Balfour Beatty

BALFOUR BEATTY PLC RESULTS FOR THE FULL-YEAR ENDED 31 DECEMBER 2016

16 March 2017

Financial Highlights

- Order book £12.7bn, up 15% (up 4% at constant exchange rates (CER))
- Underlying revenue £8.5bn, up 4% (down 3% at CER)
- Group returned to profit following two years of losses; underlying profit from operations (PFO) £67m
- In the second half of 2016 UK construction returned to underlying profitability
- Strong balance sheet: net cash at £173m, underpinned by £1.2bn Investments portfolio
- Following dividend reinstatement recommended final dividend of 1.8 pence per share (full year 2.7 pence)

Build to Last Highlights

- Significantly exceeded 24-month Phase One targets – £439m cash in: £123m cost out
- Continued to simplify the Group; exiting non-core assets
- Upgraded leadership and de-layering of management in UK and US
- Improving risk management and order book from strengthened governance
- Increased customer satisfaction
- Favourable medium and long term market outlook
- Reiterated Phase Two targets: industry-standard margins by end of 2018

(£ million unless otherwise specified)	2016		2015	
	Underlying[3]	Statutory	Underlying[3]	Statutory
Revenue[1,2]	8,530	6,923	8,235	6,955
Profit (loss) from operations[2] (PFO)	67	15	(106)	(182)
Pre-tax profit (loss)[2]	60	8	(123)	(199)
Total profit (loss)	48	24	(135)	(206)
Profit (loss) per share	7.0p	3.5p	(19.8p)	(30.1p)
Dividends per share		2.7p		-

	2016	2015
Order book[1,2,3]	£12.7bn	£11.0bn
Directors' valuation of Investments portfolio	1,220	1,244
Net cash – recourse	173	163
Net borrowings – non-recourse	(233)	(365)

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

"Having simplified the Group, we are focused on our core markets in the UK and US, where governments are committed to large scale expenditure on infrastructure.

"All this positions us for future profitable growth. During the next two-year phase of Build to Last, we expect to achieve industry-standard margins and over the medium term, industry-leading performance."

Notes:

[1] including share of joint ventures and associates

[2] from continuing operations

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

Alternative performance measures (APM), including constant exchange rates (CER), are defined in the section Measuring Our Performance.

Investor and Analyst enquiries:

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

Media enquiries:

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

Investor and Analyst presentation:

A presentation to investors and analysts will be made at Numis Securities, The London Stock Exchange Building, London EC4M 7LT at 09:00 (UK time) on 16 March 2017. There will be a live webcast of this presentation on: www.balfourbeatty.com/webcast

2016 FULL-YEAR RESULTS ANNOUNCEMENT

GROUP CHIEF EXECUTIVE'S REVIEW

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

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

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

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

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

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

RESULTS OVERVIEW AND OUTLOOK

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

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

Group financial summary

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

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

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

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

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

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

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

Underlying profit after tax for the year at £48 million (2015: £135 million loss) represents a material improvement over the previous year, primarily driven by the improvement in Construction Services. Total statutory profit after tax for the year was £24 million (2015: £206 million loss).

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

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

Earnings per share

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

Cash flow performance

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

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

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

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

[1] before pension deficit payments

[2] excluding infrastructure concessions (non-recourse) net debt

On a statutory basis the Group reported net debt of £160 million at 31 December 2016 (2015: £300 million net debt)

Working capital

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

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

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

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

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

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

[1] Excludes impact of foreign exchange and disposals

Net cash/borrowings

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

Outlook

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

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

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

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

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

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

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

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

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

Dividend

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

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

BUILD TO LAST

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

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

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

Lean

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

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

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

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

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

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

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

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

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

Expert

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

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

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

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

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

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

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

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

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

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

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

Balfour Beatty believes that employers are best placed to determine and train their required future capabilities and therefore must take the lead by making a long-term commitment to invest in the next generation workforce. For this reason, Balfour Beatty belongs to and is sponsoring The 5% Club, an employer-led organisation whose members commit to striving to achieve 5% of their UK workforce in 'earn and learn' positions within five years of joining.

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

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

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

Trusted

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

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

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

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

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

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

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

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

Safe

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

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

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

Each week senior management report and consider any accident or near misses that have occurred and a weekly report, available to all employees, shares safety best practice as well as reporting on significant incidents and learning which can be drawn from Balfour Beatty or elsewhere in the industry.

