3.0 | 5.2 | 1.6 | 9.8 | 2.8 | – | 12.6 |
| Growth (%) | –% | 25% | –% | 13% | 14% | – | 13% |
| 2019 | 3.0 | 6.5 | 1.6 | 11.1 | 3.2 | – | 14.3 |
| 2018 retranslated | 3.0 | 5.0 | 1.6 | 9.6 | 2.8 | – | 12.4 |
| CER growth (%) | –% | 30% | –% | 16% | 14% | – | 15% |

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

# Profitable managed growth and cash generation

### CHIEF FINANCIAL OFFICER'S HIGHLIGHTS

- 8% increase in the Group's underlying profit from operations to £221 million (2018: £205 million)
- 52% increase in year end net cash to £512 million (2018: £337 million)
- Investments portfolio decreased to £1.1 billion (2018: £1.2billion); US military housing valuation reduced by £79 million
- 33% increase in full year dividends to 6.4 pence (2018: 4.8 pence)

> The Group continues to have one of the strongest balance sheets in the sector with customers increasingly recognising this competitive advantage.

Discover more at
**balfourbeatty.com/investors**

### RESULTS FOR THE YEAR

| | 2019 £m | 2018 £m |
|---|---|---|
| **Revenue** | | |
| – underlying including joint ventures and associates | **8,405** | 7,802 |
| – statutory | **7,313** | 6,634 |
| **Pre-tax profit** | | |
| – underlying | **200** | 181 |
| – statutory | **138** | 123 |
| **Basic earnings per share** | | |
| – underlying | **26.7p** | 26.3p |
| – statutory | **19.0p** | 19.7p |

| Underlying profit from operations[1] | 2019 £m | 2018 £m | Change % |
|---|---|---|---|
| UK Construction | **47** | 28 | 68% |
| US Construction | **52** | 44 | 18% |
| Gammon | **26** | 23 | 13% |
| Construction Services | **125** | 95 | 32% |
| Support Services | **47** | 46 | 2% |
| Earnings-based businesses | **172** | 141 | 22% |
| Infrastructure Investments pre-disposal operating profit | **13** | 15 | (13)% |
| Infrastructure Investments profit on disposals | **69** | 82 | (16)% |
| Corporate activities | **(33)** | (33) | – |
| **Total** | **221** | 205 | 8% |

1 Before non-underlying items (Note 10).

## Group financial summary

In 2019, the Group reported an underlying profit from operations of £221 million (2018: £205 million), as for the first time UK Construction, US Construction and Support Services (earnings-based businesses) all reported underlying PFO margins in the range of industry standard margins for the full year.

The focus on profitable managed growth is having a significant impact on Balfour Beatty's financial performance both in terms of profit, with more efficient overhead absorption, and cash, with the associated working capital benefit. The 9% increase in revenue for 2019 from the earnings-based businesses delivered a 22% increase in underlying profit from operations across the Group's chosen markets in the UK, US and Hong Kong.

In 2019, cash performance was particularly strong. Operating cash flows at £213 million (2018: £127 million) were the main contributor, as the working capital inflow during the year of £32 million (2018: £229 million outflow) returned to a more normalised level. This resulted in an increase in net cash at year end to £512 million (2018: £337 million). The average monthly net cash for the year at £325 million (2018: £194 million) was significantly ahead of the original £220 - £260 million guidance range provided in March 2019.

The Group continues to have one of the strongest balance sheets in the sector with customers increasingly recognising this competitive advantage. Net assets increased from £1,241 million to £1,377 million.

The order book increased by 13% to £14.3 billion (2018: £12.6 billion), up 15% at constant exchange rates (CER) while maintaining strong bidding discipline. The increase was driven by US Construction, where the Buildings business won significant mixed-use projects across a number of regions, and Support Services where the first tranche of the 10-year Central Track Alliance has been included in the order book. The year end order book does not include the HS2 Lots N1 and N2 civils contracts or Old Oak Common station. These contracts are expected to add over £3 billion to the order book in the first half of 2020.

The Group's financial position was further strengthened by the successful refinancing of the core revolving credit facility entering into a £375 million agreement that extends to October 2022 and reaching a new triennial agreement with the trustees of the Balfour Beatty Pension Fund with no material change to the deficit payments to be made by the Group.

Underlying revenue was up 8% at £8,405 million (2018: £7,802 million), up 5% at CER. Statutory revenue, which excludes joint ventures and associates, was £7,313 million (2018: £6,634 million).

Construction Services underlying revenues were up 12% (9% at CER) at £6,858 million (2018: £6,127 million) as a result of higher volume in both the UK and US. Support Services revenue decreased by 7% to £1,023 million (2018: £1,104 million) as expected following lower volumes in the power transmission and distribution business and the conclusion of the Area 10 highways maintenance contract.

In the earnings-based businesses underlying profit from operations increased 22% to £172 million (2018: £141 million), which contributed to the 8% increase in the Group's underlying profit from operations to £221 million (2018: £205 million). Statutory profit from operations increased to £159 million (2018: £147 million).

UK Construction achieved an underlying profit from operations of £47 million (2018: £28 million) representing a 2.1% underlying profit from operations (PFO) margin (2018: 1.5%). US Construction delivered a profit from operations of £52 million (2018: £44 million), representing an improved PFO margin of 1.4% (2018: 1.3%). Gammon, the Group's 50:50 joint venture with Jardine Matheson based in Hong Kong, also reported an increase in profit from operations with Balfour Beatty's share at £26 million (2018: £23 million). In Support Services, underlying profit from operations and PFO margin improved to £47 million (2018: £46 million) and 4.6% (2018: 4.2%) respectively. Infrastructure Investments decreased from prior year, as in 2018 the sell-down of Infrastructure Investments generated £82 million profit on disposals compared to £69 million of profit on disposals from the portfolio in 2019.

Net finance costs decreased to £21 million (2018: £24 million) as a result of lower interest costs as the Group continued to pay down debt. Underlying pre-tax profit increased 10% to £200 million (2018: £181 million).

The taxation charge on underlying profits increased to £14 million (2018: £2 million) due to the higher profits in the US during the year. In both 2018 and 2019 the tax charge has benefitted from the recognition of deferred tax assets for some of the Group's historical UK tax losses. In 2019, the benefit to the tax charge on underlying profits was £28 million (2018: £38 million) which has been driven by improving UK market conditions following the approval of HS2.

Underlying profit after tax of £186 million (2018: £179 million) represents a £7 million increase for the year. Underlying basic earnings per share were 26.7 pence (2018: 26.3 pence), which, along with a non-underlying loss per share of 7.7 pence per share (2018: 6.6 pence loss), gave a total basic earnings per share of 19.0 pence (2018: 19.7 pence). Total statutory profit after tax for the year was £133 million (2018: £135 million), as a result of the net effect of non-underlying items.

## Non-underlying items

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

Non-underlying items after taxation were a net charge of £53 million to the profit for the year (2018: £44 million charge).

Following the Group's decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts under the current RIIO-GD1 cycle, the Group has reassessed the long-term outlook for its gas and water cash-generating unit (CGU). This reassessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58 million (2018: £nil). This charge has been treated as a non-underlying item.

Other non-underlying items were a £6 million charge relating to the amortisation of acquired intangible assets, a £2 million credit for release of provisions relating to settlements of health and safety claims and a £9 million tax credit for recognition of additional UK deferred tax assets resulting from pension actuarial gains.

## Cash flow performance

The total cash movement in the year resulted in a £175 million increase (2018: £2 million) in the Group's year end net cash position to £512 million (2018: £337 million) excluding non-recourse net borrowings. This performance was driven by cash inflows from operations, dividends from joint ventures and associates and net disposal proceeds, partially offset by IFRS 16 lease payments, ordinary dividends paid and capital expenditure.

| Cash flow performance | 2019 £m | 2018 £m |
|---|---|---|
| Operating cash flows | **213** | 127 |
| Working capital inflow/(outflow) | **32** | (229) |
| Pension deficit payments+ | **(33)** | (30) |
| Cash from/(used in) operations | **212** | (132) |
| Lease payments including interest paid (reclassified under IFRS 16) | **(51)** | – |
| Dividends from joint ventures and associates∞ | **54** | 76 |
| Capital expenditure | **(24)** | (41) |
| Ordinary dividends | **(36)** | (27) |
| Infrastructure Investments | | |
| – disposal proceeds | **102** | 187 |
| – new investments | **(64)** | (58) |
| Other | **(18)** | (3) |
| Net cash movement | **175** | 2 |
| Opening net cash* | **337** | 335 |
| Closing net cash* | **512** | 337 |

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

∞ Excludes £41 million dividends received in 2019 in relation to Investments asset disposals within joint ventures and associates.

+ Includes £3 million (2018: £3 million) of regular funding.

## Working capital

In the year, the Group's working capital position resulted in an inflow of £32 million (2018: £229 million outflow). Trade and other payables increased during the year, creating a working capital inflow of £157 million, which was partially offset by increases in trade and other receivables and net contract assets, creating working capital outflows of £56 million and £30 million, respectively. The primary driver of the large inflow from trade and other payables was the mobilisation of construction projects in the UK and US. Higher revenue in both these geographies also contributed to the increase which outweighed the improved supply chain payment processes made in the UK during the year.

In 2018, the Group's working capital position resulted in an outflow of £229 million, primarily as a result of significant cash outflows on the Aberdeen Western Peripheral Route (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^ | 2019 £m | 2018 £m |
|---|---|---|
| Inventories | **(18)** | (16) |
| Net contract assets | **(30)** | 51 |
| Trade and other payables | **157** | (196) |
| Trade and other receivables | **(56)** | 12 |
| Provisions | **(21)** | (80) |
| Working capital inflow/(outflow)^ | **32** | (229) |

^ Excluding impact of foreign exchange and disposals.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £725 million at year end (2018: £680 million).

## Prompt Payment Code

Balfour Beatty was reinstated to the Prompt Payment Code (PPC) in the UK on 22 January 2020. The Group had been suspended along with a number of other companies, in April 2019, with an action plan for reinstatement subsequently agreed by the Code administrators in June 2019.

Over the past 24 months the Group has consistently improved its UK payment statistics. The percentage of invoices paid within 60 days, including disputed invoices, for the last six months of 2019 was 90%.

| | Percentage of invoices paid within 60 days | Average days to pay invoices |
|---|---|---|
| January–June 2018 | 77% | 54 |
| July–December 2018 | 82% | 50 |
| January–June 2019 | 86% | 40 |
| July–December 2019 | 90% | 38 |

Whilst Balfour Beatty remains focused on measures which ensure continued improvement in its payment performance, it operates in a sector where supply chains and contractual terms are complex, and prompt payment is often materially impacted by resolution of disputes and alignment to agreed contractual processes.

From 1 October 2020 the UK's new VAT Domestic Reverse Charge regulations for construction services are expected to come into effect, which may impact the ability of the Group's supply chain to accurately invoice Balfour Beatty.

## Net cash/borrowings

The Group's average net cash in 2019 improved significantly to £325 million (2018: £194 million). The Group's net cash position at 31 December 2019, excluding non-recourse net borrowings, was £512 million (2018: £337 million). Non-recourse net borrowings, held in infrastructure concession entities consolidated by the Group, decreased to £302 million (2018: £309 million). The balance sheet also includes £110 million (2018: £106 million) for the liability component of the preference shares and £120 million for lease liabilities following the adoption of IFRS 16 (2018: £nil). Statutory net debt at 31 December 2019 was £20 million (2018: £78 million).

The repayment of the preference shares in July 2020 will reduce cash without a corresponding reduction in the level of debt as the Group does not take preference shares into account in its measure of net cash/borrowings in line with the definition of net debt set out in the Group's borrowing facilities.

## Banking facilities

In October, the Group successfully concluded the refinancing of its core revolving credit facility, entering into a £375 million agreement that extends to October 2022. The terms of the new facility are substantially unchanged. The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. The agreement includes two one year extension options, to take final maturity to October 2024, with the agreement of the lending banks. At 31 December 2019, this facility was undrawn.

The Group does not undertake supply chain financing arrangements. In 2018, the last remaining bank supported facilities were closed.

## Adoption of IFRS 16 Leases

On 1 January 2019 the Group transitioned from IAS 17 to IFRS 16. As outlined in the 2018 accounts, the Group elected to use the cumulative effect approach which does not require restating comparative years. On transition the Group recognised £121 million of right-of-use assets and £129 million of corresponding lease liabilities. No adjustment was made to opening equity; the difference between the assets and liabilities relates to reclassification of items previously included on the balance sheet and offset against the right-of-use assets.

For 2019, the right-of-use asset depreciation charge included in Group operating profit was £45 million and a £6 million interest expense was recognised within finance costs. Within the cash flow statement, in accordance with accounting standards, the £51 million cash expense is included in the statement of cash flows within financing activities, of which £6 million relating to interest is included in interest paid. Under IAS 17, all items would have been included in operating activities. At 31 December 2019, the Group has recognised right-of-use assets of £113 million and corresponding lease liabilities of £120 million.

The Group excludes IFRS 16 lease liabilities from its measure of net cash/borrowings as they are excluded from the definition of net debt set out in the Group's borrowing facilities.

## Pensions

In January 2020, the Group concluded negotiations with the trustees of the Balfour Beatty Pension Fund (BBPF) on the formal triennial funding valuation as at 31 March 2019. Under the new agreement Balfour Beatty and the trustees have re-confirmed their commitment to a journey plan approach to managing the BBPF. Under this agreement the Group will make total cash deficit contributions of £74 million from 2020 to 2023, whereby the BBPF is aiming to reach self sufficiency by 2027. There is an agreed mechanism for accelerating the payment of contributions set out above if the earnings cover for shareholder returns falls below 2x.

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 formal triennial funding valuation of the RPS, as at 31 December 2019, has just commenced.

The Group's balance sheet includes net retirement benefit assets of £133 million (2018: £54 million) as measured on an IAS 19 basis, with the surplus on the BBPF partially offset by deficits on the RPS and other schemes.

## Markets

Balfour Beatty has a diversified portfolio of businesses, in its three chosen geographies of the US, the UK and Hong Kong, and the three chosen sectors of Construction Services, Support Services and Infrastructure Investments. This focus was arrived at by assessing the attractive growth characteristics of each area, and the Group's strong market positions therein. Having over 50% of both its order book and the Infrastructure Investments portfolio dollar denominated increases the Group's resilience against cyclicality in any one geography or sector, or any individual project.

Overall, the trading environment for Balfour Beatty's chosen markets and capabilities remains favourable, particularly in the UK, following government approval of HS2. The recent announcement to proceed with HS2 gives much needed certainty for the entire industry and its associated supply chain. At the same time, new nuclear power capacity at Hinkley Point C is well under construction and the second Road Investment Strategy (RIS2) for Highways England has a record budget of £25 billion for the 2020–2025 period.

In the US, the Buildings business operates in specifically chosen regions. 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, and significant state backed education bonds (US$35 billion in California) the Group's opportunities in Buildings are robust as evidenced by the increasing order book. In Civils, the Group is focused on road, rail and water projects. These large and growing markets are supported by the c. US$77 billion 2020 Unified Transportation Program (UTP) from the Texas Department of Transportation (TxDOT), a number of state-backed infrastructure bonds (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.

Gammon has a material share of the attractive Hong Kong market. Both the Buildings and Civils markets are favourable with significant opportunities upcoming, including two new terminal buildings and other works associated with the third runway at the international airport; a 10-year housing target; a 10-year hospital development plan; and continued investment in transportation infrastructure.

In Support Services, the power transmission and distribution market is set to grow after a short-term reduction in spend through 2019. In the water business, Balfour Beatty will continue to selectively bid for projects where the Group's expertise delivers value for clients at an appropriate risk return ratio. On this basis, the Group has taken the strategic decision not to re-bid gas contracts under RIIO-GD2 because the terms and conditions do not meet the Group's expectations. The transportation market, which includes major rail and road maintenance works, is positive given the increased funding under Network Rail's Control Period 6 (CP6) programme and as work continues on the M25 Connect Plus contract.

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 public-private partnership (PPP) opportunities. In the UK, the focus is primarily on student accommodation.

## Dividend

Following the 2.1 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 4.3 pence per share, giving a total recommended dividend for the year of 6.4 pence per share (2018: 4.8 pence). The Board recognises the importance of dividends to shareholders and expects to deliver a continuation of the progressive dividend policy.

## 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 2019, 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 and growing 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 £512 million at 31 December 2019;
- 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 a committed credit facility totalling £375 million through to October 2022. At 31 December 2019, this facility was wholly undrawn.

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

Philip Harrison

**Philip Harrison**
Chief Financial Officer

> "Following the 2.1 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 4.3 pence per share, giving a total recommended dividend for the year of 6.4 pence."

# A proactive, pragmatic and proven approach

Managing risk through innovation.

## Introduction

Balfour Beatty has remained clear on the benefits of risk management and committed to delivering these benefits throughout 2019 and into 2020. Overall responsibility for managing risk rests with the Board but the required policies, procedures and culture are evidenced at each Balfour Beatty location as part of an agile, intuitive and holistic framework. A dedicated risk management function ensures the Group adheres to both regulatory requirements and adopts industry good practice in its approach to identifying, assessing, responding to and monitoring risk.

### Integral to project delivery

The capture and assessment of risk and opportunity is at the heart of decision making at Balfour Beatty and the agreed process for effective risk management has been communicated throughout the Group. Effectively managing risk helps preserve value through management and control of potential exposures.

Adapting and building on industry-wide good practice, the four key steps of the Balfour Beatty Risk Management Process ensure the formal capture and assessment of risk is achieved through a consistent and standardised approach across the business.

**1. Identify**
Each project Balfour Beatty undertakes has a specific set of objectives. The first stage in effective risk management is to identify the threats and benefits associated with delivering those objectives to the customer via a risk register.

**2. Assess**
Once identified, each risk and opportunity is assessed based on likelihood of realisation and potential impact. This assessment enables risks and opportunities to be prioritised. A probability and impact matrix is used for this purpose and is discussed further on page 76.

**3. Respond**
Each risk and opportunity requires a response: accept or manage further. Any required actions are allocated an owner and a response date.

**4. Monitor**
Risks must be reviewed regularly to ensure the information captured remains relevant, accurate and current, and the status of outstanding actions is tracked. Conditions for risks may change from time to time, including the emergence of additional causes or impacts resulting in a requirement to further manage a previously 'accepted' risk.

Further detail on the policy, process and accountability for risk management is contained on pages 114 and 115 – internal control pages.

### Circles of Risk

Circles of Risk is a guidance document central to the Work Winning phase of the Gated Business Lifecycle and ensures opportunities do not proceed to the next gate without an awareness of their potential risk profile.

The guidance reflects lessons learned from delivering a comprehensive range of projects for a wide range of customers and contains examples of specific risks and mitigations.

The Circles of Risk frame a discussion at the Gateway Review of risks associated with the project under consideration including location, customer, supply chain and project type.

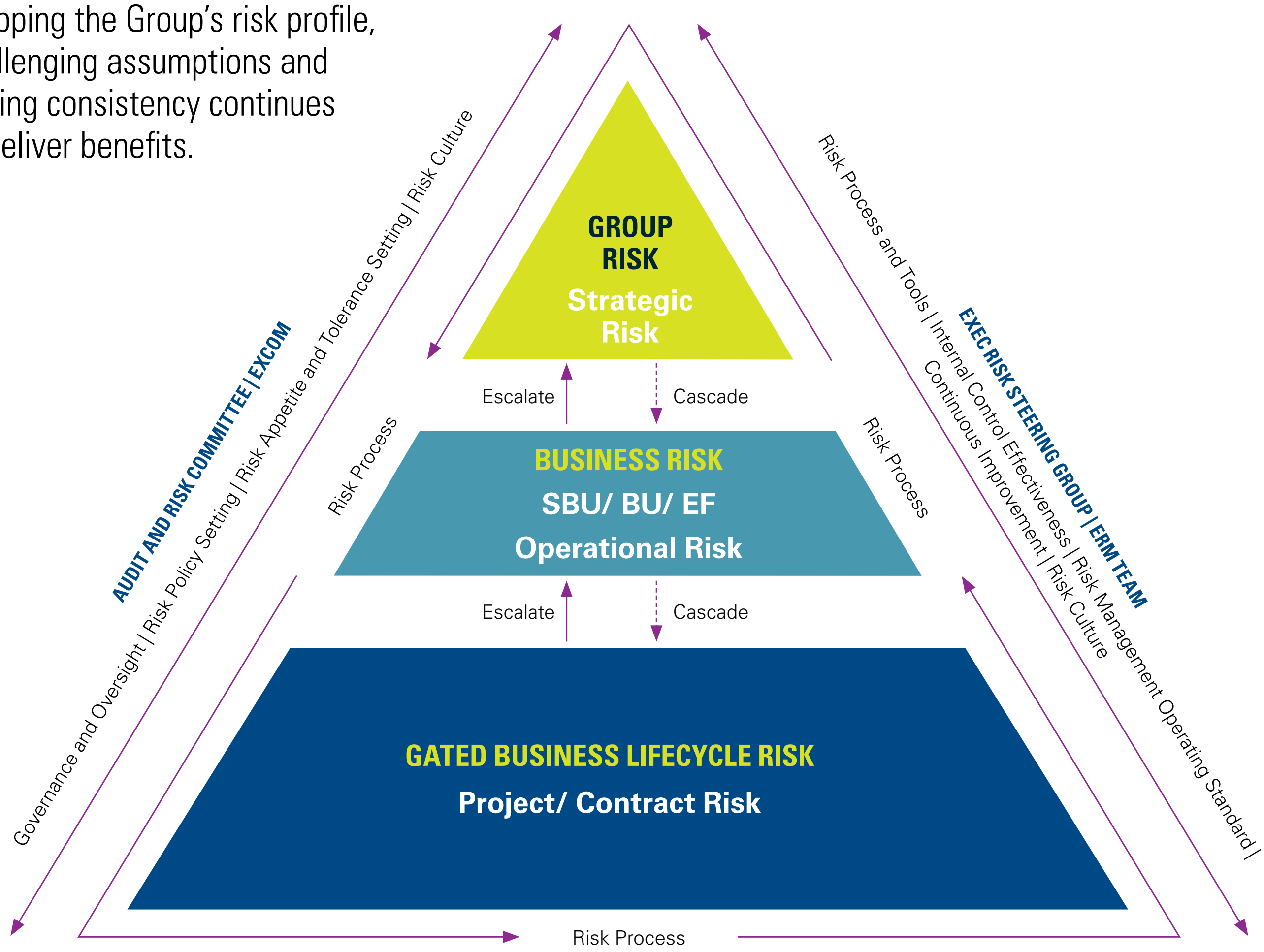
If the Group does not have previous successful delivery experience in more than two categories defined by the Circles of Risk then the project should not proceed before further risk analysis has been undertaken and an informed decision taken.

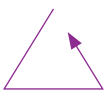
This approach helps the Group stay ahead of potential risks and ensures:

- alignment to Group objectives, business growth strategies and acceptable risk profiles;
- all opportunities are assessed in a consistent and robust way so that potential opportunities that do not fit with approved business objectives are qualified out; and
- each business can adequately price in risk at an early stage.

**CIRCLES OF RISK**

Mapping the Group's risk profile, challenging assumptions and driving consistency continues to deliver benefits.



## GOVERNANCE AND OVERSIGHT

The Board accepts overall responsibility for risk management and has established procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives. Biannually the Directors undertake a full assessment of the Company's emerging and principal risks and review 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.



## GROUP RISK MANAGEMENT

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 able to directly influence custom and practice. In 2019 the Group Risk Register was added to the Group's bespoke risk management software package IRIS (Intelligent Risk Information System) which involved a complete reassessment of all risks faced by the Group. The results of this review was shared with the Executive Committee to further improve focus and oversight to deliver continuous improvement.

## BUSINESS RISK MANAGEMENT

A dedicated enterprise risk management resource is in place in each geography and is accountable for the consistent application of the Enterprise Risk Management framework and associated processes. This supports the businesses in making decisions based on an accurate assessment of operational 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. In 2020 work will begin to deploy IRIS in the US, building on lessons learned in the UK, to drive consistency and further improvements to the application of risk management across the wider Group.

## GATED BUSINESS LIFECYCLE RISK MANAGEMENT

Balfour Beatty's internal control environment is centred on the Gated Business Lifecycle. A mandatory assessment of risk and risk appetite is made at each review gate to embed risk management throughout the entire lifetime of a project.

Project management includes a mandated assessment and subsequent rating of risk and reinforcement of the importance of adherence to the Group's wide-ranging Minimum Expectations and Operating Standards.

In 2020 bespoke eLearning on the assessment of risk will be launched across the UK and US businesses to ensure consistency in the Group's evaluation and management of risk.

# Risk attitude and appetite

The Group accepts that it cannot achieve its long-term strategic objectives without being exposed to an element of risk. Understanding current and emerging risk is therefore integral to Balfour Beatty's decision-making process.

Throughout 2019 and into 2020 the Board and its Committees and working groups measured the nature and extent of those current and emerging risks faced by the Group in achieving its long-term strategic objectives. This required a thorough review of the effectiveness of its internal control environment within the risk management structure outlined on pages 72 and 73. 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 shown below.

## 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.

## EXPERT

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

### Risk appetite

Balfour Beatty continues to develop its expertise in engineering, computer science, robotics, data analytics, electronics and electrical and 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.

## 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.

## SAFE

**We must ensure the health and safety of everyone who encounters 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 health and safety risk continues to be zero.

## RELATED PRINCIPAL RISKS

**Lean**

**Transformation programme**
Read more p81

**Supply chain**
Read more p82

**Legacy pension liabilities**
Read more p83

**Expert**

**People**
Read more p80

**Transformation programme**
Read more p81

**Economic environment**
Read more p84

**Trusted**

**Work winning**
Read more p77

**Project delivery**
Read more p78

**Joint ventures**
Read more p78

**Data protection**
Read more p79

**Cybercrime**
Read more p79

**Transformation programme**
Read more p81

**Financial strength**
Read more p81

**Business conduct/compliance**
Read more p82

**Legal and regulatory**
Read more p83

**Safe**

**Health and safety**
Read more p77

**Transformation programme**
Read more p81

# Emerging risks

As part of the July 2018 update to the UK Corporate Governance Code listed companies are required to identify the procedures they have in place to identify emerging risks faced by the business and an explanation of how these are being managed or mitigated.

This requirement has been adopted and embedded within the Group's risk management reporting process and, in parallel with the day-to-day management of risk, each Strategic Business Unit (SBU) and Enabling Function (EF) includes specific reference to its emerging risks in its half year and full year risk submission. These risks form part of the discussion between the Group and the SBU or EF and relevant emerging risks are escalated to the Executive Risk Steering Group for further analysis and validation.

Within Balfour Beatty, emerging risks are considered in the context of longer-term impact and shorter-term risk velocity and are viewed in context with its Viability statement. The Group has therefore defined emerging risks as those risks captured on a risk register that:

- are likely to be of significant scale beyond a three-year timeframe; or
- have the velocity to significantly increase in severity within the three-year period.

Relevant emerging risks are discussed below:

| RISK EVENT | IMPACT | CONTROLS | TIMESCALE |
|---|---|---|---|
| **Climate change**<br>Failure to adapt to climate change pressures, regulatory change (i.e. Task Force for Climate Related Financial Disclosures) and client expectations. | › Exposure to fines, defects, project delays and reputational harm amongst stakeholders.<br>› Climate change also presents several opportunities to the Group (flood defences, improving utility infrastructure, etc). | › Climate change clauses built in to contracts, ongoing review of reporting and operational regulations and use of up-to-date weather data in project planning.<br>› The Group is actively working with its customer base to showcase its infrastructure capabilities. | >3 YEARS |
| **Net Zero Carbon**<br>Failure to adapt to increased social awareness and client expectations. | › Reduction in future work including including with strategic clients and within frameworks. | › The Group maintains strong relationships with its customer base to understand expectations and share potential limitations.<br>› The Group has demonstrable capability in delivering innovative and sustainable solutions. | <3 YEARS |
| **Uptake of new technologies**<br>Failure to embrace innovative technologies to deliver efficiencies to the Group and its customers. | › Inability to deliver better for less resulting in a loss of competitive advantage within the marketplace and an inability to secure further work. | › The Group continues to drive innovation through adoption of improved project management tools such as Field360 and is working with industry-leading external advisers to embed creative thinking. This is reinforced by the appointment of a Chief Technology Officer to lead the accelerated delivery of change and innovation. | <3 YEARS |

## COLLABORATING RELENTLESSLY

At a strategic rail infrastructure project in London Balfour Beatty implemented a collaborative risk management process with the customer to manage risk and opportunity, and scope change requirements/requests from third parties.

This was achieved through:

- a one project/one goal approach;
- an effective early warning process;
- an agreed approach to the assessment and management of risk;
- one jointly owned risk and opportunity register including contingency planning;
- application of short interval controls including weekly progress and challenge reviews attended by Balfour Beatty and the customer; and
- proactive approach to problem solving and knowledge share.

# Our risk matrix

A fundamental tenet of establishing, prioritising and managing the risk profile of the Group is a consistent assessment of the probability and impact of risk occurrence. In common with many organisations and reflecting good practice, Balfour Beatty uses a probability and impact matrix (PI matrix) for this purpose.

The impacts of each risk are assessed across three main themes: project delivery; health, safety and sustainability; and financial. The probability of these impacts being realised with current controls and mitigations in place is then considered to establish an overall impact for each risk.

This PI matrix and its detailed associated guidance is central to Balfour Beatty's risk management system (IRIS) and has been cascaded to all businesses across the Group.

The Group's Principal Risks have been mapped onto the PI matrix to not only show current potential impacts but also the movement from year end 2018 to year end 2019 in terms of likelihood and impact. Mapping risks in this way helps not only to prioritise the risks and required actions but also to direct the required resource to validate the effectiveness of control.

## Probability and impact

Arrows indicate where a risk has changed from the previous year.

## Removing uncertainty through understanding

Understanding and effectively managing the Group's risk profile and establishing the most effective way to accept, manage further or transfer risk is central to Balfour Beatty's decision-making process. The principal and emerging risks and uncertainties are mapped to strategic and business plans to ensure the appropriate coverage of risks, allowing the Board to make a robust assessment of the principal and emerging 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 contract, operational and strategic level risks which are focused on understanding the worst-case scenarios that could threaten the Group's position, performance, business model and strategy. As a result, changes in the Group's risk profile and movements in some of the principal risks have been identified and are described on pages 77 to 84 below.

**DESCRIPTION AND IMPACT** | **CAUSES** | **MITIGATION**

### 1 HEALTH AND SAFETY

**Description and impact**

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

For more information please see 'Health, safety and wellbeing' on pages 40 and 41.

**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 including within joint ventures; and/or
- ongoing transformation programme and performance pressures, affecting the ability of people to remain focused on health and safety risks.

**Mitigation**

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 capture lessons learned and develop a consistent approach to health and safety best practice.

Training programmes (including behavioural) are in place.

**Owner**

Safety and Sustainability Committee

**Risk movement**

**No movement**

The well-established controls and mitigations in place throughout the Group represent a stable control environment. Multiple failures within this environment are required for the risk to be realised.

### 2 WORK WINNING

**Description and impact**

**Failure to adequately identify, resource, 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.**

**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.

Failure to effectively engage with customers may limit access to targeted markets in the future.

**Causes**

Inaccuracy at Gateway 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;
- proposed customer engagement strategy;
- contract/account management;
- negotiation of terms and conditions; and/or
- assessment of customers' liquidity/creditworthiness.

**Mitigation**

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

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

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

A wide and ongoing range of work winning initiatives (including Cash is our Compass, High Value Selling and the Win Business Leadership community of practice) are in place across Group to drive increased commercial and customer awareness and further embed an understanding of expectations on margins and cost.

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

Reviews are conducted following all tenders to ensure lessons are learned, 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.

**Owner**

Group Tender and Investment Committee

**Risk movement**

**No movement**

Current controls continue to mitigate the likelihood of occurrence by preventing the Group from bidding for unsustainable work and also limit any potential exposure.

## 3 PROJECT DELIVERY

### Description and impact

**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.**

**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, debarring from future work and significant associated costs of rectification or dispute resolution.

### Causes

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

- unrealistic programming targets;
- inadequate resource (people, plant and materials);
- inadequate understanding of contract obligations;
- 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; and/or
- failings in administering the contract terms to safeguard or protect future claims, change orders and extensions of time (EOTs).

Customer intervention and additional pressure to complete a project may also contribute to realisation of this risk.

### Mitigation

A continued focus on identifying and reporting risks, including planning, programme accuracy of cost and cash forecasting and resource reviews.

Early engagement of integrated work winning and project delivery teams across the Gateway processes to ensure expectations are understood and realistic.

Deployment and ongoing monitoring of strong commercial management and contract administration processes.

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.

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 including digitisation of project management data 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.

**Owner**
Group management

**Risk movement**

**No movement**
Consistent application of the Group's reporting systems and diligent use of its short interval control processes across all stages of project delivery continues to provide greater certainty of operational outcomes.

## 4 JOINT VENTURES

### Description and impact

**Failure of joint ventures (JVs) to deliver expected returns and minimise the risk of unexpected liabilities.**

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

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

Disputes with strategic JV 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.

### Causes

The risk could be realised through:

- ineffective assessment of potential partners 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; and/or
- failure to embed Balfour Beatty cultures and practices.

### Mitigation

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

The Group's first assumption is to deliver projects as a single entity rather than part of a JV.

The Gateway review process provides governance around the JV partner selection process.
All proposals to enter into a JV must be authorised by Group management via the Agreement to Enter into a JV.

Within the Gateway review process significant due diligence on potential JV partners is undertaken closely aligned to Circles of Risk to highlight risks including those related to capacity, capability, previous experience with the Group and liquidity.

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

Balfour Beatty monitors the performance of its JV 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 JV delivery teams.

**Owner**
Group Tender and Investment Committee

**Risk movement**

**No movement**
This risk represents an amplification of the work winning and project delivery risks.
The process for entering JVs has improved but ongoing exposure continues.

| DESCRIPTION AND IMPACT | CAUSES | MITIGATION | |
|---|---|---|---|
| **5 DATA PROTECTION** | | | |
| **The Group suffers a serious breach of applicable data protection law.**<br><br>**What impact it might have**<br>Crystallisation of this risk has the potential for:<br>› legal and regulatory proceedings, investigations or disputes;<br>› operational impact (disruption to business as usual);<br>› costs and losses, fines and penalties;<br>› reputational harm and potential debarment; and<br>› data subject rights process failure.<br><br>For more information please see 'Business integrity' on pages 46 and 47 | If the Group deploys or is subjected to:<br>› ineffective training/lack of competency;<br>› third-party error;<br>› malicious act (internal/external);<br>› lack of awareness;<br>› human error; and/or<br>› lack of corporate accountability. | HR Data Protection Coordinators and Data Privacy Champions are embedded throughout the business to ensure breaches are reported promptly and risks are appropriately escalated to the Group Data Protection Officer (GDPO) for consideration and assessment.<br><br>Senior Information Risk Owner appointed as Executive Committee representative for data protection.<br><br>All employees are trained in and must comply with data protection and information security management obligations.<br><br>Implementation of standardised systems and appropriate policies, procedures and standard templates driving a culture of privacy across the organisation. | **Owner**<br>Group management<br><br>**Risk movement**<br><br>**No movement**<br>The risk is not considered to have moved throughout the year with the likelihood of a significant breach considered to be low. |
| **6 CYBERCRIME** | | | |
| **A failure to protect key Company data or other confidential information.**<br><br>**What impact it might have**<br>Realisation of this risk could result in:<br>› reputational harm (loss of market and customer confidence);<br>› potential fines and prosecution;<br>› loss of intellectual property and competitive advantage; and<br>› operational impact (disruption to business as usual). | Some common themes which could drive risk realisation include several internal and external factors such as:<br><br>Internal factors:<br>› poor governance;<br>› failure to embed preventative; culture; and/or<br>› operational failure.<br><br>External factors:<br>› ransomware;<br>› inconsistent approach to data security with joint venture / external partners;<br>› increased use of cloud services without equivalent investment in modern threat prevention; and/or<br>› cyber attack. | The risk is controlled through four main channels:<br><br>Technology:<br>› network and endpoint protection;<br>› encryption;<br>› patching; and<br>› data back-up.<br><br>People:<br>› awareness training across all users; and<br>› employee vetting.<br><br>Process:<br>› data governance framework regularly reviewed;<br>› policies and certifications; and<br>› incident management feedback (embed lessons learned).<br><br>Partners and supply chain:<br>› vendor risk management assessments; and<br>› positive relationships with external security authorities. | **Owner**<br>Group management<br><br>**Risk movement**<br><br>**Decreased**<br>This risk has decreased as a result of improvements in controls including installation of anti-phishing software and dedicated risk management resource. |

| DESCRIPTION AND IMPACT | CAUSES | MITIGATION | |
|---|---|---|---|
| **7 PEOPLE** | | | |
| **Inability to provide the required levels of skilled and competent staff to meet the Group's objectives.**<br><br>**What impact it might have**<br>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 including its future order book.<br><br>A high level of staff turnover or low employee engagement could result in a reduction in confidence in the business within the market, stakeholder confidence being lost and an inability to drive business improvements.<br><br>For more information please see 'Our people' on pages 42 to 45 | A failure to effectively mitigate the Group's people risks may arise through:<br>› ineffective workload and location scheduling;<br>› increased competitor/sector strength and opportunities;<br>› inability to recruit and retain strong performers;<br>› failure to maintain a culture of pride and advocacy across the workforce;<br>› ineffective and or unfocused project and risk management training;<br>› lack of a diverse workforce; and/or<br>› restrictions in the availability of skilled labour. | Providing a positive working environment to support the development of its employees has been central to the Build to Last Transformation programme. Specific activities which mitigate this risk include:<br>› competency frameworks within core job families identify and support the development of key knowledge, skills and expertise;<br>› recruitment and retention rates are measured and regularly reviewed across all parts of the business and succession plans are in place for core disciplines;<br>› regular reviews of remuneration and incentive arrangements to ensure they are appropriate to help the Group attract, motivate and retain key employees;<br>› Group-wide employee engagement surveys are undertaken to measure engagement and appropriate actions are developed and communicated;<br>› 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;<br>› strong employee communication channels are in place celebrating individual, business and Group-level successes;<br>› affinity networks have been established to create a diverse and inclusive working environment;<br>› emerging talent is supported via a range of graduate, apprenticeship, trainee and industrial placement/internship schemes including The 5% Club (see page 45);<br>› a focus on strategic workforce planning to prevent resource conflicts; and<br>› work winning and project delivery aligned to internal and external recruitment activities. | **Owner**<br>The Board<br><br>**Risk movement**<br>–<br><br>**No movement**<br>Through the Build to Last transformation programme, Balfour Beatty has created a culture with strong people policies and processes which continue to mitigate this risk.<br>The Group will monitor the impact that any delays to strategic projects has on the availability of skilled resource. |

| DESCRIPTION AND IMPACT | CAUSES | MITIGATION | |
|---|---|---|---|

## 8 SUSTAINING THE TRANSFORMATION PROGRAMME

**The Group does not, or is perceived to not, sustain and build upon the good practice, policies and procedures and culture of the Build to Last transformation programme.**

**What impact it might have**
Inconsistency in working practices could drive inefficiencies including increased costs and operational errors resulting in reputational harm and the Group's ability to deliver sustained profit being jeopardised.

For more information please see 'Our strategy: Build to Last' on pages 8 and 9

Failure to deliver and or demonstrate sustained momentum could arise from:

- ineffective communication and reinforcement of message;
- operational error within a high-profile project;
- inadequate resourcing (financial, physical assets and people);
- complacency and localised adaptations within core disciplines; and/or
- new systems and processes being used without appropriate controls being in place and/or tested.

Ensuring Build to Last continues to deliver and demonstrate 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;
- a dedicated Communications and Investor Relations function to manage internal and external messaging;
- senior leadership engagement across the businesses is clear and frequent;
- new systems and processes are aligned to the Build to Last principles and 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; and
- senior leadership is well experienced in delivering business transformation successfully.

**Owner**
The Board

**Risk movement**

**Increased**
Realisation of this risk is possible and potential reputational impacts increase as the Group undertakes higher profile projects. Ongoing Executive level leadership will ensure controls remain effective in reinforcing the required cultures and working practices.

## 9 FINANCIAL STRENGTH

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

**What impact it might have**
Failure to protect and effectively deliver the required financial strength will mean the Group:

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

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; and/or
- meet financial covenants as set out in financing facility agreements.

The Group now operates within a low financial risk environment with half its gross debt repaid in recent years.

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.

**Owner**
The Board

**Risk movement**

**No movement**
Throughout 2019 the controls within Finance and Treasury functions have demonstrated a clear ability to manage existing and anticipated risk including completion of the Group's refinancing of its core term committed bank facility.

| DESCRIPTION AND IMPACT | CAUSES | MITIGATION | |
|---|---|---|---|
| **10 SUPPLY CHAIN** | | | |
| **Supply chain partners are not able to meet the Group's operational expectations and requirements including capacity, competency, quality, financial stability, safety, environmental, social and ethical.**<br><br>**What impact it might have**<br>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.<br><br>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. | Crystallisation of capacity, competency and stability risks to the Group's supply chain may arise through:<br>› lack of capacity in a buoyant market;<br>› failure to retain subcontractors in buoyant markets;<br>› over-reliance on a limited number of suppliers or a failure of key supplier relationships;<br>› failure to embed the Group's expectations within the procurement process;<br>› inadequate assessment of supply chain partner capabilities and process (including liquidity, quality, safety, ethics, materials stewardship, child labour, forced labour and modern slavery);<br>› failure to accurately assess project resource requirements and key deliverables; and/or<br>› unethical treatment of the supply chain. | 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, lessons learned from previous projects together and briefing on order book requirements.<br><br>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.<br><br>Constructionline accreditation in place as pre-qualification tool for core suppliers (validated in Gates 1–3).<br><br>Contingency plans in place to address subcontractor failure, including replacement supplier list.<br><br>My Contribution programme generates ideas for more effective procurement and resourcing.<br><br>The Group obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency.<br><br>Suppliers and subcontractors reviewed for third-party suitability compliance via PAS 91 Assessment (Industry Standard).<br><br>Group-wide Code of Conduct and Supplier Code of Conduct, targeted training programmes and related policies and procedures in place. | **Owner**<br>Group management<br><br>**Risk movement**<br>–<br><br>**No movement**<br>The Group continues to be diligent in its assessment of its supply chain and has greatly reduced its number of active suppliers to improve oversight in operational delivery. |
| **11 BUSINESS CONDUCT/COMPLIANCE** | | | |
| **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.**<br><br>**What impact it might have**<br>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.<br><br>For more information please see 'Business integrity' on pages 46 and 47 | Failure to embed the Code of Conduct and Balfour Beatty values could leave the Group exposed to:<br>› instances of bribery and corruption;<br>› fraud, deception, false claims or false accounting;<br>› unfair competition practices;<br>› human rights abuses, such as child and other labour standards generally, illegal workers, human trafficking and modern slavery;<br>› unethical treatment of and by the supply chain; and/or<br>› ethics and values being compromised as a result of commercial pressures. | A Group-wide Code of Conduct and Supplier Code of Conduct, and related policies, procedures and training are in place, promoted, monitored and assessed by the Business Integrity function.<br><br>The function provides business integrity reports to the Board biannually and has its full support. Each business unit, supported by the Business Integrity function, is responsible for embedding the Code of Conduct and the correct values and behaviours within its operations.<br><br>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.<br><br>An independent third-party whistleblowing helpline and dedicated email contact 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.<br><br>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. | **Owner**<br>The Board<br><br>**Risk movement**<br>–<br><br>**No movement**<br>The Business Integrity function continues to actively promote the required behaviours and learning tools to comprehensively support the Group's conduct and compliance objectives. |

| DESCRIPTION AND IMPACT | CAUSES | MITIGATION | |
|---|---|---|---|

## 12 LEGAL AND REGULATORY

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

**What impact it might have**
The Group 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 the affected territory.

**Causes**

A failure to recognise or adapt to potential impacts arising from 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; and/or
- a deliberate breach.

**Mitigation**

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

Changes in the law and the requirements of them are clearly cascaded to all affected businesses.

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

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

**Owner**
The Board

**Risk movement**

**Decreased**
Unforeseen exposure to legal and regulatory change is considered extremely unlikely and the controls embedded across the Group are considered to have reduced the exposure further.

## 13 LEGACY PENSION LIABILITIES

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

**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.

**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; and/or
- investment performance of the funds' assets.

**Mitigation**

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 funding 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.

**Owner**
The Board

**Risk movement**

**Decreased**
Triennial funding review was completed in 2019. Positive valuation result means the Group can lower the risk profile of the asset portfolio.

| DESCRIPTION AND IMPACT | CAUSES | MITIGATION | |
|---|---|---|---|
| **14 UNCERTAINTY WITHIN THE ECONOMIC ENVIRONMENT** | | | |
| **The effects of national or market trends or 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.**<br><br>**What impact it might have**<br>Any significant delay or reduction in the level of customer spending or investment plans could adversely impact the Group's strategy and order book, reduce revenue or profitability in the near or medium term and negatively impact the long-term viability of the Group.<br><br>Restrictions on the availability of skilled labour and competitively priced materials could lead to increased costs and hence potentially a devaluation of the business.<br><br>Financial failure of a customer, including any government or public sector body, could result in increased financial exposure to counterparty risk. | Failure to plan for any potentially negative impacts, manage uncertainty or capture any opportunities that may be presented could lead to:<br>› customers postponing, reducing or changing expenditure plans;<br>› wider than expected fluctuations in inflation;<br>› increased competition (e.g. in the UK from foreign investors acquiring competitors);<br>› increased supply chain risks (e.g. solvency, people and materials); and/or<br>› reduced revenue or pressure on margins. | The Group primarily operates across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments). This balanced portfolio of projects provides resilience and stability as the Group is less exposed to a downturn in a single geography or sector.<br><br>The Group continues to actively monitor the terms of the UK's future trading relationship with the EU including the impact on movement of goods and people across borders. A well-established cross-functional working group is in place for this purpose.<br><br>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. | **Owner**<br>The Board<br><br>**Risk movement**<br>—<br>**No movement**<br>Macroeconomic factors continue to have the potential to impact the Group. Controls in place to mitigate risk and capture opportunity remain appropriate. |

## Other risks

### Future trading relationship with the EU

Although the UK has now ceased to be a member of the EU and is in a transition period, the nature of the UK's future trading relationship with the EU remains uncertain. Balfour Beatty continues to monitor developments in this area and potential risks arising to its business. Specific risks and mitigations remain controlled by individual Strategic Business Units and Enabling Functions and are kept under review by the Executive Committee. The Group-wide working group comprised of functional experts maintains its role.

Further commentary is included in the uncertainty within the economic environment risk above.

### 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 it has been recognised as an emerging risk see page 75 with failure to adapt to climate change pressures, regulatory change and client expectations identified as the main drivers of the risk.

Further commentary on the potential impacts of climate change and Balfour Beatty's approach to managing them is set out in the Building a Sustainable Business section on pages 48 to 58.

### Coronavirus (COVID-19)

While the COVID-19 situation continues to evolve, Balfour Beatty is monitoring developments closely, looking to mitigate the risk that it may have on the Group's employees, customers and supply chain. It is too early to fully assess any impact of the outbreak on the operational and financial performance of the Group at this point in time.

## Common industry-wide risks

In parallel with those principal and emerging risks identified and managed 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.

In accordance with the requirements of the Code, the Directors have assessed the Group's long-term prospects and its viability over a three-year period to 31 December 2022.

## 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 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 in technological advances, not only to 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.

In doing so, the Group is also mindful of the effects it has on the environment. The Group strives to adapt to the emerging demand to deliver innovative and sustainable solutions to ensure the impact of any adverse environmental impact is appropriately mitigated against.

## 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 77 to 84.

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 8 and 9.

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 for the full year 2019. 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.

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 to provide a more top-down view and align to the Group's strategic objectives. These projections indicate that the projected headroom, provided by the Group's strong liquidity position, including its net cash position and under the debt facilities currently in place, is adequate to support the Group over the next three years, whilst still enabling the Group to repay the £35m US private placement notes and £112m preference shares falling due in the next three years. In testing the headroom available under the key sensitivities modelled, the Group has assumed that these repayments will not be replaced with another form of debt.

The Group completed the refinancing of its revolving credit facilities in October 2019 with the new facility extending through to October 2022. Two one-year extension options through to October 2024 are available to the Group. These extensions are subject to lenders' consent. In the three-year period, the Group is projecting to use these facilities to facilitate short-term liquidity of its operations however it is anticipated that any drawdowns will be repaid shortly after and will not be used as permanent debt.

The Group's projections have been stress-tested against key sensitivities which could materialise as a result of crystallisation of one or a combination of the Group's principal risks with the aim of stress-testing the Group's future viability against severe but plausible scenarios. These 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; and
- 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 2022.

Our 2019 Strategic report, from pages 1 to 85, was approved by the Board on 10 March 2020.

**Philip Harrison**
Chief Financial Officer

10 March 2020

# Governance

IN THIS SECTION

# Driving the business forward

"I believe that the Board has a critical role in shaping a positive culture that supports our strategic objectives and promotes strong performance that is sustainable over the long term."

Philip Aiken AM, Group Chair

**Philip Aiken AM**
Group Chair

On behalf of the Board, I am delighted to present Balfour Beatty's corporate governance report for 2019.

As a Board, we have continued to ensure that high standards of governance underpin the culture and strategy of the Group. I believe that the Board has a critical role in shaping a positive culture that supports our strategic objectives and promotes strong performance that is sustainable over the long term.

This year has seen a continued focus on the review and development of our governance practices in light of regulatory changes in 2019. This includes the coming into force of the updated UK Corporate Governance Code and revised Guidance on Board Effectiveness.

## UK Corporate Governance Code

For the reporting period ended 31 December 2019, we have applied the Financial Reporting Council's 2018 UK Corporate Governance Code (the Code), being the accepted standard of good governance practice in the UK. This is our first year reporting on this iteration of the Code, which has seen, among other things, an evolution in the areas of stakeholder engagement, increased emphasis on the role of the Directors regarding culture and a broadening of their responsibilities to include reviewing successors for senior management roles as well as Board members.

During the year, we have sought to ensure that we meet the new provisions. I am pleased to report that we were already meeting many of the new requirements before they came into effect, for example our whistleblowing provision has provided for non-financial as well as financial concerns to be raised by employees for many years. As a Board, we have welcomed the opportunity to refine some of our existing practices to enhance our approach to governance. A key example of this is our employee engagement initiative, Employee Voice, where we have leveraged our existing practice of each Director undertaking regular site visits to provide a direct insight into our operations and stakeholders. In expanding these visits to include, among others, training workshops and talent development events, each Director is able to engage with a range of stakeholders as well as observe how the cultural foundations set by the Board are embodied throughout the Group.

To ensure compliance with the Code, we have revised the Board's matters reserved and also the terms of reference for each main Board Committee. In undertaking this exercise, we saw an opportunity to adjust the roles of the Nomination and Remuneration Committees to improve scrutiny of inter-related matters and increase efficiency in management's time in preparing reports. These changes have been carefully worked through and were formally approved at a Board meeting in March 2020.