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

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

DIVISIONAL OPERATING REVIEWS

CONSTRUCTION SERVICES

Financial review

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

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

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

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

[1] including share of joint ventures and associates

[2] from continuing operations

[3] non-underlying items (Note 8)

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

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

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

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

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

UK

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

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

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

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

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

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

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

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

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

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

On Crossrail, Balfour Beatty's three major projects: C510 (Liverpool Street and Whitechapel Station tunnels); C512 (Whitechapel Station); and C530 (Woolwich Station) all made significant progress during the year. At the Thames Tideway Tunnel work has commenced on the 6-kilometer 'West' section which runs from Acton to Wandsworth. In Highways, material ongoing work includes the conversion of the M3 Motorway (J2-J4) into a Smart Motorway and the construction of dual carriageways for the A21 between Tonbridge and Pembury, the Aberdeen Western Peripheral Route and the Norwich Northern Distributor Road.

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

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

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

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

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

As a result of the focus on bidding for contracts with increased margins and more favourable contract terms, the Regional business is now focused on fewer, larger contracts and continues to reduce its exposure to contracts under £5 million. This allows the business to focus on projects with better pricing and risk dynamics, but also improves the span of control as it operates fewer sites. As a result, the total number of live jobs in the Regional business has reduced from over 400 at December 2015 to approximately 250 at December 2016. Over 150 of the current live projects have been through the Gated Lifecycle process.

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

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

- £170 million contract to upgrade baggage screening and handling systems for Heathrow airport;
- £150 million contract to deliver the main construction works of The Madison Tower, a 53-storey residential building in Canary Wharf, London;
- £82 million contract to build engineering and training facilities at RAF Marham in Norfolk, in readiness for the arrival of the UK's first F-35 Lightning aircraft in 2018;
- £47 million contract to deliver a 1,350 pupil academy on behalf of Hub North Scotland and Aberdeen City Council; and
- Having previously delivered 2,520 units across five Central London student accommodation schemes, the latest contract with Urbanest is a £42 million development in Vauxhall, London.

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

The Regional business also continues to secure a number of significant projects operated by Scape Group, which is open to all public sector bodies in the UK and covers projects ranging from road repairs, new bridges and coastal defence works to light rail schemes and major road projects. In 2016, the Group was awarded a £35 million contract to deliver the first phase of the Perth Transport futures project and a £14 million contract to deliver the second phase of the Almond Bank flood defence scheme.

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

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

US

Underlying revenues in the US grew by 11% in the period (2% decline at CER) and the order book increased by 34% (10% increase at CER). The business reported an underlying profit from operations for the year of £33 million (2015: £22 million loss), as the US returned to profitability following a number of write-downs in the prior year. The underlying operating profit margin at 1.0% is at the low end of the Group's Build to Last Phase Two target of 1%-2% for US construction, as the effects of legacy contracts trade out, but the trajectory is positive and market conditions are considered favourable.

The US business continued to drive operational focus and business simplification. The general building business and the infrastructure business have now been united under a single leader, which further develops and complements the move to a leaner organisational structure. The business has been refocused on certain geographies, known as 'The Southern Smile'. This starts in the Pacific North West, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington DC. In the US approximately 85% of revenues are generated from the general building market, with the infrastructure market (rail, road and water) accounting for the remaining 15%.

In the building business, underlying revenues were up 12% (stable at CER). The order book increased by 30% (5% at CER), as the business continued to see strong order intake, notwithstanding the improved bidding disciplines. The business remains focused on working with repeat customers, in known geographies where it can deliver value. It has therefore intentionally withdrawn from bidding on most stick frame multi-family housing, in order to switch to better quality revenues in core markets such as office, education, hospitality, residential and healthcare.

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

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

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

Even before the election of the new President, there was a strong market outlook for construction in the US. In December 2015, the FAST Act (Fixing America's Surface Transportation), a US$305 billion transportation bill was signed, providing guaranteed funding for a five-year period. This bill permits longer term project planning horizons in the public market and is leading to improved visibility for public funded projects that had been slow to come to market. There are further opportunities being created with the number of state backed infrastructure bonds (US$30 billion of education bonds in California, US$190 billion multi-state transportation bonds), and potentially an increase in US private public partnership schemes.

Rail

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

International

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

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

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

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

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

SUPPORT SERVICES

Financial review

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

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

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

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

[1] including share of joint ventures and associates

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

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

Operating review

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

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

The power business has undertaken a significant restructure and cost removal during 2016, including the internal appointment of a new managing director, along with several other senior changes. The business has also focused on qualifying out low-value works and areas which do not align to its risk profile, including significantly reducing its reliance on volume-based and second-tier subcontracting projects.

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

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

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

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

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

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

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

INFRASTRUCTURE INVESTMENTS

Financial review

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

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

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

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

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

[2] subordinated debt interest receivable and net interest receivable on PPP financial assets and non-recourse borrowings

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

Operational review

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

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

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

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

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

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

Directors' valuation

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

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

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

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

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

UK portfolio

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

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

Interests in 16 assets were sold in the period, seven of which were partial sales, generating total book gains on disposal of £65 million (2015: £95 million from four assets). The business sold its entire 50% interest in the Wollongong project in Australia, a 30% interest in the M1/A1 project (where the Group retains a 20% interest), a 40% interest in the Humber Gateway OFTO (where the Group retains a 20% interest), its entire interest in the BSF portfolio comprised of seven schools projects and an 80% interest in five street lighting projects (where the Group retains a 20% interest). The Group's interest in Balfour Beatty Infrastructure Partners (BBIP), which was included in the Directors' valuation but not as a line item in the project total, was sold during the year. All disposals were either at, or above, the Directors' valuation.

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

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

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

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

North American portfolio

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

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

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

OTHER FINANCIAL ITEMS

Non-underlying items

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

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

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

Taxation

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

Discontinued operations

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

Pensions

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

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

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

Goodwill

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

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

Banking facilities

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

Financial risk factors and going concern

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

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

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

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

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

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

MEASURING OUR PERFORMANCE

Providing clarity on the Group's alternative performance measures

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

Throughout this report, the Group has presented performance measures which are considered most relevant to the Group and are used to measure the Group's performance on a day-to-day basis.

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

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

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

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

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

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

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

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Measuring the Group's performance

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

Statutory measures

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

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 112 to 118 of the Annual Report and Accounts.

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

Performance measures

In assessing its performance, the Group has adopted certain non-statutory measures because, unlike its statutory measures, these cannot be derived directly from its financial statements. The Group commonly uses the following measures to assess its performance:

a) Order book

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

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

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

b) Underlying performance

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

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

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

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

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

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

Reconciliation of 2016 statutory results to performance measures

	2016 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Provision increases/ (releases) £m	Gains on disposal £m	Results of ES £m	Results of Rail Germany £m	Other £m	2016 performance measures £m
Continuing operations									
Revenue including share of joint ventures and associates (performance)	**8,683**	–	–	–	–	(3)	(150)	–	**8,530**
Share of revenue of joint ventures and associates	**(1,760)**	–	–	–	–	–	12	–	**(1,748)**
Group revenue (statutory)	**6,923**	–	–	–	–	(3)	(138)	–	**6,782**
Cost of sales	**(6,639)**	–	–	–	–	9	127	–	**(6,503)**
Gross profit	**284**	–	–	–	–	6	(11)	–	**279**
Gain on disposals of interests in investments	**65**	–	–	–	–	–	–	–	**65**
Amortisation of acquired intangible assets	**(9)**	–	9	–	–	–	–	–	**–**
Other net operating expenses	**(381)**	14	–	31	(8)	–	10	2	**(332)**
Group operating profit/(loss)	**(41)**	14	9	31	(8)	6	(1)	2	**12**
Share of results of joint ventures and associates	**56**	–	–	(1)	–	–	–	–	**55**
Profit/(loss) from operations	**15**	14	9	30	(8)	6	(1)	2	**67**
Investment income	**75**	–	–	–	–	–	–	–	**75**
Finance costs	**(82)**	–	–	–	–	–	–	–	**(82)**
Profit/(loss) before taxation	**8**	14	9	30	(8)	6	(1)	2	**60**
Taxation	**(8)**	(4)	(3)	–	–	–	3	–	**(12)**
Profit/(loss) for the year from continuing operations	**–**	10	6	30	(8)	6	2	2	**48**
Profit for the year from discontinued operations	**24**	–	–	–	(24)	–	–	–	**–**
Profit for the year	**24**	10	6	30	(32)	6	2	2	**48**

Reconciliation of 2016 statutory results to performance measures by segment

Profit/(loss) from operations	2016 statutory results £m	Build to Last restructuring costs £m	Intangible amortisation £m	Provision increases/ (releases) £m	Gains on disposal £m	Results of ES £m	Results of Rail Germany £m	Other £m	2016 performance measures £m
Segment									
Construction Services	**(57)**	12	3	19	(5)	6	(1)	–	**(23)**
Support Services	**22**	1	–	11	–	–	–	–	**34**
Infrastructure Investments	**83**	–	6	–	(3)	–	–	3	**89**
Corporate activities	**(33)**	1	–	–	–	–	–	(1)	**(33)**
Total	**15**	14	9	30	(8)	6	(1)	2	**67**