## Our culture

The Board recognises its role in establishing the foundations of the Company's culture in the form of its purpose, values and vision. During 2019, the Board reviewed the Company's purpose, values and vision, as well as its desired behaviours. Having reaffirmed the Company's cultural foundations, the Board sought to satisfy itself that policies, practices and behaviours across the Group were aligned with the Company's purpose, values, vision and strategy.

This has been achieved through the assessment and monitoring of key performance indicators and metrics as set out on page 94. In addition, regular visits by Directors to a variety of employee events as well as operational projects and sites have provided a perspective into Company culture and provide greater depth to the reports and presentations received at Board meetings.

## Engaging with our stakeholders

Consideration of the Group's full range of stakeholders, including employees, shareholders, supply chain and strategic partners, governments, and the environment and communities in which we operate continued to be an integral part of the Board's discussions and decision-making. During the year, the Directors undertook a review of the different stakeholder groups and the channels of engagement with each. An overview of the Board's engagement activities with each of our key stakeholder groups can be found on page 97 of this report.

The Board values an open, transparent and constructive dialogue with the Company's shareholders and actively seeks opportunities for engagement with them. As in previous years, meetings were held with a range of institutional investors and proxy advisory firms and also with retail shareholders through a meeting of the UK Shareholders' Association and at our Annual General Meeting. Further details on our engagement with shareholders are set out on page 98.

## Employee Voice

During 2019, the Board formalised its approach to workforce engagement with the launch of the Employee Voice initiative. As mentioned above, the existing practice of Directors undertaking regular site visits has been adapted to ensure we meet the requirements of the Code.

Taking this approach was considered the most practical way for all Board members to have responsibility for engagement with the workforce, and to ensure a broad coverage of the range of different business activities and geographies undertaken across the Group.

To further support engagement across our key jurisdictions, Barbara Moorhouse and Michael Lucki have been designated responsibilities for employee engagement in the UK and US, respectively. Further details on our Employee Voice initiative can be found on page 96.

## Safety and sustainability

The Safety and Sustainability Committee oversaw the Group's approach to health, safety, the environment and sustainability during the year. It received regular reports setting out Group performance in these areas, discussed and evaluated new innovations and reviewed Group policies and procedures. A report on the Safety and Sustainability Committee can be found on page 107.

Sadly, during 2019, there were three separate fatalities within the Group – two took place within Gammon, Balfour Beatty's 50:50 joint venture in Hong Kong, and one in the UK. The Safety and Sustainability Committee received reports setting out details of each incident and subsequent investigations, including an analysis of safety measures and improvements and learnings for the future. Such events reinforce the importance of the Group's Zero Harm initiative, and the Board remains committed to driving further industry-wide improvements to better protect our workforce across all of our operations.

## Board composition

As reported last year, Iain Ferguson stepped down from the Board after nine years of service, following the conclusion of the Annual General Meeting on 16 May 2019. The Nomination Committee reviewed the composition of the Board and its Committees and made recommendations for Iain's successors. I am pleased to confirm that Anne Drinkwater was appointed to take Iain's role as Chair of the Remuneration Committee and Stephen Billingham was appointed as Senior Independent Director in place of Iain.

As in previous years, all Directors will stand for re-election by shareholders at the Annual General Meeting in May 2020, in accordance with the Code. Further information on matters relating to the composition of the Board can be found in the Nomination Committee report on pages 105 and 106.

## Independence of Directors

We carefully considered the independence of all Board members during the year, taking account of the criteria set by the Code, and conducted a full review of our conflicts of interest register. Further details of this can be found on page 102.

## Succession planning

During the year, succession plans for senior leaders were reviewed, including US members of the Executive Committee as part of the Board's annual visit to the US. This took place in November, when we travelled to Charlotte, North Carolina. As well as visiting several projects, including the construction of buildings for the University of North Carolina, we had the opportunity to meet with a range of senior US colleagues and undertook a detailed review of succession plans focusing on US leadership.

As in prior years, a dinner was held with US senior leaders however, on this occasion, a range of more junior members of the US construction business also attended. These individuals had been recognised as having high potential or had already made notable achievements at relatively early stages of their careers. This was a valuable opportunity for all members of the Board to meet with US employees below senior leadership level and provided a direct insight into the future pipeline of talent.

During the Board's UK strategy session in July, we met with a range of the Executive Committee's direct reports for each of the strategic business units. Succession plans for UK members of the Executive Committee will formally be reviewed during early 2020 and continue annually thereafter. Further information on succession planning is detailed on page 102 and within the Nomination Committee report on pages 105 and 106.

## Remuneration

Our remuneration policy was last approved at our 2017 AGM and our new policy will be put to shareholders for approval at the upcoming AGM on 14 May 2020.

In developing our new policy, we have sought to ensure we are able to attract and retain talented individuals with the requisite skills and experience to lead the Company. A report detailing the new policy can be found on pages 119 to 126, and a report detailing remuneration during the year can be found on pages 127 to 137.

## Evaluation

In 2019, a thorough, internally facilitated review of the performance of the Board, its main Committees and individual Directors was completed. Useful opportunities for improvement on specific aspects of our governance practices were highlighted and are set out on page 104.

Overall, the results confirmed that the Board and its Committees continue to function effectively and in accordance with their respective constitutions.

## Compliance with the UK Corporate Governance Code

As highlighted above, and set out in detail on the pages that follow, revised practices to meet the requirements of the Code have been developed and implemented during the course of 2019.

I am pleased to report that for the current reporting period, and to the date of this report, the Company has complied fully with the requirements of the Code. A copy of the Code can be found on the FRC's website at: www.FRC.org.uk.

**Philip Aiken AM**
Group Chair

## BOARD OVERVIEW

### Board members by gender

| | |
|---|---|
| Male | 6 |
| Female | 2 |

### Balance of the Board

| | |
|---|---|
| Non-executive | 6 |
| Executive | 2 |

### Non-executive Directors' tenure

| | |
|---|---|
| 0-3 years | 3 |
| 3-6 years | 3 |

# Board of Directors

The business is led by the Board of Directors, which has strong commercial experience relevant to the sector in which the Group operates, and sets and oversees the strategic direction of the Group.

> The Board possesses a wealth of experience from a diversity of backgrounds.

1 Philip Aiken AM
2 Leo Quinn
3 Philip Harrison
4 Dr Stephen Billingham CBE
5 Anne Drinkwater
6 Barbara Moorhouse
7 Stuart Doughty CMG
8 Michael Lucki

# Board biographies

**PHILIP AIKEN AM**
Non-executive Group Chair
N R S

**Date of appointment**
26 March 2015

**Nationality:**
Australian

**Age**
71

**Independent:**
On appointment

**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, 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 at BHP Billiton, president at BHP Petroleum and 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. Philip serves as a non-executive director of Gammon China Ltd, the 50:50 joint venture between Balfour Beatty and Jardine Matheson, and its subsidiary Gammon Construction Holdings Ltd.

**Key external appointments:**
Philip is non-executive chairman of Aveva Group plc, a non-executive director of Newcrest Mining Limited and a director of Australia Day Foundation.

**LEO QUINN**
Group Chief Executive
N S

**Date of appointment**
1 January 2015

**Nationality:**
British

**Age**
63

**Independent:**
No

**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.

**Key external appointments:**
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.

**PHILIP HARRISON**
Chief Financial Officer

**Date of appointment**
1 June 2015

**Nationality:**
British

**Age**
59

**Independent:**
No

**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 regions) 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.

**Key external appointments:**
Philip does not hold any external appointments.

**DR STEPHEN BILLINGHAM CBE**
Non-executive Director and Senior Independent Director
A N

**Date of appointment**
1 June 2015

**Nationality:**
British

**Age**
61

**Independent:**
Yes

**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 the chief financial officer of British Energy Group plc (a FTSE 100 company and the UK's largest electricity generator) and the chief financial officer of the FTSE 250 company WS Atkins plc, the UK's largest engineering consultancy. He was also executive chairman at Punch Taverns plc, the UK's second largest pub owner. He played instrumental roles in the financial and operational turnarounds of all three companies. He is a fellow of the Association of Corporate Treasurers. He holds an honorary DSc from Aston University and in 2019 was awarded a CBE by the Queen for services to government owned, public and regulated businesses.

**Key external appointments:**
Stephen is non-executive chairman of Anglian Water Group Ltd and of 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.

**ANNE DRINKWATER**
Non-executive Director
R S

**Date of appointment**
1 December 2018

**Nationality:**
British

**Age**
64

**Independent:**
Yes

**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. She 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 was previously a non-executive director at Aker Solutions A.S.A. and at UK listed Tullow Oil plc, where she served on a number of key board committees. She was previously oil and gas adviser to the Falkland Islands Government.

**Key external appointments:**
Anne is a non-executive director of Equinor A.S.A.

**STUART DOUGHTY**
Non-executive Director
S A N

**Date of appointment**
8 April 2015

**Nationality:**
British

**Age**
76

**Independent:**
Yes

**Experience:**
Stuart has over 50 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. Stuart has also served as the chairman of the Finance and Major Projects Committee for Aston University. 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.

**Key external appointments:**
Stuart is appointed as a non-executive director representing AustralianSuper (the largest pension fund in Australia) on the board of King's Cross Development Partnership LLP.

**BARBARA MOORHOUSE**
Non-executive Director
A N R

**Date of appointment**
1 June 2017

**Nationality:**
British

**Age**
61

**Independent:**
Yes

**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. Latterly, she 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.

**Key external appointments:**
Barbara is chair of the Rail Safety Standards Board and a non-executive director at Aptitude Software Group plc and Agility Trains East (Holdings) Limited. Additionally, she is a director at Heartgood Ltd and at Kipling House Management Right to Manage Company Limited.

**MICHAEL LUCKI**
Non-executive Director
A R

**Date of appointment**
1 July 2017

**Nationality:**
American

**Age**
63

**Independent:**
Yes

**Experience:**
Michael has over 40 years of business and leadership experience in the US and internationally in the engineering and construction sector. He has held a number of leadership and finance roles, including that of 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 its global industry leader for infrastructure, construction and engineering practices. He has recently acted as a strategic adviser to companies and private equity firms in the engineering and construction industry.

**Key external appointments:**
Michael is a board member of Pankow Management Services, Psomas and also serves as an advisory board member of 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.

**COMMITTEES KEY**

- ● Chair
- ● Member
- A Audit and Risk
- N Nomination
- R Remuneration
- S Safety and Sustainability

## BOARD AND COMMITTEE MEETING ATTENDANCE

| DIRECTOR | B BOARD | A AUDIT AND RISK | N NOMINATION | R REMUNERATION | S SAFETY AND SUSTAINABILITY |
|---|---|---|---|---|---|
| Philip Aiken | ●●●●●●●● | | ●● | ●●●● | ●●● |
| Leo Quinn[1] | ●●●●●●●● | | ●● | | ●●○ |
| Philip Harrison | ●●●●●●●● | | | | |
| Stephen Billingham | ●●●●●●●● | ●●●● | ●● | | |
| Anne Drinkwater | ●●●●●●●● | | | ●●●● | ●●● |
| Stuart Doughty | ●●●●●●●● | ●●●● | ●● | | ●●● |
| Barbara Moorhouse[2] | ●●●●●●●● | ●●●● | ◦◦ | ●●●● | |
| Michael Lucki | ●●●●●●●● | ●●●● | | ●●●● | |
| Iain Ferguson[3] | ●●●◦◦◦◦◦ | | ●● | ●●◦◦ | ●◦◦ |

1 Leo Quinn was unable to attend one Safety and Sustainability Committee meeting due to a scheduling conflict relating to a significant customer meeting.
2 Barbara Moorhouse was appointed as a member of the Nomination Committee with effect from 16 May 2019.
3 Iain Ferguson retired from the Board after the Company's 2019 Annual General Meeting on 16 May 2019.

## BOARD AND COMMITTEE MEETINGS DURING THE YEAR

| JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | B | B | | B | | B | B | B | | B | B |
| | N | A | | | | | | | | | |
| | R | N | | | | R | | R | | | |
| | S | R | | A | | S | A | S | | A | |

# Board activities

The Board met eight times during the year, with Board sub-committees being convened on an ad hoc basis in order to deal with matters arising outside of the formal Board and Committee meeting schedule. All formally scheduled Board meetings were attended by all Board members – further detail on attendance can be found on page 91.

The Board is responsible for the strategic direction of the Group and for assessing the basis on which the Company generates and preserves value over the long term. To support in achieving the Group's strategic goals, the Board strives to embed a positive attitude to good governance into the Company's culture and ensure that processes and procedures are followed. The Board is also responsible for ensuring that its decision-making is long term in its nature and takes into account the desirability for maintaining high standards of business conduct and the need to act fairly between members. The Board agenda is set by the Group Chair, in conjunction with the Company Secretary.

The Company Secretary is responsible for maintaining forward agendas for the Board and each of its main Committees, and ensuring that items are scheduled for the appropriate time of year with an even distribution of matters throughout the calendar.

Agenda timings are managed proactively to ensure there is sufficient time for discussion of each item. In addition, there is provision to ensure that agendas allow for timely consideration of matters as they arise during the year.

Deep-dive presentations are also held to provide an in-depth review of individual key projects and other matters of strategic significance.

## Strategy

In addition to the activities highlighted opposite, the Board held an offsite strategy session in July. This focused on the UK business but also included a meeting with external advisers on broader Group-wide strategic matters. Similar meetings were arranged during the Board's trip to the US in November focusing on strategy. At these business-specific meetings, senior leaders from each area of the business presented on the following matters:

- recent operational and financial performance;
- key strategic issues and actions;
- market overview and future pipeline of opportunities; and
- stakeholder engagement, risk, and safety.

## Speak Up

The Group operates a confidential and anonymous Speak Up service, which enables colleagues to report any concerns related to unethical conduct in any area of the business. The Board receives biannual reports from the Group Head of Business Integrity, which include updates on the operation of the Speak Up platform and details of cases raised and instances where a proportionate and independent investigation has been conducted. Biannual updates also include detail on progress against any follow-up actions. Further detail on the Speak Up service can be found on page 47.

## BOARD ACTIVITIES IN 2019

### PERFORMANCE

- Reviewed routine reports from the executive Directors on performance
- Reviewed Group strategy and approved the Group's budget
- Approved the Company's Annual Report and Accounts, financial results, trading updates and ancillary documents relating to the Annual General Meeting and class meeting of preference shareholders, including the Notice of Meeting
- Declared a final dividend and approved an interim dividend
- Approved certain significant contracts and bid submissions where thresholds relating to value or complexity were reached (as set out in the matters reserved for the Board)
- Received 'deep-dive' presentations and reports on significant matters and contracts including key projects in the UK Highways and Gammon businesses, the market for US heavy civils infrastructure, the Aberdeen Western Peripheral Route
- Received updates on the investigation into the US military housing business (further details on page 6)
- Reviewed reports from the Group's brokers

### HEALTH, SAFETY, ENVIRONMENT & SUSTAINABILITY

- Received verbal updates from the Safety and Sustainability Committee following each Committee meeting
- Received routine Group health, safety, environment and sustainability reports at each Board meeting where a Safety and Sustainability Committee meeting was not scheduled in the same cycle of meetings

### AUDIT AND RISK

- Received verbal updates from the Audit and Risk Committee following each Committee meeting
- Received reports on financial and accounting issues and contract and commercial issues
- Approved the going concern statement and assessment of viability, the Directors' valuation of the Investments portfolio and principal and emerging risks as disclosed in the Annual Report and Accounts
- Approved recommendations from the Audit and Risk Committee relating to the fee and appointment of the external auditor
- Received reports from the external auditor in respect of full and half year results
- Received regular reports on meetings of the Group Tender and Investment Committee and its significant projects pipeline
- Received general updates on meetings of the Finance and General Purposes Committee
- Reviewed the Group's preparations for the UK's departure from the European Union

### CULTURE

- Reviewed the Company's purpose, vision, values and behaviours
- Reviewed key stakeholder groups and channels of engagement with each of them
- Reviewed and approved the Employee Voice framework relating to the Board's engagement with the Group's workforce (further details can be found on page 96)
- Received biannual updates on business integrity including reports on Speak Up, the Group's whistleblowing service
- Received verbal updates from non-executive Directors on site visits undertaken, including feedback relating to employees and other stakeholders
- Approved the Group's 2019 Modern slavery statement

### PEOPLE

- Received verbal updates from the Remuneration Committee following each Committee meeting
- Received an annual update on pensions
- Reviewed senior leader succession plans and supported workforce diversity and inclusion

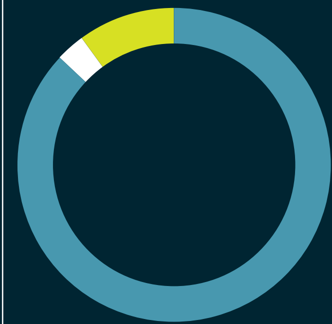
### GOVERNANCE

- Internally evaluated the performance of the Board, its main Committees and individual Directors
- Reviewed conflicts of interest of Directors
- Reviewed the formal matters reserved for the Board and terms of reference for each of the main Board Committees
- Approved changes relating to the office of the Company Secretary and the roles held by non-executive Directors
- Convened sub-committees of the Board to deal with specific matters

| Link to strategy | Link to principal risks |
|---|---|
| 1 LEAN, 2 EXPERT | 1, 2, 3, 4, 8, 9, 10, 14 |
| 1 LEAN, 4 SAFE | 1, 2, 3, 4, 11, 12 |
| 1 LEAN, 3 TRUSTED | 2, 3, 9, 12 |
| 3 TRUSTED, 4 SAFE | 5, 6, 7, 8, 11, 12 |
| 2 EXPERT, 3 TRUSTED | 7, 11, 13 |
| 3 TRUSTED | 7, 12 |

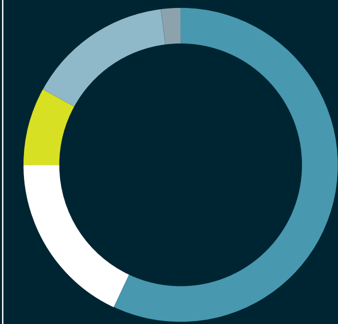
## HOW THE BOARD SPENT ITS TIME DURING 2019

### Indication of time spent at Board meetings



- Strategy, performance and operations
- Committee matters
- Governance and other matters

### Indication of time spent in Board and Committee meetings



- Board
- Audit and Risk Committee
- Safety and Sustainability Committee
- Remuneration Committee
- Nomination Committee

> The Board strives to embed a positive attitude to good governance into the Company's culture.

# Promoting a positive culture

The Board takes seriously its responsibility for establishing the Company's purpose, values and vision, recognising that a positive culture across the Group directly affects performance and the preservation of long-term value. During 2019, the Board reviewed and discussed a paper on the Company's purpose, values and vision, as well as its desired behaviours. This provided an opportunity for the Board to reflect on these key foundations of the Company's culture and assess their continued effectiveness and relevance.

Having reaffirmed the Company's cultural foundations, the Board sought to satisfy itself that the policies, practices and behaviours across the Group were aligned with the Company's purpose, values, vision, and strategy. This was achieved through the assessment and monitoring of key performance indicators and metrics that were determined to provide an insight into the culture of the Company. In addition, Directors took opportunities to gain their own perspectives on culture through site visits. Recognising that such visits provide a snapshot view, these were complemented by reports and updates on broader trends on particular matters relevant to culture. Details of these activities can be found in the table below.

In monitoring culture, the Board seeks assurance from management that action is being taken to address any concerns that are identified.

## Supporting framework

The Balfour Beatty Code of Conduct provides the supporting infrastructure for the purpose, values and vision of the Company. Together, these set the cultural tone for the Build to Last goals which provide a clear strategic direction for the Group. The Build to Last goals of Lean, Expert, Trusted and Safe, are set out in detail on pages 8 and 9.

## Culture in action

The Group has four Affinity Networks: LGBT+, Multi-Cultural, Gender Equality, and Ability (relating to employees with a disability). These networks provide a platform for under-represented employee groups to bring their unique perspective to the development of the Company's working culture and create a fair and inclusive workplace.

Balfour Beatty was awarded the 2019 Inspiring Change in the Workplace award at the Civil Engineering Contractors Association (CECA) Inspiring Change awards in May 2019. This award recognised the Group's Multi-Cultural Affinity Network, set up in 2016. This Affinity Network aims to ensure the business understands the cultural experiences of all employees and provides an open platform for employees to bring their own unique perspective to the development of the Company's working culture. Balfour Beatty was also recognised for its Inclusive Leadership training, designed to equip senior leaders with the skills needed to embed an inclusive culture within their teams.

## SETTING THE CULTURAL TONE

> "The Board takes seriously its responsibility for establishing the Company's purpose, values and vision."

### Purpose
**Creating infrastructure; supporting communities; enabling growth**

### Values
- **Talk positively**
- **Collaborate relentlessly**
- **Encourage constantly**

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

## HOW THE BOARD MONITORED CULTURE IN 2019

| ACTION TAKEN | LINK TO CULTURE |
|---|---|
| Each Director undertook visits to sites and employee events | Provided direct insights into workforce working environments, their behaviours and practices, their attitudes and approaches to other stakeholders, and the practical application of policies and standards |
| Each Director provided verbal feedback on visits to sites and employee events to the rest of the Board | Sharing experiences of visits and discussing these as a Board assisted in creating a broader exposure for each Director than would otherwise be possible due to the range and scale of the Group's operations across different sectors and geographies |
| Reviewed whistleblowing statistics, details of cases raised through the Speak Up provision and related independent investigations | Provided a perspective on the nature of employee concerns and trends in the behaviours of the workforce generally |
| Updated on a broad range of business integrity matters including approaches to combating modern slavery | Provided the Board with a broad understanding of practices and behaviours and how these align with the purpose, values, vision and strategy of the Group |
| Reviewed results and updates from employee engagement surveys | Identified high-level trends in employee satisfaction and understanding of Group policies and practices |
| Reviewed regular updates on reporting against the Prompt Payment Code in the UK | Provided an understanding of the Group's approach to supply chain partners |
| Reviewed statistics and trends of lost time injury rates across the UK, US and Gammon | Enabled Directors to assess the effectiveness of safety practices and behaviours |
| Reviewed metrics on safety observations reported by employees | Allowed a further insight into safety behaviours by evidencing the extent of individual responsibility taken by employees with regard to proactively reporting safety concerns |
| Reviewed details of the outcomes of internal audits judged to be less than satisfactory (undertaken by the Audit & Risk Committee with details available to all Board members) | Supplied the Board with a direct view of areas of practice, policy and behaviours that were not at the desired standard and provided details of the corrective action being taken |

# Opportunities to connect with colleagues

**Above:** Philip Aiken, Group Chair, meeting members of the Infrastructure Investments team.

## Open Employee Event - 'Meet the Board'

A Meet the Board event was held in March 2019 at the Canary Wharf office with all employees invited to attend. The event was publicised internally and via the Canary Wharf office social events committee.

The intention of the event was for the Directors to meet and provide employees with an overview of the Board's activities, gather feedback on employees' experiences and engage with them on any issues, concerns and ideas they may have.

The Group Chair delivered a presentation to employees, followed by a Q&A session where all other non-executive Directors were available to answer questions. Employees then had the opportunity for further informal discussions with the Directors over tea and coffee.

Over 100 employees attended this event from a range of operational and supporting functions. Feedback received was very positive and plans are in place for further such events to take place at different locations in future.

## Visiting sites - 'Employee Voice'

Throughout the year, the Board continued in its existing practice of all Board members undertaking site visits, but within the more formal framework of the new Employee Voice initiative (details on page 96).

One example of such a visit was Anne Drinkwater's tour of the Madison development in Canary Wharf, London. Anne attended the site with Dean Banks, the chief executive officer for UK Construction Services. In addition to taking a tour of the construction site, Anne hosted an all-employee town hall and Q&A session together with Dean.

During the site visit, Anne was able to meet with members of the project team and observe interactions with onsite subcontractors with regards to safety matters, as well as seeing work undertaken to develop relations with the community local to the site.

Anne provided feedback on this visit to the rest of the Board at the next scheduled meeting and also to the Company Secretariat team which is responsible for formally recording and disseminating Directors' feedback.

# Engaging with stakeholders

Consideration of stakeholder concerns and interests is a key cornerstone of the Board's discussion and decision-making process.

## Approach to stakeholders

In 2019, the Board undertook a review of its stakeholder groups and existing channels of engagement with each. This assessment provided the Directors with a renewed perspective on the impact of the Group's operations on stakeholders, which will continue to be monitored. All methods of engagement with stakeholders will remain under review. Details on the Board's engagement activities with stakeholders can be found opposite.

Throughout the year, non-executive Directors undertook visits to sites and events where there was an opportunity to meet and engage directly with a range of stakeholders in person. Directors provided verbal updates to the rest of the Board at every Board meeting on all recent visits and any other engagement activities undertaken.

Directors complete feedback forms on their visits – using a set template provides a consistent framework for observations and feedback to be provided on engagement with all stakeholders including, in particular, employees. This feedback is collated by the Company Secretariat and shared with the rest of the Board. Having this feedback equips Directors with an understanding of a range of stakeholder groups so they can have regard to their interests in decision-making.

Details of a recent site visit can be found on page 95.

> The Board possesses a wealth of experience from a diversity of backgrounds.

## ENGAGEMENT WITH EMPLOYEES

### EMPLOYEE VOICE

The Group Chair has always encouraged all Directors to undertake site visits throughout the year to learn first-hand about the Group's projects and to meet with stakeholders including employees and customers. In light of the new Code requirements for Directors to formally engage with the Group's workforce, leveraging this existing practice was seen as a natural progression to deepen Directors' understanding of employee concerns. In addition, it serves to broaden stakeholder engagement by expanding the nature of these visits to include employee activities focused on particular customers and the communities within which we operate.

Implementation of this Employee Voice initiative will evolve further over time; however, the introduction of a more formal framework for these visits has provided a consistent approach so that responsibility for workforce engagement sits with all Board members.

Notwithstanding this collective responsibility, the Board has allocated specific responsibilities to two non-executive Directors – Barbara Moorhouse to act as a lead on UK workforce engagement, and Michael Lucki for US workforce engagement. This provides for a specific focus to be placed on each of the Company's main jurisdictions, recognising the geographical spread of the Group's workforce.

The Company Secretariat, with the support of the Human Resources function, has a facilitative role in the Employee Voice initiative and is responsible for maintaining a list of engagement opportunities around the business and for cross-checking to ensure a range of sites and colleagues are reached. Regular dialogue is maintained with the full Board to ensure all Directors are kept abreast of such opportunities which include training workshops, talent activities, site visits, town halls and diversity and inclusion events, among others.

Given the different types of visits that the Directors undertake, a set template has been developed to provide structure to each visit and for recording details in a consistent way. Examples of points covered in the template include noting observations on the morale and motivation of the workforce and the extent to which the workforce understands the Company's purpose and vision, and demonstrates its values and behaviours. This formal feedback is provided to the Company Secretariat team which is responsible for the collation and dissemination of specific issues as appropriate.

There is a standing item on the Board's agenda for each Director to provide a verbal update on the feedback gathered through their individual engagement activities since the previous meeting. The scale of diversity in demographic and commercial activities of the Group's workforce means that it is not possible for any one Director to personally engage with all parts of the workforce. Having a discussion at every meeting provides the opportunity for Directors to regularly share their experiences and hear about employees from parts of the business they have not had direct contact with.

Formal reports on the nature of visits undertaken and trends in feedback and issues identified will be tabled to the Board by the Company Secretariat. In addition, the Board will receive a summary of key performance indicators on employee engagement. These will include an 'engagement index' figure, as measured by employee surveys, which allow for employees to share anonymously their views on a broad range of issues. Also included in this report are other indicators including voluntary attrition rates, safety observations and participation rates for the My Contribution initiative, where all employees are encouraged to propose and develop innovative ideas.

Overall, the Board believes that engagement is not an issue to be driven by compliance with regulation but, instead, by a desire to engage as effectively as possible with the whole workforce.

## CUSTOMERS

### ENGAGEMENT IN 2019

- The Board received updates on relationships with customers within the context of routine business updates and presentations
- The Board received detailed presentations and reports throughout the year on the progress of key contracts. Board 'focus sessions' were held during 2019 providing deep-dive reviews of large individual contracts, which included a focus on the Group's relationship with the specific customer in each case
- The Board's focused strategy sessions in the UK and US included updates from each strategic business unit, including a focus on its relationships with customers
- Members of the Board have met directly with certain customers, including through the course of undertaking site visits

## EMPLOYEES

### ENGAGEMENT IN 2019

- The Board considered its approach to workforce engagement, as set out under Employee Voice on page 96
- Throughout the year, non-executive Directors met with employees in several geographies through site visits. A case study on a site visit undertaken by a Director can be found on page 95
- A Meet the Board event was hosted in the Group's Canary Wharf office in March 2019, with over 100 employees in attendance. Further details can be found on page 95
- The Board received health and safety reports throughout the year, which included updates on safety incidents involving employees
- The Board received a summary of key performance indicators on employee engagement including the results of employee surveys conducted during the year and other key indicators

## SUPPLY CHAIN AND STRATEGIC PARTNERS

### ENGAGEMENT IN 2019

- The Board received updates on relationships with supply chain and strategic partners within the context of routine business updates and presentations
- Updates on the Group's relationship with its key joint venture partner, Jardine Matheson, were provided to the Board through detailed reports on Gammon (Balfour Beatty's 50:50 joint venture in Hong Kong)
- The Board and the Audit and Risk Committee received regular reports during the year on the Group's performance in relation to the Prompt Payment Code, which deals with the timely settlement of invoices to suppliers in the UK

## COMMUNITIES

### ENGAGEMENT IN 2019

- Engagement with the wide range of communities in the areas within which the Group operates is recognised as an important part of the delivery of operational projects and is referenced where appropriate in reports to the Board throughout the year
- Individual Directors have taken up opportunities to learn more about engagement with community stakeholders on specific projects through site visits

## GOVERNMENTS

### ENGAGEMENT IN 2019

- For the Group, national governments are both customers and key stakeholders in shaping the regulatory landscapes within which the Group operates and setting the conditions for investment in large infrastructure projects
- The Board receives updates on government related matters at both national and local level across all jurisdictions where these impact on the Group's projects or business generally. This includes agencies of government, for example the UK Health and Safety Executive and the US Environmental Protection Agency

## SHAREHOLDERS

### ENGAGEMENT IN 2019

- The Board engaged with private retail shareholders by hosting a meeting with the UK Shareholders' Association and the Annual General Meeting
- Individual Directors met with institutional shareholders during the year through one to one meetings and at investor conferences
- Meetings were also held with proxy advisory firms
- Further details of the Board's engagement activities with shareholders are set out on page 98

# Engaging with shareholders

The Board values open, transparent and constructive dialogue with all shareholders and during the year continued to develop shareholder relationships through a structured investor relations programme. This programme consisted of regular engagement with major shareholders to understand their views on the Group's governance and performance against strategy.

The Company's website provides an important resource for communications to all stakeholders, with a specific section dedicated to investors: www.balfourbeatty.com/investors/. The Company provides regular updates on financial performance and key events to the London Stock Exchange via a regulatory information service and responds to shareholder queries received.

## Institutional investors

The Group Chair and executive Directors met one to one with institutional shareholders to engage on the direction of the Company's strategy, the status of its objectives and the robustness of its ever-evolving governance practices. Discussion matters included succession planning, remuneration practices and Director independence. The Board was kept updated with details of the meetings held with institutional investors throughout the year. Group sessions with current and potential investors were also held, and executive Directors attended and spoke at investor conferences.

The Chairs of each of the main Board Committees seek regular engagement with investors on matters related to their areas of responsibility. The Group Chair ensures that the Board remains cognisant of the views of shareholders.

A detailed report providing a review of investor relations activities is provided to the Board biannually, as well as summaries of analyst research briefings and overviews of the Company's share price movements on an ad hoc basis.

## Annual General Meeting (AGM)

The AGM is a key event in the Board calendar and all shareholders are encouraged to participate, whether by attending in person 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.

Shareholders are provided an opportunity to engage with the Board through a Q&A session during the formal proceedings of the AGM, and are able to meet with Directors informally over refreshments following its conclusion.

Further details on the 2020 AGM can be found in the Directors' report on page 140.

## Retail shareholders

Members of the UK Shareholders' Association were invited to attend a meeting at the Company's Canary Wharf office in March. Over 30 retail investors joined the meeting and received a presentation from the Group Chair followed by a Q&A session. The Head of Investor Relations and the Deputy Company Secretary also attended and were available to answer questions from shareholders over refreshments.

A report to the Board on the meeting was provided verbally by the Group Chair and Deputy Company Secretary at the next scheduled Board meeting. The meeting provided an effective way for the Directors to gain an insight into the concerns and perspectives of retail shareholders.

The AGM is another important opportunity for the Board to engage with retail shareholders.

## Proxy advisory firms

The Group Chair and the Senior Independent Director each held consultation meetings with proxy advisory firms together with the Deputy Company Secretary. The Head of Investor Relations also attended certain meetings. The outcomes of these meetings were verbally reported to the Board.

## ENGAGEMENT ON MATTERS RELATING TO THE ENVIRONMENT

The Board has long valued the importance of sustainability, and a delegation for oversight of environmental matters to the Safety and Sustainability Committee has been in place for a number of years. The Committee has the scope and focus to effectively monitor issues and developments relating to sustainability and make recommendations to the Board as necessary.

During 2019, the Safety and Sustainability Committee, on behalf of the Board, received updates on the impact of the Group's operations on the environment throughout the year, including the Group's strategies and policies in this area as well as more focused presentations on specific initiatives and achievements. These included presentations on innovative work being undertaken with customers to help them achieve their sustainability objectives.

The Safety and Sustainability Committee also reviewed the environmental performance of the Group, including carbon emissions and waste management. Verbal updates were provided to the Board following each Safety and Sustainability Committee meeting.

# Calender of shareholder events

**MARCH 2019**
- Full year results presentation
- UK investor roadshow
- US investor roadshow

**APRIL 2019**
- UK Shareholders' Association meeting

**MAY 2019**
- UBS shareholder conference
- AGM and trading update
- Class meeting of preference shareholders

**JUNE 2019**
- Peel Hunt BISS conference, London

**AUGUST 2019**
- Half year results presentation
- UK investor roadshow

**SEPTEMBER 2019**
- UK investor roadshow
- D.A. Davidson conference, Chicago

**OCTOBER 2019**
- Jefferies Industrial conference, London

**NOVEMBER 2019**
- US investor roadshow

**DECEMBER 2019**
- Goldman Sachs industrial conference, London
- Berenberg conference, Ascot
- Bank of America conference, London
- Trading update

# A robust framework of governance

Authority for taking certain decisions is formally delegated by the Board and flows through the Group to ensure an appropriate and consistent approach across all parts of the business.

The Board is the principal decision-making body of the Company with authority for specific matters being delegated to Committees of the Board. Responsibility for the day-to-day operation of the Group is formally delegated by the Board to the Group Chief Executive who manages the running of the business through the Executive Committee. The members of the Executive Committee each have responsibilities for particular functions with authority being further delegated to appropriate individuals throughout the Group based on their role and seniority.

**The framework set out below provides a high-level summary of matters within scope at each level of the Group's governance framework and illustrates the flow of authority as it is delegated throughout the Group.**

### B BOARD OF DIRECTORS

- Establishes the Company's strategic direction, purpose and values
- Assesses culture and promotes the long-term success of the Company
- Approves the Company's financial statements, dividends and budget
- Ensures maintenance of a framework of prudent and effective controls
- Ensures effective engagement with stakeholders including employees
- Approves matters relating to the composition of the Board and Committees

### N NOMINATION COMMITTEE

- Reviews the structure, size and composition of the Board
- Evaluates the balance of skills, knowledge and experience on the Board
- Ensures plans are in place for an orderly succession for members of the Board (in 2019, Executive Committee succession plans were reviewed by all Directors)

### R REMUNERATION COMMITTEE

- Reviews the remuneration policy for Directors and Executive Committee members
- Approves the remuneration of Directors and Executive Committee members
- Oversees the implementation of the remuneration policy

### A AUDIT AND RISK COMMITTEE

- Reviews the form, content and process for preparing financial statements
- Reviews principal risks and internal controls, and the risk management framework
- Monitors the effectiveness of the internal audit function and external auditor

### S SAFETY AND SUSTAINABILITY COMMITTEE

- Reviews strategies, policies and performance in relation to health, safety and the environment
- Reviews the environmental impact and sustainability of operations
- Reviews in detail incidents where significant harm has occurred

### T GROUP TENDER AND INVESTMENT COMMITTEE

- Responsible for the content, maintenance and operation of the Gated Business Lifecycle which forms the core process for evaluating and monitoring the governance of operational projects

### F FINANCE AND GENERAL PURPOSES COMMITTEE

- Approves borrowings, banking arrangements, management of interest rate and foreign exchange rate exposures, contract financing, bonding and leasing matters and guarantees

### EXECUTIVE COMMITTEE

- The Group Chief Executive works through the Executive Committee, members of which are responsible for particular business units and enabling functions including developing and implementing strategy, and matters relating to health and safety, sustainability, employee matters (including succession and remuneration), legal and governance, technology and innovation, and communications and investor relations
- Responsibility for the day-to-day running of each of the strategic business units is delegated to individual members of the Executive Committee

### CONSTRUCTION SERVICES

- Responsible for design, engineering and construction across infrastructure and building projects

### SUPPORT SERVICES

- Responsible for design, upgrade, management and maintenance of critical national infrastructure

### INFRASTRUCTURE INVESTMENTS

- Responsible for development and financing of both public and private infrastructure projects

# Corporate governance framework

The Company's governance framework operates to support the delivery of its strategy by ensuring that business is conducted within a framework of robust principles and procedures and in an orderly way.

The Company has a premium listing on the London Stock Exchange and is therefore subject to the Code. A copy of the Code can be found on the FRC's website: frc.org.uk.

As set out in the Group Chair's introduction on pages 87 and 88 the Company has been in compliance with the Code during the year and up to the date of publication of this report.

## The Board and its Committees

The Board maintains a formal schedule of matters reserved for its decision as well as separate terms of reference for each of its Committees, all of which can be found on the Investors section of the Company's website: www.balfourbeatty.com/investors.

The Board has four main Committees: Audit and Risk, Nomination, Remuneration and Safety and Sustainability. All non-executive Directors are encouraged to attend all Committee meetings unless there are matters of conflict, for example where their own remuneration or succession is being discussed. Verbal reports on the activities of the main Committees are provided to the Board by the respective Committee Chair at every meeting of the Board.

In addition to the main Committees, there is a Group Tender and Investment Committee and a Finance and General Purposes Committee, both of which are managed and led by the executive Directors. A detailed list of projects considered by the Group Tender and Investment Committee, together with the pipeline of projects expected to be tabled in the near future, is provided at each meeting of the Board. Reports on the activities of these Committees are provided to the Board where necessary.

Committee terms of reference and the schedule of matters reserved to the Board are reviewed annually. The matters reserved to the Board comprise issues relating to the Group as a whole, including its strategy, budget, risk, high-value investments and expenditure and approval of the Company's financial statements and dividends.

## Delegated levels of authority

Responsibility for the day-to-day operations of the Group, including matters such as business performance, financial management, business integrity, safety, health and environment, is formally delegated to the Group Chief Executive. The Group Chief Executive in turn delegates specific responsibilities to appropriate individual members of the Executive Committee.

This is managed through a formal policy of delegation which provides a framework for the authorities afforded to senior individuals across the UK and US. This central point of reference ensures that decisions are taken at the right level within the Group by those best placed to take them, whilst simultaneously allowing the business to function efficiently, without having to adhere to bureaucratic and burdensome processes.

The Group's delegated levels of authority across all levels of the business were thoroughly reviewed and refreshed in 2018. They were reviewed again in 2019 to accommodate adjustments required to ensure practical compliance.

## Time commitment of Directors

The Board recognises the importance of individual members having sufficient time available to discharge their duties effectively. Existing commitments of Directors are carefully reviewed on appointment, before acceptance onto the Board. On an annual basis, each Director declares his or her external appointments and commitments to the Board as part of the conflicts of interest declaration.

The Group Chair's significant commitments are set out in his biography on page 90 and have not changed during 2019. In compliance with the Code, neither of the executive Directors holds any non-executive board positions at a FTSE 100 company. Details of the external appointments held by each member of the Board are set out on pages 90 and 91.

## Approval of Directors' external appointments

In accordance with the Code, all new external appointments of Directors are approved by the Board.

Directors have a responsibility to notify the Group Chair of any new external commitments that they are considering. The Group Chair then arranges for a review of the additional time commitment expected of the new role and any potential conflicts of interest. If satisfied with the outcome of this review, the Group Chair provides approval on behalf of the Board. At the next scheduled Board meeting, the Director concerned makes a formal declaration to the full Board detailing the nature of the appointment.

During 2019, three external appointments were approved for non-executive Directors:

- Barbara Moorhouse's appointment as chair of the Rail Safety Standards Board was approved in advance of her formal appointment in January 2019;
- Michael Lucki's appointment as advisory board member of Anchor QEA, LLC, a science and engineering services provider, was also approved in January 2019; and
- Stuart Doughty's appointment as a non-executive director on the board of King's Cross Development Partnership LLP was approved ahead of his formal appointment at the end of 2019.

In approving each of these new roles, the Board was satisfied that each Director continued to have the capacity and independence to remain fully committed to their role on the Board of Balfour Beatty plc.

# Role of the Board

The role of the Board is to be effective and entrepreneurial and to promote the long-term sustainable success of the Company, whilst having regard to the interests of a range of stakeholders and ensuring high standards of business conduct.

The division of responsibilities across 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 Group Chair's responsibility, and the executive leadership of the Company's business, which is the Group Chief Executive's role. The counter 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, values, culture and objectives as set by the Board.

## Group Chair

The Group Chair leads the Board and encourages high standards of corporate governance, meeting with a range of stakeholders, including shareholders, throughout the year in order to actively engage with them.

The Group Chair has responsibility for the effectiveness of the Board in its role of directing the Company. The Group Chair achieves this through promoting a culture of constructive debate and openness among all Board members, both executive and non-executive. To support this, from time to time, the Group Chair meets with the non-executive Directors privately without management present.

## Senior Independent Director

The Group Chair is supported by the Senior Independent Director who acts as a sounding board for the Group Chair and as an intermediary for the Group Chief Executive, non-executive Directors and shareholders as required. The Senior Independent Director leads the appraisal of the Group Chair's performance.

## Non-executive Directors

The non-executive Directors are responsible for providing strategic guidance and constructively challenging the performance of management.

In addition to being appointed to the Board, each of the non-executive Directors serves on at least one of the main Board Committees which are each chaired by a non-executive Director or the Group Chair. Through these Committees, but also through the main Board, the non-executive Directors ensure that the integrity of financial information and systems of risk management and internal control are robust and defensible. The non-executive Directors also determine remuneration policy and appropriate levels of remuneration, review the strategies, policies and performance of the Group in relation to health and safety and are involved in succession planning and appointments.

The Board considers all the non-executive Directors to be independent under the Code. Further information on the independence of Directors can be found on page 102.

## Company Secretary

The Board is supported by the Company Secretary who ensures that the Board is able to function effectively and efficiently through the Company Secretariat.

In addition to making all logistical arrangements for meetings, the Company Secretary is responsible for advising the Board on all governance matters, managing the policies and processes related to the Board and ensuring that the Directors receive information in a timely manner. The Company Secretary is available to all Directors and maintains dialogue with each of them on an individual basis.

In February 2019, David Mercer retired from his role as Company Secretary and the Board appointed Jonathan Lagan as Company Secretary in his place. Jonathan left the Company in August 2019. The Board appointed David Mercer as Interim Company Secretary in October 2019.

During the intervening period, the Board approved for the Deputy Company Secretary to discharge the role of Company Secretary as an interim measure, as provided for under the Companies Act 2006.

# Maintaining a strong Board

Processes and procedures are in place to ensure that there is an appropriate balance of Board members who are sufficiently supported and have the skills, experience and independence to discharge their duties as Directors.

## Board composition

Following Iain Ferguson's retirement from the Board in May 2019, the Board has eight members, comprising the Group Chair, Group Chief Executive, Chief Financial Officer and five independent non-executive Directors, as set out on pages 90 and 91. The Board considers this to be an appropriate size and balance to manage the requirements of the business.

### Independence of Directors

In accordance with the criteria set by the Code, the Group Chair was independent at the time of his appointment. All the non-executive Directors are considered to be independent under the Code. This includes Stephen Billingham, notwithstanding his directorships at Anglian Water Group Ltd and Urenco Ltd, both of which have business relationships with the Group, as the value is considered immaterial in the context of the Group (more detail relating to value is set out in Note 38 on page 209). Stephen is also a member of the Group's pension scheme from his time as an employee of the Group 20 years ago. A fresh declaration of interest is made by Stephen and recorded in the minutes at every meeting where the Group's pension scheme is discussed and the Board is confident in Stephen's independence in discharging his duties.

Iain Ferguson had served on the Board since January 2010 and remained independent throughout his tenure. Iain reached nine years of service in January 2019 and remained on the Board to support an orderly succession of his role as Chair of the Remuneration Committee to Anne Drinkwater, who was appointed as a Director in December 2018. Iain retired as a Director after the Company's Annual General Meeting in May 2019.

### 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 conflicts of interest during the year which could not be authorised by the Board. The Board has a formal process in place for the approval of all new external appointments of Directors, further details of which can be found on page 106.

### Succession and tenure

On behalf of the Board, the Nomination Committee reviews the formal appointment procedure and the succession plan for the Board. In 2019, all members of the Board were present for review of succession plans for senior management roles. Both appointments and succession plans are based on merit and assessed against objective criteria with the promotion of diversity as a central consideration. This includes diversity of gender, social and ethnic backgrounds as well as cognitive and personal strengths. Further information on the review of succession plans in 2019 is set out on pages 105 and 106. As detailed in the Nomination Committee report, on pages 105, the Remuneration Committee will have responsibility for succession plans in 2020.

All Directors are subject to annual re-election by shareholders at the Annual General Meeting where letters of appointment for each non-executive Director are available for inspection. Set out in the Notice of Annual General Meeting is information on the skills and experience of each Director seeking re-election, as well as details regarding their individual contributions to the long-term success of the Company.

Set out on page 103 is the current length of tenure for the Group Chair and each of the non-executive Directors as at 31 December 2019.

### KEY SKILLS AND EXPERIENCE OF DIRECTORS

| SKILLS AND EXPERIENCE | NUMBER OF DIRECTORS |
|---|---|
| Financial management | ●●●●●○○○ |
| Health/safety/sustainability | ●●●○○○○○ |
| Public/government | ●●●●●○○○ |
| Corporate governance | ●●●●●○○○ |
| Risk and regulation | ●●●●●○○○ |
| Culture and values | ●●●●●●○○ |
| Strategy | ●●●●●○○○ |
| US experience | ●●●●●○○○ |
| Hong Kong and Far East experience | ●●●●●○○○ |
| Construction sector experience | ●●●○○○○○ |
| Major complex projects experience | ●●●●●○○○ |

# Development, information and support

### Information and support

During the year, the Company Secretary advised the Board on current governance matters, ensuring Board procedures were followed and relevant statutory and regulatory requirements were complied with. The Company Secretary is responsible 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, who is able to arrange, at the Company's expense, for the Directors to receive independent professional advice where appropriate.

### Induction, training and development

Following the appointment of new Board members, the Company Secretary in conjunction with the Group Chair, prepares a robust and comprehensive induction programme. This is tailored for new non-executive Directors based on their individual knowledge and experience and is shared with the non-executive Directors at the outset to identify any areas of particular interest to them so that these may be prioritised or emphasised as necessary.

Where a Director joins a Committee upon appointment to the Board, the induction programme includes a focused introduction to that Committee. When a Director joins a Committee subsequent to their appointment to the Board, the Company Secretary arranges for an induction to that Committee to be provided at that time.

Notwithstanding any bespoke aspects, the induction programme for new non-executive Directors includes:

- introductory one to one meetings with all members of the Board and Executive Committee and the Company Secretary as well as other key senior leaders across the Group from both operational and head office support roles;
- documents provided via the electronic Board portal covering key information relating to the Group including financial performance, Board policies and procedures and governance matters. These documents are also available to all other Board members as a continuing point of reference; and
- visits to office and site locations across the UK and US. These continue as part of the Board's employee engagement programme. For more information regarding employee engagement and site visits, please see pages 95 to 97.

In all respects, the induction programme provides the foundation for the ongoing training and development of Board members which ensures that they remain suitably equipped and informed to discharge their duties.

Anne Drinkwater was appointed to the Board in December 2018 and an induction programme was created which continued into 2019. Anne has met with all members of the Executive Committee and other key senior leaders across the Group, and has undertaken visits to numerous office and site locations across the UK and the US.

Throughout the year, the Group Chair maintains dialogue with individual Directors to identify any specific training needs. Where appropriate, such training is delivered by the topic being included at a Board meeting so that all Directors can benefit. Alternatively, training is delivered by way of formal presentations, individual meetings and site visits in order to learn more about a particular initiative or project.

# Board evaluation

In accordance with the Code, a formal and rigorous annual evaluation is undertaken of the Board's performance and effectiveness. This includes a review of each of its Committees as well as an appraisal of the performance of the Group Chair and individual Directors. An external evaluation facilitated by an independent firm is undertaken every three years, with internal evaluations completed in the intervening years. Details of the process for evaluation as set out below.

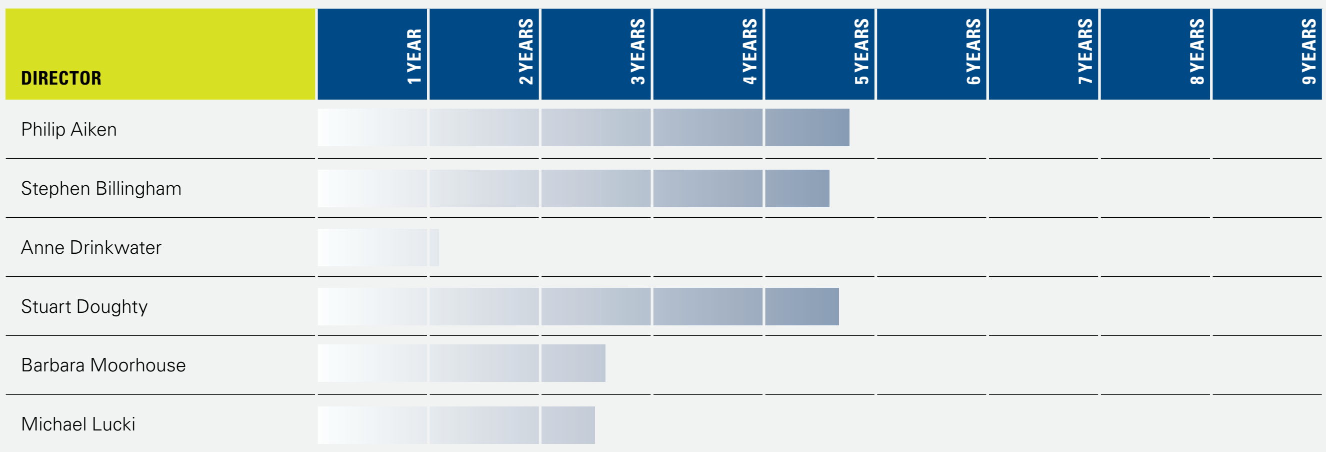
### 2019 evaluation – process

As an external evaluation was undertaken in 2018, the effectiveness review in 2019 was managed internally.