Reconciliation of 2015 statutory results to performance measures

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

Reconciliation of 2015 statutory results to performance measures by segment

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

c) Underlying profit before tax

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

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

+ Refer to Note 6 and Note 7.

d) Underlying earnings per share

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

Reconciliation from statutory EPS to performance EPS

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

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

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

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

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

f) Recourse net cash/borrowings

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

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

Net debt/cash reconciliation

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

g) Average net cash/borrowings

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

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

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

h) Directors' valuation of the Investments portfolio

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

The Directors have valued the Investments portfolio at £1.2bn at the year end. The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

i) Constant exchange rates (CER)

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

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

2016 statutory growth compared to performance growth

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

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

Forward-looking statements

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

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

Group Income Statement
For the year ended 31 December 2016

	Notes	2016 Underlying items[1] £m	2016 Non-underlying items (Note 8) £m	2016 Total £m	2015 Underlying items[1] £m	2015 Non-underlying items (Note 8) £m	2015 Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**8,530**	**153**	**8,683**	8,235	209	8,444
Share of revenue of joint ventures and associates	15	**(1,748)**	**(12)**	**(1,760)**	(1,471)	(18)	(1,489)
Group revenue		**6,782**	**141**	**6,923**	6,764	191	6,955
Cost of sales		**(6,503)**	**(136)**	**(6,639)**	(6,609)	(189)	(6,798)
Gross profit		**279**	**5**	**284**	155	2	157
Gain on disposals of interests in investments	20.2	**65**	**–**	**65**	95	–	95
Amortisation of acquired intangible assets	8	**–**	**(9)**	**(9)**	–	(10)	(10)
Other net operating expenses		**(332)**	**(49)**	**(381)**	(403)	(65)	(468)
Group operating profit/(loss)		**12**	**(53)**	**(41)**	(153)	(73)	(226)
Share of results of joint ventures and associates	14	**55**	**1**	**56**	47	(3)	44
Profit/(loss) from operations		**67**	**(52)**	**15**	(106)	(76)	(182)
Investment income	6	**75**	**–**	**75**	52	–	52
Finance costs	7	**(82)**	**–**	**(82)**	(69)	–	(69)
Profit/(loss) before taxation		**60**	**(52)**	**8**	(123)	(76)	(199)
Taxation	9	**(12)**	**4**	**(8)**	(11)	4	(7)
Profit/(loss) for the year from continuing operations		**48**	**(48)**	**–**	(134)	(72)	(206)
Profit/(loss) for the year from discontinued operations		**–**	**24**	**24**	(1)	1	–
Profit/(loss) for the year		**48**	**(24)**	**24**	(135)	(71)	(206)
Attributable to							
Equity holders		**48**	**(24)**	**24**	(135)	(71)	(206)
Non-controlling interests		**–**	**–**	**–**	–	–	–
Profit/(loss) for the year		**48**	**(24)**	**24**	(135)	(71)	(206)

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

	Notes	2016 pence	2015 pence
Basic earnings/(loss) per ordinary share			
- continuing operations	10	**–**	(30.2)
- discontinued operations	10	**3.5**	0.1
	10	**3.5**	(30.1)
Diluted earnings/(loss) per ordinary share			
- continuing operations	10	**–**	(30.2)
- discontinued operations	10	**3.5**	0.1
	10	**3.5**	(30.1)
Dividends per ordinary share proposed for the year	11	**2.7**	–

Group Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 Group £m	2016 Share of joint ventures and associates £m	2016 Total £m	2015 Group £m	2015 Share of joint ventures and associates £m	2015 Total £m
(Loss)/profit for the year	**(32)**	**56**	**24**	(250)	44	(206)
Other comprehensive (loss)/income for the year						
Items which will not subsequently be reclassified to the income statement						
Actuarial (losses)/gains on retirement benefit liabilities	**(121)**	**1**	**(120)**	(86)	(4)	(90)
Tax on above	**2**	**–**	**2**	15	–	15
	(119)	**1**	**(118)**	(71)	(4)	(75)
Items which will subsequently be reclassified to the income statement						
Currency translation differences	**51**	**41**	**92**	29	3	32
Fair value revaluations – PPP financial assets	**27**	**10**	**37**	(13)	(170)	(183)
– cash flow hedges	**(16)**	**(92)**	**(108)**	8	21	29
– available-for-sale investments in mutual funds	**1**	**–**	**1**			
Recycling of revaluation reserves to the income statement on disposal^	**(17)**	**9**	**(8)**	(15)	(5)	(20)
Tax on above	**(1)**	**15**	**14**	1	33	34
	45	**(17)**	**28**	10	(118)	(108)
Total other comprehensive loss for the year	**(74)**	**(16)**	**(90)**	(61)	(122)	(183)
Total comprehensive (loss)/income for the year	**(106)**	**40**	**(66)**	(311)	(78)	(389)
Attributable to						
Equity holders			**(67)**			(389)
Non-controlling interests			**1**			–
Total comprehensive loss for the year			**(66)**			(389)