In collaboration with the Group Chair, the Deputy Company Secretary prepared a comprehensive questionnaire to evaluate the Board's performance. This included questions on the:

- structure and operation of the Board (including composition and diversity and the phasing and length of meetings);
- conduct of meetings (including the level of challenge and debate);
- agendas and papers (including the range of topics covered and quality of reports and presentations);
- communication and effectiveness (including how well the Board and senior management work together); and
- process of review of Group strategy and the level of updates on industry developments.

**TENURE AS AT 31 DECEMBER 2019 FOR NON-EXECUTIVE DIRECTORS**



## Board evaluation process

**YEAR 1 – INTERNAL ASSESSMENT**

- Evaluation co-ordinated internally by Group Chair and Company Secretary.
- Separate questionnaires prepared on a range of issues related to the Board and Board Committees generally, and each Committee specifically.
- One to one meetings held between Group Chair and each Director to review responses and for individual appraisal. Senior Independent Director leads the review of the Group Chair.
- Group discussion at a Board meeting and agreement on further action required.

**YEAR 2 – INTERNAL ASSESSMENT**

- Outcomes from previous evaluation and progress against each action reviewed.
- Internal evaluation questionnaires prepared by Group Chair and Company Secretary, taking account of areas of concern in previous year.
- One to one meetings held between Group Chair and each Director to review responses and for individual appraisal. Senior Independent Director leads the review of the Group Chair.
- Group discussion at a Board meeting and agreement on further action required.

**EXTERNAL ASSESSMENT**

**YEAR 3**

- Independent external evaluation firm appointed.
- Evaluator works with Group Chair to refine scope of evaluation in light of previous internal evaluations.
- Evaluation conducted by use of interviews with Directors and key regular attendees at Board/ Committee meetings and review of agendas/papers.
- Report on evaluation discussed with Group Chair and tabled for discussion at full Board meeting.
- Outcomes and actions agreed.

### 2019 evaluation – process continued

A set of questions was also prepared for Directors to give their views on the effectiveness of all Committees generally, regardless of which Committees they are members of. This included questions on each Committee's sense of identity within the broader governance framework and the relationship of each Committee with the Board.

All members of specific Committees received a separate questionnaire focusing on the work of each Committee of which they are a member. Among the range of issues covered were questions on the phasing and number of meetings and the quality of information provided by management.

The questionnaire responses from Directors were reviewed and collated by the Deputy Company Secretary. A report on the outcomes was prepared and discussed with the Group Chair before being tabled to the full Board for discussion. A key feature of this report was that specific comments from Directors were not attributed to individuals to allow an open and robust discussion on the feedback received.

In addition, the Group Chair arranged one to one meetings with each member of the Board to discuss the outcomes of the report and also to discuss their individual appraisal.

The Senior Independent Director met with each of the Directors individually to gather their views on the performance of the Group Chair. The Senior Independent Director fed back the outcomes of these meetings to the Group Chair.

### 2019 evaluation – Board outcomes

Following completion of the evaluation process, it was clear that there was consensus among Directors that the Board was functioning well. The size of the Board is appropriate for the scale of the Group's business and meetings are appropriately phased with sufficient time for Directors to discharge their duties. Access to management and internal/external advisers was sufficient with a satisfactory range of topics on meeting agendas. Information on internal controls was sufficient and arrangements for reviewing Group strategy were appropriate.

In relation to the Board specifically, Directors felt they would benefit from increased industry analysis and information – as a result, routine business presentations now include greater emphasis on updates relating to the sectors within which the Group operates.

Financial updates are already provided on a monthly basis to keep Directors abreast of developments between the formal cycles of meetings. It was recognised that including updates on non-financial issues in this monthly pack would be a useful addition.

### 2019 evaluation – individual Directors

The performance of each member of the Board was noted as continuing to be effective. Each non-executive Director also sits on at least one Committee.

Contributions to both Board and Committee meetings based on the respective knowledge, skills and experience of each individual remain valuable in promoting the long-term sustainable success of the Company.

### 2019 evaluation – Committee outcomes

In discussing the outcomes of the general review of Committees, there was strong support for composition and also the effectiveness of Committee Chairs as well as the level of interaction and reporting between the Board and its Committees.

For the review of specific Committees, there was clear support from Committee members for the overall effectiveness of their respective Committees. Some concerns were raised generally regarding the length of papers, which could be more concise. In response to this, the Company Secretariat will be working with contributors to improve drafting of meeting papers.

With respect to the Safety and Sustainability Committee it was acknowledged that, where deep-dive presentations had been delivered on particular issues, this had been very effective in aiding the Committee's understanding of key issues. Greater use of such presentations will be made more widely in future.

The relationship between the Remuneration Committee and the Nomination Committee was discussed in detail. An opportunity to streamline the terms of reference of these Committees to increase efficiency and improve reporting on related issues was noted. As a result, the scope of these Committees was reviewed, taking account of other areas not currently within remit but nonetheless relevant for the Group, for example initiatives related to graduates and apprentices. Following a thorough review, agreement was reached on the future role of the two Committees. Further details of this are set out on page 105.

**Philip Aiken AM**
Chair of the Nomination Committee

## MEMBERSHIP

- Philip Aiken (Chair)
- Leo Quinn
- Stephen Billingham
- Stuart Doughty
- Barbara Moorhouse (from 16 May 2019)
- Iain Ferguson (until 16 May 2019)

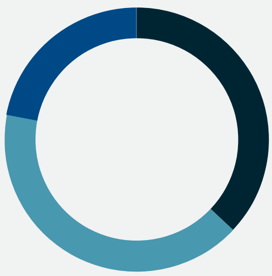
## KEY ACTIONS FROM 2019

- Board and Committee composition
- Board succession planning

## PRIORITIES FOR 2020

- In the event of vacancies arising on the Board, the appointment of new Directors
- Evaluation of the Board and its main Committees

## ALLOCATION OF TIME




# Report of the Nomination Committee

I am pleased to take this opportunity, as Chair of the Nomination Committee of the Board, to present the Committee's 2019 report and detail its main activities during 2019 and key priorities for 2020.

## Committee roles and responsibilities

The Committee has an important role with regards to the composition of the Board and its Committees and overseeing the appointment process where a vacancy arises on the Board. During 2019, the Committee retained responsibility for succession planning, including related diversity and inclusion matters, and for satisfying itself that appropriate processes and plans are in place to ensure a diverse pipeline of future leaders. As detailed below (under 'terms of reference'), responsibility for succession and diversity will pass to the Remuneration Committee in 2020.

Each year, the Committee reviews the structure, size and composition of the Board and its Committees, making recommendations to the Board regarding any adjustments that may be necessary to ensure the regular refreshment of its membership. In 2019, all members of the Board were present at meetings where succession matters relating to members of the Executive Committee were reviewed.

Diversity and inclusion matters are central considerations when succession plans are formulated or reviewed. The Committee strongly believes that diversity of gender, social and ethnic backgrounds, as well as cognitive and personal strengths, is a key driver of the generation and preservation of value over the long-term. Diversity of backgrounds not only ensures a more proportionate representation of wider society but also places the Group in a stronger position to deliver for its stakeholders.

## New appointments

Following Anne Drinkwater's appointment as a Director on 1 December 2018, Anne was appointed as a member of the Remuneration Committee and the Safety and Sustainability Committee with effect from 1 January 2019.

As reported in 2018, Iain Ferguson retired from the Board following the conclusion of the Company's Annual General Meeting in May 2019, having served nine years as a Director. The Board and I are grateful to Iain for his contributions and wish him the best for the future.

Stephen Billingham and Anne Drinkwater have succeeded Iain in his roles as Senior Independent Director and Chair of the Remuneration Committee respectively.

Barbara Moorhouse has been appointed in place of Iain as a member of the Nomination Committee following his departure.

## Terms of reference

During the year, the Committee reviewed its terms of reference to ensure compliance with the Code. In reflecting on the Committee's role and relationship with the Remuneration Committee, and also with the Board, a detailed review was undertaken to consider how governance responsibilities relating to Directors and senior leaders should be best shared across these three forums. Changes were proposed and discussed by the Board, with updated terms of reference formally approved in March 2020.

Going forward, the Nomination Committee will focus on core roles relating to the appointment of new Directors and the evaluation of the Board and its Committees. The important matters of succession planning and diversity and inclusion will now fall within the scope of the Remuneration Committee.

The rationale for making these changes is to achieve practical benefits by streamlining areas that interrelate, thereby improving scrutiny of these issues by the Directors. Making these changes best promotes high standards of governance for the Group and reflects an efficient way for these significant issues to be considered by each Committee.

Looking ahead to 2020, the Committee will continue to focus on its core responsibilities and, where appropriate, work closely with the Remuneration Committee.

**Philip Aiken**
Chair of the Nomination Committee

## Activities undertaken by the Committee during the year

The Committee met twice in 2019 (details on attendance can be found on page 91), and considered the following matters:

- succession planning for the Board;
- composition and the balance of skills, experience and expertise on the Board and its main Committees; and
- the transition of roles held by Iain Ferguson, who retired from the Board in May.

## Succession planning

During 2019, the Committee reviewed succession plans for the Board.

Executive Director succession planning was discussed at private meetings of the non-executive Directors, without executive Directors present. Non-executive Director succession was also reviewed.

## Succession planning continued

Detailed plans for the US senior leadership pipeline were presented to the full Board during their visit to North Carolina in November. Reports were also provided to the Board on succession arrangements for the leadership of Gammon, the Group's 50:50 joint venture with Jardine Matheson based in Hong Kong. Succession for the UK senior leadership was discussed during the UK strategy review sessions in July. Formal succession plans will be reviewed in 2020 by the Remuneration Committee following the changes made to the Committees' responsibilities as detailed on page 105.

## Diversity and inclusion: Board and senior leaders

A range of personal strengths and industry backgrounds are represented on the Board, which is made up of two female and six male Directors. Further information on the skills and backgrounds of individual Directors can be found in the Board biography section on pages 90 and 91.

Senior leadership, comprising the Executive Committee and its direct reports (excluding administrative assistants), consists of 25 females and 79 males, representing 24% females. Further details on the gender breakdown across the Group can be found within the Our People section on page 45.

The Committee recognises the challenges facing the progression of women to senior roles, and supports the considerable work being done by the Group to provide opportunities for female career progression in what has historically been a male dominated sector. This includes attracting more female graduates and apprentices as well as supporting those returning to engineering and construction careers after taking parental breaks.

The Committee regularly reviews the composition and balance of skills and experience of the Board and its Committees and seeks to make all appointments based on merit and with specific objectives and criteria in mind, in order to address any skills or experience gaps identified. The Committee is conscious of the recommendations of the Hampton-Alexander Review and the target to have 33% female Board members by 2020 as well as the recommendations of the Parker Review for boards of FTSE 250 companies to have at least one director from an ethnic minority background by 2024. The Committee thoroughly supports the Group's approach to broader diversity and inclusion and the requirement for the Committee to consider diversity of backgrounds when making appointments is mandated by the Committee's terms of reference (which can be found at www.balfourbeatty.com/investors).

At present, the size of the current Board is considered to be proportionate given the scale of the Group's operations and matters of diversity will be key in making new appointments at the appropriate time.

## Diversity and inclusion: employees

Increasing the diversity of Directors and senior leaders cannot be achieved in a vacuum and the Committee recognises the importance of promoting diversity throughout the workforce.

In order to provide under-represented groups of employees with relevant support and networking opportunities, the Group has four employee-led Affinity Networks, which are open for all employees to join regardless of gender, race, ability or sexual preference. These networks each relate to one of four key areas of protected characteristics and include: LGBT+, Multi-Cultural, Gender Equality and Ability (which seeks to identify and remove barriers for people with disabilities). The four Affinity Networks provide an opportunity for all employees to support the Group's diversity and inclusion initiatives.

Diversity and inclusion continue to be fundamental to the Group's people strategy and the Group is committed to ensuring that individuals from all backgrounds are able to access fulfilling careers in the construction industry. Through the Group's efforts to promote such opportunities, and the provision of ongoing support for under-represented groups, the Committee is positive about the scope for increased diversity among future leaders.

## New appointments

As mentioned, Anne Drinkwater was appointed as a member of the Remuneration Committee and the Safety and Sustainability Committee with effect from 1 January 2019.

In May 2019, Iain Ferguson retired from the Board and stepped down from his roles as Senior Independent Director, Chair of the Remuneration Committee and also his membership positions on the Nomination Committee and Safety and Sustainability Committee. During the year, the Nomination Committee undertook a review of the experience and relative strengths of the Directors to determine recommendations to the Board for Iain's successors.

After careful consideration, the Committee recommended the appointment of Stephen Billingham as Senior Independent Director in place of Iain. Stephen has a wealth of board-level experience, having held a number of senior board positions at other large companies, including the role of chair, and has the necessary skills for this appointment.

The Committee also recommended the appointment of Anne Drinkwater as Chair of the Remuneration Committee to succeed Iain. Anne has previously served on the remuneration committee of a UK premium listed company for over 12 months and possesses the relevant experience and skills for this role.

Barbara Moorhouse was recommended for appointment as a member of the Nomination Committee following Iain's departure. Barbara's appointment ensures that an appropriate balance of members is maintained with a majority of non-executive Directors on the Committee.

The Board approved these recommendations and the Directors were pleased to welcome Stephen, Anne and Barbara to their new positions following the conclusion of the Company's 2019 AGM.

## Board appointments and induction

During 2019, there have been no new appointments to the Board; however, a formal, rigorous and transparent process is in place for use when a new Director is required.

The Committee retains responsibility for identifying and articulating the objectives and criteria of any Board appointment process. This is based upon requirements identified from a review of the experience, skills and diversity of background of the Board and its Committees. For executive Directors, the Committee gives consideration to existing succession plans notwithstanding that this will be a responsibility of the Remuneration Committee in future. The Committee is responsible for engaging an independent executive search consultant, who assists in preparing shortlists of candidates, co-ordinating interviews and seeking references. All members of the Committee meet or speak with the shortlisted candidates and agree upon a recommendation which is put to the Board for review, taking account of matters such as the candidate's existing appointments and associated time commitments as well as any actual or potential conflicts of interest.

Following formal approval and appointment by the Board, a comprehensive and tailored induction programme is developed for the new Director which consists of meetings with Board members and senior leaders, visits to sites and access to key documents through the Company's electronic Board portal. More information on the induction process can be found on page 103.

**Stuart Doughty**
Chair of the Safety and Sustainability Committee

## MEMBERSHIP

- Stuart Doughty (Chair)
- Philip Aiken
- Anne Drinkwater (from 1 January 2019)
- Leo Quinn
- Iain Ferguson (until 16 May 2019)

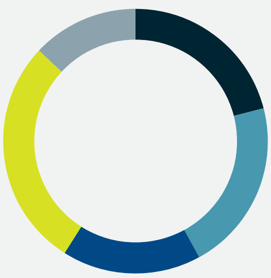
## KEY ACTIONS FROM 2019

- Review of initiatives relating to Zero Harm
- Review of learnings from incidents and near misses and resulting actions
- Review of Our Blueprint on sustainability against United Nations' sustainable development goals
- Site visits by Committee members

## PRIORITIES FOR 2020

- Overseeing launch of new sustainability framework
- Targeted supervisor and supply chain Zero Harm initiatives
- Continued focus on plant and equipment design standard improvements
- Continued focus on health and wellbeing including on mental health

## ALLOCATION OF TIME



- Group performance update
- Zero Harm update
- Notable incidents and learnings
- Environment and sustainability update
- Governance and other matters

# Report of the Safety and Sustainability Committee

As Chair of the Safety and Sustainability Committee of the Board, I present the Committee's 2019 report and detail its key functions and main activities during 2019, and plans for the coming year.

Whilst the Committee oversaw a generally continuing trend of improved health and safety performance across the Group, we nonetheless suffered the tragic loss of three of our people in 2019. Two of these events took place within Gammon, the Group's Hong Kong-based 50:50 joint venture with Jardine Matheson, and one in the UK. Details of each incident were reported to the Committee together with the process of investigation carried out in each case, learnings identified and improvements implemented. The Group Chair visited the sites of the Gammon incidents and I personally visited the site where the UK incident occurred.

Health, safety, environment and sustainability (HSES) matters remained core to business for the Group throughout 2019 as detailed within the Building a Positive Culture section of the strategic report. The Committee continued in its responsibility to promote Group policy in relation to HSES matters. Examples of this were overseeing work undertaken with manufacturers to improve safety by improving the design of plant and equipment used by our workforce and with the Group's strategic partners to eliminate waste through supply chains. Throughout 2019, the Committee maintained oversight of the Group's progress toward achieving an industry-leading culture of safety and sustainability.

Three meetings were held in 2019 (details on attendance can be found on page 91). The Group HSES Director and HSES Group Head of Environment and Sustainability presented at each meeting. Other key individuals, including members of the HSES Executive and managing directors of our Fatal Risk Groups, were invited to attend select meetings.

### Committee roles and responsibilities

The Committee's primary function is to review the strategies, policies, procedures and performance of the Group in relation to HSES matters, and to monitor and drive improvement in these areas. The Committee is responsible for the approval of targets and key performance indicators of health and safety, the monitoring of performance against such targets and also the main safety risk groups and strategies for mitigating such risks.

With regards to sustainability, the Committee reviews Group environmental and social performance, including but not limited to carbon emissions, energy, resource efficiency and compliance.

The full terms of reference of the Committee, which were reviewed and updated during 2019, can be found at: www.balfourbeatty.com/investors.

**Stuart Doughty**
Chair of the Safety and Sustainability Committee

## Activities undertaken by the Committee during the year

Reports on the following matters were tabled at each Committee meeting.

### Health and safety Group performance updates

At each meeting reviews of health and safety performance indicators, key statistics and external benchmarking metrics were reviewed.

The Committee oversaw a continued trend of improved safety performance across the Group (excluding international joint ventures). The reporting of potential safety concerns and best practice by employees in the form of observations also increased during the year. Both of these outcomes indicate improvements in the practical application of safety measures and also, in behaviours and attitudes among employees relating to safety. The Committee recognises these measures as evidence of continued development of a positive safety culture.

### Zero Harm updates

As detailed on page 40, Zero Harm is Balfour Beatty's vision on ensuring the health and safety of all those that come into contact with its work activities. Reports on the strategic priorities and focus areas of Zero Harm were tabled at each Committee meeting in 2019. Updates were provided on relevant learnings, actions and achievements as well as on related initiatives, including Back to Work briefings and stand-downs.

### Notable incidents and learnings

As stated earlier sadly three fatal incidents occurred in 2019 details of which are reported on page 40).

The Committee also received updates on significant incidents and trends including high-potential incidents where there was judged to have been a significant risk of serious harm occurring, focusing on specific agreed risk areas. Such updates included analysis of the incidents, as well as learnings and actions. Changes established following previous notable incidents were also reported to the Committee.

### Environment and sustainability update

The Committee received regular reports on environmental initiatives and performance, including innovations being used to reduce the consumption of energy and materials, achieving reductions in both cost and carbon emissions.

As envisaged in last year's report, the Committee reviewed the Group's sustainability framework, 'Our Blueprint' (details of which can be found at www.balfourbeatty.com), in relation to the United Nations' sustainable development goals.

**Leo Quinn**
Group Chief Executive

**Philip Harrison**
Chief Financial Officer

# Report of the Group Tender and Investment Committee

The Committee is chaired by Leo Quinn as Group Chief Executive or, in his absence, by Philip Harrison as Chief Financial Officer or, in his absence, by any one of the senior business unit leaders. The 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, in order to avoid conflicts of interest arising within the decision-making process. The Company Secretary acts as Secretary of the Committee or, in his absence, his nominee. Other Committee members consist of strategic business unit leaders and other key colleagues from senior leadership positions.

The Committee has oversight of the Gated Business Lifecycle, maintaining overall authority and responsibility for its content, operation and maintenance. The Committee meets regularly throughout the year to discuss proposed projects during the various stages of their development and review all major proposed tenders with projected values above specified levels, with a specific focus on risk and contract terms.

Those contracts which are considered to be of significant materiality to the Group in terms of size and risk are reviewed by the Board.

Any member of the Committee may convene a meeting 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.

The Committee's terms of reference can be found in the Committee section of the Company's corporate website: www.balfourbeatty.com/investors.

A list of projects considered by the Committee, together with the pipeline of projects expected to be tabled in the near future, are provided as a routine item at each Board meeting.

# Report of the Finance and General Purposes Committee

The Committee is chaired by Leo Quinn as Group Chief Executive Officer or, in his absence, by Philip Harrison as Chief Financial Officer. However, the Chief Financial Officer must form part of the meeting quorum where the business relates to financial matters. The Company Secretary acts as Secretary of the Committee or, in his absence, his nominee. Other Committee members consist of key senior finance colleagues and strategic business unit leaders.

The Committee meets on an ad hoc basis, as required, and is responsible for agreeing the Group's borrowing and banking arrangements, management of interest rate and foreign exchange exposures, contract financing, bonding and leasing arrangements and various matters relating to the issued share capital of the Company. The Committee also approves substantial amendments and alterations to the Group's treasury manuals.

The Committee's terms of reference can be found in the Committee section of the Company's corporate website: www.balfourbeatty.com/investors.

Minutes of meetings of the Committee are made available to all Directors.

# A consistent evaluation of risk

The Audit and Risk Committee assists the Board in fulfilling its responsibilities related to risk management and internal control, financial reporting and the internal and external audit functions.

**Stephen Billingham**
Chair of the Audit and Risk Committee

### MEMBERSHIP

- Stephen Billingham (Chair)
- Stuart Doughty
- Michael Lucki
- Barbara Moorhouse

### KEY ACTIONS FROM 2019

- Review of the financial results and assessment of risk and internal controls relating to the financial year end and half year period
- Review of internal and external audit plans
- Approval of revised external auditor fee
- Review of Prompt Payment Code compliance and reporting in the UK
- Review of Committee terms of reference to ensure compliance with the Code

## Report of the Audit and Risk Committee

As Chair of the Audit and Risk Committee of the Board, I present the 2019 report.

The Committee comprises four non-executive Directors, all of whom are independent both in accordance with the Code and from the external auditor. The Committee held four scheduled meetings in 2019. In addition, during the Board's visit to the US in November, a sub-committee meeting was convened in order to discuss audit and risk matters relating to the Group's US business and to formally meet with the US partners of the external auditor, KPMG LLP.

A forward agenda is actively managed and meetings are timed appropriately during the year to align with the Group's financial reporting calendar.

At the meeting in March, the Committee focuses on the review of the financial results and assessment of risk and internal controls relating to the financial year end. Financial results relating to the half year period are the key feature of the August meeting while at the May and November meetings detailed reports on the six-monthly internal audit plan are reviewed. Further details on the activities of the Committee across the calendar year are set out on page 111.

In 2019, all meetings were fully attended by all members of the Committee – details on attendance can be found on page 91.

The Group Financial Controller, Group Risk and Audit Director and representatives of the external auditor (including the lead audit partner) attended each scheduled Committee meeting during 2019 at the invitation of the Committee. Other individuals also attended certain meetings at the invitation of the Chair.

The Committee meet privately, without management present, after each scheduled meeting of the Committee.

Apart from annually recurring matters, the Committee considered a revised fee proposal by the external auditor, for the first time since commencing our engagement with them to provide audit services in relation to the year ended 31 December 2016. In addition, reports were received on the Group's compliance with and reporting against the Prompt Payment Code in the UK. The annual review of the Committee's terms of reference required a detailed consideration of changes required in order to comply with the Code. As a result, reports from the Group's Business Integrity function on matters including whistleblowing were taken out of the Committee's scope and added to the matters reserved to the Board. The current terms of reference are summarised on page 110 and can be found on the Company's website: www.balfourbeatty.com.

Set out on the following pages are details of the Committee's main activities during 2019 and its key priorities for 2020.

**Stephen Billingham**
Chair of the Audit and Risk Committee

## PRIORITIES FOR 2020

- Continue to review and challenge management's judgements on significant accounting issues
- Monitor and assess the impact of the ongoing investigation into the US military housing business
- Oversee the effectiveness of the Group's systems for risk management and internal control
- Challenge the independence and effectiveness of KPMG as external auditor

## ALLOCATION OF TIME

- Financial reporting
- Internal audit, risk management and internal control
- External auditor
- Governance and other matters

## Committee composition

Stephen Billingham, formerly group finance director (chief financial officer) of British Energy Group plc (a FTSE 100 company) and of WS Atkins plc (a FTSE 250 company) has been identified by the Board as having recent and relevant financial experience related to accountancy as required by the Code. Stephen is supported by Committee members with varied industry and commercial experience and competencies relevant to the sector within which the Group operates, but particularly in relation to financial management and risk.

Further details of Stephen's skills and experience can be found on page 90.

## Committee roles and responsibilities

The Committee's primary activities relate to financial reporting, risk management and internal controls and the internal and external audit functions. The Committee's terms of reference are based on the Guidance on Audit Committees issued by the Financial Reporting Council and also the Code, and can be found on the Company's website: www.balfourbeatty.com.

Full details of the Committee's responsibilities are set out in its terms of reference, and are summarised below.

**Financial reporting:**

- Review the form, content and process for the preparation of the half year and full year financial statements of the Company and other published financial information of the Company and the Group, including reviewing accounting policies and internal controls;
- monitor the integrity of the half year and full year financial statements of the Company and any formal announcements relating to the Company's and the Group's financial performance, before submission to the Board; and
- review on behalf of the Board the statement in the Company's Annual Report and Accounts (ARA) regarding internal control and risk management and on whether the ARA, taken as a whole, is "fair, balanced and understandable" and provides the necessary information for shareholders to assess the Group's position and performance, business model and strategy.

**Internal controls and risk management systems:**

- Oversee and advise the Board on current and emerging risk exposures and future strategy for managing such risks;
- review the principal and emerging risks identified in the ARA and statements on the Company's internal controls and risk management framework; and
- review the adequacy and effectiveness of the Group's internal controls, including the systems established to identify, assess, respond to and monitor risk and receive reports from management on the effectiveness of such controls and the conclusions of any testing carried out by the internal audit function, the external auditor or other assurance providers.

**Internal audit:**

- Monitor and review the effectiveness, and approve the terms of reference, of the internal audit function;
- approve the appointment or removal of the Group Risk and Audit Director;
- ensure the internal audit function has the necessary resources and access to information required to fulfil its mandate, review and assess its annual internal audit work plan and receive periodic reports on the results of its work;
- review and monitor management's responsiveness to the findings and recommendations in the reports on the internal audit function's work; and
- meet with the Group Risk and Audit Director at least once each year without management present, to discuss the remit and any issues arising from internal audits.

**External auditor:**

- Make recommendations to the Board regarding the appointment, reappointment and removal of the external auditor after assessing annually the qualifications, expertise and resources, and independence, effectiveness and objectivity of the external auditor, including the effectiveness of the external audit process;
- meet regularly with the external auditor, including at the planning stage of the audit and then at the reporting stage, and review the findings of the audit with the external auditor;
- review and approve the annual external audit plan, ensuring that it is consistent with the scope of the audit engagement;
- meet with the external auditor at least once each year without management present to discuss its remit and any issues arising from the audit;
- develop and implement the Company's policy on the engagement of the external auditor to supply non-audit services, including the prior approval of any non-audit services to be provided by the external auditor and specification of the types of non-audit service to be pre-approved;
- make recommendations to the Board regarding the remuneration and terms of engagement of the external auditor and ensure that key individuals within the external audit firm are rotated periodically;
- review representation letters prepared by external auditors;
- review the management letter and management's response to the external auditor's findings and recommendations on control deficiencies;
- agree a policy for the employment of former employees of the external auditor and monitor the implementation of this policy; and
- develop and implement a policy for external audit tendering at least every 10 years.

**Other matters:**

- Review Directors' expenses and benefits.

## Committee activities

During 2019, the Committee focused on a number of significant issues and other accounting judgements related to the Group's financial statements, where the highest level of judgement was required and where there was the highest potential impact on those financial statements. The Committee also focused on the oversight of the external and internal audit functions, including the safeguarding of independence, as well as reviewing the Group's systems of risk management and internal control and matters related to pensions, tax and insurance. An overview of the Committee's activities over the year can be found within the table set out below, with further detail provided in the pages that follow.

### COMMITTEE ACTIVITIES

During 2019, the Committee carried out the following activities and approved or recommended matters to the Board where appropriate.

| | | Mar | May | Aug | Nov |
|---|---|---|---|---|---|
| **Financial reporting** | Monitored the integrity of the Company's full year and half year financial statements | • | | • | |
| | Received reports on financial and accounting issues, contract and commercial issues and litigation | • | | • | |
| | Approved the Group's going concern statement and assessment of viability | • | | • | |
| | Reviewed the Directors' valuation of the Investments portfolio | • | | • | |
| **Internal controls and risk management systems (including internal audit)** | Assessed the Group's systems of risk management and internal control | • | | • | |
| | Reviewed findings and recommendations from internal audit reports and updates on work undertaken, including the work carried out on the US military housing business | • | • | • | • |
| | Approved the six-monthly internal audit plan | | • | | • |
| | Reviewed the effectiveness of the internal audit function | • | • | • | • |
| **External auditor** | Reviewed the external auditor's report on the Company's full year and half year financial statements | • | | • | |
| | Reviewed and approved the proposed external audit strategy plan and procedures | | | • | |
| | Reviewed and assessed the effectiveness of the planned external audit strategy | • | | | |
| | Reviewed management representation letters related to the Company's annual and half year financial statements and greenhouse gas emissions | • | | • | |
| | Reviewed the external auditor's assessment of its objectivity and independence including a review of non-audit services (and associated fees) provided by the external auditor | | | • | |
| | Approved the external auditor's fees | | | • | |
| | Reviewed process and control issues identified during the external audit and recommendations to management set out in the external auditor's management letters | | • | | • |
| | Reviewed external audit of US business | | | | • |
| **Other matters** | Reviewed the Group's delegated levels of authority framework and policy | • | | | |
| | Reviewed the Group's tax and insurance arrangements | | • | | |
| | Reviewed Prompt Payment Code compliance and reporting in the UK | • | • | • | • |
| | Reviewed Committee's terms of reference | | | | • |
| | Reviewed regulatory and other third-party correspondence | • | • | • | • |

“The Committee evaluates and assesses the Group's approach to audit and risk.”

## Financial reporting

The Committee reviewed and evaluated the Company's full year and half year financial statements (including related announcements to the London Stock Exchange), including:

- 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 page 163 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; and
- 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 71 and 85).

The Committee is able to question management to gain further insight into the issues addressed, including key significant financial reporting issues and other accounting judgements which are set out in the table below.

## Risk management and internal control

The Board retains ultimate responsibility for the Group's systems for risk management and internal control.

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

## Financial Reporting Council (FRC)

The Company received a letter from the FRC in December 2018 requesting further information on how the Group had satisfied the relevant reporting requirements relating to the impact of climate change on the Company and the related reporting under the Non-Financial Reporting Directive in relation to the Company's 2017 Annual Report and Accounts. The Company explained the approach and rationale taken to the FRC. The Company undertook to increase the level of commentary on environment and sustainability in its Strategic report and included a separate Non-financial information statement in its 2018 Annual Report and Accounts. The FRC concluded its enquiry into the Company's presentation in March 2019. The Company remains committed to keeping abreast of good practice and changing reporting requirements, and will continue to develop its reporting and disclosures.

## 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** |
| 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. The Committee also assessed the assumptions underpinning the valuation of the Gas & Water goodwill leading to its full impairment in 2019. |
| **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 and Accounts. More details on going concern and the viability statement are contained on pages 71 and 85. |
| **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 retirement benefits. 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, including the impact of operational changes due to the changing dynamics in the US military housing sector on the value of the US military housing portfolio. |

The FRC's review provides no assurance that the ARA are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

## US military housing

In June 2019, allegations about the handling of certain work orders were publicised on US military bases managed by the Group's subsidiary, Balfour Beatty Communities. As at the date of this report, the investigation by the US Government's Department of Justice is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum. The Committee evaluated the appropriateness of the disclosure in relation to this investigation in the Group's contingent liability note on page 209. The Committee is monitoring this development closely and receives regular updates on the ongoing investigation from management.

Further details of the investigation into the US military housing business are on page 6.

## Internal auditor effectiveness

The Committee reviews the effectiveness of the internal audit function formally on an annual basis, and informally on an ongoing basis. Reports setting out the function's work and findings are presented to the Committee at each meeting for discussion. An independent review of the function is undertaken periodically, as well as an internal self-assessment review. Such reviews are held in accordance with best practice guidelines and help contribute to the Committee's formal annual evaluation. In light of the reviews, the Committee satisfied itself that the quality, experience and expertise of the function is appropriate for the business.

## External auditor independence and effectiveness

The Committee formally reviews the independence and effectiveness of the external auditor, KPMG, on an annual basis. Pursuant to the 2019 review, the Committee satisfied itself that KPMG was sufficiently independent and recommended its reappointment to the Board. The Committee considered the following matters related to the external auditor as part of its review:

### Non-audit work

In the interest of safeguarding the external auditor's independence and objectivity, the Group's policy ensures that, 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; and
- a mutuality of interest with the Group being created.

The Group's policy therefore 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. All non-audit services not excluded under the policy must be approved by the Chief Financial Officer where expenditure is below £250,000, and by the Chair of the Audit and Risk Committee where expenditure is above £250,000. A report of all non-audit services carried out by the external auditor, irrespective of value, is submitted to the Committee. 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. There is no inconsistency between the Financial Reporting Council's ethical standards and the Group's policy.

During 2019, there were fees of £0.4 million (2018: £0.4 million) paid to the external auditor for non-audit services. 2019 non-audit services primarily related to the half year review. Audit fees for 2019 were £2.9 million (2018: £2.6 million). Further details are included in Note 6.2 on page 170.

The Committee considers that the Group benefits from competitive cost, quality and consistency by engaging its external auditor in various approved non-audit services, 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.

81% of non-audit related work provided by international accounting firms in 2019 was carried out by firms other than KPMG.

### Annual assessment of the audit process

In addition to receiving written reports from both the internal and external auditors and management, the Committee held separate private meetings with the external auditor and with management. These provide the opportunity for open dialogue and honest feedback on the audit process, the responsiveness of management and the effectiveness of individuals within the internal and external audit teams.

A detailed assessment of the external audit process and 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 and reappointment

The Group undertook an external audit tender process in 2015, pursuant to which the appointment of KPMG as the Group's auditor was recommended to the Board by the Committee. The appointment was approved by shareholders at the 2016 Annual General Meeting and KPMG replaced Deloitte, the incumbent for the preceding 14 years, for the year ended 31 December 2016.

The key aspects of the EU Audit Directive include the following:

- Audit firms should have a maximum tenure of 10 years, although the UK Government proposes to allow an extension of:
  - » up to an additional 10 years where a public tender is carried out after 10 years; or
  - » by up to an additional 14 years where more than one audit firm is appointed to carry out the audit.
- Audit firms are prohibited from providing certain non-audit services.
- Where permitted non-audit services are provided by a group's auditor, they will be subject to a fees cap.
- Restrictions within any contract limiting a group's choice of auditor are prohibited.

The Committee has therefore adopted a policy that no external auditor appointed following the implementation of the June 2016 EU Audit Directive can remain in post for longer than 20 years. It is also Group policy that the Committee will lead an audit tender process every 10 years. Consequently, the next external audit tender is anticipated to take place following the completion of KPMG's 2025 annual audit. The Committee will continue to consider annually the need to conduct an earlier formal tender process, where this is required for audit quality or independence reasons. Provided the results of the annual external audit review are satisfactory, KPMG is reappointed at the AGM annually. There are no contractual obligations in place that restrict the Group's choice of statutory auditor.

Paul Sawdon completed his second year as lead partner on the audit for the year ended 31 December 2019. The external auditor is required to rotate the lead partner every five years – such changes are planned carefully to ensure business continuity, whilst avoiding the introduction of undue risk or inefficiencies.

*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.*

## Committee evaluation

During the year, an internal evaluation of the effectiveness of the Committee was conducted. Further details can be found on pages 103 and 104.

# Risk management and internal control

## Risk management

Balfour Beatty's risk management policy demonstrates the Board's commitment to meeting the relevant requirements of the Code.

Through adoption of the policy, the Board accepts its responsibility to establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives. The Board is also kept informed of any emerging risks the Group faces and the required responses as part of its ongoing system of monitoring and control reporting. For more information on the principal and emerging risks faced by the Group see pages 75 to 84.

Balfour Beatty's approach to risk management aims to reduce the likelihood of risk events occurring, control the adverse impact of those events and identify opportunities where taking risks may benefit the Group. The Enterprise Risk Management (ERM) framework is integral to this approach and, as such, is under constant review as part of the ongoing monitoring of and response to changes to the Group's risk profile.

## Roles and responsibilities

The Board is responsible for the implementation and oversight of Balfour Beatty's ERM framework and embedding an effective risk management culture. The Board establishes the Group's risk attitude and appetite by directing the level of risk that can be taken by the Group and its strategic and individual business units without specific approval. Group policies, procedures and delegated authority levels set by the Board provide the structure within which risks are reviewed and escalated to the appropriate level, 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.

### RISK MANAGEMENT: RESPONSIBILITIES AND ACTIONS

| RESPONSIBILITIES | ACTIONS UNDERTAKEN |
|---|---|
| **BOARD** | |
| › Responsible for establishment of a framework of prudent and effective controls to enable risk to be assessed and managed<br>› Determines Group appetite for and attitude to risk in pursuit of its strategic objectives | › Reviews the Group's risk landscape, profile, principal risks and required responses<br>› Reviews the effectiveness of the Group's whistleblowing helpline and other channels for raising concerns about Code of Conduct breaches |
| **AUDIT AND RISK COMMITTEE** | |
| › Reviews significant accounting judgements<br>› Reviews the effectiveness of Group internal controls, including systems to identify assess, manage and monitor risks<br>› Reviews and assesses the internal audit workplan | › Receives regular reports on internal and external audit and other assurance activities<br>› Reviews the effectiveness of Group risk management and internal control systems |
| **SAFETY AND SUSTAINABILITY COMMITTEE** | |
| › Reviews main risks in relation to safety | › Receives regular reports on risks in relation to safety |
| **GROUP TENDER AND INVESTMENT COMMITTEE** | |
| › Reviews and approves tenders and investments, triggered by certain financial thresholds or other risk factors | › Critically appraises significant tender and investment/divestment proposals, with a specific focus on risk |
| **GROUP MANAGEMENT** | |
| › Strategic leadership<br>› Responsible for reviewing and implementing the Group risk management policy<br>› Ensures appropriate actions are taken to manage strategic risks and other key risks | › Strategic plan and annual budget process<br>› Produces and tracks Group Risk Register<br>› Reviews risk management and assurance activities and processes<br>› Monthly/quarterly finance and performance reviews |
| **STRATEGIC BUSINESS UNIT MANAGEMENT** | |
| › Responsible for risk management and internal control systems within its business<br>› Ensures that business units' responsibilities are discharged | › Reviews key risks and mitigation plans<br>› Reviews and challenges business units' internal control environment<br>› Reviews results of internal control testing<br>› Escalates key risks to Group management and the Board |
| **BUSINESS UNIT MANAGEMENT** | |
| › Maintains an effective system of risk management and internal control within its business units and projects | › Maintains and regularly reviews project, functional and strategic risk registers<br>› Reviews mitigation plans<br>› Plans, executes and reports on internal control testing |

## Risk management systems

Balfour Beatty's ERM framework comprises the policy, the operating standards and associated procedures to identify, assess, respond to and monitor risk. In the UK, all risk registers are now held on the bespoke Intelligent Risk Information System (IRIS) which allows for increased oversight and central review. In 2019 following the adoption of IRIS the frequency of business-level risk register reviews was increased to enhance the Group's efforts in optimising its ERM framework.

As part of the IRIS roll out, over 4,000 employees undertook a bespoke eLearning module aimed at further promoting and embedding an effective culture of risk management. In 2020 this enhanced control will start to be deployed across the wider Group beginning with the US Buildings business.

As mandated by 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.

Risk management is central to the work winning and project delivery process and an assessment of risk is mandated at each stage within the Gated Business Lifecycle (GBL), informing the decision on whether to proceed to the next stage. Heightened consideration is given to those risks which have the potential to influence a project's ability to meet its objectives, including achieving expected contract targets and client expectations.

The Circles of Risk act as a prompt and provide early guidance on the identification of potential project-level risk themes as part of the decision-making process. For more information on the Circles of Risk see page 72.

In addition, the Board's delegated authority levels 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 (ERSG) and the Board. The ERSG monitors any changes in the Group's risk profile and its members act as the executive sponsor for risk management within their businesses and functions.

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 2019 the Group Risk Register was reviewed and refreshed as part of the biannual formal review of the Group's risk profile to verify that all identified risks and associated controls have been appropriately assessed and have an allocated owner at senior management level.

## Internal control

The Board has ultimate responsibility for the Group's internal control and risk management systems and regularly reviews their effectiveness. The Group's systems and controls are held centrally on the Business Management System (BMS) and 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 2019 and up to the date of signing this report. The Group has a thorough understanding of its risk exposures and has in place a key control statement. Topics covered by policies, standards and expectations include but are not limited to:

- a comprehensive 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 and held on the BMS;
- 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 business integrity, competition and data protection laws; and
- promotion of a culture of compliance with ethics and integrity responsibilities to help manage legal and reputational risks across the Group. A 'Speak Up' 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 109 to 113.

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.

# Rewarding successful leadership

**Anne Drinkwater**
Chair of the Remuneration Committee

### MEMBERSHIP

- Anne Drinkwater (member from 1 January 2019 and Chair of the Committee from 16 May 2019)
- Philip Aiken
- Michael Lucki
- Barbara Moorhouse
- Iain Ferguson (until 16 May 2019)

### KEY ACTIONS FROM 2019

- Developed a Remuneration Policy proposal from consideration of the regulatory environment, market practise and shareholder feedback
- Terms of reference of Committee revised to ensure compliance with the Code

### PRIORITIES FOR 2020

- Engage with shareholders around proposed Remuneration policy changes
- Ensure the 2020 Remuneration Policy is implemented to align with business strategy and culture
- Continue to monitor remuneration practise cross the Company as a whole, keeping abreast of market practice

## Report of the Remuneration Committee

As Chair of the Remuneration Committee I am pleased to present our Directors' remuneration report for the year ended 31 December 2019. It is divided into three parts: a summary of key information and highlights in Remuneration At a Glance; a detailed Directors' Remuneration Policy Report that sets out proposed 2020 policy changes (the 2020 Policy); and an Annual Report on Remuneration which sets out how the remuneration policy will be applied over the year ending 31 December 2020 and how it was implemented over the year ended 31 December 2019. 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.

### Context

Our remuneration policy's primary objective is to ensure Balfour Beatty is able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan, Company culture and 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.

We have arrived at the proposed 2020 Policy through careful consideration of the evolving legislative and regulatory environment and have taken on board feedback received from shareholders through consultation on both the 2020 Policy and in previous years on matters related to remuneration and governance structures. In line with regulatory requirements the 2020 policy is subject to a vote at the 2020 AGM.

### The 2020 Remuneration Policy and key changes

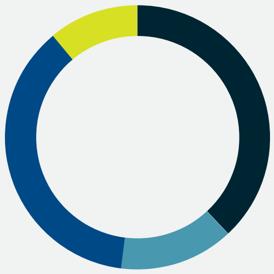
The current policy was adopted after the launch of the Group's Build to Last transformation strategy in 2015. That strategy and the remuneration policy to drive it both continue to deliver results. The transformation has gone beyond resolving legacy issues and the current operating model provides the ability to deliver profitable managed growth and cash generation into the future. Under the leadership of Leo Quinn and Philip Harrison, Balfour Beatty has the platform in place to drive performance going forward.

The Committee believes that the remuneration policy has served the Company and its stakeholders well. The policy already includes a number of features that are in line with the updated UK Corporate Governance Code (the Code), including the two-year holding period for vested LTIP awards and the ability to apply malus and clawback to bonus and LTIP awards. However, in order to maintain alignment with changes in market best practice, several changes are proposed to take account of governance developments.

#### Summary of key changes

- Alignment of the maximum Company pension contribution for new executive Directors with the level of the majority of the wider workforce, up to a maximum of 7% of salary. From the end of December 2022, the salary supplement in lieu of pension contribution paid to incumbent executive Directors will align to the level of the wider workforce, currently 7% of base salary.
- Currently under the Deferred Bonus Plan (DBP) awards vest at the date of cessation of employment. For new executive Directors, unvested shares under the DBP will vest on the normal vesting date rather than at the date of cessation of employment.

**ALLOCATION OF TIME**



- Remuneration policy
- External reporting (e.g. review of gender pay)
- Remuneration of Directors and Executive Committee members
- Governance and other matters

- All post-vesting holding conditions will continue to apply after cessation of employment. For new executives, this would include unvested shares under the DBP. Combined, these holding periods potentially create a significant post-cessation shareholding requirement. Through awards under the Performance Share Plan (PSP), the executive Directors have acquired, and will continue to acquire, a significant number of shares subject to vesting or to the holding period on a rolling basis.
- New executive Directors will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure, for two years after cessation of employment.
- Updated clawback and malus triggers to include the Company suffering corporate failure, and an event occurring which causes material reputational damage to the Group. The duration of clawback has also been extended, to now apply for two years following vesting.

The Committee believes that these proposals are in-line with the spirit of the Code.

## Remuneration for 2020

Salaries are normally reviewed on 1 July, and it was agreed that the Group Chief Executive would not receive a salary increase for 2019, with his salary remaining at the level agreed upon his appointment in 2015. The Chief Financial Officer was awarded a salary increase of 2.75%, in line with the general workforce. This is the first increase in his salary since appointment in 2015. Their next salary review date is 1 July 2020.

No changes are proposed to the performance measures to be used in the annual bonus plan. The annual bonus will continue to be based primarily on challenging profit (40%), cash (35%) and strategic/personal objectives (25%). The executive Directors will be able to earn a maximum bonus of 150% of base salary. Details of the targets for the 2020 annual bonus will be disclosed on a retrospective basis.

As in previous years, the long-term incentive awards will be based on a mix of adjusted earnings per share (one-third), cash (one-third) and relative total shareholder return (one-third) targets. The Committee is satisfied that the balance of measures remains appropriate and supports the long-term business strategy. 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.

## Reward for 2019

In respect of 2019, the annual bonus payments for the executive Directors reflect the strong performance of the Group – the maximum profit target was met, the maximum cash target was met and the personal performance of both executive Directors was strong. Leo Quinn and Philip Harrison both received annual bonus payments of 96.25% of the maximum available respectively, of which 50% will be deferred in shares for three years.

The TSR performance conditions relating to the 2017 PSP awards measured performance over the three years ended 31 December 2019 for all participants. TSR performance conditions were not met, the maximum operating cash flow target was met and EPS targets were met in part. As a result, 60.92% of these awards will vest for Leo Quinn and Philip Harrison on 7 June 2020.

Reviewing the performance of the Group as a whole, the Committee was confident that these outcomes reflected the Group's underlying performance over the year as a whole and did not require any discretion to be applied.

## Wider workforce remuneration and related policies

During the year, the Committee's terms of reference were reviewed to ensure compliance with the Code. In addition to the executive Directors, the Committee reviewed both the level and structure of remuneration for the members of the Executive Committee, with a focus on alignment with strategy and culture. The Committee receives regular updates on pay and benefits for the wider workforce and takes these developments into account when reviewing executive and senior management remuneration. Results of the employee engagement surveys are also reviewed to monitor how the Company's policies and practices support culture and strategy.

The UK Gender Pay Gap Report was discussed, including the steps Balfour Beatty is taking to narrow its gender pay gap through the 'Include Everyone' D&I action plan in the UK and the D&I plans in the US.

## Shareholder engagement

Shareholder consultation is an ongoing process; past consultations have informed interim decisions and the 2020 Policy. In the autumn we initiated a broad outreach on the draft 2020 Policy by consulting with major shareholders, Glass Lewis, ISS and the Investment Association. Their feedback has been constructive and helped shape the 2020 Policy presented in this report.

## Conclusion

We believe that the proposed 2020 Policy will continue to deliver a robust link between strategy, reward and performance, supporting Balfour Beatty's drive to deliver profitable managed growth and cash generation into the future. The Company's remuneration policies have been, and will continue to be, implemented rigorously, aligned with the Group's strategic goals and culture. We hope you will support the 2020 Policy and Remuneration report at the 2020 AGM.