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

Group Statement of Changes in Equity

For the year ended 31 December 2016

	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves £m	Retained profits/ (losses) £m	Non-controlling interests £m	Total £m
At 1 January 2015	345	64	23	340	140	315	3	1,230
Total comprehensive (loss)/income for the year	–	–	–	(78)	5	(316)	–	(389)
Joint ventures' and associates' dividends	–	–	–	(69)	–	69	–	–
Issue of ordinary shares	–	1	–	–	–	–	–	1
Movements relating to share-based payments	–	–	–	–	(1)	(12)	–	(13)
Minority interest	–	–	–	–	–	–	1	1
Reserve transfers relating to joint venture and associate disposals	–	–	–	(13)	–	13	–	–
Other transfers	–	–	(1)	16	–	(15)	–	–
At 31 December 2015	345	65	22	196	144	54	4	830
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**40**	**44**	**(151)**	**1**	**(66)**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(43)**	**–**	**43**	**–**	**–**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**3**	**1**	**–**	**4**
Reserve transfers relating to joint venture and associate disposals	**–**	**–**	**–**	**(9)**	**–**	**9**	**–**	**–**
At 31 December 2016	**345**	**65**	**22**	**184**	**191**	**(50)**	**5**	**762**

Group Balance Sheet
At 31 December 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Intangible assets – goodwill	12	**937**	844
– other	13	**225**	222
Property, plant and equipment[2]		**181**	163
Investment properties[2]		**36**	4
Investments in joint ventures and associates	14	**628**	671
Investments		**45**	44
PPP financial assets		**163**	402
Trade and other receivables	15	**180**	114
Deferred tax assets		**54**	58
Derivative financial instruments		**3**	–
		2,452	2,522
Current assets			
Inventories and non-construction work in progress		**101**	144
Due from construction contract customers		**380**	379
Trade and other receivables	15	**1,066**	885
Cash and cash equivalents – infrastructure concessions	19.2	**7**	20
– other	19.2	**762**	646
Current tax receivable		**8**	4
Derivative financial instruments		**1**	1
		2,325	2,079
Total assets		**4,777**	4,601
Current liabilities			
Due to construction contract customers		**(542)**	(472)
Trade and other payables	16	**(1,752)**	(1,700)
Provisions		**(147)**	(126)
Borrowings – non-recourse loans	19.3	**(47)**	(22)
– other	19.3	**(56)**	(13)
Current tax payable		**(18)**	(20)
Derivative financial instruments		**(6)**	(11)
		(2,568)	(2,364)
Non-current liabilities			
Trade and other payables	16	**(151)**	(130)
Provisions		**(126)**	(80)
Borrowings – non-recourse loans	19.3	**(193)**	(363)
– other	19.3	**(533)**	(470)
Liability component of preference shares		**(100)**	(98)
Retirement benefit liabilities	17	**(231)**	(146)
Deferred tax liabilities		**(80)**	(53)
Derivative financial instruments		**(33)**	(67)
		(1,447)	(1,407)
Total liabilities		**(4,015)**	(3,771)
Net assets		**762**	830
Equity			
Called-up share capital		**345**	345
Share premium account		**65**	65
Special reserve		**22**	22
Share of joint ventures' and associates' reserves		**184**	196
Other reserves		**191**	144
Retained profits		**(50)**	54
Equity attributable to equity holders of the parent		**757**	826
Non-controlling interests		**5**	4
Total equity		**762**	830