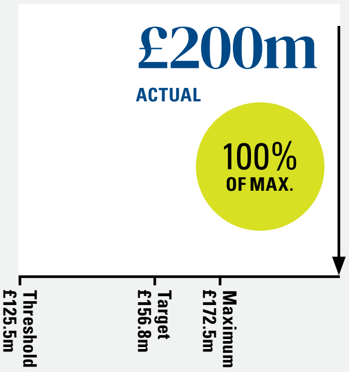
**Anne Drinkwater**
Chair of the Remuneration Committee

10 March 2020

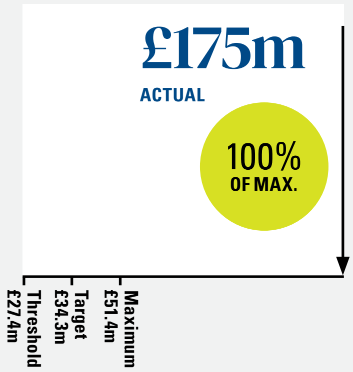
> We believe that the proposed remuneration policy will continue to deliver a robust link between strategy, reward and performance.
>
> **Anne Drinkwater**
> Chair of the Remuneration Committee

# AIP metrics and outcomes

### PROFIT BEFORE TAX AND NON-UNDERLYING ITEMS




### GROUP TOTAL CASH FLOW[1]




### STRATEGIC BUSINESS AND PERSONAL OBJECTIVES

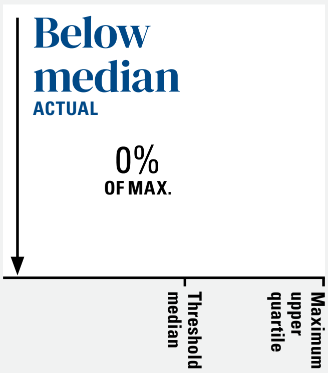
| GROUP CHIEF EXECUTIVE | CHIEF FINANCIAL OFFICER |
|---|---|
| 85% OF MAX. | 85% OF MAX. |

### AIP OUT-TURN

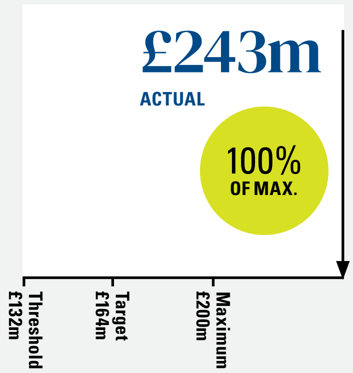
| GROUP CHIEF EXECUTIVE | CHIEF FINANCIAL OFFICER |
|---|---|
| 96.25% OF MAX. | 96.25% OF MAX. |

# PSP metrics and outcomes

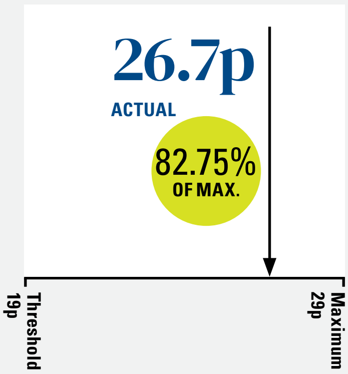
### TOTAL SHAREHOLDER RETURN




### OPERATING CASH FLOW (OCF) TARGETS



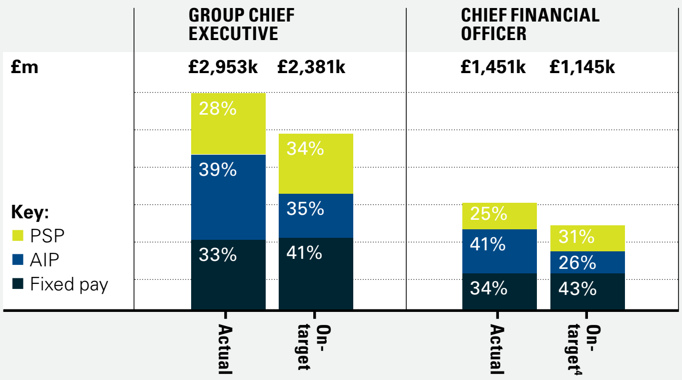

### EARNINGS PER SHARE



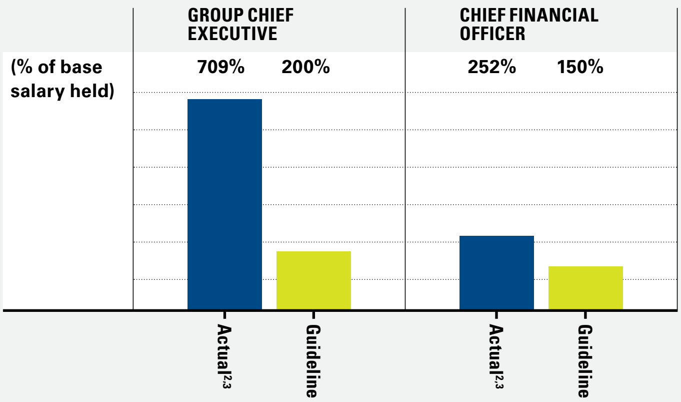

### PSP OUT-TURN

| GROUP CHIEF EXECUTIVE | CHIEF FINANCIAL OFFICER |
|---|---|
| 60.92% OF MAX. | 60.92% OF MAX. |

### EXECUTIVE DIRECTOR REMUNERATION SCENARIOS




### EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES




1 Group total cash flow is the movement between opening and closing total net cash/(debt).
2 Calculations shown include shares beneficially owned at 31 December 2019 plus unvested shares, which are not subject to a further performance condition, on a net of tax basis.
3 Actual holdings are shown on IA basis.
4 Chief Financial Officer's on-target scenario calculated on base salary at 1 January 2019 of £400k.

# Introduction

This Directors' Remuneration Policy provides an overview of the Company's policy on Directors' pay that it is anticipated will be applied in 2020 and will continue to apply until the 2023 AGM. It sets out the various pay structures that the Company will operate and summarises the approach that the Committee will adopt in certain circumstances such as the recruitment of new Directors and/or the making of any payments for loss of office.

In accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 (as amended) (the Regulations), the policy contained in this part will be subject to a binding vote at the AGM to be held on 14 May 2020 and will take effect immediately upon receipt of such approval from shareholders.

## Policy overview

The Committee, on behalf of the Board, determines the Company's remuneration policy and the remuneration packages of the executive Directors of the Company and the Group Chair. In setting the remuneration policy, the Committee takes into account a number of factors, including:

- general trends in pay and conditions throughout the Group;
- the positioning of remuneration levels against the external market;
- the balance between fixed and variable pay – more specifically, variable pay should form a significant but not disproportionately high level of potential remuneration;
- the strategy of the business; and
- the views of investors and their representative bodies.

In setting the overall remuneration policy, general trends and average increases throughout the Group are taken into account when setting executive Directors' reward packages. A key feature for the executive Directors is that a higher proportion of their remuneration package is delivered through performance related pay, which has a greater linkage to the results of the Group.

## Significant revisions made to the previous policy

The proposed policy largely mirrors the previous policy approved by shareholders at the AGM on 18 May 2017. However, and as noted in the Chair of the Remuneration Committee's introduction on pages 116 and 117, a number of changes have been made in order to take account of the requirements of the 2018 UK Corporate Governance Code (the Code) and to reflect developments in market practice over the past three years. In particular:

- the pension policy for new executive Director appointees has been updated to ensure that the levels of Company contributions they may receive will be line with those offered to the wider UK workforce, currently up to a maximum of 7% of base salary. The pension provision for incumbent executive Directors will align to the level of the wider workforce, currently 7% of base salary, from the end of December 2022;
- the policy in respect of the operation of the DBP has been updated so that for new executive Director appointees, unvested shares under the DBP will vest on the normal vesting date rather than on the date of cessation of employment for 'good leavers';
- any new executive Director will be required to build a shareholding in Balfour Beatty of 200% of base salary, with an aim for this within five years from appointment;
- post-cessation of employment, all post-vesting holding conditions will continue to apply. For new executive Director appointees, this would include unvested shares under the DBP;
- any new executive Director appointees will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure, for two years post-cessation;
- the 'malus' and 'clawback' provisions for new AIP and PSP awards will be expanded to ensure that they can be operated in cases of gross misconduct and corporate failure; and
- the Committee has been given broader powers to adjust downwards the formulaic vesting outcome produced by the Performance Share Plan performance conditions where it is deemed appropriate taking account the particular circumstances at the time.

## Consideration of shareholders' views

The Committee considers feedback from shareholders received at each AGM, and any feedback from additional meetings or from published investor guidelines, as part of any review of executive remuneration. In addition, the Committee engages proactively with shareholders and will ensure that shareholders are consulted in advance where any material changes to the remuneration policy and implementation of that policy are proposed. Indeed, the process surrounding the formulation of the 2020 Policy included a programme of engagement with the Company's largest institutional investors (including the top 20 shareholders) and a selection of proxy agencies in order to understand their views on the proposed approach. While feedback following initial consultation was generally positive, comments on the proposals on pension and post-cessation shareholding requirements were mixed, resulting in revisions being made to these proposals.

## Consideration of employment conditions elsewhere in the Group

In determining the remuneration of the executive Directors, the Committee takes into account the general trends in pay and conditions across the Group as a whole. Whilst employees have not been consulted formally on executive pay, due in part to the diverse geographic disposition of the Group, the Committee seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken. These are focused for the most part on market competitiveness, business performance and personal performance.

In practice, the remuneration policy for executive Directors is more heavily weighted towards variable pay than for other employees, so that a significant proportion of their remuneration is dependent on Company performance. For employees below Board level, variable pay represents a lower proportion of their total remuneration, which is driven by market comparators and general performance.

## Proposed executive Directors' remuneration policy

The following table sets out a summary of each element of the proposed executive Directors' remuneration packages, their link to the Company's strategy, the policy for how these are operated, the maximum opportunity and a description of any relevant performance metrics.

| Element of pay | Purpose and link to Company's strategy | How it is operated in practice | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Base salary** | To attract and retain high-calibre individuals.<br>To provide a competitive salary relative to comparable companies in terms of size and complexity. | Salaries are reviewed and set annually in July. The Committee considers remuneration levels in companies of comparable market capitalisation, revenue and industry sector.<br>In addition, a key reference point for salary increases is the average increase across the general workforce (with the exception of promotions or significant changes in responsibility).<br>Salaries are paid monthly. | There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.<br>Current salary levels are disclosed on page 127. | A number of factors are considered, notably market competitiveness, business and personal performance. |
| Change from current policy: | No changes proposed | | | |
| **Benefits** | To aid retention and to remain competitive in the marketplace. In addition, medical benefits are provided to minimise disruption due to absence. | Private medical and life assurance may be provided. A car and fuel card or car allowance are offered. Other benefits may be provided as appropriate. | The maximum opportunity for medical benefits is cover for the executive Director and his or her family. Life assurance cover, car or car allowance and any other benefits are based on market norms. | None |
| Change from current policy: | No changes proposed | | | |
| **Pension** | To remain competitive in the marketplace. | Executive Directors can elect either to:<br>› participate in the defined contribution (DC) section of the Group's pension fund. Executive Directors must make contributions of 5% of base salary (up to an earnings cap), with Balfour Beatty contributing 20% of base salary (up to the cap). On earnings above the cap, executive Directors receive a salary supplement; or<br>› receive a salary supplement in lieu of a pension. | Executive Directors who participate in the Group's pension fund benefit from a pension contribution by Balfour Beatty of 20% of base salary up to the earnings cap and a salary supplement of 20% of base salary in excess of the cap.<br>If a salary supplement is taken in lieu of a pension contribution, this is equivalent to 20% of base salary.<br>Pension contributions by Balfour Beatty (or salary supplement in lieu) for new executive Directors will be aligned with the majority of the wider UK workforce up to a maximum of 7% of salary. From the end of December 2022, the pension contributions by Balfour Beatty (or salary supplement in lieu) paid to the incumbent executive Directors will be aligned with the wider workforce, currently 7% of base salary. | None |
| Change from current policy: | From the end of December 2022, the salary supplement in lieu of pension contribution paid to the incumbent executive Directors will be aligned with the wider workforce, currently 7% of base salary.<br>Pension contributions by Balfour Beatty (or salary supplement in lieu) for new executive Directors will be aligned with the majority of the wider workforce, currently up to a maximum of 7% of salary. | | | |

| Element of pay | Purpose and link to Company's strategy | How it is operated in practice | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)** | To motivate executive Directors and incentivise the achievement of key business performance targets over the financial year without encouraging excessive risk taking. Managing risk is critical, particularly given the nature of the Company's business.<br><br>To facilitate share ownership, aid retention and provide further alignment with shareholders.<br><br>The payment of any bonus is at the absolute discretion of the Committee which has the discretion to override the out-turn of the bonus if appropriate to do so, including but not limited to factors such as the underlying financial and operational performance of the Company, individual performance and HSE and Sustainability record. | 50% of any payment is normally deferred into shares for three years.<br><br>Both the cash and deferred share elements of the annual bonus are subject to malus and clawback provisions – see 'Malus & Clawback' below for further details.<br><br>Participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period in relation to vested shares. | Maximum annual incentive opportunity is 150% of base salary. | The Committee will select performance measures for the annual bonus that are aligned with the strategy of the Company. A minimum 70% weighting is based on financial metrics.<br><br>Measures are reviewed each year and may be varied as appropriate to reflect the Company's strategy.<br><br>For 2020, the Committee has determined that measures will be based on: profit before tax (40%); cash (35%); and strategic and personal business objectives (25%).<br><br>The choice and weighting of the metrics for future awards may be altered to reflect the changing needs of the business.<br><br>The Committee retains the discretion to retrospectively amend the measures, weightings, targets and/or method of assessment for the in-year bonus to take into account a change in the business strategy, significant acquisition or disposal, change in accounting treatment or other exceptional event to ensure that the scheme is able to fulfil its original purpose. |
| Change from last policy: | Updated clawback and malus triggers to include, but not be limited to, the Company suffering corporate failure, and an event occurring which causes material reputational damage to the Group. The duration of clawback has also been extended, to generally now apply for two years following vesting.<br><br>New discretions wording to reflect requirements of the Code. | | | |

## Proposed executive Directors' remuneration policy continued

| Element of pay | Purpose and link to Company's strategy | How it is operated in practice | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Performance Share Plan (PSP)** | To incentivise and reward delivery of long-term performance linked to the business strategy.<br>To facilitate share ownership and provide further alignment with shareholders.<br>To aid retention.<br>In respect of awards granted in 2020 and beyond, the Committee has the discretion to override the formulaic out-turn of the award if appropriate to do so, including but not limited to factors such as the underlying financial and operational performance of the Company, individual performance and HSE record. | PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year.<br>Awards will ordinarily vest, subject to performance, on the third anniversary of grant and will be subject to an additional two-year holding period post vesting, during which time awarded shares may not ordinarily be sold (other than for tax).<br>Malus and clawback provisions apply to all awards made under the PSP – see 'Malus & Clawback' below for further details.<br>Participants also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period in relation to vested shares. | The limit in the rules of the PSP is 200% of base salary which will be applied to the Group Chief Executive. Other than in exceptional circumstances, the normal limit for other executive Directors will be 175% of base salary. | PSP awards will be granted in accordance with the rules of the PSP and the discretions contained therein.<br>Performance measures will be set on an annual basis to reflect the Company's strategy and provide stretching conditions in the light of the Company's current and expected performance over the performance period.<br>A minimum of 30% of any award will be based on relative total shareholder return (TSR), with the balance being based on other financial targets. Targets will normally be measured over a three-year performance period.<br>There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance.<br>For 2020, the Committee has determined that there will be a three-year performance period and measures will be based on: relative total shareholder return (33.3%); earnings per share (33.3%); and cash (33.3%).<br>The choice and weighting of the metrics for future awards may be altered to reflect the changing needs of the business.<br>Under the rules of the PSP, the Committee has the discretion to retrospectively amend or substitute the performance conditions for PSP awards in exceptional circumstances, providing the new targets are no less challenging than previously envisaged. The Committee would consult with shareholders in advance of a significant change in the choice or weighting of the performance measures to be applied to future PSP awards. |

Change from current policy: Updated clawback and malus triggers to include, but not be limited to, the Company suffering corporate failure, and an event occurring which causes material reputational damage to the Group. The duration of clawback has also been extended, to generally now apply for two years following vesting.

New discretions wording to reflect requirements of the Code.

| Element of pay | Purpose and link to Company's strategy | How it is operated in practice |
|---|---|---|
| **Shareholding guidelines** | To align the interests of executive Directors with those of shareholders. | **In-post requirements**<br>Executive Directors are expected to accumulate a shareholding in the Company's shares to the value of 200% and 150% of base salary for the Group Chief Executive and the Chief Financial Officer respectively.<br>For new executive Directors, the requirement will be 200% of base salary, with the aim that this is built up within five years of employment commencing.<br>Executive Directors are expected to retain at least 50% of shares (net of tax) which vest from awards made under the PSP and DBP until the target shareholding is attained.<br>**Post-cessation requirements**<br>The post-vesting holding condition, which applies to PSP awards from 2019 onwards, requires the vested shares (net of tax) to be held until the fifth anniversary of grant and will continue to apply post-cessation of employment.<br>For new executive Directors, unvested shares under the DBP at cessation of employment will vest no earlier than the normal vesting date.<br>New executive Directors will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure, for two years post-cessation of employment.<br>No post-cessation restriction will apply to shares purchased by Directors from their own funds. |
| Change from current policy: | Updated in-post requirements for new executive Directors.<br>New executive Directors will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure, for two years post-cessation of employment. | |

## Malus and clawback

The rules of the PSP and the Company's annual incentive (including any element deferred into shares) include provisions for malus and clawback to apply if the Committee concludes that:

- any financial results or other performance measures used to assess the extent to which an award vested or payment was made was misstated, incorrect or misleading;
- the extent to which an award or payment was made was based on error;
- an event, act or omission occurs which results in any member of the the Group suffering material reputational damage;
- any member of the Group has suffered an instance of corporate failure, which includes, but is not limited to: a material reduction in the value of the relevant company; an involuntary insolvency or similar circumstance; or any event that the Remuneration Committee determines has a material negative impact on any of the stakeholders in the Company; or
- the relevant individual has committed misconduct.

Clawback generally may be applied for up to two years following payment of a cash AIP, and up to two years following vesting in respect of awards granted under the DBP and PSP.

## Discretions retained by the Committee in operating the PSP and other variable pay schemes

The Committee operates the Group's various incentive plans according to their respective rules and (where applicable) in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee. These include:

- determining who may participate in the plans;
- determining the timing of grants of awards and/or payments under the plans;
- determining the quantum of any awards and/or payments (within the limits set out in the policy table above);
- in exceptional circumstances, determining that a share-based award or any dividend equivalent shall be settled (in full or in part) in cash;
- determining the performance measures and targets applicable to an award (in accordance with the statements made in the policy table above), including discretion to adjust the performance measures and targets in the event of changes in accounting standards;
- where a participant ceases to be employed by the Company, determining whether 'good leaver' status shall apply;
- determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- whether, and to what extent, awards shall be reduced pro-rata to reflect the proportion of the performance period completed in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events;
- whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply;
- making appropriate adjustments to awards on account of certain events, such as major changes in the Company's capital structure; and
- reduce, delay or impose additional conditions on payments and/or vesting of awards.

## Considerations of employment conditions elsewhere in the Group and differences between arrangements for executive Directors and other employees

The following differences exist between the Company's policy for the remuneration of executive Directors and its approach to the payment of employees generally:

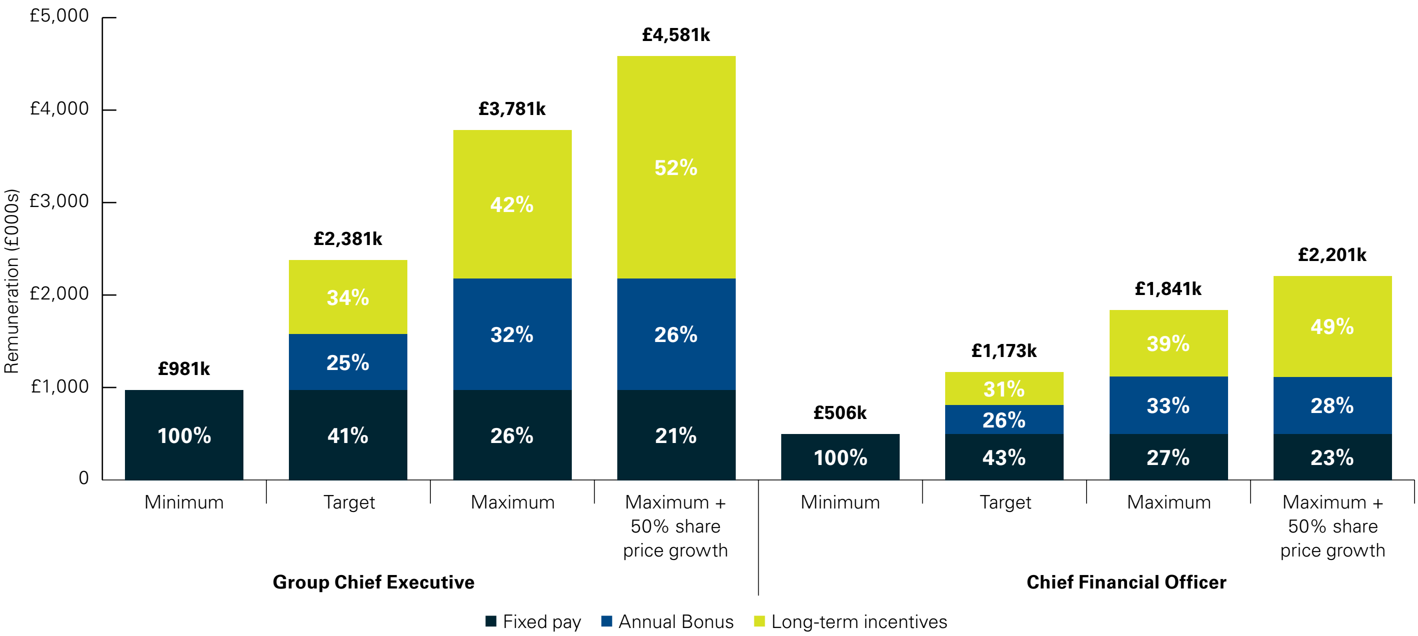
- Participation in the PSP is typically aimed at the executive Directors and certain selected senior managers. Other employees may be invited to participate in the Restricted Share Plan (RSP) to aid retention and recognition. Shadow PSP and RSP schemes have been introduced on a cash-settled basis which mirror the conditions of the equity-settled PSP and RSP schemes, awards under which are principally made to senior managers based in the US. All UK employees, including executive Directors, are eligible to participate in the Company's Share Incentive Plan up to prevailing HMRC limits.
- A lower level of maximum annual bonus opportunity applies to eligible employees other than executive Directors. For certain selected senior managers, a proportion of any bonus will be deferred into shares under the DBP (or a shadow cash-settled DBP for senior managers based in the US).
- Under the defined contribution section of the Balfour Beatty Pension Scheme, the typical employer contribution for all other UK employees (and any new executive Director appointed to the Board) is currently up to 7% of base salary.
- Benefits offered to other employees, depending on their employee grade, may include health insurance, death-in-service benefit, a company vehicle or cash allowance and access to other voluntary employee benefits.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive Directors, a greater emphasis is placed on variable pay.

## 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 2020 financial year under Balfour Beatty's remuneration policy.




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; and
- 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 2019;
- benefits – amount received in the 2019 financial year; and
- pension – cash allowance in lieu of pension is 20% of base salary.

## Recruitment and promotion policy for executive Directors

To ensure the ongoing leadership continuity of the Group, the Company will seek the appointment of high-calibre executives, either by external appointment or internal promotion. The remuneration package for a new executive Director would be set in accordance with the terms of the Company's remuneration policy at the time of appointment and take into account the scope and complexity of the role, the experience of the individual, the prevailing market rate for that experience and the importance and immediacy of securing that candidate.

The salary would be set at a level, based on the principles above, to secure the most appropriate candidate but paying no more than is necessary and in the best interests of the Company and its shareholders. Pension contributions (or salary supplement in lieu) will be aligned to the majority of the wider workforce, currently up to 7% of salary. The AIP potential would be limited to 150% of salary, and grants under the PSP may be up to the plan maximum of 200% of salary. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards were consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal executive Director appointment, any remuneration awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

## Service agreements and payments for loss of office for executive Directors

It is the Company's policy that executive Directors should have contracts with an indefinite term, which can be terminated on one year's notice by the Company and six months' notice by the executive Director. In accordance with the Code, all executive Directors submit themselves for re-election at the AGM.

In the event of termination, the following principles will apply:

| Provision | Detailed terms |
|---|---|
| **Notice period** | One year by the Company, and six months by the executive Director.<br>In the event of termination by the Company 'for cause' the executive Director would not be entitled to period of notice of termination specified above under his or her contract of employment or to any payment in lieu of notice. |
| **Notice payments** | If any existing contract was terminated by the Company (other than for cause), it would be liable to pay salary and contractual benefits for the notice period, including any period of garden leave. The Company may elect to make payment in lieu of any unexpired period of notice comprising salary and a cash sum in lieu of benefits. The Company reserves the right to apply mitigation to any payment in lieu of notice, for example by making phased payments where appropriate for the balance of any notice period, against which earnings from new employment would be offset. |
| **Remuneration entitlements** | Pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below).<br>In all cases, performance targets would apply. |
| **Change of control** | There are no provisions for enhanced termination payments in the event of change of control of the Company. |
| **Incidental expenses and other payments** | The Company may meet relocation and other incidental expenses on termination of employment, for example relocation expenses, the fees of legal or other professional advisers, and accrued but untaken holiday. It may also elect to continue to provide certain benefits rather than making payment in lieu of the benefit in question. |

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill health, injury, disability, retirement or other circumstances at the discretion of the Committee, awards will not be forfeited on cessation of employment and, subject to the satisfaction of the relevant performance conditions, will vest under the normal vesting schedule, being reduced pro-rata to reflect the proportion of the performance period actually served. However, the Remuneration Committee has discretion to determine that PSP awards vest at cessation and/or to amend time pro-rating.

For incumbent executive Directors, outstanding DBP awards will lapse on cessation of employment, except in certain good leaver circumstances prescribed by the plan rules when DBP awards will vest in full on the date of cessation. For new executive Director appointees, in certain good leaver circumstances prescribed by the plan rules, DBP awards will vest on the normal vesting date. However, the Remuneration Committee has discretion to determine that DBP awards will vest at cessation.

The Committee has introduced a formal policy in respect of post-cessation shareholdings for new executive Directors. On approval of this policy and in respect of the incentive awards to be granted thereafter, the following will ordinarily apply:

- unvested shares under the PSP held by a good leaver will continue to vest on the normal vesting date and be subject to (a net of tax) post-vesting holding period;
- vested shares under the PSP – the holding period will continue to apply; and
- other beneficially owned shares – no sale restriction applies.

In addition, for new executive Directors only:

- unvested shares under the DBP held by a good leaver will continue to vest on the normal vesting date; and
- the requirement to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure, will continue for two years post-cessation.

The above will ensure that the executive Directors continue to have an interest in the Company after having left employment, promoting a culture of sustainable long-term performance. Furthermore, additional safeguards are in place through the malus and clawback provisions which can continue to be invoked irrespective of employment status.

## Legacy arrangements

For the avoidance of doubt, in approving this remuneration policy, authority is given to the Company to make payments and honour any commitments entered into with current or former Directors (such as the payment of pension or the unwinding of legacy share schemes) where the terms were agreed prior to the effective date of the first Directors' remuneration policy) or at a time when a previous remuneration policy was in force. Details of any payments will be set out in the Annual Report on Remuneration as they arise.

## External appointments of executive Directors

The Committee recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. Executive Directors are permitted to have one external appointment, from which fees may be retained with the approval of the Board.

## Appointment of non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. All non-executive Directors are appointed for a term of three years. In accordance with the Code, all non-executive Directors submit themselves for re-election at the AGM.

| Element of pay | Purpose and link to Company's strategy | How it is operated in practice | Maximum opportunity |
|---|---|---|---|
| **Non-executive Director fees** | To attract and retain high-quality and experienced non-executive Directors. | The Group Chair is paid an annual fee and the non-executive Directors are paid an annual base fee and additional responsibility fees for the role of Senior Independent Director or for chairing a Board Committee.<br>Non-executive Directors based outside Europe receive a travel allowance for each visit made on Company business to the UK or to any other country (excluding their home country).<br>Fee levels are normally reviewed annually in July.<br>The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes.<br>The Company will pay any reasonable business related expenses (including tax thereon where determined as a taxable benefit). | As per executive Directors, there is no prescribed maximum annual increase. |

The appointment letters for non-executive Directors may be terminated with three months' notice (six months' notice for the Group Chair) by either party and contain no provision for payment in the event of termination in addition to such notice.

This part of the Remuneration report sets out how the remuneration policy will be applied over the year ending 31 December 2020 and how it was implemented over the year ended 31 December 2019. 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 following sections have been audited by KPMG: The Remuneration received by Directors for the year ended 31 December 2019 including related notes (pages 128); outstanding share awards (page 133), PSP awards granted during the year (page 134); payments to past Directors (page 134); and Statement of Directors' shareholdings and share interests (page 134).

## Implementation of the remuneration policy for the year ending 31 December 2020

### Base salaries

The Committee reviewed the base salary of the executive Directors at the normal review date of 1 July 2019.

It took into consideration salary levels, time in role and the salary increase provided to the Group's UK general workforce, averaging 2.75%. It concluded that current salary level for Leo Quinn remained appropriate; however, it was appropriate to increase Philip Harrison's salary in line with that of the general workforce at 2.75%. Prior to 1 July 2019, neither executive Director had received a base salary increase since being appointed in 2015.

| | Date of appointment | Salary on appointment £ | 1 July 2018 £ | **1 July 2019 £** | % increase |
|---|---|---|---|---|---|
| Leo Quinn | Jan 2015 | 800,000 | 800,000 | **800,000** | 0.0% |
| Philip Harrison | Jun 2015 | 400,000 | 400,000 | **411,000** | 2.75% |

The next base salary review date is 1 July 2020.

### Pension

In line with policy, executive Directors receive a pension cash allowance equivalent to 20% of base salary.

### Performance targets for the Annual Incentive Plan (AIP) in 2020

For 2020, 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%); and
- 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 2020 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 2020.

### Performance targets for Performance Share Plan (PSP) awards granted in 2020

For 2020, and consistent with 2019, 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 2020 will be based on the achievement of three performance measures:

- relative TSR (33.3%) – the Company's TSR measured against a comparator group. 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; and
- 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 2020. The Committee is also reviewing the comparator group to be used in the relative TSR measure. 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 2020. Details of the comparator group to be used in the relative TSR measure will also be disclosed in the RNS announcement and included in the Remuneration report for 2020.

## Implementation of the remuneration policy for the year ending 31 December 2020 continued

### Non-executive Directors

The Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. At the annual review of fees for the non-executive Chairman and Directors on 1 July 2019, fees were increased as set out below.

| | 1 July 2018 £ | **1 July 2019 £** | % increase |
|---|---|---|---|
| Chairman | 277,000 | **277,000** | 0% |
| Base fee | 61,500 | **62,500** | 1.6% |
| Senior Independent Director fee | 10,000 | **10,000** | 0% |
| Committee Chair fee | 12,500 | **15,000** | 20% |

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 2019

The table below sets out the Directors' remuneration for the year ended 31 December 2019 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2018.

| | | Fixed pay | | | | Variable pay | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Base salary and fees[1,2] £ | Taxable benefits[3,4] £ | Pension cash allowance[5] £ | Sub total £ | Annual incentive cash[6] £ | Annual incentive deferred shares[6] £ | Long-term incentives[7,11] £ | Sub total £ | Other[8] £ | Total[11] £ |
| **Executive Directors** | | | | | | | | | | | |
| Philip Harrison | **2019** | **405,500** | **14,502** | **80,000** | **500,002** | **296,691** | **296,691** | **357,555** | **950,937** | **–** | **1,450,939** |
| | 2018 | 400,000 | 14,503 | 80,000 | 494,503 | 207,180 | 207,180 | 439,647 | 854,007 | – | 1,348,510 |
| Leo Quinn | **2019** | **800,000** | **21,004** | **160,000** | **981,004** | **577,500** | **577,500** | **817,274** | **1,972,274** | **–** | **2,953,278** |
| | 2018 | 800,000 | 21,006 | 160,000 | 981,006 | 414,360 | 414,360 | 1,172,395 | 2,001,115 | 1,398,613 | 4,380,734 |
| **Non-executive Directors** | | | | | | | | | | | |
| Philip Aiken | **2019** | **277,000** | **–** | **–** | **277,000** | **–** | **–** | **–** | **–** | **–** | **277,000** |
| | 2018 | 273,500 | – | – | 273,500 | – | – | – | – | – | 273,500 |
| Stephen Billingham | **2019** | **75,750** | **328** | **–** | **76,078** | **–** | **–** | **–** | **–** | **–** | **76,078** |
| | 2018 | 73,250 | – | – | 73,250 | – | – | – | – | – | 73,250 |
| Stuart Doughty | **2019** | **75,750** | **1,849** | **–** | **77,599** | **–** | **–** | **–** | **–** | **–** | **77,599** |
| | 2018 | 73,250 | – | – | 73,250 | – | – | – | – | – | 73,250 |
| Anne Drinkwater[9] | **2019** | **71,085** | **5,657** | **–** | **76,742** | **–** | **–** | **–** | **–** | **–** | **76,742** |
| | 2018 | 5,125 | – | – | 5,125 | – | – | – | – | – | 5,125 |
| Iain Ferguson[10] | **2019** | **28,082** | **1,219** | **–** | **29,301** | **–** | **–** | **–** | **–** | **–** | **29,301** |
| | 2018 | 73,250 | – | – | 73,250 | – | – | – | – | – | 73,250 |
| Michael Lucki | **2019** | **62,000** | **16,842** | **–** | **78.842** | **–** | **–** | **–** | **–** | **–** | **78,842** |
| | 2018 | 60,750 | 7,500 | – | 68,250 | – | – | – | – | – | 68,250 |
| Barbara Moorhouse | **2019** | **62,000** | **875** | **–** | **62,875** | **–** | **–** | **–** | **–** | **–** | **62,875** |
| | 2018 | 60,750 | – | – | 60,750 | – | – | – | – | – | 60,750 |

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 2019 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 The non-executive Directors received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column.

5 The pension cash allowance for Philip Harrison increased in line with his base salary from 1 July 2019. This increase was not actioned until March 2020, backdated to 1 July 2019. This additional payment will be disclosed in the 2020 Remuneration report.

6 AIP 2019: further details of these awards are set out on pages 129 to 131. For 2018, details of the AIP awards were set out in the 2018 Remuneration report.

7 For 2019, this relates to the 2017 PSP award for which the performance period ended in 2019, with the valuation of vesting shares calculated on a three-month average share price to 31 December 2019 of 231.67p. This compares to the 276.3p average middle market price for the three dealing dates before the PSP award date which was used for calculating the number of shares granted, so there is no benefit relating to share price appreciation since award. Further details of the 2017 PSP awards are set out on page 132. For 2018, this relates to the 2016 PSP award for which the performance period ended in 2018, details of which were set out in the 2018 Remuneration report. For 2018, the valuation of the vesting shares for the 2016 PSP has been adjusted from the valuation included in the 2018 Remuneration report to reflect the actual valuation on the 15 April 2019 vesting date, based on a share price of 268.8p. 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.

8 Other payments relate to the conditional share awards granted to Leo Quinn to compensate him for share awards which were forfeited upon leaving his former employer. 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. Full details of these awards were set out in the 2018 Remuneration report.

9 Anne Drinkwater joined the Board effective 1 December 2018 and was appointed Chair of the Remuneration Committee effective 16 May 2019.

10 Iain Ferguson retired from the Board effective 16 May 2019. In addition to the amount disclosed above, Iain Ferguson earned £15,085 under a consultancy agreement in the period following his retirement from the Board.

11 Total figures and long-term incentives figures for 2018 have been adjusted from the figures included in the 2018 Remuneration report to reflect the actual valuation on the 15 April 2019 vesting date of shares vesting under the PSP 2016.

## AIP awards for the year ended 31 December 2019

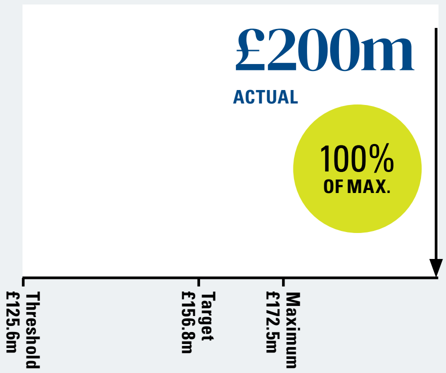
For 2019, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

- profit before tax (40%);
- cash (35%); and
- strategic business and personal objectives (25%).

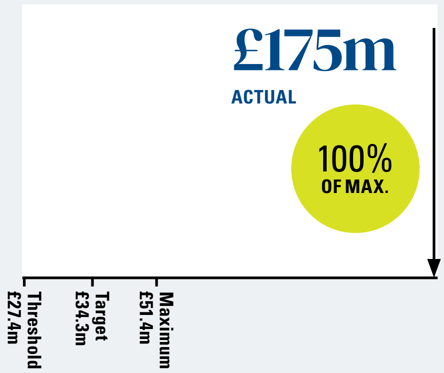
The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares. For the profit before tax element, 20% of the award would vest for threshold performance, increasing to 50% vesting of that element 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 outcomes

### PROFIT BEFORE TAX AND NON-UNDERLYING ITEMS




### GROUP TOTAL CASH FLOW[1]




1 Group total cash flow is the movement between opening and closing total net cash/(debt).

### STRATEGIC BUSINESS AND PERSONAL OBJECTIVES

**GROUP CHIEF EXECUTIVE**: 85% OF MAX.

**CHIEF FINANCIAL OFFICER**: 85% OF MAX.

| | Group Chief Executive | Chief Financial Officer |
|---|---|---|
| Lean | 25% | 22.5% |
| Expert | 25% | 25% |
| Trusted | 22.5% | 25% |
| Safe | 12.5% | 12.5% |

### AIP OUT-TURN

**GROUP CHIEF EXECUTIVE**: 96.25% OF MAX.

**CHIEF FINANCIAL OFFICER**: 96.25% OF MAX.

## AIP awards for the year ended 31 December 2019 continued

Performance against the 2019 AIP strategic business and personal objectives as it relates to the executive Directors was:

| Summary of key strategic objectives, including: | Examples of achievement | Group Chief Executive Weight % | Group Chief Executive Out-turn % |
|---|---|---|---|
| **Lean:**<br>Deliver Phase 2 of Build to Last (industry-standard margins for 2019) including:<br>› hold corporate cost flat across the Group (year on year);<br>› continue US implementation of shared service model; and<br>› continue to enhance governance of the procurement function across the Group, leveraging spend and strengthening supply chains. | Achieved in full, including:<br>› corporate overhead reduction by over £3 million versus 2018;<br>› significant progress in implementation across support functions including HR, Finance and IT; and<br>› e-catalogues and Jaggaer system launched in 2019. | 25 | 25 |
| **Expert:**<br>Drive employee engagement and retention of key talent including:<br>› continue to reduce voluntary attrition rates;<br>› reward key talent to recognise talent and improve retention; and<br>› improve employee engagement across the Group. | Achieved in full, including:<br>› voluntary attrition in the UK reduced from 12.0% in 2018 to 10.9% in 2019;<br>› extended reward policies to consistently align to talent in US Buildings and US Civils business units;<br>› employee engagement index increased across the Group from 65% in 2018 to 66% in 2019; and<br>› investment in new talent development programs in US businesses, alongside established programs in UK. | 25 | 25 |
| **Trusted:**<br>Strengthen the position of the Group, including:<br>› refinance the revolving credit facility; and<br>› continue to drive customer engagement and increased advocacy. | Mixed performance, including:<br>› new £375 million revolving credit facility signed in October 2019; the new facility is on substantially unchanged terms;<br>› completed more than 10 site/customer engagement visits; and<br>› achieved customer satisfaction rating of 94%. | 25 | 22.5 |
| **Safe:**<br>Continue to drive improved safety culture and performance across the Group. | Mixed performance, including:<br>› Group LTIR reduction to 0.14 in 2019 versus 0.15 in 2018; and<br>› demonstrable strong personal leadership,<br>but reduction to out-turn due to three fatalities (one in UK business and two in Gammon) during 2019 | 25 | 12.5 |
| **Total** | | **100** | **85** |

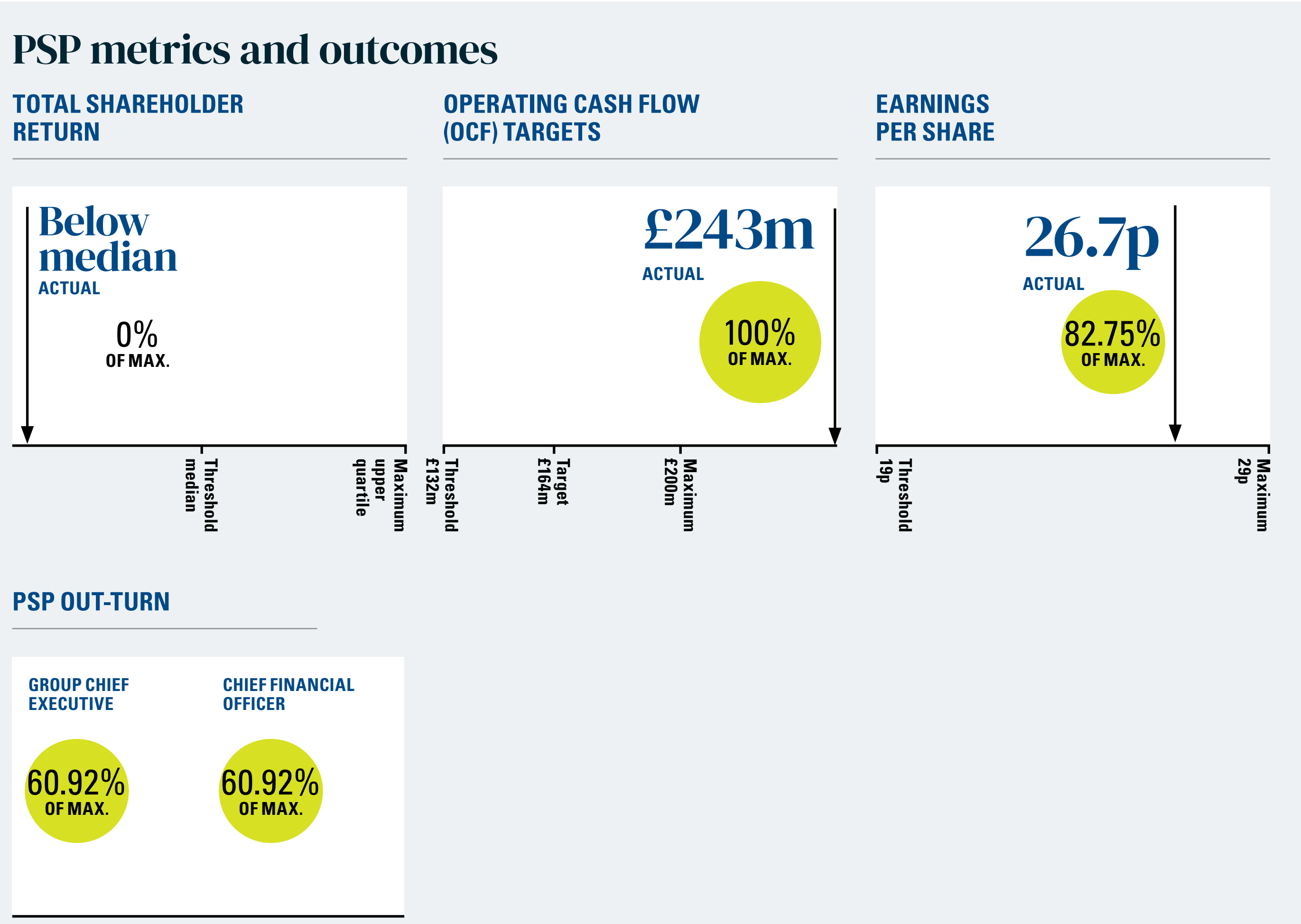
| Summary of key strategic objectives, including: | Examples of achievement | Chief Financial Officer Weight % | Chief Financial Officer Out-turn % |
|---|---|---|---|
| **Lean:**<br>Deliver Phase 2 of Build to Last (industry-standard margins for 2019) including:<br>› maintain corporate overheads at no more than 2018 levels;<br>› successful implementation of Oracle R12 in the UK Rail business; and<br>› deliver 'My Contribution' projects leading to demonstrable improvements. | Mixed performance, including:<br>› corporate overhead reduced by over £3 million in 2019 versus 2018;<br>› completed Oracle R12 implementation in the UK Rail business by end of Q1 2019, to timetable and budget; and<br>› delivered material 'My Contribution' projects successfully generating cost savings and significant process improvements. | 25 | 22.5 |
| **Expert:**<br>Continue to improve transactional processes, including:<br>› deliver minimum of £265 million average net cash in 2019, with target of £310 million; and<br>› improve performance against UK Government's Prompt Payment Code. | Achieved in full, including:<br>› average net cash for 2019 of £325 million; and<br>› consistent improvement in UK payment statistics in 2019. | 25 | 25 |
| **Trusted:**<br>Strengthen the position of the Group, including:<br>› refinance the revolving credit facility; and<br>› reach agreement with the trustees of the Balfour Beatty Pension Fund (BBPF) on the triennial actuarial valuation that supports the long-term journey plan. | Achieved in full, including:<br>› new £375 million revolving credit facility signed in October 2019; the new facility is on substantially unchanged terms; and<br>› new agreement reached with trustees of the BBPF with no net increase in cash deficit contributions. | 25 | 25 |
| **Safe:**<br>Continue to drive improved safety culture and performance across the Group. | Mixed performance, including:<br>› Group LTIR reduction to 0.14 in 2019 versus 0.15 in 2018; and<br>› demonstrable strong personal leadership;<br>but reduction to out-turn due to three fatalities (one in UK business and two in Gammon) during 2019. | 25 | 12.5 |
| **Total** | | **100** | **85** |

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 7 June 2017 were based on a performance period for the three years ended 31 December 2019. 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), operating cash flow 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 operating cash flow 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:




| Metric | Performance condition | Measure | Threshold | Target | Maximum | Actual | Vesting % |
|---|---|---|---|---|---|---|---|
| Total shareholder return | TSR against the 122 remaining companies ranked 51–200 in the FTSE All Share Index (excluding investment trusts) | TSR ranking | 61.5 or above | – | 31 or above | 99 | 0% |
| Cash | | Operating cash flow (OCF) | £132m | £164m | £200m | £243m | 100% |
| Earnings per share | | Underlying basic earnings per share from continuing operations | 19p | – | 29p | 26.7p | 82.75% |
| | Total vesting | | | | | | 60.92% |

| 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 | 2017 conditional | 7 June 2020 | 253,347 | 154,338 | 99,009 | £357,555 |
| Leo Quinn | 2017 conditional | 7 June 2020 | 579,080 | 352,775 | 226,305 | £817,274 |

1 Valuation of vesting shares calculated on a three-month average share price to 31 December 2019 of 231.67p. This compares to the 276.3p average middle market price for the three dealing dates before the PSP award date which was used for calculating the number of shares granted, so there is no benefit relating to share price appreciation since award.

## Outstanding share awards

| Name of Director | Share award | Date granted | At 1 January 2019 | Maximum number of shares subject to award: Awarded during the year | Vested during the year | Lapsed during the year | At 31 December 2019 | Exercisable and/or vesting from |
|---|---|---|---|---|---|---|---|---|
| Philip Harrison | | | | | | | | |
| | PSP[1] | 13 April 2016 | 254,885 | **–** | **163,559** | **91,326** | **–** | 13 April 2019 |
| | PSP[2,5,6] | 7 June 2017 | 253,347 | **–** | **–** | **–** | **253,347** | 7 June 2020 |
| | PSP[3,5,6] | 27 March 2018 | 259,163 | **–** | **–** | **–** | **259,163** | 27 March 2021 |
| | PSP[4,5,6,7] | 28 March 2019 | – | **269,438** | **–** | **–** | **269,438** | 28 March 2022 |
| | DBP[10,11,13] | 31 March 2016 | 26,807 | **–** | **26,807** | **–** | **–** | 31 March 2019 |
| | DBP[8,9,11,13] | 31 March 2017 | 43,495 | **969** | **–** | **–** | **44,464** | 31 March 2020 |
| | DBP[8,9,11,13] | 3 April 2018 | 108,320 | **2,416** | **–** | **–** | **110,736** | 3 April 2021 |
| | DBP[8,9,11,12,13] | 1 April 2019 | – | **81,555** | **–** | **–** | **81,555** | 1 April 2022 |
| Leo Quinn | | | | | | | | |
| | PSP[1] | 13 April 2016 | 679,694 | **–** | **436,159** | **243,535** | **–** | 13 April 2019 |
| | PSP[2,5,6] | 7 June 2017 | 579,080 | **–** | **–** | **–** | **579,080** | 7 June 2020 |
| | PSP[3,5,6] | 27 March 2018 | 592,373 | **–** | **–** | **–** | **592,373** | 27 March 2021 |
| | PSP[4,5,6,7] | 28 March 2019 | – | **615,858** | **–** | **–** | **615,858** | 28 March 2022 |
| | DBP[10,11,13] | 31 March 2016 | 91,918 | **–** | **91,918** | **–** | **–** | 31 March 2019 |
| | DBP[8,9,11,13] | 31 March 2017 | 87,771 | **1,958** | **–** | **–** | **89,729** | 31 March 2020 |
| | DBP[8,9,11,13] | 3 April 2018 | 218,896 | **4,883** | **–** | **–** | **223,779** | 3 April 2021 |
| | DBP[8,9,11,12,13] | 1 April 2019 | – | **163,112** | **–** | **–** | **163,112** | 1 April 2022 |

1 2016 PSP award: This award vested in part on 15 April 2019. Details of the Company's performance against the performance conditions were set out in the 2018 Remuneration report. Philip Harrison and Leo Quinn also received 4,709 and 12,561 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 268.8p.

2 2017 PSP award: Further details of this award are set out on page 132.

3 2018 PSP award: This award is subject to three performance targets over a three-year performance period commencing 1 January 2018. 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 2020 year end operating cash flow (OCF) is greater than £141 million. 25% to 50% will vest for OCF between £141 million and £176 million, rising to full vesting for OCF of £211 million or more. For the EPS part (33.3%), no vesting unless 2020 EPS is 22p, 25% vesting of this part at 22p, rising to full vesting at 31p or more.

4 2019 PSP award: Details are set out on page 134.

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 276.3p for the 2017 award, 270.167p for the 2018 award and 259.8p for the 2019 award. The closing middle market price of ordinary shares on the date of the awards was 271.0p, 273.0p and 257.1p 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 28 March 2019, for all participants in the PSP, a maximum of 3,491,337 conditional shares were awarded which are exercisable on 28 March 2022.

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 DBP awards made in March 2017, April 2018 and April 2019 will vest on 31 March 2020, 3 April 2021 and 1 April 2022 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 DBP awards made in March 2016 vested on 31 March 2019. The closing middle market price of ordinary shares in the Company on the vesting date was 262.1p.

11 The shares subject to the DBP awards made on 31 March 2016, 31 March 2017, 3 April 2018 and 1 April 2019 were purchased at average prices of 252.5p, 266.4p, 269.7p and 259.7p respectively.

12 On 1 April 2019, for all participants in the DBP, a maximum of 720,664 conditional shares were awarded which will normally be released on 1 April 2022.

13 On 5 July 2019 and 6 December 2019, a further 24,489 conditional shares and 17,256 conditional shares were granted in lieu of entitlements to the final 2018 dividend and interim 2019 dividend respectively for all participants in the DBP. These shares were allocated at average prices of 246.1p and 228.5p respectively.

14 The closing market price of the Company's ordinary shares on 31 December 2019 was 261.4p. During the year, the highest and lowest closing market prices were 295.0p and 194.2p respectively.

## PSP awards granted during the year

On 28 March 2019, 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 | 259.8p | 269,438 | £700,000 | 25% | 31 December 2021 | 28 March 2022 |
| Leo Quinn | Conditional | 200% of salary of £800,000 | 259.8p | 615,858 | £1,600,000 | 25% | 31 December 2021 | 28 March 2022 |

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 | Maximum |
|---|---|---|---|---|
| One-third 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) |
| One-third cash | Group's Operating Cash Flow from continuing operations; straight-line vesting between points | £120m (25% vests) | £155m (50% vests) | £190m (100% vests) |
| One-third EPS | Group's EPS; straight-line vesting between points | 23p (25% vests) | – | 32p (100% vests) |

For these PSP awards, a post-vesting holding period will apply requiring the shares (net of tax) to be retained for two years.

## Payments to past Directors

There were no payments to past executive Directors during 2019.

## 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 2019[1,2] | Beneficially owned at 31 December 2019[2,3,4] | Outstanding PSP awards | Outstanding DBP awards | Beneficially owned at 31 December 2019 as a % of base salary at 31 December 2019[5] |
|---|---|---|---|---|---|
| Philip Harrison | 168,049 | 271,300 | 781,948 | 236,755 | 173% |
| Leo Quinn | 1,554,821 | 1,916,721 | 1,787,311 | 476,620 | 626% |
| Philip Aiken | 15,000 | 15,000 | | | |
| Stephen Billingham[6] | 23,808 | 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 10 March 2020, there been no changes to the above other than the purchase by Anne Drinkwater of 4,500 ordinary shares on 22 January 2020 and an increase in respect of ordinary shares held in the Share Incentive Plan for Leo Quinn by 109 shares.

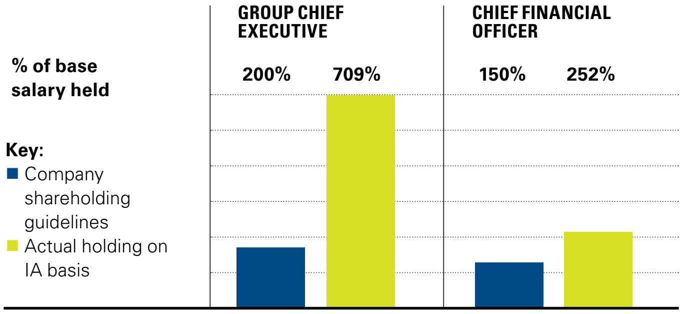
5 The closing market price of the Company's ordinary shares as at 31 December 2019, 261.4p, was used to calculate the value of shares beneficially owned.

6 Stephen Billingham was also interested in 36,070 convertible redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2019 and 31 December 2019.

## 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 2019 as a % of base salary are shown in the table.

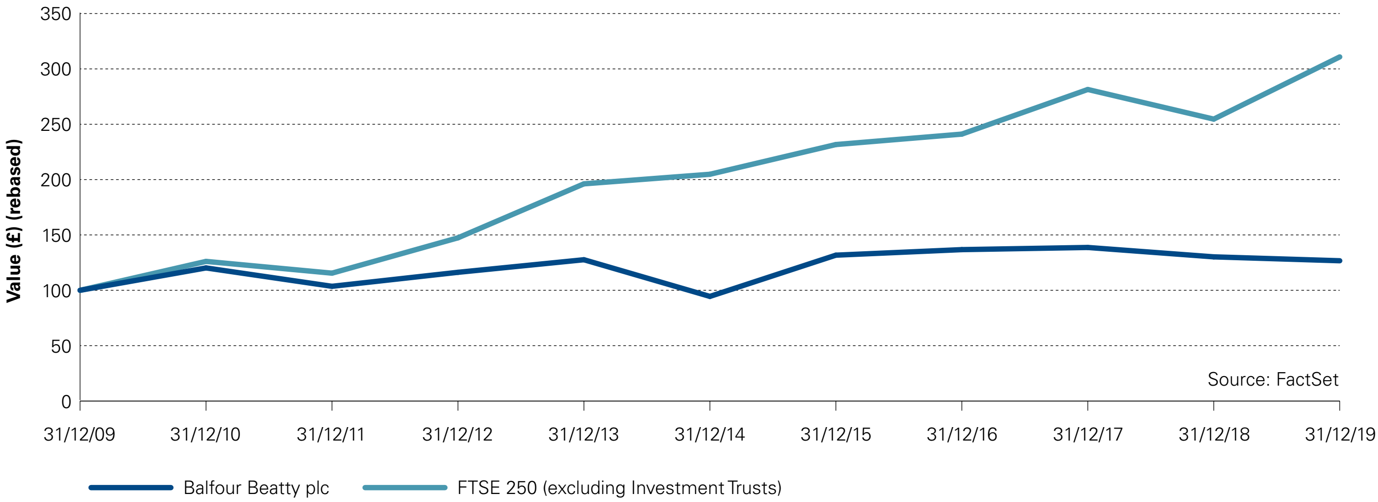
In line with the Investors Association (IA) guidelines, the calculations shown in the chart include shares beneficially owned at 31 December 2019 plus unvested shares, which are not subject to a further performance condition (outstanding DBP awards), on a net of tax basis. Both executive Directors' share interests met the Company's shareholding guidelines at 31 December 2019.




## 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 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | **2019** |
| Total remuneration[1,3,4] | £1,451,016 | £1,514,007 | £1,189,287 | £961,350 | £797,568 | £1,442,070 | £1,445,250 | £4,124,104 | £2,982,121 | **£2,953,278** |
| AIP (%)[2] | 69.6% | 65.3% | 40.2% | 21.0% | 0% | 47.0% | 47.5% | 97.0% | 69.06% | **96.25%** |
| PSP (%) | 18.4% | 0% | 0% | 0% | 0% | 0% | 0% | 88.6% | 64.17% | **60.92%** |

1 The figures for 2010 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 2018 has been adjusted from the total figure included in the 2018 Remuneration report to reflect the actual valuation on the 15 April 2019 vesting date of shares vesting under the PSP 2016.

4 The figures for 2017 and 2018 exclude the vesting of awards made under the recruitment terms for the Group Chief Executive. Full details of these were included in the 2018 Remuneration report.

## 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 2018 and 31 December 2019, 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.

| | 2018 | **2019** | % change |
|---|---|---|---|
| **Salary for year ended 31 December** | | | |
| Group Chief Executive (£000) | 800 | **800** | 0% |
| All UK employees (£m) | 657 | **615** | (6)% |
| **Benefits for year ended 31 December** | | | |
| Group Chief Executive (£000) | 181 | **181** | 0% |
| All UK employees (£m) | 37 | **39** | 5% |
| **Annual bonus earned in year ended 31 December** | | | |
| Group Chief Executive (£000) | 829 | **1,155** | 39% |
| All UK employees (£m) | 12 | **16** | 33% |
| **Total remuneration for year ended 31 December** | | | |
| Group Chief Executive (£000) | 1,810 | **2,136** | 18% |
| All UK employees (£m) | 706 | **670** | (5)% |

## Pay ratio of Group Chief Executive to average employee

The Regulations require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

The table below shows the relevant data for Balfour Beatty's UK employees for 2019, calculated using Option A as set out in the legislation.

| Year | Method of calculation adopted | 25th percentile pay ratio (Chief Executive: UK employees) | Median pay ratio (Chief Executive: UK employees) | 75th percentile pay ratio (Chief Executive: UK employees) |
|---|---|---|---|---|
| 2019 | Option A | 92:1 | 65:1 | 45:1 |

Pay details for the Group Chief Executive and individuals whose 2019 remuneration is at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

| Year | Group Chief Executive | 25th percentile | Median | 75th percentile |
|---|---|---|---|---|
| Salary | £800,000 | £25,975 | £35,056 | £48,427 |
| Total pay and benefits | £2,953,278 | £32,170 | £45,678 | £65,173 |

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to the full-time equivalent annualised remuneration (comprising salary, benefits, pension, annual bonus and long-term incentives) of all UK-based employees of the Group as at 31 December 2019 (i.e. 'Option A' under the Regulations). The Committee selected this calculation methodology as it was felt to produce the most statistically accurate result.

The Committee considers that the median pay ratio for 2019 that is disclosed in the above table is consistent with the pay, reward and progression policies for Balfour Beatty's UK employees taken as a whole. It reflects the fact that a greater proportion of executive Director pay is linked to annual performance through a higher annual bonus opportunity (a percentage of which is subject to deferral into shares).

## 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:

| | 2018 | **2019** | % change |
|---|---|---|---|
| Staff costs (£m)[1] | 1,113 | **1,150** | 3% |
| Dividends (£m) | 27 | **36** | 33% |
| Underlying pre-tax profit (£m) | 181 | **200** | 10% |

1 Staff costs include base salary, benefits and bonuses for all Group employees (excluding joint ventures and associates).

## Directors' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2019. 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 128.

The pension contribution level for executive Directors contrasts to the wider UK workforce who currently typically receive pension contributions of up to 7% of salary.

## External appointments of executive Directors

No executive Director held external appointments in 2019.

## 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:

- Anne Drinkwater (Committee Chair from 16 May 2019)
- Philip Aiken
- Michael Lucki
- Barbara Moorhouse
- Iain Ferguson (Committee Chair to his retirement on 16 May 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; and
- 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 review of the remuneration Policy;
- assistance with the drafting of the remuneration report;
- valuation of share-based payments for IFRS 2 purposes; and
- calculation of vesting levels under the TSR element of the PSP awards.

During 2019, fees charged by Aon for advice provided to the Committee for 2019 amounted to £142,572 (excluding VAT) (2018: £47,210). In addition, the only other services provided to the Group by Aon plc or its subsidiaries are for professional services supporting benefits administration including the UK healthcare trust.

## Statement of shareholder voting at the AGM

At the AGM on 16 May 2019, the resolution to approve the Remuneration report received the following votes from shareholders:

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 488,810,486 | 92.85% |
| Against | 37,630,213 | 7.15% |
| Total votes cast | 526,440,699 | 100% |
| Abstentions | 1,257,192 | |

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

**Anne Drinkwater**
Chair of the Remuneration Committee

10 March 2020

# Directors' report

The Directors of Balfour Beatty plc present their report, together with the audited accounts for the year ended 31 December 2019.

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 2019.

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 85.

## Corporate governance

The Governance section on pages 86 to 137, including the Compliance with the Code statement on page 88, forms part of the Directors' report.

## Directors and their interests

The Directors who served during the year and were Directors at 31 December 2019 were Philip Aiken, Leo Quinn, Philip Harrison, Stephen Billingham, Anne Drinkwater, Stuart Doughty, Barbara Moorhouse and Michael Lucki. Iain Ferguson retired from the Board on 16 May 2019. Further details and individual biographies for current Directors are set out on pages 90 and 91

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 134. In the period between 31 December 2019 and the date of this report there has been no change in the interests of Directors, or their connected persons, save for the purchase by Anne Drinkwater of 4,500 ordinary shares on 22 January 2020 and the increase of 109 ordinary shares held in the Share Incentive Plan for Leo Quinn.

At no time during 2019 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 Group 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 2019 and as at the date of this report for the benefit of certain employees who are 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 2019 for the benefit of the trustee directors of the Balfour Beatty Pension Fund.

## 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 for under UK company law.

## Share capital

Details of the share capital of the Company as at 31 December 2019, including the rights attaching to each class of shares, are set out in Note 31 on page 200. During the year ended 31 December 2019, no ordinary or preference shares were issued or repurchased for cancellation.

At 31 December 2019, the Directors had authority under shareholder resolutions approved at the Annual General Meeting (AGM) and at the Class Meeting of preference shareholders held in May 2019 to purchase through the market 689,739,619 ordinary shares and 111,839,795 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 2020 AGM or on 30 June 2020 (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 32.3 on page 203. All shares purchased were ordinary 50 pence shares. The percentage of called-up share capital represented by the shares purchased in 2019 was 0.1%.

## 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 2019 and as at the date of this report:

| | Percentage of voting rights (%) as at 31 December 2019 | Percentage of voting rights (%) as at 10 March 2020 |
|---|---|---|
| Causeway Capital Management LLC | 9.35 | 8.97 |
| M&G Investment Management | 6.22 | 6.22 |
| BlackRock Inc | below 5% | below 5% |
| Invesco Limited | 4.21 | 4.21 |
| Close Asset Management Limited | 16.34 | 16.34 |
| Janus Henderson Group plc | below 5% | below 5% |
| Tameside MBC re Greater Manchester Pension Fund | 3.99 | 3.99 |
| Newton Investment Management Ltd | 4.55 | 4.55 |
| Schroders plc | below 5% | below 5% |
| Henderson Group plc | 6.96 | 6.96 |

## Dividends
An interim dividend of 2.1 pence per ordinary share was approved by the Board on 13 August 2019 and a final dividend of 4.3 pence per ordinary share will be recommended at the 2020 AGM, giving total dividends per ordinary share of 6.4 pence for 2019 (2018: 4.8 pence). Preference dividends totalling 10.75 pence per preference share were paid in 2019 (2018: 10.75 pence). 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 reappointment will be proposed at the 2020 AGM.

## Innovation, future development and research and development
Information concerning innovation, future development and research and development is set out on pages 18 to 21, and forms part of the Directors' report disclosures.

## Sustainability
A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 48 to 58.

## Policies
The Group's published policies on health and safety, sustainability, sustainable procurement, modern slavery, social value, environment, business conduct, supply chain PR and marketing, quality, information security and ethics remain in place and can be accessed on its website https://www.balfourbeatty.com/how-we-work.

## 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 52 and 53 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; and
- 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 pages 44 and 45 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.

Further information on how Directors have engaged with employees and how they have had regard to employee interests can be found on page 96.

## Stakeholders
Details of how Directors have engaged with stakeholders, including employees and how the Directors have had regard to their interests can be found on page 97.

## Events after the reporting date
As at 10 March 2020, there were no material post balance sheet events arising after the reporting date.

## Political donations
At the AGM held in May 2019, 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 2020 AGM.

In the US, corporate political contributions totalling US$5,000 (£3,900) were made by business units during 2019 (2018: US$203,000 (£152,300)). The higher amount of donations made in 2018 was 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. This will be a recurring trend during election years.

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 Code of Conduct.

## Capitalised interest
Details of the Group's capitalised interest can be found in Notes 15 and 18 on pages 177 and 179 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 40 on pages 210 to 214.

## Change of control provisions

The Group's bank facility agreement contains provisions that, on 30 days' notice being given to the Group, the lenders may exercise their 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.

## Annual General Meeting and Class Meeting of Preference Shareholders

All resolutions continue to be put to a poll rather than a show of hands. 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.

The 2020 AGM will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD on Thursday 14 May 2020 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.

## 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 on page 138, the Directors are Philip Aiken, Leo Quinn, Philip Harrison, Stephen Billingham, Anne Drinkwater, Stuart Doughty, Barbara Moorhouse and Michael Lucki.

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; and
- 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; and
- 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 109 to 113 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 Group'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

**David Mercer**
Interim Group General Counsel and Company Secretary

10 March 2020

Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU Registered in England and Wales, registered number 395826

## 1 Our opinion is unmodified

We have audited the financial statements of Balfour Beatty plc ("the Company") for the year ended 31 December 2019 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group and Company Balance Sheets, Group Statement of Cash Flows, and the related notes, including the accounting policies in Note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 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 United Kingdom (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 (2018: £10.0m)<br>5.2% (2018: 5.8%) of normalised Group profit before tax from continuing operations | |
| Coverage | Group profit before tax:<br>› Full scope audits 79% (2018: 87%)<br>› Specified risk-focused audit procedures 19% (2018: 13%)<br>› Out of scope 2% (2018: nil) | |
| Risk of material misstatement | | vs 2018 |
| Recurring risks | The impact of uncertainties due to the UK exiting the European Union on our audit | ◄► |
| | Contract accounting | ◄► |
| | Goodwill impairment – Gas and Water cash-generating unit (CGU) | ▼ |
| | Going concern assessment | ◄► |
| | Recoverability of the parent Company's investment in subsidiaries | ◄► |
| New risks | Contingent liabilities related to the United States (US) Military Housing investigation | ▲ |

### 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 Company's shareholders on 19 May 2016. The period of total uninterrupted engagement is for the four financial years ended 31 December 2019. 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.

Our identification of key audit matters remain unchanged from 2018 with the following exceptions: We have reassessed the key audit matter relating to recoverability of goodwill following a reassessment of the risk which considered our cumulative knowledge of the estimates involved in the impairment assessment and the 2019 business performance and outlook. Following this assessment we have refined the risk to only cover the recoverability of goodwill related to the Gas and Water cash-generating unit (CGU). We have included a new key audit matter in relation to the US Military Housing allegations.

## 2 Key audit matters: including our assessment of risks of material misstatement continued

| The risk | Our response |
|---|---|

**The impact of uncertainties due to the UK exiting the European Union on our audit** — Risk vs 2018: ◄►

Refer to page 77-84 (principal risks), page 85 (viability statement)

**The risk**

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in recoverability of the parent Company's investment in subsidiaries 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 its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.

**Our response**

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 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-related 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 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 the parent Company's investment in subsidiaries, we found the resulting estimates and related disclosures of recoverability 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 the UK exiting the European Union.

## 2 Key audit matters: including our assessment of risks of material misstatement continued

| The risk | Our response |
|---|---|

### Contract accounting

Group revenue £6,941m (2018: £6,290m), contract assets £377m (2018: £363m),
contract liabilities £471m (2018: £491m), contract provisions £224m (2018: £236m)

Risk vs 2018: ◄►

Refer to pages 109-113 (Audit and Risk Committee report), Note 2.4 (Principal accounting policies – Revenue recognition), Note 2.27(a) (Judgements and key sources of estimation uncertainty - Revenue and margin recognition), Note 4 (Revenue) and Note 26 (Provisions)

**The risk**

**Subjective estimates**

For the majority of its contracts, the Group recognises revenue over time and measures the progress based on the input method by considering 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 rely on estimates in relation to the forecast total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and amounts are re-estimated, until the outcome of the contract is known.

The revenue on contracts may also include variations and claims, which fall under either the variable consideration or contract modification requirements of IFRS 15 Revenue from Contracts with Customers. These are recognised on a contract-by-contract basis when evidence supports that the contract modification is enforceable or when variable consideration 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 Group 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.

**Our response**

Using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the detailed project review papers from the Group to support the estimates made and challenged the judgements underlying those papers with senior operational, legal, commercial and financial management. Our procedures included:

- **Historical comparisons:** evaluating the financial performance of contracts against budget and historical trends;
- **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 the Group's external insurance lawyers on the prospects of recovery;
- **Test of detail:** analysing the end of job forecasts on contracts selected 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;
- **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 on site for individual projects and identifying areas of complexity through observation and discussion with site personnel;
- **KPMG specialists:** for a sample of contracts we utilised KPMG Major Project specialists to review the risks and opportunities associated with the contract and develop a range of possible contract out-turns;
- **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 consider the amount of revenue, contract assets, contract liabilities, contract provisions and associated profits recognised to be acceptable.

## 2 Key audit matters: including our assessment of risks of material misstatement continued

The risk | Our response

### Contingent liabilities related to the US Military Housing investigation

New risk: ▲

Refer to pages 109-113 (Audit and Risk Committee report), Note 37 (Contingent liabilities)

**Assessing transparency**

The Group engaged external legal counsel to conduct an investigation into potential fraudulent falsification of maintenance records at certain military housing bases in the US leading to an increase in incentive fees recognised over the period of 2014 to 2018. In addition, the Department of Justice has initiated a review into this matter.

The investigation is still ongoing as well as the communications with the US authorities and military.

If instances of fraudulent activity are found this may result in possible fines and/or repayment of historical incentive fees.

The effect of these matters is that, as part of our risk assessment, we determined that the estimation of liabilities arising out of the military housing investigation and related contingent liability disclosures have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Group financial statements as a whole, and possibly many times that amount. The financial statements (Note 37) discloses the nature and extent of the judgement made by the Group.

Our procedures included:

- **Enquiry of lawyers:** speaking to the external lawyers conducting the investigation, as well as the forensic accountants supporting the lawyers, to obtain their views on the status of the investigation and results of their work to date;
- **Enquiry of finance and management:** making inquiries of the Board and the Audit and Risk Committee to understand their assessment of the Group's compliance with relevant laws and regulations in respect of military housing contracts. We met with management including the Group Risk and Audit Director, General Counsel and legal function to assess the status of the ongoing investigation, and the possibility of fines or penalties;
- **KPMG specialists:** utilising KPMG forensic specialists to review and challenge the work plan of the external lawyers and forensic accountants conducting the investigation; and
- **Assessing transparency:** considering the adequacy of the disclosures in respect of the contingent liabilities.

**Our findings:**
We consider the disclosure of contingent liabilities arising out of the US Military Housing investigation to be acceptable.

### Goodwill impairment – Gas and Water cash-generating unit (CGU)

**Carrying amount of Gas & Water goodwill: £nil (2018: £58m)**

Risk vs 2018: ▼

Refer to page 109-113 (Audit and Risk Committee report), Note 2.12 (Principal accounting policies – Goodwill), Note 2.27(d) (Judgements and key sources of estimation uncertainty - Impairment of goodwill) and Note 14 (Goodwill)

**Subjective estimate**

At 31 December 2018 the Group had a carrying amount for goodwill of £58m relating to the Gas & Water cash-generating unit (CGU). This CGU has experienced low levels of profitability and contract write-downs. As a result, the Group announced that they would not be retendering for one major contract.

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 ("value-in-use"). This is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts.

The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

At 31 December 2019, the Group recognised an impairment of £58m to the CGU which reduces the carrying amount of its goodwill to £nil. The financial statements (Note 14 and Note 2.27(d)) disclose the nature and extent of the estimates and judgements made by the Group.

The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value-in-use of this CGU had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Group financial statements as a whole, and possibly many times that amount. As a result of the goodwill impairment, we reassessed the degree of estimation uncertainty to be less than that materiality.

Our procedures included:

- **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;
- **Sensitivity analysis:** performing our own sensitivity analysis, including a reasonably possible change in future plans impacting future cash flows; and
- **Assessing transparency:** evaluating the adequacy of the Group's disclosures in respect of the goodwill impairment.

**Our findings:**
We consider the impairment of the carrying amount of goodwill in relation to the Gas & Water CGU to be acceptable.

## 2 Key audit matters: including our assessment of risks of material misstatement continued

| The risk | Our response |
|---|---|
| **Going concern assessment** | Risk vs 2018: ◄► |
| Refer to pages 109-113 (Audit and Risk Committee report) and Note 1 (Basis of accounting) | |
| **Disclosure quality**<br><br>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.<br><br>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.<br><br>The risks most likely to adversely affect the Group's and Company's available financial resources over this period were the impact of Brexit and COVID-19 in relation to:<br><br>› the Group's supply chain, including availability of labour and possible cost inflation; and<br><br>› a reduction of demand in the Buildings market reducing future revenue and increasing competition pressurising margins.<br><br>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.<br><br>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:<br><br>› **Assessment of cash flow model:** assessing the Group's cash flow model to identify key inputs for further enquiry. 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;<br><br>› **Historical comparisons:** evaluating historical forecasting accuracy of key inputs including revenue and operating margins;<br><br>› **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<br><br>› **Assessing transparency:** evaluating the adequacy of the Group's disclosures in respect of going concern.<br><br>**Our findings:**<br>We found the disclosures included in Note 1 made by the Directors' to be acceptable. |
| **Recoverability of the parent Company's investment in subsidiaries** | |
| **Investment in subsidiaries £1,714m (2018: £1,706m)** | Risk vs 2018: ◄► |
| Refer to Note 20.2 (Investments) | |
| **Low risk, high value**<br><br>The carrying amount of the parent Company's investment in subsidiaries represents 48% of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.<br><br>Our risk relates to the parent Company's investment in Balfour Beatty Investment Holdings Limited. | Our procedures included:<br><br>› **Tests of detail:** comparing the carrying amount of a sample of the highest value investments, representing 100% (2018: 100%) of the total investment balance with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount;<br><br>› **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;<br><br>› **Comparing valuations:** comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows;<br><br>› **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;<br><br>› **Benchmarking assumptions:** challenging the assumptions used by the Group in the calculation of the discount rates, including comparisons with external data sources; and<br><br>› **Assessing transparency:** considering the adequacy of the parent Company's disclosures in respect of the investment in subsidiaries.<br><br>**Our findings:**<br>We consider the carrying amount of the parent Company's investment in subsidiaries to be acceptable. |

## 3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £10.0m (2018: £10.0m), determined with reference to a benchmark of Group profit before tax from continuing operations of £138m (2018: £123m) normalised to exclude non-underlying items in the year as disclosed in Note 10, with the exception of the charge relating to the amortisation of acquired intangible assets. Our materiality represents 5.2% (2018: 5.8%) of normalised Group profit before tax of £194m (2018: £173m). 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 0.1% and total assets, of which it represents 0.2%, where they provide more consistent measures year on year than Group profit before tax.

We agreed to report to the Audit and Risk Committee any corrected and uncorrected identified misstatements exceeding £0.5m (2018: £0.5m) 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 £9.0m (2018: £9.0m), determined with reference to a benchmark of Company total assets, of which it represents 0.2% (2018: 0.2%).

Of the Group's 14 reporting components (2018: 16), 9 were subject to an audit for Group reporting purposes (2018: 9) and 5 (2018: 7) 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, contracts asset and liabilities and any contract provisions. For one component procedures were performed over lease accounting and for another, procedures were performed over inventory. The components within the scope of our work accounted for 98% (2018: 100%) of Group revenue, 98% (2018: 100%) of Group profit before tax and 98% (2018: 100%) of Group total assets as illustrated above.

The Group operates one shared service centre in Newcastle, UK, the outputs of which are included in the financial information of the reporting components it services. Therefore it is not a separate reporting component. The service centre is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at each reporting component to address the audit risks not covered by the work performed over the shared service centre.

The Group audit team instructed components, and the auditors of the shared service centre, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team set the component materialities, which ranged from £0.5m to £9.0m, having regard to the mix of size and profile of the Group across the components. The work on 13 of the Group's 14 components was performed by the component auditors. Specified risk-focused procedures on 1 component, 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 2019, the Group audit team visited 9 components in the UK, the US and Hong Kong (2018: 10 components). Telephone conference meetings were held with all components. At these visits and meetings, the findings reported to the Group audit team were discussed in detail.

### Scoping and coverage

**GROUP REVENUE**


- Full scope audit 88% (2018: 85%)
- Specified risk-focused procedures 10% (2018: 15%)
- Out of scope 2% (2018: nil)

**GROUP PROFIT BEFORE TAX**


- Full scope audit 79% (2018: 87%)
- Specified risk-focused procedures 19% (2018: 13%)
- Out of scope 2% (2018: nil)

**GROUP TOTAL ASSETS**


- Full scope audit 83% (2018: 88%)
- Specified risk-focused procedures 15% (2018: 12%)
- Out of scope 2% (2018: nil)

## 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 71 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

## 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 emerging and 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 85 that they have carried out a robust assessment of the emerging and 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 judgments 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 and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 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 140, 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 became aware of 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, with the exception of US Military Housing allegations described in section 2 of this report.

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

10 March 2020

# GROUP INCOME STATEMENT

For the year ended 31 December 2019

| | Notes | 2019 Underlying items[1] £m | 2019 Non-underlying items (Note 10) £m | 2019 Total £m | 2018# Underlying items[1] £m | 2018# Non-underlying items (Note 10) £m | 2018# Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue including share of joint ventures and associates** | | **8,405** | **6** | **8,411** | 7,802 | 12 | 7,814 |
| Share of revenue of joint ventures and associates | 19.2 | **(1,093)** | **(5)** | **(1,098)** | (1,171) | (9) | (1,180) |
| **Group revenue** | 4 | **7,312** | **1** | **7,313** | 6,631 | 3 | 6,634 |
| Cost of sales | | **(6,930)** | **(1)** | **(6,931)** | (6,250) | (13) | (6,263) |
| **Gross profit/(loss)** | | **382** | **–** | **382** | 381 | (10) | 371 |
| Gain on disposals of interests in investments | 34.2/34.3 | **40** | **–** | **40** | 80 | – | 80 |
| Amortisation of acquired intangible assets | 15 | **–** | **(6)** | **(6)** | – | (8) | (8) |
| Other net operating expenses | | **(267)** | **(56)** | **(323)** | (284) | (35) | (319) |
| **Group operating profit/(loss)** | | **155** | **(62)** | **93** | 177 | (53) | 124 |
| Share of results of joint ventures and associates excluding gain on disposals of interests in investments | | **37** | **–** | **37** | 26 | (5) | 21 |
| Gain on disposals of interests in investments | 34.2 | **29** | **–** | **29** | 2 | – | 2 |
| Share of results of joint ventures and associates | 19.2 | **66** | **–** | **66** | 28 | (5) | 23 |
| **Profit/(loss) from operations** | 6 | **221** | **(62)** | **159** | 205 | (58) | 147 |
| Investment income | 8 | **34** | **–** | **34** | 35 | – | 35 |
| Finance costs | 9 | **(55)** | **–** | **(55)** | (59) | – | (59) |
| **Profit/(loss) before taxation** | | **200** | **(62)** | **138** | 181 | (58) | 123 |
| Taxation | 11 | **(14)** | **9** | **(5)** | (2) | 14 | 12 |
| **Profit/(loss) for the year** | | **186** | **(53)** | **133** | 179 | (44) | 135 |
| **Attributable to** | | | | | | | |
| Equity holders | | **183** | **(53)** | **130** | 179 | (44) | 135 |
| Non-controlling interests | | **3** | **–** | **3** | – | – | – |
| **Profit/(loss) for the year** | | **186** | **(53)** | **133** | 179 | (44) | 135 |

1 Before non-underlying items (Notes 2.10 and 10).

\# Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

| | Notes | 2019 Pence | 2018 Pence |
|---|---|---|---|
| **Earnings per ordinary share** | | | |
| – basic | 12 | **19.0** | 19.7 |
| – diluted | 12 | **18.8** | 19.5 |
| **Dividends per ordinary share proposed for the year** | 13 | **6.4** | 4.8 |

## Commentary on the Group Income Statement*

Total profit before taxation for 2019 was £138m (2018: £123m), which is inclusive of a non-underlying loss of £62m (2018: £58m). The total profit after tax was £133m (2018: £135m).

### 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 either year.

### Revenue

Revenue from operations including non-underlying items and the Group's share of joint ventures and associates increased by 8% to £8,411m from £7,814m in 2018. This reflects higher volume in the Construction Services segment driven by the Group's activities in the UK and US. This increase is slightly offset by a decrease in revenue in Support Services as expected following lower volumes in the power transmission and distribution business and the conclusion of the Area 10 highways maintenance contract.

### Gain on disposals of interest in investments

The Group continued its programme of realising accumulated value in the Investments portfolio and generated income by disposing of several infrastructure concession assets in the year resulting in a total underlying gain on disposals of £69m (2018: £82m), of which £29m (2018: £2m) is included within the Group's share of results from joint venture and associates.

Disposals in the year were: Borden Data Centre asset (£3m gain); 50% interest in THP Partnership (North Island Hospitals) (£7m gain); 50% interest in Gammon (West) Holdings Pte. Ltd (£9m gain); 100% interest in BBCS-Hawkeye Housing LLC (Iowa) (£16m gain); student accommodation asset in Reno (£7m gain); and five multifamily housing projects (Ranch at Pinnacle Point, Dallas 5 Portfolio, Mobile Alabama portfolio, Evergreen portfolio and Townlake of Coppell) (£24m gain).

These gains on disposals are recorded after recycling gains of £4m from reserves to the income statement.

### Share of results of joint ventures and associates

Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

The Group's underlying profit generated from its share of joint ventures and associates increased from the prior year primarily due to gains achieved from the sale of infrastructure concession assets held within the Group's joint ventures in 2019.

### Underlying profit from operations

Underlying profit from operations increased to £221m from £205m on in 2018. This increase is primarily driven by continued improvement in Construction Services from a profit of £95m in 2018 to £125m in 2019 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. The Group also continues to work towards more efficient processes which contribute to reducing its overheads.

This increase in underlying profit in Construction Services was partially offset by a reduction in the gain on disposals within the Infrastructure Investments segment.

### Non-underlying loss from operations

Following the Group's decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts within this CGU, the Group has reassessed the long-term outlook for its Gas & Water CGU. This assessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58m (2018: £nil). This charge has been treated as a non-underlying item. Refer to Notes 10.2.1 and 14.

Other non-underlying items include the amortisation of acquired intangible assets of £6m (2018: £8m) and a release of a provision amounting to £2m (2018: £13m) previously held for health and safety claims that were settled in the year.

### Net finance costs

Net finance costs of £21m in the year represents a decrease from £24m in 2018. The decrease is primarily driven by a saving of £9m of finance cost relating to convertible bonds which the Group fully repaid in 2018. This saving is partially offset by the £6m interest cost on lease liabilities recognised this year as part of the Group's adoption of the new leasing standard, IFRS 16, at 1 January 2019. This cost would have previously been recognised within cost of sales or overheads. Refer to Note 2.1.

### Taxation

The Group's underlying profit before tax from subsidiaries of £134m (2018: £153m) resulted in an underlying tax charge of £14m (2018: £2m). This includes the benefit of the recognition of additional UK tax losses driven by improving UK market conditions following the approval of HS2.

### Earnings per share

Basic earnings per share were 19.0p (2018: 19.7p). Underlying basic earnings per share were 26.7p (2018: 26.3p).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 67 to 71.

## GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | 2019 Group £m | 2019 Share of joint ventures and associates £m | 2019 Total £m | 2018 Group £m | 2018 Share of joint ventures and associates £m | 2018 Total £m |
|---|---|---|---|---|---|---|---|
| **Profit for the year** | | **67** | **66** | **133** | 112 | 23 | 135 |
| **Other comprehensive income for the year** | | | | | | | |
| Items which will not subsequently be reclassified to the income statement | | | | | | | |
| Actuarial gains/(losses) on retirement benefit liabilities | 32.1 | **43** | **2** | **45** | 22 | (1) | 21 |
| Tax on above | 32.1 | **(8)** | **(1)** | **(9)** | – | – | – |
| | | **35** | **1** | **36** | 22 | (1) | 21 |
| Items which will subsequently be reclassified to the income statement | | | | | | | |
| Currency translation differences | 32.1 | **(12)** | **(7)** | **(19)** | 18 | 7 | 25 |
| Fair value revaluations – PPP financial assets | 32.1 | **3** | **24** | **27** | (4) | 9 | 5 |
| – cash flow hedges | 32.1 | **(4)** | **2** | **(2)** | 3 | 15 | 18 |
| – investments in mutual funds measured at fair value through OCI | 32.1 | **2** | **–** | **2** | (1) | – | (1) |
| Recycling of revaluation reserves to the income statement on disposal^ | 34.2/34.3 | **(2)** | **(2)** | **(4)** | – | (5) | (5) |
| Tax on above | 32.1 | **–** | **(5)** | **(5)** | – | (3) | (3) |
| | | **(13)** | **12** | **(1)** | 16 | 23 | 39 |
| **Total other comprehensive income for the year** | | **22** | **13** | **35** | 38 | 22 | 60 |
| **Total comprehensive income for the year** | 32.1 | **89** | **79** | **168** | 150 | 45 | 195 |
| **Attributable to** | | | | | | | |
| Equity holders | | | | **165** | | | 195 |
| Non-controlling interests | | | | **3** | | | – |
| **Total comprehensive income for the year** | 32.1 | | | **168** | | | 195 |

^ 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 2019 was £168m comprising a total profit after tax of £133m and other comprehensive income after tax of £35m.

### Background

The Group Statement of Comprehensive Income is presented on a total Group basis. 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 £45m in 2019 compared to gains of £21m in 2018. Refer to Note 30.

### 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 have decreased resulting in a fair value gain including joint ventures and associates of £27m being taken through OCI (2018: £5m).

#### Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements. The fair value of derivatives changes in response to prevailing market conditions. During the year, LIBOR decreased resulting in a fair value loss on the interest rate swaps including joint ventures and associates of £2m being recognised in OCI (2018: £18m 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 concession assets in 2019, £4m of profit (including joint ventures and associates) was recycled to the income statement through OCI and included in the gain on disposal (2018: £5m).

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 67 to 71.

## GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Notes | Called-up share capital £m | Share premium account £m | Special reserve £m | Share of joint ventures' and associates' reserves (Note 19.6) £m | Other reserves (Note 32.1) £m | Retained profits £m | Non-controlling interests £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | | 345 | 65 | 22 | 113 | 175 | 339 | 10 | 1,069 |
| Total comprehensive income for the year | 32.1 | – | – | – | 45 | 16 | 134 | – | 195 |
| Ordinary dividends | 13 | – | – | – | – | – | (27) | – | (27) |
| Joint ventures' and associates' dividends | 19.1 | – | – | – | (76) | – | 76 | – | – |
| Movements relating to share-based payments | | – | – | – | – | 4 | – | – | 4 |
| Transfers | | – | – | – | – | (9) | 9 | – | – |
| Reserve transfers relating to joint venture and associate disposals | 19.6 | – | – | – | (19) | – | 19 | – | – |
| Convertible bonds repurchase | | – | – | – | – | (24) | 24 | – | – |
| At 31 December 2018 | | 345 | 65 | 22 | 63 | 162 | 574 | 10 | 1,241 |
| Adjustment as a result of transitioning to IFRIC 23 on 1 January 2019[3] | | **–** | **–** | **–** | **–** | **–** | **1** | **–** | **1** |
| Adjusted equity at 1 January 2019 | | **345** | **65** | **22** | **63** | **162** | **575** | **10** | **1,242** |
| Total comprehensive income/(loss) for the year | 32.1 | **–** | **–** | **–** | **79** | **(13)** | **99** | **3** | **168** |
| Ordinary dividends | 13 | **–** | **–** | **–** | **–** | **–** | **(36)** | **–** | **(36)** |
| Non-controlling interest's dividends | | **–** | **–** | **–** | **–** | **–** | **–** | **(4)** | **(4)** |
| Joint ventures' and associates' dividends | 19.1 | **–** | **–** | **–** | **(95)** | **–** | **95** | **–** | **–** |
| Movements relating to share-based payments | | **–** | **–** | **–** | **–** | **(7)** | **14** | **–** | **7** |
| Reserve transfers relating to joint venture and associate disposals | 19.6 | **–** | **–** | **–** | **(1)** | **–** | **1** | **–** | **–** |
| **At 31 December 2019** | | **345** | **65** | **22** | **46** | **142** | **748** | **9** | **1,377** |

3 The Group adopted IFRIC 23 Uncertainty over Tax Treatments on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 2.1).

### Commentary on Group Statement of Changes in Equity*

Total equity of £1,377m at 31 December 2019 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 2.1p in August 2019 which was paid in December 2019, the Board is recommending a final dividend of 4.3p, giving total dividends for the year of 6.4p (2018: 4.8p).

#### Joint ventures' and associates' dividends

Dividends of £95m (2018: £76m) 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 (2018: £18m); hedging reserves £(29)m (2018: £(25)m); PPP financial assets revaluation reserve £27m (2018: £24m); currency translation reserve £109m (2018: £123m); and other reserves £17m (2018: £22m).

#### Other reserve transfers relating to joint venture and associate disposals

On disposal of JVAs, retained profits relating to these businesses are transferred from JVA reserves to Group retained profits.

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Notes | Called-up share capital £m | Share premium account £m | Special reserve £m | Other reserves (Note 32.2) £m | Retained profits £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 1 January 2018 | | 345 | 65 | 22 | 122 | 524 | 1,078 |
| Total comprehensive income for the year | 32.2 | – | – | – | – | 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 |
| Total comprehensive loss for the year | 32.2 | **–** | **–** | **–** | **–** | **(27)** | **(27)** |
| Ordinary dividends | 13 | **–** | **–** | **–** | **–** | **(36)** | **(36)** |
| Movements relating to share-based payments | | **–** | **–** | **–** | **8** | **(1)** | **7** |
| **At 31 December 2019** | | **345** | **65** | **22** | **113** | **809** | **1,354** |

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 67 to 71.

# BALANCE SHEETS

At 31 December 2019



| | Notes | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets – goodwill | 14 | **828** | 903 | **–** | – |
| – other | 15 | **300** | 258 | **–** | – |
| Property, plant and equipment | 16 | **91** | 168 | **–** | – |
| Right-of-use assets[2] | 17 | **113** | – | **–** | – |
| Investment properties | 18 | **32** | 33 | **–** | – |
| Investments in joint ventures and associates | 19 | **550** | 524 | **–** | – |
| Investments | 20 | **27** | 30 | **1,714** | 1,706 |
| PPP financial assets | 21 | **155** | 156 | **–** | – |
| Trade and other receivables | 24 | **207** | 212 | **3** | 1 |
| Retirement benefit assets | 30 | **249** | 171 | **–** | – |
| Deferred tax assets | 29 | **92** | 80 | **–** | – |
| | | **2,644** | 2,535 | **1,717** | 1,707 |
| **Current assets** | | | | | |
| Inventories | 22 | **101** | 84 | **–** | – |
| Contract assets | 23 | **377** | 363 | **–** | – |
| Trade and other receivables | 24 | **939** | 902 | **1,548** | 2,083 |
| Cash and cash equivalents – infrastructure investments | 27 | **35** | 70 | **–** | – |
| – other | 27 | **743** | 591 | **288** | 134 |
| Current tax receivable | | **2** | 5 | **3** | 5 |
| Derivative financial instruments | 40 | **–** | 1 | **–** | – |
| | | **2,197** | 2,016 | **1,839** | 2,222 |
| Assets held for sale | | **–** | 16 | **–** | – |
| | | **2,197** | 2,032 | **1,839** | 2,222 |
| **Total assets** | | **4,841** | 4,567 | **3,556** | 3,929 |
| **Current liabilities** | | | | | |
| Contract liabilities | 23 | **(469)** | (489) | **–** | – |
| Trade and other payables | 25 | **(1,520)** | (1,373) | **(1,858)** | (2,170) |
| Provisions | 26 | **(153)** | (167) | **–** | – |
| Borrowings – non-recourse loans | 27 | **(4)** | (48) | **–** | – |
| – other | 27 | **(35)** | (15) | **(35)** | – |
| Liability component of preference shares | 31 | **(110)** | – | **(110)** | – |
| Lease liabilities[2] | 28 | **(42)** | – | **–** | – |
| Current tax payable | | **(16)** | (17) | **–** | – |
| Derivative financial instruments | 40 | **(4)** | (4) | **–** | – |
| | | **(2,353)** | (2,113) | **(2,003)** | (2,170) |
| Liabilities held for sale | | **–** | (11) | **–** | – |
| | | **(2,353)** | (2,124) | **(2,003)** | (2,170) |
| **Non-current liabilities** | | | | | |
| Contract liabilities | 23 | **(2)** | (2) | **–** | – |
| Trade and other payables | 25 | **(108)** | (143) | **(3)** | (4) |
| Provisions | 26 | **(142)** | (149) | **–** | – |
| Borrowings – non-recourse loans | 27 | **(333)** | (331) | **–** | – |
| – other | 27 | **(196)** | (239) | **(196)** | (239) |
| Lease liabilities[2] | 28 | **(78)** | – | **–** | – |
| Liability component of preference shares | 31 | **–** | (106) | **–** | (106) |
| Retirement benefit liabilities | 30 | **(116)** | (117) | **–** | – |
| Deferred tax liabilities | 29 | **(108)** | (90) | **–** | – |
| Derivative financial instruments | 40 | **(28)** | (25) | **–** | – |
| | | **(1,111)** | (1,202) | **(199)** | (349) |
| **Total liabilities** | | **(3,464)** | (3,326) | **(2,202)** | (2,519) |
| **Net assets** | | **1,377** | 1,241 | **1,354** | 1,410 |
| **Equity** | | | | | |
| Called-up share capital | 31 | **345** | 345 | **345** | 345 |
| Share premium account | 32 | **65** | 65 | **65** | 65 |
| Special reserve | 32 | **22** | 22 | **22** | 22 |
| Share of joint ventures' and associates' reserves | 32 | **46** | 63 | **–** | – |
| Other reserves | 32 | **142** | 162 | **113** | 105 |
| Retained profits | 32 | **748** | 574 | **809** | 873 |
| **Equity attributable to equity holders of the parent** | | **1,368** | 1,231 | **1,354** | 1,410 |
| Non-controlling interests | 32 | **9** | 10 | **–** | – |
| **Total equity** | | **1,377** | 1,241 | **1,354** | 1,410 |

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1, 17 and 28).

On behalf of the Board

**Leo Quinn**
Director

**Philip Harrison**
Director

10 March 2020

## Commentary on the Group Balance Sheet*

Total assets of £4.8bn were 6% more than last year. Total liabilities of £3.5bn increased by 4%, resulting in an overall increase in net assets of 11%. The increase is primarily driven by increased profits generated in the year of £133m.

### Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2019. 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 2019 decreased to £828m (2018: £903m). The decrease was due to the impairment recognised for the Gas & Water CGU. The Group has conducted impairment reviews on the rest of 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 increased to £550m in 2019 from £524m in 2018. The increase is primarily driven by equity and loans advanced into other joint venture interests by the Group of £59m, income recognised of £66m and fair value gains on PPP financial assets of £24m. This increase have been partially offset by dividends received from joint ventures and associates of £95m.

### Property, plant and equipment

Property, plant and equipment decreased in the year as a result of the Group's disposal of its interests in its Iowa and Reno student accommodation projects. These disposals resulted in gains of £23m and cash proceeds of £82m.

### Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 156.

### Borrowings

#### Borrowings excluding non-recourse loans

The Group has a committed facility for £375m. The purpose of this facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities.

The Group completed its refinancing in October 2019 with the new facility extending through to October 2022. Two one-year extension options through to October 2024 are available to the Group. These extensions are subject to lender approval. At 31 December 2019, this facility was undrawn.

#### Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain infrastructure concession projects.

At 31 December 2019, the Group's share of these non-recourse net borrowings amounted to £1,792m (2018: £1,955m), comprising £1,490m (2018: £1,646m) in relation to joint ventures and associates as disclosed in Note 19.2 and £302m (2018: £309m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 27.

### Right-of-use assets and lease liabilities

The Group adopted IFRS 16 Leases from 1 January 2019. As a result of adopting this standard, the Group's balance sheet includes right-of-use assets of £113m and corresponding lease liabilities of £120m at 31 December 2019.

### Retirement benefit assets and liabilities

The Group's balance sheet includes net retirement benefit assets of £133m (2018: £54m) 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 £33m of employer contributions and £43m of net actuarial gains.

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 2019, contract bonds in issue by financial institutions covered £4.4bn (2018: £3.9bn) of the contract commitments of the Group.

### Equity commitments

During 2019, the Group invested £64m (2018: £58m) 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 £61m from 2020 onwards, inclusive of £5m expected for projects at preferred bidder stage. £40m of this is expected to be invested in 2020, as disclosed in Note 41(f).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 67 to 71.

## GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 £m | 2018 £m |
|---|---|---|---|
| **Cash flows from/(used in) operating activities** | | | |
| Cash from/(used in) operations | 33.1 | **212** | (132) |
| Income taxes (paid)/received | | **(1)** | 2 |
| **Net cash from/(used in) operating activities** | | **211** | (130) |
| **Cash flows from investing activities** | | | |
| Dividends received from: | | | |
| – joint ventures and associates – infrastructure investments | 19.5 | **59** | 36 |
| – joint ventures and associates – other | 19.5 | **36** | 40 |
| Interest received – infrastructure investments – joint ventures | 19.5 | **5** | 7 |
| Interest received – infrastructure investments – subsidiaries | | **3** | 8 |
| Acquisition of businesses, net of cash and cash equivalents acquired | 34.1 | **(3)** | (3) |
| Purchases of: | | | |
| – intangible assets – infrastructure investments | 15 | **(58)** | (63) |
| – intangible assets – other | 15 | **(4)** | (3) |
| – property, plant and equipment | 16 | **(20)** | (38) |
| Return of equity from joint ventures and associates | 19.5 | **14** | – |
| Investments in and long-term loans to joint ventures and associates | 19.5 | **(58)** | (56) |
| PPP financial assets cash expenditure | 21 | **(3)** | (2) |
| PPP financial assets cash receipts | 21 | **16** | 14 |
| Disposals of: | | | |
| – investments in joint ventures – infrastructure investments | 19.5 | **24** | 160 |
| – investments in joint ventures – other | 19.5 | **1** | 4 |
| – subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments | 34.2.12/34.3.6 | **59** | 21 |
| – property, plant and equipment – infrastructure investments | 34.2.10 | **22** | – |
| – property, plant and equipment – other | | **7** | 7 |
| – net assets held for sale – infrastructure investments | 34.2.1 | **8** | – |
| – investment properties | | **–** | 7 |
| – other investments | 20 | **5** | 11 |
| **Net cash from investing activities** | | **113** | 150 |
| **Cash flows (used in)/from financing activities** | | | |
| Purchase of ordinary shares | 32.3 | **(2)** | (4) |
| Proceeds from other new loans relating to infrastructure investments assets | 33.3 | **6** | 4 |
| Repayments of: | | | |
| – loans – infrastructure investments | 33.3 | **(48)** | (6) |
| – loans – other | 33.3 | **(15)** | (33) |
| Repayment/repurchase of convertible bonds | 33.3 | **–** | (231) |
| Repayment of lease liabilities[2] | 28 | **(45)** | – |
| Ordinary dividends paid | 13 | **(36)** | (27) |
| Other dividends paid – non-controlling interest | | **(4)** | – |
| Interest paid – infrastructure investments | | **(13)** | (15) |
| Interest paid – other | | **(23)** | (25) |
| Preference dividends paid | | **(12)** | (12) |
| **Net cash used in financing activities** | | **(192)** | (349) |
| **Net increase/(decrease) in cash and cash equivalents** | | **132** | (329) |
| Effects of exchange rate changes | | **(15)** | 22 |
| Cash and cash equivalents at beginning of year | | **661** | 968 |
| **Cash and cash equivalents at end of year** | 33.2 | **778** | 661 |

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1, 17 and 28).

## Commentary on the Group Statement of Cash Flows*

Cash and cash equivalents increased by 18% during the year to £778m. The Group generated cash from operating activities in the year of £211m compared to cash used in operating activities of £130m in the prior year.

### Background

The Group Statement of Cash Flows shows the cash flows from operating, investing and financing activities during the year.

### Working capital

Working capital includes: inventories; 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, i.e. 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.

### Cash used in operations

Cash inflow from operations of £212m (2018: £132m outflow) comprised a profit from operations of £159m (2018: £147m) and a working capital inflow of £32m (2018: £229m) including the following significant adjustment items: share of results of joint ventures and associates £66m (2018: £23m); depreciation charges £74m (2018: £29m); pension payments including deficit funding £33m (2018: £30m); impairment of goodwill £58m (2018: £nil) and gain on disposal of investments in infrastructure investments £40m (2018: £80m).

### 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 disposals.

Working capital movements are disclosed in Note 33.1.

In 2019, the Group's working capital position resulted in an inflow of £32m (2018: £229m outflow). Trade and other payables increased during the year, creating a working capital inflow of £157m, which was partially offset by increases in trade and other receivables and net contract assets, creating working capital outflows of £56m and £30m, respectively. The primary driver of the large inflow from trade and other payables was the mobilisation of construction projects in the UK and US. Higher revenue in both these geographies also contributed to the increase which outweighed the improved supply chain payment processes made in the UK during the year.

### Cash flows from investing activities

The Group received dividends of £95m (2018: £76m) from joint ventures and associates during the year.

During the year, the Group incurred additional spend on intangible assets of £62m (2018: £66m), of which £58m related to the construction spend on the University of Sussex student accommodation (2018: £63m) and £4m (2018: £3m) related to software and other intangible assets.

The Group disposed of several infrastructure investment assets in the year resulting in total proceeds of £169m. The following assets were disposed in the year: Borden Data Centre asset (£6m); 50% interest in THP Partnership (North Island Hospital) (£17m); 50% interest in Gammon Capital (West) Holdings Pte Ltd (£25m); 100% interest in BBCS-Hawkeye Housing LLC (Iowa) (£59m); its student accommodation asset in Reno (£22m); and five of its multifamily housing projects (Ranch at Pinnacle Point, Dallas 5 Portfolio, Mobile Alabama portfolio, Evergreen portfolio and Townlake of Coppell) (£37m). The Group also received £2m of cash proceeds relating to earn-out consideration on its previous disposal of its 50% interest in Consort (Fife) Holdings Ltd.

Due to the various structures in which these assets were disposed in the year, the proceeds from disposals are recorded within these lines in the Group's Statement of Cash Flows: Dividends received from joint ventures and associates (£41m); Return of investments from joint ventures and associates (£14m); Disposal of investments in joint ventures–infrastructure investments (£24m); Disposal of subsidiaries net of cash disposed–infrastructure investments (£59m); Disposal of property, plant and equipment–infrastructure investments (£22m) and Disposal of net assets held for sale–infrastructure investment (£8m).