[2] Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

Group Statement of Cash Flows

For the year ended 31 December 2016

		Notes	2016 £m	2015 £m
Cash flows used in operating activities				
Cash used in:				
- continuing operations	– underlying[1]	19.1	**(132)**	(84)
	– non-underlying	19.1	**(15)**	(54)
- discontinued operations		19.1	**–**	3
Income taxes received			**11**	6
Net cash used in operating activities			**(136)**	(129)
Cash flows from investing activities				
Dividends received from joint ventures and associates				
	- infrastructure concessions		**20**	45
	- other		**23**	24
Interest received – infrastructure concessions			**19**	16
Interest received – other			**20**	5
Acquisition of businesses, net of cash and cash equivalents acquired		20.1	**(6)**	(3)
Purchases of:	- intangible assets – infrastructure concessions		**(6)**	(23)
	- intangible assets – other		**(5)**	(20)
	- property, plant and equipment – infrastructure concessions[2]		**(14)**	(9)
	- property, plant and equipment – other		**(27)**	(27)
	- investment properties[2]		**(32)**	(4)
	- other investments		**(1)**	(2)
Investments in and long-term loans to joint ventures and associates			**(37)**	(79)
Capital repayment from infrastructure concession joint venture			**–**	7
Short-term loans to joint ventures and associates			**–**	(11)
Loans repaid from joint ventures and associates			**–**	2
PPP financial assets cash expenditure			**(31)**	(75)
PPP financial assets cash receipts			**39**	30
Disposals of:	- investments in joint ventures – infrastructure concessions	20.2	**155**	104
	- investments in joint ventures – other		**2**	21
	- subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions		**17**	23
	- subsidiaries net of cash disposed, separation and transaction costs – other		**14**	16
	- property, plant and equipment		**9**	7
	- other investments		**5**	10
Net cash from investing activities			**164**	57
Cash flows from financing activities				
Purchase of ordinary shares			**(4)**	(17)
Proceeds from:	- issue of ordinary shares		**–**	1
	- other new loans – infrastructure concessions	19.4	**65**	79
	- other new loans – other	19.4	**52**	–
Repayments of:	- loans – infrastructure concessions	19.4	**(25)**	(11)
	- loans – other	19.4	**(1)**	(1)
Ordinary dividends paid		11	**(6)**	–
Interest paid – infrastructure concessions			**(24)**	(19)
Interest paid – other			**(48)**	(32)
Preference dividends paid			**(12)**	(11)
Net cash used in financing activities			**(3)**	(11)
Net increase/(decrease) in cash and cash equivalents		19.4	**25**	(83)
Effects of exchange rate changes			**80**	1
Cash and cash equivalents at beginning of year			**663**	727
Net decrease in cash within assets held for sale			**–**	18
Cash and cash equivalents at end of year		19.2	**768**	663

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

[2] Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

Notes to the financial statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2016. The presentational currency of the Group is sterling.

The financial information in this announcement, which was approved by the Board of Directors on 15 March 2017, does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The auditor has reported on the 2016 accounts; the report is unqualified, did not draw attention to any matters by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements for the Group that comply with IFRS in April 2017.

2 Going concern

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

3 Accounting policies

3.1 Judgements and key sources of estimation uncertainty

The Group’s principal judgements and key sources of uncertainty are set out in Note 2.27 of the Annual Report and Accounts 2016.

Across Construction Services there remain a small number of long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes could result in a materially positive or negative swing to underlying profitability and cash flow. In the UK, the majority of these contracts are within Major Projects. Outside the UK, this primarily relates to a number of significant contracts in Hong Kong where the range of potential outcomes could result in a materially positive or negative swing to profitability. The majority of these claims are expected to reach commercial settlement by 2018.

3.2 Adoption of new and revised standards

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

- Amendments to the following standards:
  - IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
  - IAS 1 Disclosure Initiative
  - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
  - IAS 16 and IAS 41: Agricultural: Bearer Plants
  - IAS 27 Equity Method in Separate Financial Statements
  - IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
  - Improvements to IFRSs (2012 – 2014).

The above new and amended standards do not have a material effect on the Group.

3.3 Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2016:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendments to the following standards:
  - IAS 7 Disclosure Initiative
  - IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
  - IAS 40 Transfers of Investment Property
  - IFRS 2 Classification and Measurement of Share-based Payment Transactions
  - IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
  - IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  - Clarifications to IFRS 15 Revenue from Contracts with Customers
  - IFRIC 22 Foreign Currency Transactions and Advance Consideration
  - Improvements to IFRSs (2014 – 2016).

The Directors continue to assess the impact of IFRS 9, IFRS 15 and IFRS 16 but do not expect the other standards above to have a material quantitative effect.

4 Exchange rates

The following key exchange rates were applied in these financial statements.