### Cash flows from financing activities

In 2019, the Group repaid non-recourse and recourse loans amounting to £48m and £15m respectively primarily relating to the disposal of its interests in BBCS-Hawkeye Housing LLC (Iowa) and its student accommodation asset in Reno.

The Group also successfully refinanced its revolving credit facilities, entering into a £375m agreement that extends to October 2022. Two one-year extension options through to October 2024 are available to the Group, subject to lenders' approval. As at 31 December 2019, the Group's revolving credit facility of £375m was undrawn.

Preference dividends of £12m (2018: £12m) were paid in the year.

Other interest payments amounted to £36m (2018: £40m) during the year, of which £13m (2018: £15m) related to infrastructure investments, £12m (2018: £12m) related to the US private placement, £6m (2018: £nil) related to the interest paid on lease liabilities and £5m (2018: £13m) related to other finance charges.

The Group has also recognised repayment of lease liabilities amounting to £45m in the year as a result of adopting IFRS 16, the new leasing standard, from 1 January 2019. These payments, including the interest paid on lease liabilities of £6m, were previously included as part of the Group's cash used in operations.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 67 to 71.

## 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 71.

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 2019.

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 Financial Reporting Standard (FRS) 100 issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2019 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 year ended 31 December 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to the following standards:
  - IAS 19 Plan Amendment, Curtailment or Settlement
  - IAS 28 Long-term Interests in Associates and Joint Ventures
  - IFRS 9 Prepayment Features with Negative Compensation
  - Improvements to IFRSs (2015–2017).

The new and amended standards do not have a material effect on the Group except as described below:

#### IFRS 16 Leases

From 1 January 2019 the Group has adopted IFRS 16 Leases which replaces IAS 17 Leases and eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single lessee accounting model. The Group has chosen to apply the retrospective cumulative effect approach which resulted in a £nil impact on its opening equity.

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 IAS 17.

The adoption of IFRS 16 has resulted in right-of-use (ROU) assets and corresponding lease liabilities amounting to approximately £121m and £129m respectively being brought onto the Group's balance sheet on 1 January 2019. 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 has been impacted. Lease charges which were accounted for as and when hire charges were incurred within cost of sales or operating expenses are 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 are reported within financing activities on the Group's cash flow statement rather than within cash from operations.

In 2019, the Group incurred depreciation costs on its ROU assets of £45m and interest costs on the corresponding lease liabilities of £6m. Total lease payments made for lease liabilities inclusive of interest paid amounted to £51m in the year.

#### IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 Uncertainty over Tax Treatments from 1 January 2019 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 2019 by a credit of £1m to reflect the impact of transitioning to IFRIC 23. This adjustment reflects the Group's reassessment of its tax provisions in relation to uncertain tax positions in line with the requirements of this interpretation.

#### 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 2019:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 and IAS 8 Definition of Material
  - IFRS 3 Business Combinations
  - IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
- References to the Conceptual Framework.

The Directors do not expect the standards above to have a material effect. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

## 2 Principal accounting policies continued

### 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.

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 Principal accounting policies continued

### 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

» dividend income in the Parent Company is recognised when the equity holder's right to receive payment is established.

### 2.5 Construction and services contracts

When the outcome of individual contracts can be estimated reliably, contract revenue is recognised by reference to the measure of progress at the reporting date using the input method. 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 there is an enforceable right to payment and 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 24 to 35.

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 the contract is 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 in the income statement 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 Investment income and finance costs

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.

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. Finance costs also include interest cost on the discount unwind of lease liabilities.

## 2 Principal accounting policies continued

### 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.

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

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 10.

### 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; and 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

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. In order to determine if the contract involves the use of an identified asset, the Group exercises judgement to assess if the supplier has a substantive substitution right over the asset. An asset is not identified if it has been determined that the supplier has substantive substitution rights.

## 2 Principal accounting policies continued

### 2.15 Leasing continued

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 to apply the practical expedient which allows the Group to use a single discount rate for a portfolio of leases with similar characteristics.

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 from 1 January 2019.

### 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, property, plant and equipment and right-of-use assets are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

### 2.17 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

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 and expected credit losses.

### 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 Principal accounting policies continued

### 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.

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 40.

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 Principal accounting policies continued

### 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 2019 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.

#### b) Taxation

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 29.

#### 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 £53m was charged (2018: £44m) to the income statement for the year ended 31 December 2019. 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.

In 2019, following the Group's decision to not rebid for gas contracts under RIIO-GD2, the Group has reassessed the long-term outlook for its Gas & Water CGU. This assessment has resulted in a full impairment of goodwill attributable to this CGU, amounting to an impairment charge of £58m (2018: £nil). This charge has been treated as a non-underlying item. Refer to Note 10.2.1.

The carrying value of goodwill at 31 December 2019 was £828m (2018: £903m). Refer to Note 14.

#### e) Financial assets measured at fair value through OCI

At 31 December 2019, £1,741m (2018: £1,898m) 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 1.7% to 9.4% (2018: 4.2% to 7.8%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. Refer to Note 40.

A £27m gain was taken to other comprehensive income in 2019 (2018: £5m gain) and a cumulative fair value gain of £301m had arisen on these financial assets as a result of market-related movements in the fair value of these financial assets at 31 December 2019 (2018: £274m 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 2019 of £295m (2018: £316m). Refer to Note 26.

#### g) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 30, including tables showing the sensitivity of the pension scheme obligations and assets to different actuarial assumptions.

At 31 December 2019, the net retirement benefit assets recognised on the Group's balance sheet were £133m (2018: £54m). 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 2019, the Group recognised net actuarial gains of £45m (2018: £21m) in OCI, including its share of the actuarial gains and losses arising in joint ventures and associates.

## 3 Exchange rates

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

### Average rates

| £1 buys | 2019 | 2018 | Change |
|---|---|---|---|
| US$ | **1.28** | 1.33 | (3.8)% |
| HK$ | **10.03** | 10.46 | (4.1)% |
| Euro | **1.14** | 1.13 | 0.9% |

### Closing rates

| £1 buys | 2019 | 2018 | Change |
|---|---|---|---|
| US$ | **1.32** | 1.27 | 3.9% |
| HK$ | **10.28** | 9.97 | 3.1% |
| Euro | **1.17** | 1.11 | 5.4% |

## 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.<br>The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price.<br>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<br>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.<br>Highways represent the Group's activities in constructing motorways in the UK, US and Hong Kong. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies.<br>Railway construction services primarily in the UK, US and Hong Kong 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.<br>Other infrastructure assets include construction, design and build services on large scale complex assets predominantly servicing the waste, water and energy sectors.<br>Contracts entered into relating to these infrastructure assets can take the form of fixed price, cost-plus 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 four to five years for large scale complex construction works.<br>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.<br>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 or are cost reimbursable and may include a pain/gain element.<br>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.<br>Contract terms range from 1 to 25 years. Where contracts include a lifecycle element, 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, student accommodation, biomass and waste and offshore transmission sectors. The Group accounts for these assets under IFRIC 12 Service Concession Arrangements.<br>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 a lifecycle element, this is considered to be a separate PO.<br>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.<br>**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.<br>**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.<br>**Revenue from this service is presented within Buildings in Note 4.2.** |

## 4 Revenue continued

### 4.2 Disaggregation of revenue

The Group presents a disaggregation of its underlying 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 underlying revenue is also presented according to the Group's reportable segments as described in Note 5.

For the year ended 31 December 2019

| 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 | 2,189 | 3,753 | 916 | 6,858 |
| | Group revenue | 2,189 | 3,738 | 23 | 5,950 |
| Support Services | Revenue including share of joint ventures and associates | 971 | – | 52 | 1,023 |
| | Group revenue | 971 | – | 20 | 991 |
| Infrastructure Investments | Revenue including share of joint ventures and associates | 193 | 314 | 17 | 524 |
| | Group revenue | 116 | 252 | 3 | 371 |
| **Total revenue** | **Revenue including share of joint ventures and associates** | 3,353 | 4,067 | 985 | 8,405 |
| | **Group revenue** | 3,276 | 3,990 | 46 | 7,312 |

| 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 | 4,427 | 1,886 | 541 | 4 | 6,858 |
| | Group revenue | 3,781 | 1,626 | 539 | 4 | 5,950 |
| Support Services | Revenue including share of joint ventures and associates | – | 463 | 551 | 9 | 1,023 |
| | Group revenue | – | 463 | 519 | 9 | 991 |
| Infrastructure Investments | Revenue including share of joint ventures and associates | 409+ | 89 | 23 | 3 | 524 |
| | Group revenue | 368+ | 2 | – | 1 | 371 |
| **Total revenue** | **Revenue including share of joint ventures and associates** | 4,836 | 2,438 | 1,115 | 16 | 8,405 |
| | **Group revenue** | 4,149 | 2,091 | 1,058 | 14 | 7,312 |

| Timing of revenue recognition | Construction Services £m | Support Services £m | Infrastructure Investments £m | Total £m |
|---|---|---|---|---|
| Over time | 6,848 | 1,020 | 503 | 8,371 |
| At a point in time | 10 | 3 | 21 | 34 |
| **Revenue including share of joint ventures and associates** | 6,858 | 1,023 | 524 | 8,405 |
| Over time | 5,940 | 988 | 350 | 7,278 |
| At a point in time | 10 | 3 | 21 | 34 |
| **Group revenue** | 5,950 | 991 | 371 | 7,312 |

+ Includes rental income of £27m including share of joint ventures and associates or £13m excluding share of joint ventures and associates.

# 4 Revenue continued

## 4.2 Disaggregation of revenue continued

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 |

+ Includes rental income of £32m including share of joint ventures and associates or £18m excluding share of joint ventures and associates.

## 4.3 Transaction price allocated to the remaining performance obligations (excluding joint ventures and associates)

| | 2020 £m | 2021 £m | 2022 onwards £m | Total £m |
|---|---|---|---|---|
| Construction Services | 4,632 | 2,396 | 2,038 | 9,066 |
| Support Services | 911 | 549 | 1,712 | 3,172 |
| Infrastructure Investments | 182 | 77 | 1,607 | 1,866 |
| **Total transaction price allocated to remaining performance obligations** | **5,725** | **3,022** | **5,357** | **14,104** |

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earned 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 | Construction Services 2019 £m | Support Services 2019 £m | Infrastructure Investments 2019 £m | Corporate activities 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|
| Revenue including share of joint ventures and associates[1] | **6,858** | **1,023** | **524** | **–** | **8,405** |
| Share of revenue of joint ventures and associates[1] | **(908)** | **(32)** | **(153)** | **–** | **(1,093)** |
| Group revenue[1] | **5,950** | **991** | **371** | **–** | **7,312** |
| Group operating profit/(loss)[1] | **96** | **48** | **44** | **(33)** | **155** |
| Share of results of joint ventures and associates[1] | **29** | **(1)** | **38** | **–** | **66** |
| Profit/(loss) from operations[1] | **125** | **47** | **82** | **(33)** | **221** |
| Non-underlying items: | | | | | |
| – amortisation of acquired intangible assets | **(1)** | **–** | **(5)** | **–** | **(6)** |
| – other non-underlying items | **2** | **(58)** | **–** | **–** | **(56)** |
| | **1** | **(58)** | **(5)** | **–** | **(62)** |
| Profit/(loss) from operations | **126** | **(11)** | **77** | **(33)** | **159** |
| Investment income | | | | | **34** |
| Finance costs | | | | | **(55)** |
| **Profit before taxation** | | | | | **138** |

1 Before non-underlying items (Notes 2.10 and 10).

| Income statement – performance by activity | 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).

| Assets and liabilities by activity | Construction Services 2019 £m | Support Services 2019 £m | Infrastructure Investments 2019 £m | Corporate activities 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|
| Contract assets | **264** | **90** | **23** | **–** | **377** |
| Contract liabilities – current | **(392)** | **(74)** | **(3)** | **–** | **(469)** |
| Inventories | **60** | **8** | **33** | **–** | **101** |
| Trade and other receivables – current | **800** | **88** | **43** | **8** | **939** |
| Trade and other payables – current | **(1,249)** | **(190)** | **(47)** | **(34)** | **(1,520)** |
| Provisions – current | **(111)** | **(5)** | **(13)** | **(24)** | **(153)** |
| **Working capital*** | **(628)** | **(83)** | **36** | **(50)** | **(725)** |
| Total assets[2] | **2,341** | **501** | **1,149** | **850** | **4,841** |
| Total liabilities[2] | **(2,059)** | **(335)** | **(473)** | **(597)** | **(3,464)** |
| **Net assets** | **282** | **166** | **676** | **253** | **1,377** |

* Includes non-operating items and current working capital.

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 2.1).

## 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 | 251 | 97 | 15 | – | 363 |
| Contract liabilities – current | (411) | (76) | (2) | – | (489) |
| Inventories | 46 | 12 | 26 | – | 84 |
| Trade and other receivables – current | 741 | 126 | 28 | 7 | 902 |
| Trade and other payables – current | (1,117) | (195) | (43) | (18) | (1,373) |
| Provisions – current | (128) | (8) | (7) | (24) | (167) |
| **Working capital*** | (618) | (44) | 17 | (35) | (680) |
| Total assets | 2,171 | 509 | 1,162 | 725 | 4,567 |
| Total liabilities | (1,966) | (289) | (509) | (562) | (3,326) |
| **Net assets** | 205 | 220 | 653 | 163 | 1,241 |

* Includes non-operating items and current working capital.

| Other information | **Construction Services 2019 £m** | **Support Services 2019 £m** | **Infrastructure Investments 2019 £m** | **Corporate activities 2019 £m** | **Total 2019 £m** |
|---|---|---|---|---|---|
| Capital expenditure on property, plant and equipment (Note 16) | **11** | **8** | **–** | **1** | **20** |
| Capital expenditure on intangible assets (Note 15) | **–** | **4** | **58** | **–** | **62** |
| Depreciation[2] (Note 16, Note 17 and Note 18) | **25** | **35** | **4** | **10** | **74** |
| Gain on disposals of interests in investments (Note 34.2) | **–** | **–** | **40** | **–** | **40** |
| Gain on disposals of interests in investments within joint ventures and associates (Note 34.2) | **–** | **–** | **29** | **–** | **29** |

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 2.1).

| Other information | 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 18) | 11 | 10 | 3 | 5 | 29 |
| Gain on disposals of interests in investments (Note 34.3) | – | – | 80 | – | 80 |
| Gain on disposals of interests in investments within joint ventures and associates (Note 34.3) | – | – | 2 | – | 2 |

| Performance by geographic destination | **United Kingdom 2019 £m** | **United States 2019 £m** | **Rest of world 2019 £m** | **Total 2019 £m** |
|---|---|---|---|---|
| Revenue including share of joint ventures and associates[1] | **3,353** | **4,067** | **985** | **8,405** |
| Share of revenue of joint ventures and associates[1] | **(77)** | **(77)** | **(939)** | **(1,093)** |
| Group revenue[1] | **3,276** | **3,990** | **46** | **7,312** |

1 Before non-underlying items (Notes 2.10 and 10).

| Performance by geographic destination | United Kingdom 2018 £m | United States 2018 £m | Rest of world 2018 £m | Total 2018 £m |
|---|---|---|---|---|
| Revenue including share of joint ventures and associates[1] | 3,164 | 3,622 | 1,016 | 7,802 |
| Share of revenue of joint ventures and associates[1] | (114) | (99) | (958) | (1,171) |
| Group revenue[1] | 3,050 | 3,523 | 58 | 6,631 |

1 Before non-underlying items (Notes 2.10 and 10).

### Major customers
Included in Group revenue are revenues of £1,627m (2018: £1,334m) from the US Government and £1,210m (2018: £1,058m) 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 Segment analysis continued

### 5.2 Infrastructure Investments

| | Group 2019 £m | Share of joint ventures and associates (Note 19.2)+ 2019 £m | Total 2019 £m | Group 2018 £m | Share of joint ventures and associates (Note 19.2)+# 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|
| **Underlying profit from operations[1]** | | | | | | |
| UK^ | **4** | **(4)** | **–** | 9 | (17) | (8) |
| North America | **18** | **13** | **31** | 24 | 17 | 41 |
| Gain on disposals of interests in investments | **40** | **29** | **69** | 80 | 2 | 82 |
| | **62** | **38** | **100** | 113 | 2 | 115 |
| Bidding costs and overheads | **(18)** | **–** | **(18)** | (18) | – | (18) |
| | **44** | **38** | **82** | 95 | 2 | 97 |
| **Net assets/(liabilities)** | | | | | | |
| UK^ | **417** | **278** | **695** | 360 | 242 | 602 |
| North America | **105** | **178** | **283** | 179 | 181 | 360 |
| | **522** | **456** | **978** | 539 | 423 | 962 |
| Non-recourse borrowings net of associated cash and cash equivalents (Note 27) | **(302)** | **–** | **(302)** | (309) | – | (309) |
| **Total Infrastructure Investments net assets** | **220** | **456** | **676** | 230 | 423 | 653 |

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

^ Including Singapore and Ireland.

# Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

1 Before non-underlying items (Notes 2.10 and 10).

## 6 Profit/(loss) from operations

### 6.1 Profit/(loss) from operations is stated after charging/(crediting)

| | 2019 £m | 2018 £m |
|---|---|---|
| Depreciation of property, plant and equipment | **28** | 28 |
| Depreciation of right-of-use assets[2] | **45** | – |
| Depreciation of investment properties | **1** | 1 |
| Amortisation of intangible assets | **17** | 20 |
| Amortisation of contract fulfilment assets | **5** | 1 |
| Net credit of trade receivables impairment provision | **(1)** | (1) |
| Impairment of property, plant and equipment | **8** | 2 |
| Impairment of intangible assets | **–** | 2 |
| Profit on disposal of property, plant and equipment | **(6)** | (5) |
| Cost of inventory recognised as an expense | **93** | 86 |
| Auditor's remuneration | **3** | 3 |

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1, 17 and 28).

### 6.2 Analysis of auditor's remuneration

| | 2019 £m | 2018 £m |
|---|---|---|
| Services as auditor to the Company | **0.6** | 0.5 |
| Services as auditor to Group subsidiaries | **2.3** | 2.1 |
| **Total audit fees** | **2.9** | 2.6 |
| Audit-related assurance fees | **0.4** | 0.4 |
| Other assurance fees | **–** | – |
| **Total non-audit fees** | **0.4** | 0.4 |
| **Total fees in relation to audit and other services** | **3.3** | 3.0 |

## 7 Employee costs
### 7.1 Group

| Employee costs during the year | 2019 £m | 2018 £m |
|---|---|---|
| Wages and salaries | **1,150** | 1,113 |
| Underlying redundancy costs | **9** | 9 |
| Non-underlying redundancy costs (Note 10.2.3) | **–** | 4 |
| Social security costs | **92** | 95 |
| Pension costs (Note 30) | **55** | 56 |
| Non-underlying GMP equalisation costs (Note 10.2.5) | **–** | 28 |
| Share-based payments (Note 35) | **16** | 8 |
| | **1,322** | 1,313 |

| Average number of Group employees | 2019 Number | 2018 Number |
|---|---|---|
| Construction Services | **12,080** | 12,273 |
| Support Services | **5,429** | 5,833 |
| Infrastructure Investments | **1,548** | 1,520 |
| Corporate | **140** | 142 |
| | **19,197** | 19,768 |

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 116 to 137.

### 7.2 Company
The Company did not have any employees and did not incur any employee costs in the year (2018: £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

| | 2019 £m | 2018 £m |
|---|---|---|
| Subordinated debt interest receivable | **20** | 21 |
| Interest receivable on PPP financial assets | **9** | 9 |
| Other interest receivable and similar income | **3** | 3 |
| Net finance income on pension scheme assets and obligations (Note 30.2) | **2** | 2 |
| | **34** | 35 |

## 9 Finance costs

| | | 2019 £m | 2018 £m |
|---|---|---|---|
| Non-recourse borrowings | – bank loans and overdrafts | **13** | 14 |
| Preference shares | – finance cost | **12** | 12 |
| | – accretion | **4** | 3 |
| Convertible bonds | – finance cost | **–** | 4 |
| | – accretion | **–** | 5 |
| US private placement | – finance cost | **12** | 12 |
| Interest on lease liabilities[2] | | **6** | – |
| Other interest payable | – committed facilities | **2** | 1 |
| | – letter of credit fees | **3** | 3 |
| | – other finance charges | **3** | 5 |
| | | **55** | 59 |

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1, 17 and 28).

## 10 Non-underlying items

| | | 2019 £m | 2018 £m |
|---|---|---|---|
| **Items (charged against)/credited to profit** | | | |
| 10.1 | Amortisation of acquired intangible assets | **(6)** | (8) |
| 10.2 | Other non-underlying items: | | |
| | – impairment of goodwill relating to Gas & Water | **(58)** | – |
| | – provision release relating to settlements of health and safety claims | **2** | 13 |
| | – Build to Last transformation costs | **–** | (11) |
| | – additional loss on the AWPR contract as a result of Carillion's liquidation | **–** | (10) |
| | – loss arising from the recognition of GMP equalisation on the Group's pension schemes | **–** | (28) |
| | – loss on disposal of Heery International Inc | **–** | (12) |
| | – additional gain on disposal of Balfour Beatty Infrastructure Partners | **–** | 3 |
| | Total other non-underlying items | **(56)** | (45) |
| | | **(62)** | (53) |
| 10.3 | Share of results of joint ventures and associates: | | |
| | – costs relating to the liquidation of the Malaysia joint venture | **–** | (5) |
| **Charged against profit before taxation** | | **(62)** | (58) |
| 10.4 | Tax credits: | | |
| | – non-underlying recognition of deferred tax assets in the UK | **9** | – |
| | – tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes | **–** | 5 |
| | – tax on other items above | **–** | 9 |
| | Total tax credit | **9** | 14 |
| **Charged against profit for the year** | | **(53)** | (44) |

10.1 The amortisation of acquired intangible comprises: customer contracts £5m (2018: £5m); and customer relationships £1m (2018: £3m).

The charge was recognised in the following segments: Construction Services £1m (2018: £3m); and Infrastructure Investments £5m (2018: £5m).

10.2.1 Following the Group's decision not to rebid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts within this cash-generating unit (CGU), the Group has reassessed the long-term outlook for its Gas & Water CGU. This assessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58m (2018: £nil). This charge has been treated as a non-underlying item. Refer to Note 14.

This charge was recognised in the Support Services segment.

10.2.2 In 2019, the Group recognised a provision release of £2m relating to the settlement of health and safety claims (2018: £13m). 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 of £2m was recognised in the Construction Services segment.

10.2.3 In 2018, the Group continued its Build to Last transformation programme initially launched in February 2015. The transformation programme 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 comprised: redundancy costs £4m; property-related costs £5m; and other restructuring costs £2m.

10.2.4 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 resulted in the Group having a 50% interest in the AWPR contract.

In 2018, the Group recognised additional losses on this project. £10m of this charge was recognised in non-underlying as this reflected the additional loss that the Group suffered in fulfilling Carillion's obligations on the contract. The loss incurred on the Group's original 33% joint venture share was treated as part of the Group's underlying performance. The additional AWPR loss represented 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 were recognised in the Construction Services segment.

10.2.5 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 judgment therefore created an obligation to equalise for both the BBPF and RPS schemes. The effect of GMP equalisation which amounted to £28m was recognised in the Group's income statement as a plan amendment. The Group 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 30.2.

The charge was recognised in the following segments: Construction Services £15m; and Support Services £13m.

## 10 Non-underlying items continued

10.2.6 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.

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. This provision was included in the Construction Services segment.

10.2.7 In 2018, the Group received further consideration of £3m relating to its previously disposed interest in Balfour Beatty Infrastructure Partners. The additional consideration related 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 was recognised within non-underlying consistent with the Group's treatment of the gain on disposal previously recognised in 2016. This gain was included in the Infrastructure Investments segment.

10.3 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 was recognised within the Construction Services segment.

10.4.1 In previous periods, significant actuarial gains in the Group's main pension fund, Balfour Beatty Pension Fund (BBPF), led to the recognition of deferred tax liabilities. This in turn led to the recognition of additional UK deferred tax assets which the Group recognised as non-underlying due to the size and nature of the credit. In 2019, further actuarial gains in the BBPF resulted in the recognition of UK deferred tax assets of £9m. Applying the same methodology used in previous periods, the Group recognised this credit as a non-underlying item.

10.4.2 As explained in Note 10.2.5, a non-underlying charge of £28m was recognised in 2018 to take into account the effect of GMP equalisation. This charge gave rise to a deferred tax credit of £5m.

10.4.3 The remaining non-underlying items charged against the Group's operating profit gave rise to a tax credit of £nil after prior year adjustments (2018: £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).

## 11 Income taxes

### 11.1 Income tax charge/(credit)

| | Underlying items[1x] 2019 £m | Non-underlying items (Note 10)[x] 2019 £m | Total[x] 2019 £m | Total 2018 £m |
|---|---|---|---|---|
| Total UK tax | **(11)** | **(9)** | **(20)** | (26) |
| Total non-UK tax | **25** | **–** | **25** | 14 |
| **Total tax charge/(credit)** | **14** | **(9)** | **5** | (12) |
| **UK current tax** | | | | |
| – current tax | **–** | **–** | **–** | 2 |
| | **–** | **–** | **–** | 2 |
| **Non-UK current tax** | | | | |
| – current tax | **4** | **2** | **6** | 2 |
| – adjustments in respect of previous periods | **(3)** | **–** | **(3)** | (2) |
| | **1** | **2** | **3** | – |
| **Total current tax** | **1** | **2** | **3** | 2 |
| **UK deferred tax** | | | | |
| – origination and reversal of temporary differences | **(16)** | **(9)** | **(25)** | (35) |
| – UK corporation tax rate change | **4** | **–** | **4** | 7 |
| – adjustments in respect of previous periods | **1** | **–** | **1** | – |
| | **(11)** | **(9)** | **(20)** | (28) |
| **Non-UK deferred tax** | | | | |
| – origination and reversal of temporary differences | **25** | **(1)** | **24** | 12 |
| – adjustments in respect of previous periods | **(1)** | **(1)** | **(2)** | 2 |
| | **24** | **(2)** | **22** | 14 |
| **Total deferred tax** | **13** | **(11)** | **2** | (14) |
| **Total tax charge/(credit)** | **14** | **(9)** | **5** | (12) |

x Excluding joint ventures and associates.

1 Before non-underlying items (Notes 2.10 and 10).

## 11 Income taxes continued

### 11.1 Income tax charge/(credit) continued

The Group has recognised £9m of tax credits (2018: £14m) within non-underlying items in the year. Refer to Note 10.4.1.

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 19.2), 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 £14m is charged (2018: £3m) directly to other comprehensive income, comprising: a deferred tax charge of £8m for subsidiaries (2018: £nil); and a deferred tax charge in respect of joint ventures and associates of £6m (2018: £3m). Refer to Note 32.1.

### 11.2 Income tax reconciliation

| | **2019 £m** | 2018 £m |
|---|---|---|
| Profit before taxation including share of results from joint ventures and associates | **138** | 123 |
| Less: share of results of joint ventures and associates | **(66)** | (23) |
| Profit before taxation | **72** | 100 |
| Add: non-underlying items charged excluding share of joint ventures and associates | **62** | 53 |
| Underlying profit before taxation for subsidiaries[1] | **134** | 153 |
| Tax on profit before taxation at standard UK corporation tax rate of 19% (2018: 19%) | **25** | 29 |
| **Adjusted for the effects of:** | | |
| Expenses not deductible for tax purposes and other permanent items | **2** | 6 |
| Non-taxable disposals+ | **–** | (13) |
| Tax levied at Group level on share of joint ventures' and associates' profits# | **8** | 4 |
| Preference share dividends not deductible | **2** | 2 |
| Unrecognised temporary differences^ | **(3)** | – |
| Recognition of losses not previously recognised* | **(28)** | (38) |
| Effect of tax rates in non-UK jurisdictions | **8** | 6 |
| UK corporation tax rate change | **4** | 6 |
| Adjustments in respect of previous periods | **(4)** | – |
| **Total tax charge on underlying profit** | **14** | 2 |
| Less: credit on non-underlying tax items (Note 10.4) | **(9)** | (14) |
| **Total tax charge/(credit) on profit from operations** | **5** | (12) |

+ 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.

^ In 2019 certain unrecognised losses were utilised against current year profits.

* Additional UK tax losses of £202m have been recognised in 2019 of which £53m are recognised in non-underlying. This is due to increased confidence in the UK construction sector resulting in a rise in forecasted future UK profits. £197m of additional tax losses were recognised in 2018, of this £nil was recognised in non-underlying.

1 Before non-underlying items (Notes 2.10 and 10).

## 12 Earnings per ordinary share

### Earnings

| | **Basic 2019 £m** | **Diluted 2019 £m** | Basic 2018 £m | Diluted 2018 £m |
|---|---|---|---|---|
| Earnings | **130** | **130** | 135 | 135 |
| Amortisation of acquired intangible assets – net of tax credit of £nil (2018: £2m) | **6** | **6** | 6 | 6 |
| Other non-underlying items – net of tax credit of £9m (2018: £12m) | **47** | **47** | 38 | 38 |
| **Underlying earnings** | **183** | **183** | 179 | 179 |

| | **Basic 2019 m** | **Diluted 2019 m** | Basic 2018 m | Diluted 2018 m |
|---|---|---|---|---|
| Weighted average number of ordinary shares | **685** | **689** | 682 | 687 |

### Earnings per share

| | **Basic 2019 Pence** | **Diluted 2019 Pence** | Basic 2018 Pence | Diluted 2018 Pence |
|---|---|---|---|---|
| Earnings per ordinary share | **19.0** | **18.8** | 19.7 | 19.5 |
| Amortisation of acquired intangible assets net of tax | **0.9** | **0.9** | 0.9 | 0.9 |
| Other non-underlying items net of tax | **6.8** | **6.8** | 5.7 | 5.6 |
| **Underlying earnings per ordinary share** | **26.7** | **26.5** | 26.3 | 26.0 |

## 13 Dividends on ordinary shares

| | Per share 2019 Pence | Amount 2019 £m | Per share 2018 Pence | Amount 2018 £m |
|---|---|---|---|---|
| **Proposed dividends for the year** | | | | |
| Interim – current year | **2.1** | **14** | 1.6 | 11 |
| Final – current year | **4.3** | **30** | 3.2 | 22 |
| | **6.4** | **44** | 4.8 | 33 |
| **Recognised dividends for the year** | | | | |
| Final – prior year | | **22** | | 16 |
| Interim – current year | | **14** | | 11 |
| | | **36** | | 27 |

The final 2018 dividend was paid on 5 July 2019 and the interim 2019 dividend was paid on 6 December 2019. Subject to approval at the Annual General Meeting on 14 May 2020, the final 2019 dividend will be paid on 3 July 2020 to holders on the register on 22 May 2020 by direct credit or, where no mandate has been given, by cheque posted on 3 July 2020. The ordinary shares will be quoted ex-dividend on 21 May 2020.

## 14 Intangible assets – goodwill

| | Cost £m | Accumulated impairment losses £m | Carrying amount £m |
|---|---|---|---|
| At 1 January 2018 | 1,037 | (163) | 874 |
| Currency translation differences | 34 | (5) | 29 |
| At 31 December 2018 | 1,071 | (168) | 903 |
| Currency translation differences | **(23)** | **6** | **(17)** |
| Impairment | **–** | **(58)** | **(58)** |
| **At 31 December 2019** | **1,048** | **(220)** | **828** |

Following the Group's decision not to re-bid gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts within this cash-generating unit (CGU), the Group has reassessed the long-term outlook for its Gas & Water CGU. This assessment has resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58m (2018: £nil). This charge has been treated as a non-underlying item. Refer to Note 10.2.1.

### Carrying amounts of goodwill by segment

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **United Kingdom £m** | **United States £m** | **Total £m** | United Kingdom £m | United States £m | Total £m |
| Construction Services | **260** | **444** | **704** | 260 | 460 | 720 |
| Support Services | **73** | **–** | **73** | 131 | – | 131 |
| Infrastructure Investments | **–** | **51** | **51** | – | 52 | 52 |
| **Group** | **333** | **495** | **828** | 391 | 512 | 903 |

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

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **£m** | **Pre-tax discount rate %** | £m | Pre-tax discount rate % |
| UK Regional and Engineering Services | **248** | **10.1** | 248 | 10.1 |
| Balfour Beatty Construction Group Inc | **423** | **11.1** | 438 | 11.0 |
| Rail UK | **68** | **10.2** | 68 | 10.1 |
| Gas & Water | **–** | **10.2** | 58 | 10.0 |
| Balfour Beatty Investments US | **51** | **11.1** | 52 | 11.3 |
| Other | **38** | **10.1** | 39 | 10.0–11.0 |
| **Group total** | **828** | | 903 | |

## 14 Intangible assets – goodwill continued

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

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected future revenues and margins of each 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 2020 to 2022. 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.

Although the UK has now ceased to be a member of the EU and is in a transition period, the nature of its future trading relationship with the EU remains uncertain. Balfour Beatty continues to monitor developments in this area and potential risks arising to the Group's businesses. Specific risks and mitigations are controlled by individual strategic business units and at a project level. In addition, they are kept under review by the Executive Committee.

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. However, due to the long-term nature and the degree of predictability of some contracts within Balfour Beatty Investments US, the forecast period used in the derivation of this CGU's value-in-use extends beyond the Group's three-year cash flow 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.

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **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** | **1.1** | **3.1** | 2.0 | 1.2 | 3.2 |
| Balfour Beatty Construction Group Inc | **2.0** | **0.9** | **2.9** | 2.0 | 0.9 | 2.9 |
| Rail UK | **2.0** | **1.1** | **3.1** | 2.0 | 1.2 | 3.2 |
| Gas & Water | **2.0** | **1.1** | **3.1** | 2.0 | 1.2 | 3.2 |
| Balfour Beatty Investments US | **2.0** | **0.1** | **2.1** | 2.0 | 0.1 | 2.1 |
| Other | **2.0** | **1.1** | **3.1** | 2.0 | 1.1 | 3.1 |

### 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 the UK's exit from the European Union. Sensitivity analysis was also carried out on the Balfour Beatty Investments US CGU to factor in potential adverse implications from the ongoing investigation into allegations about the handling of certain work orders on military bases managed by Balfour Beatty Communities. Refer to Note 37. No impairment was triggered as a result of these events.

## 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 2018 | 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 34.3.4 and 34.3.6) | – | – | – | (77) | – | (77) |
| At 31 December 2018 | 231 | 48 | 3 | 146 | 132 | 560 |
| Currency translation differences | **(8)** | **2** | **–** | **(1)** | **1** | **(6)** |
| Additions | **–** | **–** | **–** | **58** | **4** | **62** |
| Removal of fully amortised intangible asset | **–** | **–** | **–** | **–** | **(5)** | **(5)** |
| **At 31 December 2019** | **223** | **50** | **3** | **203** | **132** | **611** |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2018 | (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 34.3.4 and 34.3.6) | – | – | – | 5 | – | 5 |
| At 31 December 2018 | (159) | (37) | (3) | (1) | (102) | (302) |
| Currency translation differences | **6** | **(2)** | **–** | **–** | **(1)** | **3** |
| Charge for the year | **(5)** | **(1)** | **–** | **(1)** | **(10)** | **(17)** |
| Removal of fully amortised intangible asset | **–** | **–** | **–** | **–** | **5** | **5** |
| **At 31 December 2019** | **(158)** | **(40)** | **(3)** | **(2)** | **(108)** | **(311)** |
| **Carrying amount** | | | | | | |
| **At 31 December 2019** | **65** | **10** | **–** | **201** | **24** | **300** |
| At 31 December 2018 | 72 | 11 | – | 145 | 30 | 258 |

The Group recognises certain assets held as part of service concession arrangements as Infrastructure Investments intangible assets 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 34.3.4). The Group retains a 20% interest which is accounted for as a joint venture post-disposal. In 2019, the Group continued construction on its remaining IFRIC 12 asset, at the University of Sussex, incurring a spend of £58m (2018: £63m) in the year (including interest capitalised of £4m (2018: £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.

Other intangible assets are amortised over periods up to 10 years.

## 16 Property, plant and equipment

| | 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 2018 | 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 |
| Currency translation differences | **(1)** | **(3)** | **–** | **–** | **(4)** |
| Transfers | **3** | **(3)** | **–** | **–** | **–** |
| Additions | **6** | **14** | **–** | **–** | **20** |
| Removal of fully depreciated assets/assets scrapped | **(6)** | **(5)** | **–** | **–** | **(11)** |
| Disposals | **(2)** | **(21)** | **–** | **–** | **(23)** |
| Disposal of interest in Reno (Note 34.2.10) | **–** | **–** | **(17)** | **–** | **(17)** |
| Disposal of interest in BBCS-Hawkeye Housing LLC (Iowa) (Notes 34.2.6 and 34.2.12) | **–** | **–** | **(49)** | **–** | **(49)** |
| **At 31 December 2019** | **73** | **263** | **–** | **2** | **338** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2018 | (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) |
| Currency translation differences | **1** | **2** | **–** | **–** | **3** |
| Transfers | **(3)** | **3** | **–** | **–** | **–** |
| Charge for the year | **(7)** | **(21)** | **–** | **–** | **(28)** |
| Impairment charge | **–** | **(8)** | **–** | **–** | **(8)** |
| Removal of fully depreciated assets/assets scrapped | **6** | **5** | **–** | **–** | **11** |
| Disposals | **2** | **20** | **–** | **–** | **22** |
| Disposal of interest in Reno (Note 34.2.10) | **–** | **–** | **2** | **–** | **2** |
| Disposal of interest in BBCS-Hawkeye Housing LLC (Iowa) (Notes 34.2.6 and 34.2.12) | **–** | **–** | **5** | **–** | **5** |
| **At 31 December 2019** | **(44)** | **(203)** | **–** | **–** | **(247)** |
| **Carrying amount** | | | | | |
| **At 31 December 2019** | **29** | **60** | **–** | **2** | **91** |
| At 31 December 2018 | 30 | 77 | 59 | 2 | 168 |

Infrastructure leasehold improvements comprise student accommodation projects in Iowa and Reno, for which all buildings were held under short leaseholds and were depreciated over 40 years. On 27 September 2019 and 16 December 2019 respectively, the Group disposed of its interests in the Iowa and Reno projects. Refer to Notes 34.2.6 and 34.2.10.

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.

## 17 Right-of-use assets

| | Land and buildings £m | Plant and equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2019[2] | **66** | **40** | **15** | **121** |
| Currency translation differences | **(1)** | **–** | **–** | **(1)** |
| Additions | **12** | **20** | **10** | **42** |
| Removal of fully depreciated assets/assets scrapped | **(1)** | **(1)** | **–** | **(2)** |
| Disposals | **(1)** | **(5)** | **–** | **(6)** |
| At 31 December 2019 | **75** | **54** | **25** | **154** |
| **Accumulated depreciation** | | | | |
| At 1 January 2019[2] | **–** | **–** | **–** | **–** |
| Charge for the year | **(18)** | **(20)** | **(7)** | **(45)** |
| Removal of fully depreciated assets/assets scrapped | **1** | **1** | **–** | **2** |
| Disposals | **1** | **1** | **–** | **2** |
| **At 31 December 2019** | **(16)** | **(18)** | **(7)** | **(41)** |
| **Carrying amount** | | | | |
| **At 31 December 2019** | **59** | **36** | **18** | **113** |

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1, 17 and 28).

## 18 Investment properties

| | Cost £m | Accumulated depreciation £m | Carrying amount £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2018 | 47 | (1) | 46 |
| Depreciation charge for the year | – | (1) | (1) |
| Disposals | (12) | – | (12) |
| At 31 December 2018 | 35 | (2) | 33 |
| Depreciation charge for the year | **–** | **(1)** | **(1)** |
| **At 31 December 2019** | **35** | **(3)** | **32** |

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. The Group has non-recourse project specific financing amounting to £26m (2018: £26m), which is secured through a floating charge over the property. No interest has been capitalised on the asset in 2019 as construction on the property was completed in 2017 (2018: £nil).

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 2019 approximates the carrying value. The Group generated £3m (2018: £3m) of rental income from its investment properties.

## 19 Investments in joint ventures and associates

### 19.1 Movements

| | Net assets £m | Loans £m | Total £m |
|---|---|---|---|
| At 1 January 2018 | 364 | 167 | 531 |
| Currency translation differences | 11 | – | 11 |
| Income recognised | 23 | – | 23 |
| Fair value revaluation of PPP financial assets (Note 32.1) | 9 | – | 9 |
| Fair value revaluation of cash flow hedges (Note 32.1) | 15 | – | 15 |
| Actuarial movements on retirement benefit liabilities (Note 32.1) | (1) | – | (1) |
| Tax on items taken directly to equity (Note 32.1) | (3) | – | (3) |
| Dividends | (76) | – | (76) |
| Additions | 32 | – | 32 |
| Disposal of interest in Connect Plus M25 (Note 34.3.1) | (30) | (11) | (41) |
| Disposal of Consort Healthcare (Fife) (Note 34.3.2) | 9 | (9) | – |
| Disposal of University of Texas Northside Campus (Note 34.3.5) | (1) | – | (1) |
| Retained interest in Holyrood Holdings Ltd (Note 34.3.4) | 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 |
| Currency translation differences | **(11)** | **–** | **(11)** |
| Income recognised | **66** | **–** | **66** |
| Fair value revaluation of PPP financial assets (Note 32.1) | **24** | **–** | **24** |
| Fair value revaluation of cash flow hedges (Note 32.1) | **2** | **–** | **2** |
| Actuarial movements on retirement benefit liabilities (Note 32.1) | **2** | **–** | **2** |
| Tax on items taken directly to equity (Note 32.1) | **(6)** | **–** | **(6)** |
| Dividends | **(95)** | **–** | **(95)** |
| Additions | **33** | **–** | **33** |
| Disposal of interest in North Island Hospitals (Note 34.2.5) | **(11)** | **–** | **(11)** |
| Disposal of interest in Townlake of Coppell (Note 34.2.9) | **(2)** | **–** | **(2)** |
| Return of equity | **(14)** | **–** | **(14)** |
| Loans advanced | **–** | **26** | **26** |
| Loans repaid | **–** | **(1)** | **(1)** |
| Reclassify negative investment to provisions (Note 26) | **2** | **–** | **2** |
| Reclassify negative investment to trade and other receivables | **11** | **–** | **11** |
| **At 31 December 2019** | **351** | **199** | **550** |

* Retained interest in net assets of Holyrood Holdings Ltd are presented at fair value.

The principal joint ventures and associates are shown in Note 41.

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 (2018: £nil).

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 41(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.

## 19 Investments in joint ventures and associates continued

### 19.2 Share of results and net assets of joint ventures and associates

| Income statement | Construction Services 2019 £m | Support Services 2019 £m | Infrastructure Investments UK^ 2019 £m | Infrastructure Investments North America 2019 £m | Infrastructure Investments Total 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|---|
| **Revenue[1]** | 908 | 32 | 82 | 71 | 153 | 1,093 |
| Operating profit/loss excluding gain on disposals of interests in investments[1] | 30 | (1) | – | 16 | 16 | 45 |
| Gain on disposals of interests in investments | – | – | 9 | 20 | 29 | 29 |
| **Operating profit/(loss)[1]** | 30 | (1) | 9 | 36 | 45 | 74 |
| Investment income | 5 | – | 88 | 18 | 106 | 111 |
| Finance costs | (1) | – | (90) | (21) | (111) | (112) |
| **Profit/(loss) before taxation[1]** | 34 | (1) | 7 | 33 | 40 | 73 |
| Taxation | (5) | – | (2) | – | (2) | (7) |
| **Profit/(loss) after taxation** | 29 | (1) | 5 | 33 | 38 | 66 |
| **Balance sheet** | | | | | | |
| **Non-current assets** | | | | | | |
| Intangible assets – goodwill | 30 | – | – | – | – | 30 |
| – Infrastructure Investments intangible | – | – | 49 | – | 49 | 49 |
| – other | – | – | 15 | – | 15 | 15 |
| Property, plant and equipment | 27 | – | 33 | – | 33 | 60 |
| Investment properties | – | – | – | 167 | 167 | 167 |
| Investments in joint ventures and associates | 1 | – | – | – | – | 1 |
| Money market funds | – | – | – | 166 | 166 | 166 |
| PPP financial assets | – | – | 1,421 | 165 | 1,586 | 1,586 |
| Military housing projects | – | – | – | 107 | 107 | 107 |
| Other non-current assets | 72 | – | 19 | 5 | 24 | 96 |
| **Current assets** | | | | | | |
| Cash and cash equivalents | 277 | – | 144 | 26 | 170 | 447 |
| Other current assets | 261 | – | 61 | 2 | 63 | 324 |
| **Total assets** | 668 | – | 1,742 | 638 | 2,380 | 3,048 |
| **Current liabilities** | | | | | | |
| Borrowings – non-recourse | (53) | – | (43) | – | (43) | (96) |
| Other current liabilities | (458) | – | (165) | (9) | (174) | (632) |
| **Non-current liabilities** | | | | | | |
| Borrowings – non-recourse | – | – | (1,173) | (444) | (1,617) | (1,617) |
| Other non-current liabilities | (64) | (4) | (291) | (6) | (297) | (365) |
| **Total liabilities** | (575) | (4) | (1,672) | (459) | (2,131) | (2,710) |
| **Net assets** | 93 | (4) | 70 | 179 | 249 | 338 |
| Reclassify net liabilities to provisions (Note 26) | – | – | 2 | – | 2 | 2 |
| Reclassify net liabilities to trade and other receivables | – | – | 11 | – | 11 | 11 |
| Adjusted net assets | 93 | (4) | 83 | 179 | 262 | 351 |
| Loans to joint ventures and associates | – | 4 | 195 | – | 195 | 199 |
| **Total investment in joint ventures and associates** | 93 | – | 278 | 179 | 457 | 550 |

^ Including Singapore and Ireland.

1 Before non-underlying items (Note 2.10).

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 £2,272m (2018: £2,466m). Note 41(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 2019, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £nil (2018: £1m).

## 19 Investments in joint ventures and associates continued

### 19.2 Share of results and net assets of joint ventures and associates continued

| Income statement | 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 excluding gain on disposals of interests in investments[1] | 30 | (2) | (5) | 19 | 14 | 42 |
| Gain on disposals of interests in investments | – | – | – | 2 | 2 | 2 |
| **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) | (274) | (2) | (276) | (340) |
| **Total liabilities** | (546) | (3) | (1,708) | (529) | (2,237) | (2,786) |
| **Net assets** | 100 | (3) | 72 | 181 | 253 | 350 |
| Loans to joint ventures and associates | – | 4 | 170 | – | 170 | 174 |
| **Total investment in joint ventures and associates** | 100 | 1 | 242 | 181 | 423 | 524 |

^ Including Singapore and Ireland.

1 Before non-underlying items (Note 2.10).

# Re-presented to show the gain on disposals of interests in investments recognised within the Group's share of results of joint ventures and associates separately from the rest of the Group's share of results from its joint ventures and associates.

### 19.3 Aggregate information of joint ventures and associates

| | **Joint ventures 2019 £m** | **Associates 2019 £m** | **Total 2019 £m** |
|---|---|---|---|
| The Group's share of profit from operations | **39** | **27** | **66** |
| Aggregate carrying amount of the Group's interest | **446** | **104** | **550** |

| | Joint ventures 2018 £m | Associates 2018 £m | Total 2018 £m |
|---|---|---|---|
| The Group's share of profit from operations | 15 | 8 | 23 |
| Aggregate carrying amount of the Group's interest | 412 | 112 | 524 |

## 19 Investments in joint ventures and associates continued
### 19.4 Details of material joint ventures

| | Gammon@ | | Connect Plus (M25) Ltd | |
|---|---|---|---|---|
| | **2019 £m** | 2018~ £m | **2019 £m** | 2018~ £m |
| **Proportion of the Group's ownership interest in the joint venture** | **50%** | 50% | **15%** | 15% |
| **Income statement** | | | | |
| Revenue | **1,790** | 1,803 | **166** | 148 |
| Underlying operating profit excluding gain on disposals of interests in investments | **64** | 47 | **5** | 3 |
| Gain on disposals of interests in investments | **9** | – | **–** | – |
| **Underlying operating profit** | **73** | 47 | **5** | 3 |
| Investment income | **16** | 16 | **141** | 139 |
| Finance costs | **(7)** | (7) | **(101)** | (169) |
| Income tax charge | **(11)** | (7) | **(8)** | 5 |
| Profit/(loss) | **71** | 49 | **37** | (22) |
| Total other comprehensive income/(loss) | **1** | (2) | **7** | (64) |
| **Total comprehensive income/(loss) (100%)** | **72** | 47 | **44** | (86) |
| **Group's share of total comprehensive income/(loss)** | **36** | 24 | **7** | (13) |
| **Dividends received by the Group during the year** | **52** | 23 | **5** | 6 |
| **Balance sheet** | | | | |
| **Non-current assets** | **200** | 366 | **2,192** | 2,203 |
| **Current assets** | | | | |
| Cash and cash equivalents | **529** | 641 | **135** | 152 |
| Other current assets | **498** | 341 | **86** | 85 |
| | **1,027** | 982 | **221** | 237 |
| **Current liabilities** | | | | |
| Trade and other payables | **(703)** | (657) | **(80)** | (84) |
| Provisions | **(52)** | (44) | **–** | – |
| Borrowings – non-recourse | **(105)** | (94) | **(19)** | (19) |
| Other current liabilities | **(125)** | (143) | **(2)** | (19) |
| | **(985)** | (938) | **(101)** | (122) |
| **Non-current liabilities** | | | | |
| Trade and other payables | **(61)** | (89) | **–** | – |
| Provisions | **(17)** | (23) | **–** | – |
| Borrowings – non-recourse | **–** | (107) | **(1,241)** | (1,253) |
| Other non-current liabilities (including shareholder loans) | **(50)** | (42) | **(431)** | (433) |
| | **(128)** | (261) | **(1,672)** | (1,686) |
| **Net assets (100%)** | **114** | 149 | **640** | 632 |

**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%) | **114** | 149 | **640** | 632 |
| Group's share of net assets | **57** | 75 | **96** | 95 |
| Add: Group's interest in shareholder loans | **–** | – | **28** | 28 |
| Goodwill | **30** | 31 | **–** | – |
| **Carrying amount of the Group's interest in the joint venture** | **87** | 106 | **124** | 123 |

@ 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 its interest in Gammon Capital (West) Pte. Ltd on 30 September 2019. Refer to Note 34.2.7.

~ Represented to show total other comprehensive income/(loss) separately from total comprehensive income/(loss) for the year.

## 19 Investments in joint ventures and associates continued

### 19.5 Cash flow from/(to) joint ventures and associates

| Cash flows from investing activities | Infrastructure Investments | | | | Infrastructure Investments | | | |
|---|---|---|---|---|---|---|---|---|
| | **UK^ 2019 £m** | **North America 2019 £m** | **Other 2019 £m** | **Total 2019 £m** | UK^ 2018 £m | North America 2018 £m | Other 2018 £m | Total 2018 £m |
| Dividends from joint ventures and associates | **25** | **34** | **36** | **95+** | 9 | 27 | 40 | 76 |
| Subordinated debt interest received | **5** | **–** | **–** | **5** | 7 | – | – | 7 |
| Investments in and loans to joint ventures and associates | **(25)** | **(33)** | **–** | **(58)** | (31) | (25) | – | (56) |
| Equity | **–** | **(33)** | **–** | **(33)** | (7) | (25) | – | (32) |
| Subordinated debt invested | **(26)** | **–** | **–** | **(26)** | (27) | – | – | (27) |
| Subordinated debt repaid | **1** | **–** | **–** | **1** | 3 | – | – | 3 |
| Return of equity from joint ventures and associates | **–** | **14** | **–** | **14+** | – | – | – | – |
| Disposal of investments in joint ventures | **2** | **22** | **1** | **25** | 150 | 13 | 1 | 164 |
| **Net cash flow from joint ventures and associates** | **7** | **37** | **37** | **81** | 135 | 15 | 41 | 191 |

^ Including Singapore and Ireland.

+ Dividends and return of equity from joint ventures and associates include £41m and £14m respectively of proceeds generated from the disposal of the Group's 50% interest in Gammon Capital (West) Holdings Pte Ltd and the following assets: Borden; Dallas 5 Portfolio; Mobile Alabama portfolio and Evergreen portfolio. Refer to Note 34.2.

### 19.6 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 32.1) £m |
|---|---|---|---|---|---|
| At 1 January 2018 | 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 |
| Currency translation differences | **–** | **–** | **–** | **(7)** | **(7)** |
| Income recognised | **66** | **–** | **–** | **–** | **66** |
| Fair value revaluation of PPP financial assets | **–** | **–** | **24** | **–** | **24** |
| Fair value revaluation of cash flow hedges | **–** | **2** | **–** | **–** | **2** |
| Actuarial movements on retirement benefit liabilities | **2** | **–** | **–** | **–** | **2** |
| Tax on items taken directly to equity | **(1)** | **–** | **(5)** | **–** | **(6)** |
| Dividends | **(95)** | **–** | **–** | **–** | **(95)** |
| Recycling of revaluation reserves to the income statement on disposal | **–** | **8** | **(8)** | **(2)** | **(2)** |
| Reserves disposed | **(1)** | **–** | **–** | **–** | **(1)** |
| **At 31 December 2019** | **(37)** | **(58)** | **98** | **43** | **46** |

## 20 Investments

### 20.1 Group

| | Corporate bonds £m | Investments in mutual funds £m | Total £m |
|---|---|---|---|
| At 1 January 2018 | 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 |
| Fair value gains | **–** | **2** | **2** |
| Maturities/disposals | **(4)** | **(1)** | **(5)** |
| **At 31 December 2019** | **5** | **22** | **27** |

The corporate 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 2.32% (2018: 1.76%) and weighted average life of 3.9 years (2018: 3.9 years). The fair value of the bonds is £5m (2018: £8m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2019 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 30.2. The fair value of these investments is £22m (2018: £21m), determined by the market price of the funds at the reporting date.

### 20.2 Company

| | **2019 £m** | 2018 £m |
|---|---|---|
| Investment in subsidiaries | **1,740** | 1,732 |
| Provisions | **(26)** | (26) |
| | **1,714** | 1,706 |

The increase of investment in subsidiaries of £8m relates 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.

## 21 PPP financial assets

| | Economic infrastructure £m | Social infrastructure £m | Total £m |
|---|---|---|---|
| At 1 January 2018 | 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 |
| Income recognised in the income statement: | | | |
| – interest income (Note 8) | **2** | **7** | **9** |
| Gains recognised in the statement of comprehensive income: | | | |
| – fair value movements | **–** | **3** | **3** |
| Other movements: | | | |
| – cash expenditure | **2** | **1** | **3** |
| – cash received | **(5)** | **(11)** | **(16)** |
| **At 31 December 2019** | **27** | **128** | **155** |

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 2019 or 2018.

## 22 Inventories

| | 2019 £m | 2018 £m |
|---|---|---|
| Raw materials and consumables | **66** | 53 |
| Development and housing land and work in progress | **33** | 26 |
| Finished goods and goods for resale | **2** | 5 |
| | **101** | 84 |

## 23 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** | £m |
|---|---|
| At 1 January 2018 | 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 26) | (37) |
| Impairments on contract assets recognised at the beginning of the year | (15) |
| At 31 December 2018 | 363 |
| Currency translation differences | **(5)** |
| Transfers from contract assets recognised at the beginning of the year to receivables | **(319)** |
| Increase related to services provided in the year | **375** |
| Reclassified from contract provisions (Note 26) | **(7)** |
| Impairments on contract assets recognised at the beginning of the year | **(30)** |
| **At 31 December 2019** | **377** |

| **Contract liabilities** | £m |
|---|---|
| At 1 January 2018 | (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) |
| Currency translation differences | **8** |
| Revenue recognised against contract liabilities at the beginning of the year | **424** |
| Increase due to cash received, excluding amounts recognised as revenue during the year | **(412)** |
| **At 31 December 2019** | **(471)** |

The amount of revenue recognised in 2019 from performance obligations satisfied (or partially satisfied) in previous periods amounted to £27m (2018: £45m).

## 24 Trade and other receivables

| | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|
| **Current** | | | | |
| Trade receivables | **575** | 599 | **–** | – |
| Less: provision for impairment of trade receivables | **(5)** | (5) | **–** | – |
| | **570** | 594 | **–** | – |
| Due from subsidiaries | **–** | – | **1,547** | 2,083 |
| Due from joint ventures and associates | **25** | 24 | **–** | – |
| Due from joint operation partners | **22** | 19 | **–** | – |
| Contract fulfilment assets∞ | **12** | 20 | **–** | – |
| Contract retentions receivable | **221** | 192 | **–** | – |
| Accrued income | **13** | 3 | **–** | – |
| Prepayments | **37** | 30 | **–** | – |
| Due on disposals | **5** | 1 | **–** | – |
| Other receivables∞ | **34** | 19 | **1** | – |
| | **939** | 902 | **1,548** | 2,083 |
| **Non-current** | | | | |
| Due from joint ventures and associates | **52** | 51 | **1** | 1 |
| Contract fulfilment assets∞ | **10** | 4 | **–** | – |
| Contract retentions receivable | **140** | 150 | **–** | – |
| Due on disposals | **2** | 5 | **–** | – |
| Other receivables∞ | **3** | 2 | **2** | – |
| | **207** | 212 | **3** | 1 |
| **Total trade and other receivables** | **1,146** | 1,114 | **1,551** | 2,084 |
| **Comprising** | | | | |
| Financial assets (Note 40) | **1,109** | 1,084 | **1,551** | 2,084 |
| Non-financial assets – prepayments | **37** | 30 | **–** | – |
| | **1,146** | 1,114 | **1,551** | 2,084 |

∞ Re-presented to show Contract fulfilment assets separately from Other receivables.

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.

### Maturity profile of impaired trade receivables and trade receivables past due but not impaired

| | Impaired | | Past due but not impaired | |
|---|---|---|---|---|
| | Group 2019 £m | Group 2018 £m | Group 2019 £m | Group 2018 £m |
| Up to three months | **–** | 1 | **23** | 63 |
| Three to six months | **–** | – | **12** | 12 |
| Six to nine months | **2** | – | **8** | 6 |
| Nine to 12 months | **–** | – | **8** | 8 |
| More than 12 months | **3** | 4 | **38** | 18 |
| | **5** | 5 | **89** | 107 |

At 31 December 2019, trade receivables of £89m (2018: £107m) 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.

## 25 Trade and other payables

| | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|
| **Current** | | | | |
| Trade and other payables | **837** | 758 | **–** | – |
| Accruals | **629** | 580 | **6** | 6 |
| VAT, payroll taxes and social security | **45** | 26 | **–** | – |
| Due to subsidiaries | **–** | – | **1,846** | 2,158 |
| Dividends on preference shares | **6** | 6 | **6** | 6 |
| Due on acquisitions | **3** | 3 | **–** | – |
| | **1,520** | 1,373 | **1,858** | 2,170 |
| **Non-current** | | | | |
| Trade and other payables | **82** | 108 | **–** | 1 |
| Accruals | **10** | 18 | **–** | – |
| Due to joint ventures and associates | **10** | 9 | **3** | 3 |
| Due on acquisitions | **6** | 8 | **–** | – |
| | **108** | 143 | **3** | 4 |
| **Total trade and other payables** | **1,628** | 1,516 | **1,861** | 2,174 |
| **Comprising** | | | | |
| Financial liabilities (Note 40) | **1,570** | 1,484 | **1,861** | 2,174 |
| Non-financial liabilities: | | | | |
| – accruals not at amortised cost | **13** | 6 | **–** | – |
| – VAT, payroll taxes and social security | **45** | 26 | **–** | – |
| | **1,628** | 1,516 | **1,861** | 2,174 |

### Maturity profile of the Group's non-current financial liabilities at 31 December

| | Trade and other payables 2019 £m | Accruals 2019 £m | Due to joint ventures and associates 2019 £m | Due on acquisitions 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|
| Due within one to two years | **47** | **4** | **–** | **3** | **54** |
| Due within two to five years | **32** | **6** | **2** | **3** | **43** |
| Due after more than five years | **3** | **–** | **8** | **–** | **11** |
| | **82** | **10** | **10** | **6** | **108** |

| | 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 |

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.

## 26 Provisions

| | Contract provisions £m | Employee provisions £m | Other provisions £m | Total £m |
|---|---|---|---|---|
| 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 (Note 23) | (37) | – | – | (37) |
| At 31 December 2018 | 236 | 55 | 25 | 316 |
| Currency translation differences | **(4)** | **–** | **–** | **(4)** |
| Reclassified from accruals | **1** | **–** | **–** | **1** |
| Charged/(credited) to the income statement: | | | | |
| – additional provisions | **97** | **10** | **7** | **114** |
| – unused amounts reversed | **(31)** | **(6)** | **(5)** | **(42)** |
| Utilised during the year | **(61)** | **(11)** | **(6)** | **(78)** |
| Reclassified to contract assets (Note 23) | **(7)** | **–** | **–** | **(7)** |
| Reclassified to trade and other receivables | **(7)** | **–** | **–** | **(7)** |
| Reclassify negative investment in the Group's investments in joint ventures and associates to provisions (Note 19.1) | **–** | **–** | **2** | **2** |
| **At 31 December 2019** | **224** | **48** | **23** | **295** |

| | **Contract provisions 2019 £m** | **Employee provisions 2019 £m** | **Other provisions 2019 £m** | **Total 2019 £m** | Contract provisions 2018 £m | Employee provisions 2018 £m | Other provisions 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|---|---|
| Due within one year | **132** | **11** | **10** | **153** | 139 | 17 | 11 | 167 |
| Due within one to two years | **44** | **8** | **4** | **56** | 62 | 10 | 5 | 77 |
| Due within two to five years | **41** | **14** | **6** | **61** | 29 | 14 | 6 | 49 |
| Due after more than five years | **7** | **15** | **3** | **25** | 6 | 14 | 3 | 23 |
| | **224** | **48** | **23** | **295** | 236 | 55 | 25 | 316 |

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; 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 £60m (2018: £67m) as follows: Contract provisions £32m (2018: £35m); Employee provisions £24m (2018: £28m); and Other, mainly motor, provisions £4m (2018: £4m).

Restructuring provisions within these categories were £4m (2018: £7m) as follows: Employee provisions £3m (2018: £5m); and Other, mainly property-related, provisions £1m (2018: £2m).

## 27 Cash and cash equivalents and borrowings

### 27.1 Group

| | Current 2019 £m | Non-current 2019 £m | Total 2019 £m | Current 2018 £m | Non-current 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|
| Unsecured borrowings at amortised cost | | | | | | |
| – US private placement (Note 27.2) | **(35)** | **(196)** | **(231)** | – | (239) | (239) |
| – other loans | **–** | **–** | **–** | (15) | – | (15) |
| | **(35)** | **(196)** | **(231)** | (15) | (239) | (254) |
| Cash and deposits at amortised cost | **589** | **–** | **589** | 587 | – | 587 |
| Term deposits at amortised cost | **154** | **–** | **154** | 4 | – | 4 |
| Cash and cash equivalents (excluding infrastructure concessions) | **743** | **–** | **743** | 591 | – | 591 |
| | **708** | **(196)** | **512** | 576 | (239) | 337 |
| Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2020 and 2072 | **(4)** | **(333)** | **(337)** | (48) | (331) | (379) |
| Infrastructure concessions cash and cash equivalents | **35** | **–** | **35** | 70 | – | 70 |
| | **31** | **(333)** | **(302)** | 22 | (331) | (309) |
| **Net cash/(borrowings)** | **739** | **(529)** | **210** | 598 | (570) | 28 |

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 (2018: £18m) held by the Group's captive insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations; £72m (2018: £51m) held within construction project bank accounts; and £35m (2018: £70m) 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 £297m (2018: £318m).

#### Maturity profile of the Group's borrowings at 31 December

| | Non-recourse project finance 2019 £m | Other borrowings 2019 £m | Total 2019 £m | Non-recourse project finance 2018 £m | Other borrowings 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|
| Due on demand or within one year | **(4)** | **(35)** | **(39)** | (48) | (15) | (63) |
| Due within one to two years | **(8)** | **–** | **(8)** | (4) | (36) | (40) |
| Due within two to five years | **(54)** | **(158)** | **(212)** | (48) | (164) | (212) |
| Due after more than five years | **(271)** | **(38)** | **(309)** | (279) | (39) | (318) |
| | **(337)** | **(231)** | **(568)** | (379) | (254) | (633) |

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 2019 £m | Other borrowings 2019 £m | Total 2019 £m | Non-recourse project finance 2018 £m | Other borrowings 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|
| Expiring in one year or less | **–** | **–** | **–** | – | – | – |
| Expiring in more than one year but not more than two years | **–** | **–** | **–** | – | 400 | 400 |
| Expiring in more than two years | **–** | **375** | **375** | – | – | – |
| | **–** | **375** | **375** | – | 400 | 400 |

The Group completed its refinancing in October 2019 with the new facility extending through to October 2022. Two one-year extension options through to October 2024 are available to the Group, subject to lenders' approval. This facility was undrawn at 31 December 2019.

## 27 Cash and cash equivalents and borrowings continued

### 27.2 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 2019, US$305m (£231m) remain with an average coupon of 5.1% and a remaining average maturity of 3.1 years.

### 27.3 Company

| | Current 2019 £m | Non-current 2019 £m | Total 2019 £m | Current 2018 £m | Non-current 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|
| Cash and deposits | **288** | **–** | **288** | 134 | – | 134 |
| US private placement (Note 27.2) | **(35)** | **(196)** | **(231)** | – | (239) | (239) |
| **Net cash/(borrowings)** | **253** | **(196)** | **57** | 134 | (239) | (105) |

## 28 Lease liabilities

### 28.1 Movements

| | Land and buildings £m | Plant and equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|
| At 1 January 2019[2] | **75** | **14** | **40** | **129** |
| Currency translation differences | **(1)** | **–** | **–** | **(1)** |
| Additions | **11** | **10** | **21** | **42** |
| Payments made for lease liabilities+ | **(22)** | **(7)** | **(22)** | **(51)** |
| Disposals | **(1)** | **–** | **(4)** | **(5)** |
| Interest on lease liabilities | **3** | **1** | **2** | **6** |
| **At 31 December 2019** | **65** | **18** | **37** | **120** |

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1, 17 and 28).

+ Payments made for lease liabilities include an interest element of £6m.

### 28.2 Maturity analysis – contractual undiscounted cash flows

| | Land and buildings 2019 £m | Plant and equipment 2019 £m | Motor vehicles 2019 £m | Total 2019 £m |
|---|---|---|---|---|
| Due within one year | **19** | **17** | **7** | **43** |
| Due within one to two years | **14** | **11** | **5** | **30** |
| Due within two to five years | **24** | **11** | **6** | **41** |
| Due after more than five years | **20** | **–** | **2** | **22** |
| **Total undiscounted cash flows** | **77** | **39** | **20** | **136** |

### 28.3 Amounts recognised in the income statement

| | 2019 £m |
|---|---|
| Interest on lease liabilities | **6** |
| Expenses relating to short-term leases | **59** |

### 28.4 Reconciliation of operating lease commitments to lease liabilities at 1 January 2019

On transition to IFRS 16 Leases at 1 January 2019, the Group recognised right-of-use assets of £121m and lease liabilities of £129m. The difference was due to reclassifications made from existing balance sheet items in line with IFRS 16. There was no impact on opening equity on transition.

When measuring lease liabilities, the Group discounts lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied was 4.1%.

| | £m |
|---|---|
| Operating lease commitments at 31 December 2018 | **144** |
| Recognition exemption applied for short-term leases | **(5)** |
| Extension options reasonably certain to be exercised | **14** |
| Termination options reasonably certain to be exercised | **(5)** |
| Variable lease payments based on an index or rate | **(1)** |
| Discounted using the incremental borrowing rate at 1 January 2019 | **(18)** |
| **Lease liabilities recognised at 1 January 2019** | **129** |

## 29 Deferred tax

### 29.1 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 2019 £m** | Group 2018 £m | **Company 2019 £m** | Company 2018 £m |
|---|---|---|---|---|
| Deferred tax assets | **92** | 80 | **–** | – |
| Deferred tax liabilities | **(108)** | (90) | **–** | – |
| | **(16)** | (10) | **–** | – |

#### Movement for the year in the net deferred tax position

| | Group £m | Company £m |
|---|---|---|
| At 1 January 2018 | (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 34.3.4 and 34.3.6) | (1) | – |
| At 31 December 2018 | (10) | – |
| Currency translation differences | **4** | **–** |
| Charged to income statement | **(2)** | **–** |
| Charged to equity | **(8)** | **–** |
| **At 31 December 2019** | **(16)** | **–** |

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 2018 | 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 34.3.4 and 34.3.6) | 2 | – | (3) | – | – | – | – | – | – | – | (1) |
| At 31 December 2018 | 18 | (21) | 109 | 4 | 27 | (1) | (67) | 5 | (86) | 2 | (10) |
| Currency translation differences | **–** | **–** | **(1)** | **–** | **–** | **–** | **2** | **–** | **3** | **–** | **4** |
| Transfers | **–** | **–** | **3** | **(1)** | **(1)** | **–** | **–** | **1** | **(2)** | **–** | **–** |
| Credited/(charged) to income statement | **(1)** | **(5)** | **13** | **–** | **1** | **1** | **(10)** | **–** | **(1)** | **–** | **(2)** |
| Credited/(charged) to equity | **–** | **(8)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(8)** |
| **At 31 December 2019** | **17** | **(34)** | **124** | **3** | **27** | **–** | **(75)** | **6** | **(86)** | **2** | **(16)** |

# 29 Deferred tax continued

## 29.1 Group continued

### Net deferred tax position continued

At the reporting date the Group had unrecognised tax losses from operations (excluding capital losses) that arose over a numbers of years of approximately £540m (2018: £754m) which are available for offset against future profits. £8m (2018: £16m) will expire within 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 2020. The remaining losses may be carried forward indefinitely.

The Group has recognised deferred tax assets for UK corporation tax trading losses of £578m (2018: £405m) after derecognition of £17m in relation to prior years. The Group has UK corporation tax trading losses of £252m (2018: £437m) which are not recognised as deferred tax assets. As set out in Note 11, the Group has recognised £202m of additional UK tax losses in the period of which £12m were utilised in the current year. The Group also had temporary differences relating to retirement benefits on which a deferred tax asset has not been recognised of £49m (2018: £44m).

Deferred tax liabilities on fair value adjustments of £75m 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 of non-UK subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised were £605m (2018: £517m) in respect of subsidiaries and £42m (2018: £56m) 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.

## 29.2 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 2018 | (2) | – | 1 | (1) |
| Credited to income statement | 1 | – | – | 1 |
| At 31 December 2018 | (1) | – | 1 | – |
| Credited/(charged) to income statement | **1** | **–** | **(1)** | **–** |
| **At 31 December 2019** | **–** | **–** | **–** | **–** |

## 30 Retirement benefit assets and liabilities

### 30.1 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 30.2.

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 30.3.

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.

The Group operates a Scottish Limited Partnership (SLP) structure which holds the Group's 40% interest in the Birmingham Hospital PFI investment and the Group's 15% share of the Connect Plus (M25) asset. 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 the Birmingham Hospital PFI investment and the Connect Plus (M25) asset for other investments from time to time.

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 2019, the BBPF received distributions of £2m from the SLP (2018: £1m).

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2019. As a result, the Group will make deficit contributions of £11m in 2020; £17m in 2021; £22m in 2022 and £24m in 2023.

If the earnings cover for shareholder returns falls 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.

## 30 Retirement benefit assets and liabilities continued

### 30.1 Introduction continued

#### Railways Pension Scheme

The RPS is a shared cost scheme. The legal responsibility of the Group in the RPS is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing.

The assumed cost of providing future service benefits is split between the Group and the members in the ratio 60:40.

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. It has therefore 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's 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.

A formal triennial valuation of the RPS as at 31 December 2019 is currently underway.

#### Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe, the majority of which are closed to new entrants, and deferred compensation schemes in North America, where an element of employees' compensation is deferred and invested in investments in mutual funds (as disclosed in Note 20.1) 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.

#### Membership of the principal schemes

| | **Balfour Beatty Pension Fund 2019** | | | **Railways Pension Scheme 2019** | | | Balfour Beatty Pension Fund 2018 | | | Railways Pension Scheme 2018 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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 | **2** | **2** | **17** | **128** | **52** | **21** | 8 | 3 | 17 | 104 | 44 | 22 |
| – deferred pensioners | **10,638** | **1,607** | **23** | **1,159** | **162** | **21** | 11,121 | 1,602 | 22 | 1,217 | 137 | 22 |
| – pensioners, widow(er)s and dependants | **17,707** | **1,894** | **11** | **1,849** | **192** | **13** | 17,922 | 1,711 | 11 | 1,746 | 196 | 13 |
| Defined contribution | **13,845** | **–** | **–** | **–** | **–** | **–** | 13,582 | – | – | – | – | – |
| **Total** | **42,192** | **3,503** | **16** | **3,136** | **406** | **17** | 42,633 | 3,316 | 16 | 3,067 | 377 | 17 |

## 30 Retirement benefit assets and liabilities continued

### 30.2 IAS 19 accounting valuations

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

| | Balfour Beatty Pension Fund 2019 % | Railways Pension Scheme 2019 % | Balfour Beatty Pension Fund 2018 % | Railways Pension Scheme 2018 % |
|---|---|---|---|---|
| Discount rate | **1.95** | **1.95** | 2.80 | 2.80 |
| Inflation rate – RPI | **2.95** | **2.95** | 3.20 | 3.20 |
| – CPI | **2.10** | **2.20** | 2.20 | 2.20 |
| Future increases in pensionable salary | **2.10** | **2.20** | 2.20 | 2.20 |
| Rate of increase in pensions in payment (or such other rate as is guaranteed) | **2.80** | **2.30** | 2.95 | 2.30 |

In 2019, the Group performed a review of its equalisation methodology. This review highlighted that, following the Barber judgment in May 1990, some members with post 1990 benefits, retiring after normal pension age should have received the relevant benefit they could have received at their normal pension age with a late retirement factor. This late retirement factor was not previously applied and therefore some members may now need an increase in their benefits giving rise to an additional obligation in the BBPF scheme. The effect of the additional obligation, which amounted to £10m, was recognised within the statement of comprehensive income as an actuarial loss in 2019.

Following independent advice from the Group's actuaries and considering the correspondence between the Chancellor of the Exchequer and the UK Statistics Authority (UKSA) to potentially align the RPI with CPIH (a variant of the Consumer Prices Index that includes an estimate of housing costs), the Group reassessed the difference between RPI and CPI measures of price inflation from 1.0% at December 2018 to an average margin of 0.85% for BBPF and 0.75% for RPS at December 2019. This resulted in an actuarial loss of £35m 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 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 2019 have been updated to reflect the experience of Balfour Beatty pensioners for the four-year period to 30 September 2018. The mortality tables adopted for the 2019 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S3 tables 'middle' for males and 'heavy' for females (2018: SAPS S2 tables) with a multiplier of 110% for males and 102% for females (2018: 102% for male and female members and 106% for female widows and spouses); all with future improvements in line with the CMI 2018 core projection model, with default smoothing and initial addition parameters (2018: CMI 2017 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2018: 1.25% per annum and 1.00% per annum).

| | 2019 Average life expectancy at 65 years of age | | 2018 Average life expectancy at 65 years of age | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Members in receipt of a pension | **20.5** | **22.5** | 21.7 | 23.5 |
| Members not yet in receipt of a pension (current age 50) | **21.4** | **23.4** | 22.8 | 24.5 |

### 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 £531m (2018: £444m) have been excluded from the tables on pages 197 to 199. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

| | Balfour Beatty Pension Fund 2019 £m | Railways Pension Scheme 2019 £m | Other schemes 2019 £m | Total 2019 £m | Balfour Beatty Pension Fund 2018 £m | Railways Pension Scheme 2018 £m | Other schemes 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| Current service cost | **(2)** | **(1)** | **(1)** | **(4)** | (2) | (1) | (2) | (5) |
| Administrative expenses | **–** | **(1)** | **–** | **(1)** | – | (1) | – | (1) |
| Defined contribution charge | **(44)** | **–** | **(6)** | **(50)** | (45) | – | (5) | (50) |
| Included in employee costs (Note 7) | **(46)** | **(2)** | **(7)** | **(55)** | (47) | (2) | (7) | (56) |
| Past service cost as a result of GMP equalisation (Note 10.2.5) | **–** | **–** | **–** | **–** | (26) | (2) | – | (28) |
| Interest income | **95** | **9** | **–** | **104** | 92 | 8 | – | 100 |
| Interest cost | **(90)** | **(11)** | **(1)** | **(102)** | (87) | (10) | (1) | (98) |
| Net finance income/(cost) (Notes 8) | **5** | **(2)** | **(1)** | **2** | 5 | (2) | (1) | 2 |
| **Total charged to income statement** | **(41)** | **(4)** | **(8)** | **(53)** | (68) | (6) | (8) | (82) |

# 30 Retirement benefit assets and liabilities continued

## 30.2 IAS 19 accounting valuations continued

### Amounts recognised in the Statement of Comprehensive Income

| | **Balfour Beatty Pension Fund 2019 £m** | **Railways Pension Scheme 2019 £m** | **Other schemes 2019 £m** | **Total 2019 £m** | Balfour Beatty Pension Fund 2018 £m | Railways Pension Scheme 2018 £m | Other schemes 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|---|---|
| Actuarial movements on pension scheme obligations | **(251)** | **(30)** | **(5)** | **(286)** | 123 | 11 | 5 | 139 |
| Actuarial movements on pension scheme assets | **300** | **29** | **–** | **329** | (108) | (9) | – | (117) |
| **Total actuarial movements recognised in the Statement of Comprehensive Income (Note 32.1)** | **49** | **(1)** | **(5)** | **43** | 15 | 2 | 5 | 22 |
| Cumulative actuarial movements recognised in the statement of comprehensive income | **(69)** | **(67)** | **(27)** | **(163)** | (118) | (66) | (22) | (206) |

The actual return on plan assets was a gain of £433m (2018: £17m loss).

### Amounts recognised in the Balance Sheet

| | **Balfour Beatty Pension Fund 2019 £m** | **Railways Pension Scheme 2019 £m** | **Other schemes† 2019 £m** | **Total 2019 £m** | Balfour Beatty Pension Fund 2018 £m | Railways Pension Scheme 2018 £m | Other schemes† 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|---|---|
| Present value of obligations | **(3,503)** | **(406)** | **(50)** | **(3,959)** | (3,316) | (377) | (49) | (3,742) |
| Fair value of plan assets | **3,752** | **340** | **–** | **4,092** | 3,487 | 309 | – | 3,796 |
| **Asset/(liabilities) in the balance sheet** | **249** | **(66)** | **(50)** | **133** | 171 | (68) | (49) | 54 |

† Investments in mutual funds of £22m (2018: £21m) are held to satisfy the Group's deferred compensation obligations (Note 20.1).

The defined benefit obligations comprise £50m (2018: £49m) arising from wholly unfunded plans and £3,909m (2018: £3,693m) arising from plans that are wholly or partly funded.

### Movement in the present value of obligations

| | **Balfour Beatty Pension Fund 2019 £m** | **Railways Pension Scheme 2019 £m** | **Other schemes 2019 £m** | **Total 2019 £m** | Balfour Beatty Pension Fund 2018 £m | Railways Pension Scheme 2018 £m | Other schemes 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January | **(3,316)** | **(377)** | **(49)** | **(3,742)** | (3,512) | (391) | (53) | (3,956) |
| Currency translation differences | **–** | **–** | **2** | **2** | – | – | (2) | (2) |
| Current service cost | **(2)** | **(1)** | **(1)** | **(4)** | (2) | (1) | (2) | (5) |
| Past service cost as a result of GMP equalisation | **–** | **–** | **–** | **–** | (26) | (2) | – | (28) |
| Interest cost | **(90)** | **(11)** | **(1)** | **(102)** | (87) | (10) | (1) | (98) |
| Actuarial movements from reassessing the difference between RPI and CPI | **(20)** | **(15)** | **–** | **(35)** | (12) | (4) | – | (16) |
| Other financial actuarial movements | **(368)** | **(40)** | **(5)** | **(413)** | 115 | 13 | 5 | 133 |
| Actuarial movements from changes in demographic assumptions | **190** | **25** | **–** | **215** | 23 | 3 | – | 26 |
| Experience losses | **(53)** | **–** | **–** | **(53)** | (3) | (1) | – | (4) |
| Total actuarial movements | **(251)** | **(30)** | **(5)** | **(286)** | 123 | 11 | 5 | 139 |
| Benefits paid | **156** | **13** | **4** | **173** | 188 | 16 | 4 | 208 |
| **At 31 December** | **(3,503)** | **(406)** | **(50)** | **(3,959)** | (3,316) | (377) | (49) | (3,742) |

## 30 Retirement benefit assets and liabilities continued

### 30.2 IAS 19 accounting valuations continued

#### Movement in the fair value of plan assets

| | **Balfour Beatty Pension Fund 2019 £m** | **Railways Pension Scheme 2019 £m** | **Total 2019 £m** | Balfour Beatty Pension Fund 2018 £m | Railways Pension Scheme 2018 £m | Total 2018 £m |
|---|---|---|---|---|---|---|
| At 1 January | **3,487** | **309** | **3,796** | 3,668 | 320 | 3,988 |
| Interest income | **95** | **9** | **104** | 92 | 8 | 100 |
| Actuarial movements | **300** | **29** | **329** | (108) | (9) | (117) |
| Contributions from employer | | | | | | |
| – regular funding | **2** | **1** | **3** | 2 | 1 | 3 |
| – ongoing deficit funding+ | **24** | **6** | **30** | 21 | 6 | 27 |
| Administrative expenses | **–** | **(1)** | **(1)** | – | (1) | (1) |
| Benefits paid | **(156)** | **(13)** | **(169)** | (188) | (16) | (204) |
| **At 31 December** | **3,752** | **340** | **4,092** | 3,487 | 309 | 3,796 |

\+ Ongoing deficit funding contributions in 2019 presented above for BBPF of £24m are less than the amounts prescribed in the funding agreement of £28m due to £4m of BBPF running costs which are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

#### Fair value of the assets held by the schemes at 31 December

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Balfour Beatty Pension Fund £m** | **Railways Pension Scheme† £m** | **Total £m** | Balfour Beatty Pension Fund £m | Railways Pension Scheme† £m | Total £m |
| Return-seeking | **1,168** | **191** | **1,359** | 1,114 | 170 | 1,284 |
| – Developed nation equities | **369** | **–** | **369** | 297 | – | 297 |
| – Emerging market equities | **38** | **–** | **38** | 28 | – | 28 |
| – Hedge funds | **354** | **–** | **354** | 361 | – | 361 |
| – Return-seeking growth pooled funds | **–** | **191** | **191** | – | 170 | 170 |
| – Other return-seeking assets | **407** | **–** | **407** | 428 | – | 428 |
| Liability-matching bond-type assets | **1,991** | **149** | **2,140** | 1,784 | 139 | 1,923 |
| – Corporate bonds | **426** | **–** | **426** | 456 | – | 456 |
| – Fixed interest gilts^ | **623** | **–** | **623** | 456 | – | 456 |
| – Index-linked gilts^ | **824** | **–** | **824** | 719 | – | 719 |
| – Liability-matching pooled funds | **–** | **149** | **149** | – | 139 | 139 |
| – Interest and inflation rate swaps | **118** | **–** | **118** | 153 | – | 153 |
| Property | **231** | **–** | **231** | 194 | – | 194 |
| Secure income assets | **177** | **–** | **177** | 177 | – | 177 |
| Other | **185** | **–** | **185** | 218 | – | 218 |
| **Total** | **3,752** | **340** | **4,092** | 3,487 | 309 | 3,796 |

† The amounts represent 100% of the scheme's assets.

^ Of the assets above, £1,447m (2018: £1,175m) 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 2020

| | **Balfour Beatty Pension Fund 2020 £m** | **Railways Pension Scheme 2020 £m** | **Total 2020 £m** |
|---|---|---|---|
| Regular funding | **1** | **2** | **3** |
| Ongoing deficit funding+ | **11** | **6** | **17** |
| Total required by schedule of contributions | **12** | **8** | **20** |
| Estimated BBPF running costs to be funded from ongoing deficit contributions* | **(3)** | **–** | **(3)** |
| **Estimated total cash contributions** | **9** | **8** | **17** |

* The running costs of the BBPF are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

\+ Ongoing deficit funding contributions presented above for BBPF in 2020 are less than the amounts prescribed in the funding agreement due to overpaid contributions in 2019.

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.

## 30 Retirement benefit assets and liabilities continued

### 30.2 IAS 19 accounting valuations continued

Sensitivity of the Group's retirement benefit obligations at 31 December 2019 to different actuarial assumptions

| | Percentage points/ Years | (Decrease)/ increase in obligations % | (Decrease)/ increase in obligations £m |
|---|---|---|---|
| Increase in discount rate | **0.5%** | **(7.5)%** | **(294)** |
| Increase in market expectation of RPI inflation | **0.5%** | **5.6%** | **220** |
| Increase in salary growth | **0.5%** | **0.0%** | **1** |
| Increase in life expectancy | **1 year** | **4.9%** | **191** |

Sensitivity of the Group's retirement benefit assets at 31 December 2019 to changes in market conditions

| | Percentage points | (Decrease)/ increase in assets % | (Decrease)/ increase in assets £m |
|---|---|---|---|
| Increase in interest rates | **0.5%** | **(7.8)%** | **(321)** |
| Increase in market expectation of RPI inflation | **0.5%** | **4.7%** | **194** |

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

| | **2019 £m** | 2018 £m | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|---|---|
| Present value of obligations | **(3,959)** | (3,742) | (3,956) | (4,155) | (3,397) |
| Fair value of assets | **4,092** | 3,796 | 3,988 | 3,924 | 3,251 |
| Surplus/(deficit) | **133** | 54 | 32 | (231) | (146) |
| Experience adjustment for obligations | **(53)** | (4) | 21 | 76 | 1 |
| Experience adjustment for assets | **329** | (117) | 148 | 704 | (154) |
| Total deficit funding | **30** | 27 | 25 | 41 | 66 |

### 30.3 Latest formal triennial funding valuations

| | Balfour Beatty Pension Fund £m | Railways Pension Scheme £m |
|---|---|---|
| Date of last formal triennial funding valuation | 31/03/2019 | 31/12/2016 |
| **Scheme deficit** | | |
| Market value of assets | 4,136 | 319 |
| Present value of obligations | (4,228) | (367) |
| Deficit in defined benefit scheme | (92) | (48) |
| Funding level | 97.8% | 86.9% |

## 31 Share capital

### 31.1 Ordinary shares of 50p each

| | Issued | |
|---|---|---|
| | Million | £m |
| At 31 December 2018 and 2019 | **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.

### 31.2 Cumulative convertible redeemable preference shares of 1p each

| | Issued | |
|---|---|---|
| | Million | £m |
| At 31 December 2018 and 2019 | **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 2019 in respect of the six months ended 30 June 2019. A preference dividend of 5.375p per cumulative convertible redeemable preference share of 1p was paid on 1 January 2020 in respect of the six months ended 31 December 2019.

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 2019 (2018: £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

| | 2019 £m | 2018 £m |
|---|---|---|
| Redemption value of shares in issue at 1 January | **112** | 112 |
| Equity component | **(18)** | (18) |
| Interest element | **12** | 9 |
| Liability component at 1 January at amortised cost | **106** | 103 |
| Interest accretion | **4** | 3 |
| Liability component at 31 December at amortised cost | **110** | 106 |

The fair value of the liability component of the preference shares at 31 December 2019 amounted to £116m (2018: £120m). 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.

## 32 Movements in equity

### 32.1 Group

| | Called-up share capital 2019 £m | Share premium account 2019 £m | Special reserve 2019 £m | Other reserves: Share of joint ventures' and associates' reserves (Note 19.6) 2019 £m | Other reserves: Equity component of preference shares and convertible bonds 2019 £m | Other reserves: Hedging reserves 2019 £m | Other reserves: PPP financial assets 2019 £m | Other reserves: Currency translation reserve 2019 £m | Other reserves: Other 2019 £m | Retained profits 2019 £m | Non-controlling interests 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 31 December 2018 | **345** | **65** | **22** | **63** | **18** | **(25)** | **24** | **123** | **22** | **574** | **10** | **1,241** |
| Adjustment as a result of transitioning to IFRIC 23 on 1 January 2019[3] | – | – | – | – | – | – | – | – | – | 1 | – | 1 |
| Adjusted equity at 1 January 2019 | **345** | **65** | **22** | **63** | **18** | **(25)** | **24** | **123** | **22** | **575** | **10** | **1,242** |
| Profit for the year | – | – | – | 66 | – | – | – | – | – | 64 | 3 | 133 |
| Currency translation differences | – | – | – | (7) | – | – | – | (12) | – | – | – | (19) |
| Actuarial movements on retirement benefit liabilities | – | – | – | 2 | – | – | – | – | – | 43 | – | 45 |
| Fair value revaluations | | | | | | | | | | | | |
| – PPP financial assets | – | – | – | 24 | – | – | 3 | – | – | – | – | 27 |
| – cash flow hedges | – | – | – | 2 | – | (4) | – | – | – | – | – | (2) |
| – investments in mutual funds measured at fair value through OCI | – | – | – | – | – | – | – | – | 2 | – | – | 2 |
| Recycling of revaluation reserves to the income statement on disposal[@] | – | – | – | (2) | – | – | – | (2) | – | – | – | (4) |
| Tax on items recognised in other comprehensive income[@] | – | – | – | (6) | – | – | – | – | – | (8) | – | (14) |
| Total comprehensive income/(loss) for the year | – | – | – | 79 | – | (4) | 3 | (14) | 2 | 99 | 3 | 168 |
| Ordinary dividends | – | – | – | – | – | – | – | – | – | (36) | – | (36) |
| Joint ventures' and associates' dividends | – | – | – | (95) | – | – | – | – | – | 95 | – | – |
| Non-controlling interests' dividends | – | – | – | – | – | – | – | – | – | – | (4) | (4) |
| Movements relating to share-based payments | – | – | – | – | – | – | – | – | (7) | 14 | – | 7 |
| Reserve transfers relating to joint venture and associate disposals | – | – | – | (1) | – | – | – | – | – | 1 | – | – |
| **At 31 December 2019** | **345** | **65** | **22** | **46** | **18** | **(29)** | **27** | **109** | **17** | **748** | **9** | **1,377** |

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

3 The Group adopted IFRIC 23 Uncertainty over Tax Treatments on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Note 2.1).

## 32 Movements in equity continued

### 32.1 Group continued

| | | | | Other reserves | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Called-up share capital 2018 £m | Share premium account 2018 £m | Special reserve 2018 £m | Share of joint ventures' and associates' reserves (Note 19.6) 2018 £m | Equity component of preference shares and convertible bonds 2018 £m | Hedging reserves 2018 £m | PPP financial assets 2018 £m | Currency translation reserve 2018 £m | Other 2018 £m | Retained profits 2018 £m | Non-controlling interests 2018 £m | Total 2018 £m |
| 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.

## 32 Movements in equity continued

### 32.2 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 2018 | 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 |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **(30)** | **(30)** |
| Currency translation differences | **–** | **–** | **–** | **–** | **–** | **3** | **3** |
| Total comprehensive loss for the year | **–** | **–** | **–** | **–** | **–** | **(27)** | **(27)** |
| Ordinary dividends | **–** | **–** | **–** | **–** | **–** | **(36)** | **(36)** |
| Movements relating to share-based payments | **–** | **–** | **–** | **–** | **8** | **(1)** | **7** |
| **At 31 December 2019** | **345** | **65** | **22** | **18** | **95** | **809** | **1,354** |

As permitted under Section 408 of the Companies Act 2006, the Company has elected not to present its Statement of Comprehensive Income (including the profit and loss account) for the year. Balfour Beatty plc reported a loss for the financial year ended 31 December 2019 of £30m (2018: £362m profit).

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £nil occurred in 2019 (2018: £nil).

### 32.3 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 2019, 0.9m (2018: 1.5m) shares were purchased at a cost of £2.0m (2018: £4.0m). The market value of the 3.7m (2018: 6.4m) shares held by the Trust at 31 December 2019 was £9.6m (2018: £15.9m). The carrying value of these shares is £9.3m (2018: £16.2m).

Following confirmation of the performance criteria at the end of the performance period in the case of the Performance Share Plan, 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 2019, 2.1m shares were transferred to participants in relation to the April 2016 awards under the Performance Share Plan (2018: 3.0m shares were transferred to participants in relation to the June 2015 awards under the Performance Share Plan), 0.6m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2018: 0.6m shares) and 0.9m shares were transferred to participants in relation to awards under the Restricted Share Plan (2018: 0.7m). In 2018, 0.5m shares were transferred to participants in relation to the January 2015 awards under the Executive Buyout Scheme, which finished in that year.

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 £7.2m (2018: £7.5m) relating to unvested Performance Share Plan awards, £4.1m (2018: £3.5m) relating to unvested Restricted Share Plan awards and £2.4m (2018: £2.6m) relating to unvested Deferred Bonus Plan awards.

# 33 Notes to the statement of cash flows

## 33.1 Cash from/(used in) operations

| | Notes | Underlying items[1] 2019 £m | Non-underlying items 2019 £m | 2019 £m | 2018 £m |
|---|---|---|---|---|---|
| Profit/(loss) from operations | | **221** | **(62)** | **159** | 147 |
| Share of results of joint ventures and associates | 19 | **(66)** | **–** | **(66)** | (23) |
| Depreciation of property, plant and equipment | 16 | **28** | **–** | **28** | 28 |
| Depreciation of right-of-use assets[2] | 17 | **45** | **–** | **45** | – |
| Depreciation of investment properties | 18 | **1** | **–** | **1** | 1 |
| Amortisation of other intangible assets | 15 | **11** | **6** | **17** | 20 |
| Impairment of goodwill | 14 | **–** | **58** | **58** | – |
| Impairment of IT intangible assets | 15 | **–** | **–** | **–** | 2 |
| Impairment of property, plant and equipment | 16 | **8** | **–** | **8** | 2 |
| Pension payments including deficit funding | 30.2 | **(33)** | **–** | **(33)** | (30) |
| Movements relating to equity-settled share-based payments | 35 | **10** | **–** | **10** | 8 |
| Gain on disposal of infrastructure investments | 34.2 | **(40)** | **–** | **(40)** | (80) |
| Net gain on disposal of other businesses | 34.3 | **–** | **–** | **–** | (3) |
| Loss on disposal of investment properties | | **–** | **–** | **–** | 2 |
| Profit on disposal of property, plant and equipment | | **(6)** | **–** | **(6)** | (5) |
| Loss on GMP equalisation | | **–** | **–** | **–** | 28 |
| Other non-cash items | | **(1)** | **–** | **(1)** | – |
| Operating cash flows before movements in working capital | | **178** | **2** | **180** | 97 |
| Decrease/(increase) in operating working capital | | | | **32** | (229) |
| Inventories | | | | **(18)** | (16) |
| Contract assets | | | | **(19)** | 53 |
| Trade and other receivables | | | | **(56)** | 12 |
| Contract liabilities | | | | **(11)** | (2) |
| Trade and other payables | | | | **157** | (196) |
| Provisions | | | | **(21)** | (80) |
| **Cash from/(used in) operations** | | | | **212** | (132) |

1 Before non-underlying items (Notes 2.10 and 10).

2 The Group adopted IFRS 16 Leases on 1 January 2019 retrospectively with the cumulative effect of initial application recognised as an adjustment to opening equity (Notes 2.1, 17 and 28).

## 33.2 Cash and cash equivalents

| | Group 2019 £m | Group 2018 £m | Company 2019 £m | Company 2018 £m |
|---|---|---|---|---|
| Cash and deposits | **589** | 587 | **137** | 133 |
| Term deposits | **154** | 4 | **151** | 1 |
| Cash balances within infrastructure concessions | **35** | 70 | **–** | – |
| | **778** | 661 | **288** | 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.

## 33.3 Analysis of movements in borrowings

| | Infrastructure concessions non-recourse project finance £m | US private placement £m | Convertible bonds £m | Other £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2018 | (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 34.3.4 and 34.3.6) | 61 | – | – | – | 61 |
| Amortisation of arrangement fees | – | – | – | (1) | (1) |
| At 31 December 2018 | (379) | (239) | – | (15) | (633) |
| Currency translation differences | **–** | **8** | **–** | **–** | **8** |
| Proceeds of loans | **(6)** | **–** | **–** | **–** | **(6)** |
| Repayments of loans | **48** | **–** | **–** | **15** | **63** |
| **At 31 December 2019** | **(337)** | **(231)** | **–** | **–** | **(568)** |

## 33 Notes to the statement of cash flows continued

### 33.3 Analysis of movements in borrowings continued

In 2019, the Group repaid non-recourse and recourse loans amounting to £45m and £15m respectively following the disposal of its interests in BBCS-Hawkeye Housing LLC (Iowa) and the student accommodation asset in Reno.

The Group refinanced its revolving credit facilities in October 2019, entering into a £375m agreement that extends to October 2022. Two one-year extension options through to October 2024 are available to the Group, subject to lenders' approval. As at 31 December 2019, the Group's revolving credit facility was undrawn.

## 34 Acquisitions and disposals

### 34.1 Current and prior year acquisitions

There were no material acquisitions in 2019 and 2018.

Deferred consideration paid during 2019 in respect of acquisitions completed in earlier years was £3m (2018: £3m). This related to the Group's acquisition of Centex Construction in 2007.

### 34.2 Current year disposals

During the year, the Group disposed of several Infrastructure Investments assets as detailed below. These disposals were either structured as a sale of the infrastructure investment asset itself or through the sale of the Group's equity interest in the entity which owns the asset.

The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates.

| Notes | Disposal date | Entity/asset | Structure of sale | Percentage disposed % | Cash consideration £m | Net assets disposed £m | Amount recycled from reserves £m | Underlying gain £m |
|---|---|---|---|---|---|---|---|---|
| 34.2.1 | 2 January 2019 | Ranch at Pinnacle Point+ | Asset sale | n/a | 8 | (5) | 1 | 4 |
| 34.2.2 | 1 February 2019 | Borden Data Centre^ | Asset sale | n/a | 6 | (3) | – | 3 |
| 34.2.3 | 13 February to 28 March 2019 | Dallas 5 Portfolio^ | Asset sale | n/a | 11 | (4) | 1 | 8 |
| 34.2.4 | 28 March 2019 | Mobile Alabama portfolio^ | Asset sale | n/a | 5 | (2) | – | 3 |
| 34.2.5 | 18 September 2019 | THP Partnership (North Island Hospitals)# | Equity interest sale | 50 | 17 | (11) | 1 | 7 |
| 34.2.6 | 27 September 2019 | BBCS-Hawkeye Housing LLC (Iowa)& | Equity interest sale | 100 | 60 | (44) | – | 16 |
| 34.2.7 | 30 September 2019 | Gammon Capital (West) Holdings Pte. Ltd^ | Equity interest sale | 50 | 25 | (17)~ | 1 | 9 |
| 34.2.8 | 10 October 2019 | Evergreen portfolio^ | Asset sale | n/a | 8 | (2) | – | 6 |
| 34.2.9 | 5 December 2019 | Townlake of Coppell# | Equity interest sale | 10 | 5 | (2) | – | 3 |
| 34.2.10 | 16 December 2019 | Reno student accommodation+ | Asset sale | – | 22 | (15) | – | 7 |
| 34.2.11 | | Other | | n/a | 3 | – | – | 3 |
| | | | | | 170∞ | (105) | 4 | 69 |
| | Less: Repayment of debt following disposal of Iowa and Reno assets | | | | (60) | | | |
| | Less: Cash proceeds not included in the Directors' valuation@ | | | | (7) | | | |
| | Less: Cash and cash equivalents disposed relating to Iowa | | | | (1) | | | |
| | Disposal proceeds per the Directors' valuation (pages 36 and 37) | | | | 102 | | | |

\+ Disposal of asset within a subsidiary entity.

^ Disposal of asset within a joint venture entity. The disposal of Gammon ITE West was structured as a disposal of equity interests in Gammon Capital (West) Holdings Pte Ltd within a joint venture entity.

# Disposal of joint venture.

& Disposal of subsidiary.

∞ Proceeds from the sale within joint venture entities are included within Dividends received from joint ventures and associates – infrastructure investments and within Return of equity from joint ventures and associates in the statement of cash flows. The proceeds shown above include a non-controlling interest element of £4m relating to the disposal of the Group's Dallas 5 Portfolio asset.

~ Net assets disposed include £8m of subordinated debt receivable which was settled as part of the disposal.

@ Sales proceeds per the Directors' valuation do not include the £2m additional sales proceeds received in relation to the Group's disposal of its 50% interest in Consort Healthcare (Fife) Holdings Ltd, the £1m deferred consideration received in relation to the Group's disposal of its Middle Eastern joint ventures and the £4m element of consideration attributable to a non-controlling interest relating to the disposal of the Group's Dallas 5 Portfolio asset.

## 34 Acquisitions and disposals continued

### 34.2 Current year disposals continued

34.2.1 On 2 January 2019, the Group disposed of its Ranch at Pinnacle Point asset, a 392-unit residential property located in Rogers, Arkansas, for a cash consideration of £8m. The asset disposal resulted in a gain of £4m being recognised in underlying operating profit, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal.

34.2.2 On 1 February 2019, the Group disposed of its Borden data centre asset located in Ontario, Canada for a total consideration of £6m. The asset disposal resulted in a gain of £3m being recognised in the Group's share of joint ventures and associates.

34.2.3 On 13 February 2019, 15 March 2019, 22 March 2019 and 28 March 2019, the Group disposed of its Dallas 5 Portfolio asset, a 1,593-unit residential portfolio located throughout Dallas, Texas, for a total consideration of £11m. These asset disposals resulted in a gain of £8m being recognised in the Group's share of joint ventures and associates, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal. Part of the consideration and gain recognised by the Group is attributable to a non-controlling interest, amounting to £4m cash consideration and £2m gain respectively.

34.2.4 On 28 March 2019, the Group disposed of its Mobile Alabama portfolio, a 320-unit residential property portfolio located in Mobile, Alabama, for a total cash consideration of £5m. The asset disposal resulted in a gain of £3m being recognised in the Group's share of joint ventures and associates.