Average rates

£1 buys	**2016**	2015	Change
US$	**1.35**	1.53	(11.8)%
HK$	**10.51**	11.84	(11.2)%
Euro	**1.23**	1.37	(10.2)%

Closing rates

£1 buys	**2016**	2015	Change
US$	**1.23**	1.48	(16.9)%
HK$	**9.57**	11.43	(16.3)%
Euro	**1.17**	1.36	(14.0)%

5 Segment analysis

Reportable segments of the Group:

Construction Services – activities resulting in the physical construction of an asset.

Support Services – activities which support existing assets or functions such as asset maintenance and refurbishment.

Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, schools, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment also includes the Group's housing development division.

5.1 Total Group

Income statement – performance by activity from continuing operations	Construction Services 2016 £m	Support Services 2016 £m	Infrastructure Investments 2016 £m	Corporate activities 2016 £m	Total 2016 £m	Rail Germany 2016 £m	Certain legacy ES contracts 2016 £m	Total 2016 £m
Revenue including share of joint ventures and associates	6,852	1,103	575	–	8,530	150	3	8,683
Share of revenue of joint ventures and associates	(1,381)	(27)	(340)	–	(1,748)	(12)	–	(1,760)
Group revenue	5,471	1,076	235	–	6,782	138	3	6,923
Group operating profit/(loss)^	(50)	33	62	(33)	12	1	(6)	
Share of results of joint ventures and associates	27	1	27	–	55	–	–	
Profit/(loss) from operations^	(23)	34	89	(33)	67	1	(6)	
Non-underlying items								
- include results from certain legacy Engineering Services (ES) contracts within Construction Services	(6)	–	–	–	(6)			
- include results from Rail Germany within Construction Services	1	–	–	–	1			
- amortisation of acquired intangible assets	(3)	–	(6)	–	(9)			
- other non-underlying items	(26)	(12)	–	–	(38)			
	(34)	(12)	(6)	–	(52)			
Profit/(loss) from operations	(57)	22	83	(33)	15			
Investment income					75			
Finance costs					(82)			
Profit before taxation					8			

^ Presented before non-underlying items for underlying operations (Note 8).

5 Segment analysis continued

5.1 Total Group continued

Income statement – performance by activity from continuing operations	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total	Rail Germany	Certain legacy ES contracts	Total
	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m	2015 £m
Revenue including share of joint ventures and associates	6,388	1,259	588	–	8,235	179	30	8,444
Share of revenue of joint ventures and associates	(1,168)	(25)	(278)	–	(1,471)	(18)	–	(1,489)
Group revenue	5,220	1,234	310	–	6,764	161	30	6,955
Group operating profit/(loss)^	(234)	23	91	(33)	(153)	(3)	(8)	
Share of results of joint ventures and associates	5	1	41	–	47	1	–	
Profit/(loss) from operations^	(229)	24	132	(33)	(106)	(2)	(8)	
Non-underlying items								
- include results from certain legacy ES contracts within Construction Services	(8)	–	–	–	(8)			
- include results from Rail Germany within Construction Services	(2)	–	–	–	(2)			
- amortisation of acquired intangible assets	(4)	–	(6)	–	(10)			
- other non-underlying items	(37)	(13)	(4)	(2)	(56)			
	(51)	(13)	(10)	(2)	(76)			
Profit/(loss) from operations	(280)	11	122	(35)	(182)			
Investment income					52			
Finance costs					(69)			
Loss before taxation					(199)			

^ Presented before non-underlying items for underlying operations (Note 8).

Assets and liabilities by activity	Construction Services	Support Services	Infrastructure Investments	Corporate activities	Total
	2016 £m	**2016 £m**	**2016 £m**	**2016 £m**	**2016 £m**
Due from construction contract customers	**247**	**133**	**–**	**–**	**380**
Due to construction contract customers	**(492)**	**(50)**	**–**	**–**	**(542)**
Inventories and non-construction work in progress	**30**	**47**	**24**	**–**	**101**
Trade and other receivables – current	**882**	**93**	**45**	**46**	**1,066**
Trade and other payables – current	**(1,421)**	**(218)**	**(57)**	**(56)**	**(1,752)**
Provisions – current	**(126)**	**(5)**	**(3)**	**(13)**	**(147)**
Working capital from continuing operations*	**(880)**	**–**	**9**	**(23)**	**(894)**

* Includes non-operating items and current working capital.