34.2.5 On 18 September 2019, the Group disposed of its entire 50% interest in North Island Hospitals, the concession for two Acute Care Centres on Vancouver Island, British Columbia. The infrastructure concession was disposed for a cash consideration of £17m and resulted in a gain being recognised in underlying operating profit of £7m, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal.

34.2.6 On 27 September 2019, the Group disposed of its entire 100% interest in BBCS-Hawkeye Housing LLC (Iowa) for cash consideration of £60m. This disposal resulted in a gain of £16m being recognised in underlying operating profit. The disposal included cash disposed of £1m.

34.2.7 On 30 September 2019, the Group disposed of its entire 50% interest in Gammon Capital (West) Holdings Pte. Ltd for cash consideration of £25m. This disposal resulted in a gain of £9m being recognised in the Group's share of joint ventures and associates, including gains of £1m and £8m in respect of foreign currency translation and PPP financial asset reserves respectively, and a loss of £8m in respect of hedging reserves, recycled to the income statement on disposal.

34.2.8 On 10 October 2019, the Group disposed of its Evergreen portfolio, a 882-unit residential property portfolio located in Atlanta, Georgia for cash consideration of £8m. The asset disposal resulted in a gain of £6m being recognised in the Group's share of joint ventures and associates.

34.2.9 On 5 December 2019, the Group disposed of its entire 10% interest in Coppell Properties, LLC (Townlake of Coppell) for a cash consideration of £5m. This disposal resulted in a gain of £3m being recognised in underlying operating profit.

34.2.10 On 16 December 2019, the Group disposed of its Reno student accommodation asset for cash consideration of £22m. This disposal resulted in a gain of £7m being recognised in underlying operating profit.

34.2.11 In 2019, the Group received an additional £2m of proceeds, with a further £1m being deferred into future periods, relating to its disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. The additional proceeds relate to the earn-out agreement that was entered into with the buyer as part of the disposal. At the time of the 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 of £3m has been recognised as an underlying gain consistent with the Group's treatment of the gain on disposal previously recognised.

The Group also received £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

#### 34.2.12 Subsidiaries net assets disposed

| **Net assets disposed** | Note | **BBCS-Hawkeye Housing LLC (Iowa) £m** |
|---|---|---|
| Property, plant and equipment | 16 | **44** |
| Trade and other payables | | **(1)** |
| Cash | | **1** |
| | | **44** |
| Cash consideration | | **(60)** |
| **Gain on disposal** | | **(16)** |
| **Net cash flow effect** | | |
| Total consideration | | **60** |
| Cash and cash equivalents disposed | | **(1)** |
| **Net cash consideration** | | **59** |

## 34 Acquisitions and disposals continued

### 34.3 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 |
|---|---|---|---|---|---|---|---|---|
| 34.3.1 | 19 February 2018 | Connect Plus (M25) Holdings Ltd# | 5% | 42 | (41) | 21 | – | 22 |
| 34.3.2 | 18 September 2018 | Consort Healthcare (Fife) Holdings Ltd# | 50% | 43 | (3)+ | (17) | – | 23 |
| 34.3.3 | 30 November 2018 | Nesbit Palisades^ | n/a | 4 | (2) | – | – | 2 |
| 34.3.4 | 17 December 2018 | Holyrood Holdings Ltd* | 80% | 24 | (7) | – | 5 | 22 |
| 34.3.5 | 28 December 2018 | Northside Campus Partners LP# | 81% | 13 | (1) | 1 | – | 13 |
| | | | | 126& | (54) | 5 | 5 | 82 |

* Disposal of subsidiary.

\# Disposal of a joint venture.

^ Disposal of asset within a joint venture entity.

\+ Net assets disposed include £4m of 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 10.2.7) and £1m of deferred cash consideration received in respect of the Group's disposal of its Middle Eastern joint ventures in 2017.

34.3.1 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 Ltd.

34.3.2 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.

34.3.3 On 30 November 2018, the Group disposed of its Nesbit Palisades asset for a total cash consideration of £4m. This resulted in a gain of £2m being recognised in the Group's share of joint ventures and associates.

34.3.4 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.

34.3.5 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.

### 34.3.6 Prior year subsidiaries net assets disposed

| **Net assets disposed** | Notes | Holyrood Holdings Ltd £m |
|---|---|---|
| Intangible assets – other | 15 | 72 |
| Deferred taxation | 29.1 | 1 |
| Trade and other payables | | (7) |
| Cash | | 3 |
| Non-recourse borrowings | 33.3 | (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 |

## 35 Share-based payments

The Company operates three equity-settled share-based payment arrangements, namely the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP) and the Restricted Share Plan (RSP). The remaining awards under the Executive Buyout Scheme (EBS) were closed out in 2018. The Group recognised total expenses relating to equity-settled share-based payment transactions of £10m in 2019 (2018: £8m). Refer to the Remuneration report for details of the PSP and DBP schemes.

In 2017, the Company introduced two cash-settled share-based payment arrangements, namely the Shadow PSP (SPSP) and the Shadow RSP (SRSP). In 2018, the Company introduced the Shadow Deferred Bonus Plan (SDBP) cash-settled share based payment arrangement. These share-based payment arrangements mirror the conditions of the equity-settled PSP, RSP and DBP plans, the only difference being they are settled in cash. The Group recognised total expenses relating to cash-settled share-based payment transactions of £6m in 2019.

### Movements in share plans

#### Equity-settled share-based payment awards

| 2019 number of awards | PSP conditional awards | DBP conditional awards | RSP conditional awards |
|---|---|---|---|
| Outstanding at 1 January | **9,228,854** | **1,839,625** | **3,283,682** |
| Granted during the year | **3,491,337** | **720,664** | **1,540,549** |
| Awards in lieu of dividends | **–** | **41,745** | **74,051** |
| Forfeited during the year | **(1,721,747)** | **(71,534)** | **(349,718)** |
| Exercised during the year | **(1,990,363)** | **(634,330)** | **(852,789)** |
| Expired during the year | **–** | **–** | **–** |
| **Outstanding at 31 December** | **9,008,081** | **1,896,170** | **3,695,775** |
| **Exercisable at 31 December** | **–** | **–** | **–** |
| **Weighted average remaining contractual life (years)** | **1.3** | **1.4** | **1.6** |
| **Weighted average share price at the date of exercise for awards exercised in the year** | **259.6p** | **262.0p** | **245.3p** |

| 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 |

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 2019 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 |
|---|---|---|---|---|---|---|
| 28 March 2019 | PSP award | **257.1** | **24.88%** | **3.0** | **0.64** | **139.0** |

For the 66.7% of the PSP awards granted in 2019 subject to non-market conditions and for the DBP and RSP awards granted in 2019, the fair value of the awards is the closing share price on the date of grant.

#### Cash-settled share-based payment awards

| 2019 number of awards | SPSP conditional awards | SDBP conditional awards | SRSP conditional awards |
|---|---|---|---|
| Outstanding at 1 January | **5,771,435** | **–** | **369,754** |
| Granted during the year | **3,139,866** | **321,573** | **724,621** |
| Awards in lieu of dividends | **–** | **7,164** | **25,992** |
| Forfeited during the year | **(695,032)** | **–** | **(18,314)** |
| Exercised during the year | **(444,328)** | **–** | **–** |
| Expired during the year | **–** | **–** | **–** |
| **Outstanding at 31 December** | **7,771,941** | **328,737** | **1,102,053** |
| **Exercisable at 31 December** | **–** | **–** | **–** |
| **Weighted average remaining contractual life (years)** | **1.3** | **2.3** | **2.0** |
| **Weighted average share price at the date of exercise for awards exercised in the year** | **261.4p** | **–** | **–** |

## 35 Share-based payments continued
### Movements in share plans continued
Cash-settled share-based payment awards continued

| 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 | – | – |

## 36 Commitments
Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £7m (2018: £7m) in the Group and £nil (2018: £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 41(f).

## 37 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.

In June 2019, allegations about the handling of certain work orders were publicised on bases managed by the Group's subsidiary, Balfour Beatty Communities (BBC) in North America. The Group instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct an investigation into the allegations, and BBC proactively contacted the Department of Justice (DoJ) to notify them of the review. The DoJ subsequently commenced an investigation and BBC is co-operating fully. At this stage, the investigation is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum. If these allegations into the handling of certain work orders are proven to have occurred, this may result in possible fines and/or repayment of a portion of these historical incentive fees.

## 38 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 £334m (2018: £269m). 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 24 and 25 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.

| | **2019 £m** | 2018 £m |
|---|---|---|
| **Anglian Water Group Ltd** | | |
| Sale of goods and services | **19** | 26 |
| Amounts owed by related parties | **–** | – |
| **URENCO Ltd** | | |
| Sale of goods and services | **2** | 19 |
| 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.

## 38 Related party transactions continued

### Compensation of key management personnel of the Company

| | 2019 £m | 2018 £m |
|---|---|---|
| Short-term benefits | **3.034** | 2.724 |
| Share-based payments | **1.314** | 1.728 |
| | **4.348** | 4.452 |

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 2020 Remuneration report on pages 116 to 137.

## 39 Events after the reporting date

As at 10 March 2020, there were no material post balance sheet events arising after the reporting date.

## 40 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 31.1 and 32; convertible redeemable preference shares as disclosed in Note 31.2; US private placement as disclosed in Note 27; and cash and cash equivalents and borrowings as disclosed in Note 27.

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 2018.

### Categories of financial instruments

| | Loans and receivables at amortised cost, cash and deposits 2019 £m | Financial liabilities at amortised cost 2019 £m | Financial assets at fair value through OCI 2019 £m | Financial assets at amortised cost 2019 £m | Derivatives 2019 £m | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | |
| Fixed rate bonds and treasury stock | **–** | **–** | **–** | **5** | **–** | – | – | – | 9 | – |
| Mutual funds | **–** | **–** | **22** | **–** | **–** | – | – | 21 | – | – |
| PPP financial assets | **–** | **–** | **155** | **–** | **–** | – | – | 156 | – | – |
| Cash and deposits | **778** | **–** | **–** | **–** | **–** | 661 | – | – | – | – |
| Trade and other receivables | **1,109** | **–** | **–** | **–** | **–** | 1,084 | – | – | – | – |
| Derivatives | **–** | **–** | **–** | **–** | **–** | – | – | – | – | 1 |
| **Total** | **1,887** | **–** | **177** | **5** | **–** | 1,745 | – | 177 | 9 | 1 |
| **Financial liabilities** | | | | | | | | | | |
| Liability component of preference shares | **–** | **(110)** | **–** | **–** | **–** | – | (106) | – | – | – |
| Trade and other payables | **–** | **(1,570)** | **–** | **–** | **–** | – | (1,484) | – | – | – |
| Unsecured borrowings | **–** | **(231)** | **–** | **–** | **–** | – | (254) | – | – | – |
| Infrastructure concessions non-recourse term loans | **–** | **(337)** | **–** | **–** | **–** | – | (379) | – | – | – |
| Derivatives | **–** | **–** | **–** | **–** | **(32)** | – | – | – | – | (29) |
| **Total** | **–** | **(2,248)** | **–** | **–** | **(32)** | – | (2,223) | – | – | (29) |
| **Net** | **1,887** | **(2,248)** | **177** | **5** | **(32)** | 1,745 | (2,223) | 177 | 9 | (28) |
| Current year comprehensive income/(loss) excluding share of joint ventures and associates | **24** | **(49)** | **14** | **2** | **(6)** | 25 | (59) | 4 | 1 | 3 |

## 40 Financial instruments continued

### Derivatives

| | Financial assets | | | Financial liabilities | | | Financial assets | | | Financial liabilities | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current 2019 £m | Non-current 2019 £m | Total 2019 £m | Current 2019 £m | Non-current 2019 £m | Total 2019 £m | Current 2018 £m | Non-current 2018 £m | Total 2018 £m | Current 2018 £m | Non-current 2018 £m | Total 2018 £m |
| **Foreign currency contracts** | | | | | | | | | | | | |
| Designated as cash flow hedges | – | – | – | – | – | – | 1 | – | 1 | – | – | – |
| **Interest rate swaps** | | | | | | | | | | | | |
| Designated as cash flow hedges | – | – | – | (4) | (28) | (32) | – | – | – | (4) | (25) | (29) |
| | – | – | – | (4) | (28) | (32) | 1 | – | 1 | (4) | (25) | (29) |

### 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 2019 £m | Other borrowings 2019 £m | Other financial liabilities 2019 £m | Total non-derivative financial liabilities 2019 £m | Discount 2019 £m | Carrying value 2019 £m |
|---|---|---|---|---|---|---|
| Due on demand or within one year | (6) | (35) | (1,580) | (1,621) | 4 | (1,617) |
| Due within one to two years | (9) | – | (48) | (57) | 1 | (56) |
| Due within two to five years | (59) | (158) | (44) | (261) | 5 | (256) |
| Due after more than five years | (496) | (38) | (10) | (544) | 225 | (319) |
| | (570) | (231) | (1,682) | (2,483) | 235 | (2,248) |
| Discount | 233 | – | 2 | 235 | | |
| **Carrying value** | (337) | (231) | (1,680) | (2,248) | | |

| | 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) | | |

### 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 2019 £m | Receivable 2019 £m | Net payable 2019 £m | Payable 2018 £m | Receivable 2018 £m | Net payable 2018 £m |
|---|---|---|---|---|---|---|
| Due on demand or within one year | (23) | 19 | (4) | (30) | 27 | (3) |
| Due within one to two years | (5) | 2 | (3) | (10) | 7 | (3) |
| Due within two to five years | (11) | 2 | (9) | (9) | – | (9) |
| Due after more than five years | (21) | – | (21) | (20) | – | (20) |
| **Total** | (60) | 23 | (37) | (69) | 34 | (35) |

## 40 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 2018.

#### (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 211 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures.

As at 31 December 2019, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £18m (2018: £17m) receivable and £18m (2018: £18m) payable with related cash flows expected to occur within five years (2018: two years). The foreign exchange gains or losses resulting from fair valuing these unhedged foreign exchange contracts will affect the income statement throughout the same periods.

The Group has designated forward exchange contracts with a notional principal amount of £5m (2018: £16m) receivable and £5m (2018: £15m) payable as cash flow hedges against highly probable cash flows which are expected to occur within two years (2018: two years). Fair value gains on these contracts of £nil (2018: £2m losses) 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 £8m (2018: £13m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a £11m decrease (2018: £11m)/£12m increase (2018: £13m) 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 2018.

#### (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 2019 and 2018, the Group's non-recourse project subsidiaries' borrowings at variable rates of interest were denominated in sterling and US dollars.

The notional principal amounts of the subsidiaries' interest rate swaps outstanding at 31 December 2019 totalled £105m (2018: £109m) with maturities that match the maturity of the underlying borrowings ranging from one year to 20 years.

At 31 December 2019, the fixed interest rates range from 3.5% to 5.1% (2018: 3.5% to 5.1%) and the principal floating rates are LIBOR plus a fixed margin.

## 40 Financial instruments continued

### Financial risk factors continued

#### (a) Market risk continued

(ii) Interest rate risk management continued

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £5m increase (2018: £5m)/£6m decrease (2018: £7m) 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 £4.0m decrease (2018: £3.2m)/£4.0m increase (2018: £3.2m) 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+ and at 31 December 2019 and 31 December 2018, this criterion was met. 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. As such, the Group does not expect material credit losses to occur on balances owed to the Group by its public or regulated customers. This is in line with the Group's experience in the past of recovering balances owed by these customers.

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.

There has been no material change to the Group's exposure to credit risks and there has been no change in how the Group manages those risks since 2018.

#### (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 27.1. The maturity profile of the Group's financial liabilities is set out on page 211.

There has been no material change to the Group's exposure to liquidity risks and there has been no change in how the Group manages those risks since 2018.

#### 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 2019 or 2018.

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.

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 (2018: £6m)/£7m increase (2018: £7m) in the fair value of the assets taken through equity. Refer to Note 21 for a reconciliation of the movement from the opening balance to the closing balance.

## 40 Financial instruments continued

### Financial risk factors continued

#### (c) Liquidity risk continued

Fair value estimation continued

| Financial instruments at fair value | 2019 Level 1 £m | 2019 Level 2 £m | 2019 Level 3 £m | 2019 Total £m | 2018 Level 1 £m | 2018 Level 2 £m | 2018 Level 3 £m | 2018 Total £m |
|---|---|---|---|---|---|---|---|---|
| Investments in mutual fund financial assets | **22** | **–** | **–** | **22** | 21 | – | – | 21 |
| Financial assets – foreign currency contracts | **–** | **–** | **–** | **–** | – | 1 | – | 1 |
| PPP financial assets | **–** | **–** | **155** | **155** | – | – | 156 | 156 |
| **Total assets measured at fair value** | **22** | **–** | **155** | **177** | 21 | 1 | 156 | 178 |
| Financial liabilities – infrastructure concessions interest rate swaps | **–** | **(32)** | **–** | **(32)** | – | (29) | – | (29) |
| **Total liabilities measured at fair value** | **–** | **(32)** | **–** | **(32)** | – | (29) | – | (29) |

## 41 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** | |
| 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 41)** | | |
| 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.

| | Country of incorporation or registration | Ownership interest % |
|---|---|---|
| Crossrail | | 26.7 |
| M25 Maintenance | | 52.5 |
| M4 Junction 3-12 | | 60.0 |
| M6 | | 60.0 |
| Area 10 ASC | | 70.0 |
| A14 | | 33.3 |
| SMB JV | | 33.3 |
| Skanska/Balfour Beatty | US | 50.0 |
| Driscoll/Balfour Beatty | US | 35.0 |
| Greenline Extension | US | 25.0 |
| LAX Integrated Express Solutions | US | 30.0 |

**Notes**

(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.

(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.

* Indicates held directly by Balfour Beatty plc.

A full list of the Group's related undertakings is included in Note 43.

## 41 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 | 2020 |

**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.

## 41 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. 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. The East Wick and Sweetwater development is a London Legacy Development Corporation project which will result in the creation of two communities, East Wick and Sweetwater, at the Queen Elizabeth Olympic Park in London. With the exception of the Birmingham Bio Power and Welland Bio Power plants and the Eastwick and Sweetwater project, 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 |
| Balfour Beatty Fire and Rescue NW Ltd | Fire stations | 55 | 100% | February 2011 | 25 | 2013 |
| East Wick and Sweetwater Projects (Phase 1) Ltd | Property development | 90 | 50% | January 2019 | 3 | 2021 |
| 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.

(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.

### (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.

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.

## 41 Principal subsidiaries, joint ventures and associates continued

### (e) Balfour Beatty Investments North America continued

### Military housing continued

**Allocation of remaining operating cash flows** Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service.

**Return of equity** Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the applicable military service.

| Military concession company (i)(ii) | Projects | Total project funding £m | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|
| **Military family housing** | | | | | |
| Fort Carson Family Housing LLC | Army base | 133 | November 2003 | 46 | 2004 |
| – Fort Carson expansion | | 99 | November 2006 | 43 | 2010 |
| – Fort Carson GTA expansion | | 75 | April 2010 | 39 | 2013 |
| – Fort Carson GTA II expansion | | 52 | June 2015 | 34 | 2018 |
| Stewart Hunter Housing LLC | Two Army bases | 284 | November 2003 | 50 | 2012 |
| Fort Hamilton Housing LLC | Army base | 46 | June 2004 | 50 | 2009 |
| Fort Detrick/Walter Reed Army Medical Center Housing LLC | Two Army bases | 84 | July 2004 | 50 | 2008 |
| Northeast Housing LLC | Seven Navy bases | 376 | November 2004 | 50 | 2010 |
| Fort Eustis/Fort Story Housing LLC | Two Army bases | 132 | March 2005 | 50 | 2011 |
| – Fort Eustis expansion | | 6 | July 2010 | 45 | 2011 |
| – Fort Eustis – Marseilles Village | | 20 | March 2013 | 42 | 2015 |
| Fort Bliss/White Sands Missile Range Housing LP | Two Army bases | 324 | July 2005 | 50 | 2011 |
| – Fort Bliss expansion | | 35 | December 2009 | 46 | 2011 |
| – Fort Bliss GTA expansion phase I | | 118 | July 2011 | 44 | 2014 |
| – Fort Bliss GTA expansion phase II | | 110 | November 2012 | 43 | 2016 |
| Fort Gordon Housing LLC | Army base | 83 | May 2006 | 50 | 2012 |
| Carlisle/Picatinny Family Housing LP | Two Army bases | 64 | July 2006 | 50 | 2011 |
| – Carlisle Heritage Heights phase II | | 16 | October 2012 | 44 | 2014 |
| AETC Housing LP | Four Air Force bases | 272 | February 2007 | 50 | 2012 |
| Southeast Housing LLC | 11 Navy bases | 422 | November 2007 | 50 | 2013 |
| Vandenberg Housing LP | Air Force base | 117 | November 2007 | 50 | 2012 |
| Leonard Wood Family Communities LLC | Army base | 175 | Acquired June 2008 | 47 | 2014 |
| AMC West Housing LP | Three Air Force bases | 324 | July 2008 | 50 | 2015 |
| West Point Housing LLC | Army base | 167 | August 2008 | 50 | 2016 |
| Fort Jackson Housing LLC | Army base | 137 | October 2008 | 50 | 2013 |
| Lackland Family Housing LLC | Air Force base | 79 | Acquired December 2008 | 50 | 2013 |
| Western Group Housing LP | Four Air Force bases | 249 | March 2012 | 50 | 2017 |
| Northern Group Housing LLC | Six Air Force bases | 323 | August 2013 | 50 | 2019 |
| ACC Group Housing LLC | Two Air Force bases | 42 | June 2014 | 50 | 2018 |
| **Military unaccompanied personnel housing** | | | | | |
| Stewart Hunter Housing LLC | | 27 | January 2008 | 50 | 2010 |

**Notes**

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts was evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects.

## 41 Principal subsidiaries, joint ventures and associates continued

### (e) Balfour Beatty Investments North America continued

#### Hospitals

Summary Balfour Beatty is a developer, operator and investor in one hospital project in Canada.

Contractual arrangements The principal contract is the project agreement between the concession company and the authority. An inflation-indexed payment is primarily based upon availability of the hospitals subject to any performance related deductions. The construction services for the 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 payments for the soft facilities management services are initially market adjusted after the third year of operations and then every six years thereafter. All assets transfer to the authority at the end of the concession.

| Hospital (i) | Project | Total project funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|---|
| Affinity Partnerships (ii) | BC Children's and BC Women's Hospitals | 264 | 70% | April 2014 | 33 | 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.

#### Aviation

Summary Balfour Beatty is a developer, operator and investor in an 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 contract is the project agreement between the concession partnership and the authority. All assets transfer to the authority at the end of the concession.

| Concession partnership | Project | Total project funding £m | Shareholding | Financial close | Duration years | Construction completion |
|---|---|---|---|---|---|---|
| LAX Integrated Express Solutions LLC (i) | LINXS | 1,893 | 27% | June 2018 | 30 | 2023 |

**Note**

(i) 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 ten multifamily residential projects.

Contractual arrangements Balfour Beatty has formed joint ventures to acquire residential apartment buildings for ten multifamily residential projects. For the Carolina Cove, Riverchase, Zephyr Ridge, Lexington, Southwind, Waterchase, Wolfchase, Landings, Retreat at Schillinger and Paces Brook projects, the joint ventures entered into agreements with Balfour Beatty Communities LLC to perform the operations and renovation work. For the Ranch at Pinnacle Point, the joint venture entered into an agreement with Balfour Beatty Communities LLC to perform the asset management services and renovation work.

| Residential investments (i) | Total project funding £m | Shareholding | Financial close | Renovation completion |
|---|---|---|---|---|
| Carolina Cove (Wilmington) Owner LLC (North Carolina) | 36 | 50% | December 2017 | 2018 |
| Riverchase Landing (Hoover) Owner, LLC (Alabama) | 33 | 8% | March 2018 | 2025 |
| Zephyr Ridge (Zephyrhills) Owner, LLC (Tampa, Florida) | 23 | 50% | August 2018 | 2025 |
| Lexington (Ridgeland) Owner, LLC (Jackson, Mississippi) | 20 | 50% | August 2018 | 2025 |
| Southwind (Memphis) Owner, LLC (Tennessee) (ii) | 30 | 20% | December 2018 | 2025 |
| Waterchase (Largo) Owner, LLC (Florida) | 27 | 50% | April 2019 | 2025 |
| Wolfchase (Bartlett) Owner, LLC (Tennessee) | 36 | 50% | June 2019 | 2025 |
| Landings (Jacksonville) Owner, LLC (Florida) | 36 | 50% | August 2019 | 2025 |
| Retreat at Schillinger (Mobile) Owner, LLC (Alabama) | 25 | 50% | December 2019 | 2026 |
| Paces Brook (Columbia) Owner, LLC (South Carolina) | 20 | 50% | December 2019 | 2026 |

**Notes**

(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.

## 41 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) | 76 | (ii) | March 2010 | 30 | 2011 |
| Northside Campus Partners LP (Texas Dallas) | 41 | 10% | March 2015 | 61 | 2016 |
| Northside Campus Partners 2, LP (Texas Dallas) | 51 | 10% | February 2017 | 61 | 2018 |
| Northside Campus Partners 3, LP (Texas Dallas) (iii) | 29 | 70% | June 2019 | 61 | 2020 |
| Northside Campus Partners 4, LP (Texas Dallas) (iii) | 53 | 65% | December 2019 | 61 | 2021 |
| Balfour Beatty-Walsh Housing LLC (Purdue) (iii) | 66 | 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.

(iii) Due to the shareholders'/partnership agreement between Balfour Beatty and the other shareholder/partner requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this undertaking, the Directors consider that the Group does not control this undertaking and it has been accounted for as a joint venture.

### (f) Balfour Beatty Investments UK and North America

#### Total future committed equity and debt funding for Infrastructure Investments' project companies

| Concessions | 2020 £m | 2021 £m | 2022 £m | 2023 onwards £m | Total £m |
|---|---|---|---|---|---|
| **UK** | | | | | |
| Student accommodation | 17 | – | – | – | 17 |
| Other concessions | 6 | – | – | – | 6 |
| | 23 | – | – | – | 23 |
| **North America** | | | | | |
| Aviation | – | – | – | 21 | 21 |
| Residential investments | 3 | – | – | – | 3 |
| Student accommodation | 14 | – | – | – | 14 |
| | 17 | – | – | 21 | 38 |
| | 40 | – | – | 21 | 61 |
| Projects at financial close | 35 | – | – | 21 | 56 |
| Projects at preferred bidder stage | 5 | – | – | – | 5 |
| **Total** | 40 | – | – | 21 | 61 |

## 42 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 |

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019

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 2019 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 2019 and are wholly owned and consolidated into the Group's results, except where indicated.

### Subsidiary undertakings incorporated in the United Kingdom

| Entity | 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[(iii)] | 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)(iii)] | Infrastructure concession |
| Education Investments Holdings Ltd[(iv)] | Investment holding company |
| Initial GP1 Ltd | Investment holding company |
| Manchester Residences (New Cross) Ltd | Infrastructure concession |
| West Stratford Developments Ltd[(iv)] | 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 |

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019 continued

### Subsidiary undertakings incorporated in the United Kingdom continued

| Entity | Principal activity |
|---|---|
| Birse Metro Ltd | Construction and support services |
| Bnoms Ltd (i) | Nominee company |
| BPH Equipment Ltd | Agent of Balfour Beatty Group Ltd |
| Cowlin Group Ltd | Investment holding company |
| Devonshire House Dormant Three Limited | Dormant |
| Guinea Investments Ltd | Investment holding company |
| Haden Building Services Ltd | Dormant |
| 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(i) | 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 |
| W.T. Glover & Company Limited | Dormant |
| **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(iii) | Investment partnership |

| Entity | Principal activity |
|---|---|
| Glasgow Residences (Kennedy Street) Holdings Ltd | Investment holding company |
| Glasgow Residences (Kennedy Street) LLP(iii) | 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 |
| **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 | 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 Construction Ltd | Dormant |
| Balfour Beatty Power Networks (Distribution Services) Ltd | Dormant |
| Birse Construction Ltd | Investment holding company – in liquidation |
| Birse Rail Limited | 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 Maintenance Limited | 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 |
| Southern Track Renewals Company Ltd | Dormant – in liquidation |

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019 continued

### Subsidiary undertakings incorporated in the United Kingdom continued

| Entity | Principal activity |
|---|---|
| **West Service Road, Raynesway, Derby DE21 7BG** | |
| Balfour Beatty Plant & Fleet Services Ltd | Agent of Balfour Beatty Group Ltd |
| **C/O Mazars LLP, 100 Queen Street, Glasgow G1 3DN Scotland** | |
| Aberdeen Construction Group Ltd | Dormant – in liquidation |
| Balfour Beatty Engineering Services (LEL) Ltd | Dormant |
| **Lumina Building, 40 Ainslie Road, Hillington Park, Glasgow G52 4RU** | |
| Shaw-Petrie Ltd | Dormant |

**Notes**
(i) Held directly by Balfour Beatty plc.
(ii) 80% owned.
(iii) Partnership interests held.
(iv) 31 March year end.

### Subsidiary undertakings incorporated outside the United Kingdom

| Entity | Principal activity |
|---|---|
| Australia | |
| **Allens Corporate Services Pty Ltd, Level 4 Deutsche Bank Place, 126 Phillip Street, Sydney NSW 2000** | |
| Balfour Beatty Australian Limited Partnership(iii) | Holding company |
| Balfour Beatty Australia Pty Ltd | Construction and support services |
| Bahamas | |
| **The Alexander Corporate Group Limited, One Millars Court, P.O. Box N-7117, Nassau** | |
| Balfour Beatty Bahamas Ltd | Dormant |
| Brazil | |
| **Avenida Brigadeiro Faria Lima, No. 1478, Suites 105, 1st Floor, Jardim Paulistano, Sao Paulo, 01.451-001** | |
| RHA do Brasil Servicos 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 |
| Chile | |
| **Vicuna MacKenna Poniente 6843 Oficina 209, La Florida, Santiago** | |
| Balfour Beatty Chile S.A. | 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 – in liquidation |
| Germany | |
| **Garmischer Strasse 35, 81373 Munich** | |
| 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 | |
| **22/F, Tower 1, The Quayside, 77 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong** | |
| 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, Bangalore, 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 | 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 |
| Malaysia | |
| **12th Floor, Menara Symphony, No 5, Jalan Prof. Khoo Kay Kim, Seksyen 12, 46200 Petaling Jaya, Selangor** | |
| Balfour Beatty Rail Design International Sdn Bhd | Support services |
| Netherlands | |
| **Rapenburgerstraat 177/B, 1011 VM Amsterdam** | |
| Balfour Beatty Netherlands B.V. | 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 – in liquidation |
| Romania | |
| **23 General Ernest Brosteanu Street, 1st District, 010527, Bucharest** | |
| S.C. Balfour Beatty Rail S.R.L. | Dormant |
| Sri Lanka | |

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019 continued
### Subsidiary undertakings incorporated outside the United Kingdom continued

| Entity | Principal activity |
|---|---|
| **Phase 3 Investment Promotion Zone, Katunayake, Colombo, Western Province** | |
| Balfour Beatty Ceylon (Private) Ltd | Support 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 |
| 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 |
| **600 Galleria Parkway, Suite 1500, Atlanta, GA 30339** | |
| Balfour Beatty Infrastructure, Inc | Construction services |
| **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(iii) | 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 investment |
| Balfour Beatty/Benham Military Communities LLC(vi) | Infrastructure investment |

| Entity | Principal activity |
|---|---|
| Balfour Beatty/PHELPS Military Communities LLC(v) | Infrastructure investment |
| BBC Military Housing – AETC General Partner LLC(iv) | Infrastructure investment |
| BBC Military Housing – AETC Limited Partner LLC(iv) | Infrastructure investment |
| BBC Military Housing – AMC General Partner LLC | Infrastructure investment |
| BBC Military Housing – AMC Limited Partner LLC | Infrastructure investment |
| BBC Military Housing – Bliss/WSMR General Partner LLC | Infrastructure investment |
| BBC Military Housing – Bliss/WSMR Limited Partner LLC | Infrastructure investment |
| BBC Military Housing – Carlisle/Picatinny General Partner LLC | Infrastructure investment |
| BBC Military Housing – Carlisle/Picatinny Limited Partner LLC | Infrastructure investment |
| BBC Military Housing – FDWR LLC(vi) | Infrastructure investment |
| BBC Military Housing – Fort Carson LLC | Infrastructure investment |
| BBC Military Housing – Fort Gordon LLC | Infrastructure investment |
| BBC Military Housing – Fort Hamilton LLC | Infrastructure investment |
| BBC Military Housing – Fort Jackson LLC | Infrastructure investment |
| BBC Military Housing – Hampton Roads LLC | Infrastructure investment |
| BBC Military Housing – Lackland LLC | Infrastructure investment |
| BBC Military Housing – Leonard Wood LLC | Infrastructure investment |
| BBC Military Housing – Navy Northeast LLC | Infrastructure investment |
| BBC Military Housing – Navy Southeast LLC | Infrastructure investment |
| BBC Military Housing – Northern Group, LLC | Infrastructure investment |
| BBC Military Housing – Stewart Hunter LLC | Infrastructure investment |
| BBC Military Housing – Vandenberg General Partner LLC(vi) | Infrastructure investment |
| BBC Military Housing – Vandenberg Limited Partner LLC(vi) | Infrastructure investment |
| BBC Military Housing – West Point LLC | Infrastructure investment |
| BBC Military Housing – Western General Partner, LLC | Infrastructure investment |
| BBC Military Housing – Western Limited Partner, LLC | Infrastructure investment |
| BBC Multifamily Holdings, LLC | Infrastructure investment |
| BBCS – Northside Campus LLC | Infrastructure investment |
| BBCS – UN Reno Housing, LLC | Infrastructure investment |
| BBCS Development, LLC | Infrastructure investment |
| BICC Cables Corporation | Business services |
| **Corporation Service Company, 300 Deschutes Way SW, Suite 304, Tumwater WA 98501** | |
| Howard S. Wright Construction Co | Construction services |
| HSW, Inc | Construction services |
| **CSC – Nevada, C/O CSC Services of Nevada, Inc., 502 East John Street Carson City, Nevada 89706** | |
| Balfour Beatty-Golden Construction Company | Construction services |
| Balfour Beatty Construction Company, Inc | Construction services |
| Balfour Beatty Construction Group, Inc | Construction services |

**Notes**
(i) Held directly by Balfour Beatty plc.
(ii) Partnership interests held.
(iii) 65% interest held.
(iv) 80% interest held.
(v) 89% interest held.
(vi) 90% interest held.

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019 continued

### Joint ventures incorporated in the United Kingdom

| Entity | % 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 | Infrastructure concession |
| 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 |
| East Wick and Sweetwater Finance (Holdings) Ltd(iv) | 50 | Investment holding company |
| East Wick and Sweetwater Projects (Finance) Ltd(iv) | 50 | 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 |
| 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 Intermediate Holdings Ltd(iv) | 20 | Investment holding company |
| 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 |
| **C/O Pario Ltd, 2 Hunting Gate, Wilbury Way, Hitchin, Hertfordshire, England SG4 0TJ** | | |
| 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 |
| **Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ** | | |

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019 continued

### Joint ventures incorporated in the United Kingdom continued

| Entity | % held by the Group | Principal activity |
|---|---|---|
| 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 | Infrastructure concession |
| 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 as a joint venture.
(iii) The Group owned a 37.5% partnership interest in BBDE Orbital Holdings LLP at 31 December 2019. Connect Plus (M25) Holdings Ltd and its subsidiaries are 40% owned by BBDE Orbital Holdings LLP.
(iv) 31 March year end.

| Entity | % 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 |
| Ledcor Balfour Beatty Affinity Holdings Inc | 50 | Investment holding company |
| **Forum House at Brookfield Place, Scotia Plaza, 181 Bay Street, EP210, Toronto, ON M5J 2T3** | | |
| UIP GP[(iv)] | 50 | Infrastructure concession |
| Germany | | |
| **Luisenstr, 38, 10117 Berlin** | | |
| InoSig GmbH | 50 | Construction services |
| Hong Kong | | |
| **22/F, Tower 1, The Quayside, 77 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong** | | |
| Gammon China Ltd | 50 | Investment holding company |
| Gammon Construction Ltd[(iii)] | 50 | Engineering and 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 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 investment |
| Northside Campus Partners 3, LP[(i)(iv)] | 70 | Infrastructure concession |
| Northside Campus Partners 4, LP[(i)(iv)] | 65 | Infrastructure concession |
| Northside Campus General Partner, LLC | 50 | Infrastructure concession |

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019 continued

### Joint ventures incorporated in the United Kingdom continued

| Entity | % held by the Group | Principal activity |
|---|---|---|
| **Corporation Service Company, 251 Little Falls Drive Wilmington DE 19808** | | |
| Balfour Beatty-Walsh Housing, LLC(i) | 67 | Infrastructure concession |
| BBC – ApexOne Caroline Cove, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Landings, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Lexington, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Mobile Eastern, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Paces Brook, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Retreat, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Riverchase Landing, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Southwind, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Waterchase, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Wolfchase, LLC | 50 | Infrastructure investment |
| BBC – ApexOne Zephyr Ridge, LLC | 50 | Infrastructure investment |
| BBC Army Integrated, LLC | 10 | Infrastructure investment |
| Carolina Cove (Wilmington) Owner, LLC | 50 | Infrastructure investment |
| LAX Integrated Express Solutions Holdco, LLC | 27 | Infrastructure concession |
| LAX Integrated Express Solutions, LLC | 27 | Infrastructure concession |
| Landings (Jacksonville) Owner, LLC | 50 | Infrastructure investment |
| Lexington (Ridgeland) Owner, LLC | 50 | Infrastructure investment |
| Northside Campus Limited Partner, LLC(i) | 10 | Infrastructure concession |
| Paces Brook (Columbia) Owner, LLC | 50 | Infrastructure investment |
| Park Place (Foley) Owner, LLC | 50 | Infrastructure investment |
| Retreat at Schillinger (Mobile) 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 |
| Waterchase (Largo) Owner, LLC | 50 | Infrastructure investment |
| Wolfchase (Bartlett) Owner, LLC | 50 | 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 |

**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'/partnership agreement between Balfour Beatty and the other shareholder/partner requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this undertaking, the Directors consider that the Group does not control this undertaking and it has been accounted for as a joint venture.

(iii) Preference shares and/or deferred shares also held.

(iv) Partnership interest held.

## 43 Details of related undertakings of Balfour Beatty plc as at 31 December 2019 continued

### Associated undertakings incorporated in and outside the United Kingdom

| Entity | % held by the Group | Principal Activity |
|---|---|---|
| **United Kingdom** | | |
| **Newington House, 237 Southwark Bridge Road, London SE1 6NP** | | |
| Power Asset Development Company Ltd(iii) | 25 | Infrastructure concession |
| UK Power Networks Services Powerlink Ltd(iii) | 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 |
| **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 |
| 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.

(iii) 31 March year end.

## UNAUDITED GROUP FIVE-YEAR SUMMARY

| | 2019 £m | 2018 £m | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Revenue including share of joint ventures and associates | **8,411** | 7,814 | 8,264 | 8,368 | 8,262 |
| Share of revenue of joint ventures and associates | **(1,098)** | (1,180) | (1,348) | (1,445) | (1,307) |
| Group revenue from continuing operations | **7,313** | 6,634 | 6,916 | 6,923 | 6,955 |
| Underlying profit/(loss) from continuing operations | **221** | 205 | 196 | 69 | (74) |
| Underlying net finance costs | **(21)** | (24) | (31) | (7) | (17) |
| Underlying profit/(loss) before taxation | **200** | 181 | 165 | 62 | (91) |
| Amortisation of acquired intangible assets | **(6)** | (8) | (9) | (9) | (10) |
| Other non-underlying items | **(56)** | (50) | (39) | (43) | (66) |
| Profit/(loss) from continuing operations before taxation | **138** | 123 | 117 | 10 | (167) |
| Taxation on profit/(loss) from continuing operations | **(5)** | 12 | 45 | (8) | (7) |
| Profit/(loss) from continuing operations after taxation | **133** | 135 | 162 | 2 | (174) |
| Profit/(loss) from discontinued operations after taxation | **–** | – | 6 | 22 | (32) |
| Profit/(loss) for the year | **133** | 135 | 168 | 24 | (206) |
| Profit/(loss) for the year attributable to equity holders | **130** | 135 | 168 | 24 | (206) |
| Profit for the year attributable to non-controlling interests | **3** | – | – | – | – |
| Profit/(loss) for the year | **133** | 135 | 168 | 24 | (206) |
| **Capital employed** | | | | | |
| Equity holders' funds | **1,368** | 1,231 | 1,056 | 757 | 826 |
| Liability component of preference shares | **110** | 106 | 103 | 100 | 98 |
| Net non-recourse borrowings – infrastructure concessions | **302** | 309 | 305 | 233 | 365 |
| Net cash – other | **(512)** | (337) | (335) | (173) | (163) |
| | **1,268** | 1,309 | 1,129 | 917 | 1,126 |

| | 2019 Pence | 2018 Pence | 2017 Pence | 2014 Pence | 2013 Pence |
|---|---|---|---|---|---|
| **Statistics** | | | | | |
| Underlying earnings/(loss) per ordinary share from continuing operations* | **26.8** | 26.3 | 20.9 | 7.2 | (15.0) |
| Basic earnings/(loss) per ordinary share from continuing operations | **19.0** | 19.7 | 23.7 | 0.2 | (25.5) |
| Diluted earnings/(loss) per ordinary share from continuing operations | **18.9** | 19.5 | 23.4 | 0.2 | (25.5) |
| Proposed dividends per ordinary share | **6.4** | 4.8 | 3.6 | 2.7 | – |
| 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%** | 2.6% | 2.4% | 0.8% | (0.9)% |

**Note**

* Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group's underlying trading performance.

## Financial calendar

| | 2020 |
|---|---|
| 1 January | Preference dividend payment date |
| 11 March | 2019 full year results announcement |
| 14 May | Trading update |
| 14 May | Annual general meeting |
| 21 May | 2019 Ordinary final dividend: ex-dividend date |
| 22 May | 2019 Ordinary final dividend: record date |
| 28 May | Preference dividend: ex-dividend date |
| 29 May | Preference dividend: record date |
| 1 July | Preference dividend: payment date |
| 3 July | 2019 Ordinary final dividend: payment date |
| 12 August | 2020 half year results announcement |
| 22 October | 2020 Ordinary interim dividend: ex-dividend date |
| 23 October | 2020 Ordinary interim dividend: record date |
| 4 December | 2020 Ordinary interim dividend: payment date |
| 9 December | Trading update |

## Registrars

Balfour Beatty's share register is maintained by Link Asset Services, the Company's Registrars. Link Asset Services is a trading name of Link Market Services Trustees Limited. 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: 0371 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: shareholderenquiries@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.You can also visit www.signalshares.com to manage your shareholding, access shares-related services and share plans online.

## Share certificates

In order to sell or transfer your shares, you must ensure that you have a valid share certificate. This must be in the name of Balfour Beatty plc. If you lose or misplace your share certificate, you can contact Link Asset Service's customer support centre and request a replacement certificate. Link Asset Services will then issue a letter of indemnity to you which you will need to sign and return for a new certificate to be produced. There is a fee charged for this service which includes an administration charge and a cover charge (the cover charge can vary depending on the value of the shareholding).

## Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). Link Asset Services 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 directly into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars, Link Asset Services, on +44 (0)371 664 0300 (from outside the UK) or 0371 664 0300 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. You can also email ips@linkgroup.com. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

## Electronic shareholder communications

The Company's 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.

The website 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@linkgroup.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. We advise our shareholders to be wary of any unsolicited telephone calls, advice 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 annual and/or other reports on the Company.

If you receive any unsolicited investment advice:

- Always ensure the firm is authorised by the Financial Conduct Authority (FCA), is on the FCA Register and is allowed to provide financial advice before handing over your money. You can check if a firm is on the FCA's Register via https://register.fca.org.uk/
- Ask the caller for their name and telephone number and inform them you will call them back. Then check their identity to ensure that they are from the firm they say are from 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.

## American Depository Receipts (ADRs)

An American Depository Receipt (ADR) is a negotiable instrument issued by a depositary bank that evidences ownership of shares in a corporation organised outside the US. Each ADR represents a specific number of underlying ordinary shares in the non-US company, on deposit with a custodian in the applicable home market.

ADRs are generally treated as US domestic securities. They are quoted and traded in USD and are subject to the trading and settlement procedures of the market in which they trade.

## Balfour Beatty's ADR Programme Details

Symbol: BAFYY

ADR: Ordinary Share Ratio: 1:2

CUSIP: 05845R306

ADR ISIN: US05845R3066

Underlying ISIN: GB0000961622

Depositary Bank: JP Morgan Chase Bank N.A.

Country: United Kingdom

Balfour Beatty's ADR Depositary Bank is JP Morgan Chase N.A. For all ADR-related enquiries, investors can contact JP Morgan via telephone, in writing or email as follows:

Telephone:
Toll free within the United States at: 1-800-990-1135 or locally at 651-306-4383.

JP Morgan representatives are available from 7.00am to 7.00pm Central Time, Monday to Friday.

In writing:
Mail
JPMorgan Shareholder Services
P.O Box 64504
St. Paul, Minnesota 55164-0504

Overnight Mail
JP Morgan Chase Bank N.A.
1110 Centre Pointe Curve, Suite 101
Mendota Heights MN 55120-4100

Email:
jpmorgan.adr@eq-us.com

## 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 provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, telephone: +44 (0) 371 664 0445 from outside the UK and 0371 664 0445 from within the UK. 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 77 to 84 of this report.

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 report 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 report. No statement in this report 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 the historical earnings per share for Balfour Beatty plc. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

Find out more about our investor relations at: www.balfourbeatty.com/investors

## MORE INFORMATION

### Online Annual Report
For a summary of our 2019 Annual Report and Accounts visit:

**ar19.balfourbeatty.com**


### Investor website
Find out more about our investor relations at:

**balfourbeatty.com/investors**


### Follow us on

**Twitter**
twitter.com/balfourbeatty

**LinkedIn**
linkedin.com/company/balfour-beatty-plc

**Facebook**
facebook.com/balfourbeatty

**YouTube**
youtube.com/BalfourBeattyPlc

**Instagram**
instagram.com/balfourbeatty

**BACK COVER CREDITS**

**01** A145 Daventry Development Link Road, Northampton, Lizzie Forbes
**02** A63 Castle Street Improvement, Hull, Joseph Laurence
**03** Balfour Beatty IT Service Desk, Newcastle, Simon Scott
**04** Duke of Edinburgh (DofE) Gold Cohort, Yorkshire, Emily Elsy
**05** Emergency Services Network Maintenance, Lake District, Richard Ensten
**06** Hinkley Point C Marine Works, Bristol, Patrick Brady
**07** Park District, Dallas, Ted Bilodeau
**08** Institute for Regeneration and Repair, Edinburgh, Margo Graham
**09** Warrington West Station, Steve Wright
**10** Hinkley Connection Project, Bristol, Tony McCaughey
**11** Central Kowloon Route, Hong Kong, Nick Gibbs
**12** Beauly Keith 132kV OHL Refurbishment Project, Scotland, Damini Mistry
**13** River Landing, Miami, Carlos Gucciardo
**14** Linkwood Primary School, Scotland, John Cairns
**15** Kai Tak West, Hong Kong, Jeffrey Lo
**16** Herefordshire Winter Maintenance, Michael Mable
**17** US Construction team, North Carolina, Kelly Simpson
**18** Gables Station, Florida, Jorge Munoz
**19** Fort William Substation, Scotland, Robert Christie
**20** A9 Dualling: Luncarty to Pass of Birnam, Scotland, Mark Elliot
**21** Balfour Beatty's Maxim office, Scotland, Simon Scott
**22** Beauly Keith 132kV OHL Refurbishment Project, Scotland, Damini Mistry
**23** M+ Museum, Hong Kong , Wai Lun Yeung
**24** Dartford Traffic Management, Kent, Stephen Dobbs
**25** HS2, Birmingham, Waseem Sattar

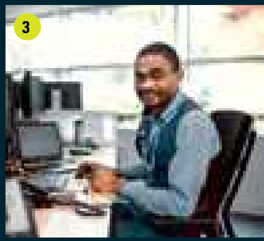
FSC www.fsc.org RECYCLED Paper made from recycled material FSC® C001785

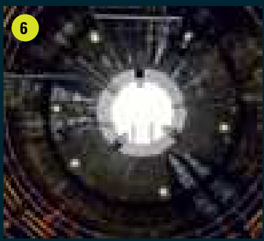
WORLD LAND TRUST™
www.carbonbalancedpaper.com
CBP003062

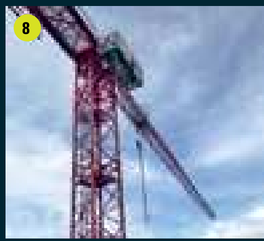
Balfour Beatty plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Symbol Matt Plus and Arcoprint, FSC® certified materials. This document was printed by Park Communications using its environmental print technology, which minimises the impact of printing on the environment. Vegetable-based inks have been used and 99% of dry waste is diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.

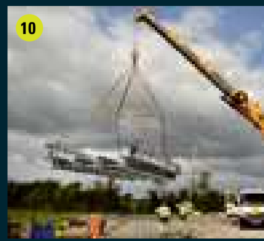
Produced by

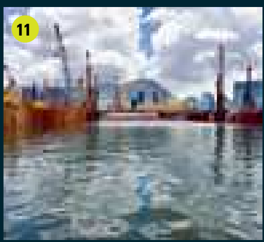
designportfolio

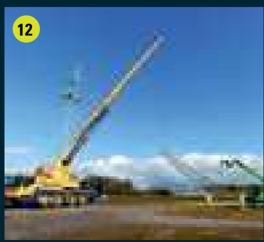


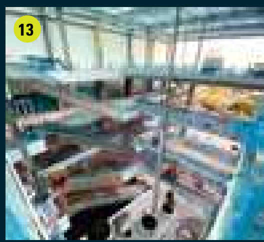


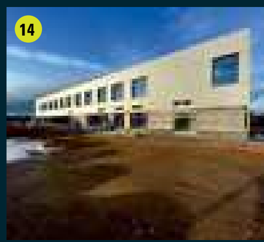


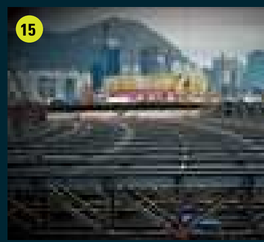


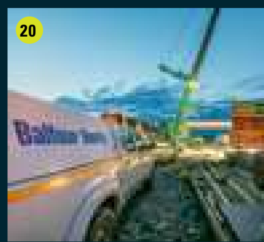


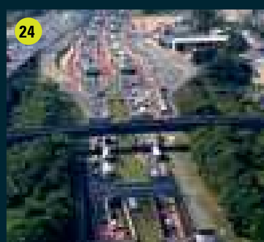













# Celebrating 110 years

Discover more on
**instagram.com/balfourbeatty**

**Balfour Beatty**
5 Churchill Place
Canary Wharf
London E14 5HU
Telephone: +44(0) 20 7216 6800

www.balfourbeatty.com