Total assets	**2,306**	**476**	**1,080**	**915**	**4,777**
Total liabilities	**(2,534)**	**(322)**	**(449)**	**(710)**	**(4,015)**
Net assets/(liabilities)	**(228)**	**154**	**631**	**205**	**762**

5 Segment analysis continued

5.1 Total Group

Assets and liabilities by activity	Construction Services 2015 £m	Support Services 2015 £m	Infrastructure Investments 2015 £m	Corporate activities 2015 £m	Total 2015 £m
Due from construction contract customers	234	145	–	–	379
Due to construction contract customers	(426)	(46)	–	–	(472)
Inventories and non-construction work in progress	51	67	26	–	144
Trade and other receivables – current	687	104	59	35	885
Trade and other payables – current	(1,343)	(240)	(59)	(58)	(1,700)
Provisions – current	(92)	(7)	(7)	(20)	(126)
Working capital from continuing operations*	(889)	23	19	(43)	(890)

* Includes non-operating items and current working capital.

	Construction Services 2015 £m	Support Services 2015 £m	Infrastructure Investments 2015 £m	Corporate activities 2015 £m	Total 2015 £m
Total assets	1,983	524	1,339	755	4,601
Total liabilities	(2,141)	(326)	(586)	(718)	(3,771)
Net assets/(liabilities)	(158)	198	753	37	830

Other information – continuing operations	**Construction Services 2016 £m**	**Support Services 2016 £m**	**Infrastructure Investments 2016 £m**	**Corporate activities 2016 £m**	**Total 2016 £m**
Capital expenditure on property, plant and equipment	**17**	**3**	**14**	**7**	**41**
Depreciation	**14**	**11**	**2**	**3**	**30**
Gain on disposals of interests in investments (Note 20.2)	**–**	**–**	**65**	**–**	**65**
	2015 £m	2015 £m	2015[2] £m	2015 £m	2015[2] £m
Capital expenditure on property, plant and equipment[2]	14	12	10	–	36
Depreciation	16	16	2	1	35
Gain on disposals of interests in investments	–	–	95	–	95

[2] Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

Performance by geographic destination – continuing operations	**United Kingdom 2016 £m**	**United States 2016 £m**	**Rest of World 2016 £m**	**Total 2016 £m**
Revenue including share of joint ventures and associates	**3,465**	**3,533**	**1,685**	**8,683**
Share of revenue of joint ventures and associates	**(202)**	**(104)**	**(1,454)**	**(1,760)**
Group revenue	**3,263**	**3,429**	**231**	**6,923**
Non-current assets excluding financial assets and deferred tax assets	**948**	**919**	**140**	**2,007**
	2015 £m	2015 £m	2015 £m	2015 £m
Revenue including share of joint ventures and associates	3,843	3,238	1,363	8,444
Share of revenue of joint ventures and associates	(185)	(170)	(1,134)	(1,489)
Group revenue	3,658	3,068	229	6,955
Non-current assets excluding financial assets and deferred tax assets	1,060	764	80	1,904

5 Segment analysis continued

5.2 Infrastructure Investments

Underlying profit from operations[1]	Group 2016 £m	Share of joint ventures and associates+ (Note 14) 2016 £m	Total 2016 £m	Group 2015 £m	Share of joint ventures and associates+ (Note 14) 2015 £m	Total 2015 £m
UK^	**6**	**14**	**20**	3	30	33
North America	**16**	**13**	**29**	17	8	25
Infrastructure Fund	**–**	**–**	**–**	–	3	3
Gain on disposals of interests in investments	**65**	**–**	**65**	95	–	95
	87	**27**	**114**	115	41	156
Bidding costs and overheads	**(25)**	**–**	**(25)**	(24)	–	(24)
	62	**27**	**89**	91	41	132

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Singapore and Australia.
1 Before non-underlying items (Note 8).

6 Investment income

Continuing operations	2016 £m	2015 £m
Subordinated debt interest receivable	**29**	24
Interest receivable on PPP financial assets	**21**	24
Gain on foreign currency deposits	**19**	–
Other interest receivable and similar income	**6**	4
	75	52

7 Finance costs

Continuing operations		2016 £m	2015 £m
Non-recourse borrowings	– bank loans and overdrafts	**24**	19
Preference shares	– finance cost	**12**	11
	– accretion	**2**	2
Convertible bonds	– finance cost	**5**	5
	– accretion	**7**	6
US private placement	– finance cost	**13**	11
Other interest payable	– committed facilities	**4**	5
	– letter of credit fees	**3**	3
	– other finance charges	**8**	4
Net finance cost on pension scheme assets and obligations (Note 17)		**4**	3
		82	69

8 Non-underlying items

	2016 £m	2015 £m
Items (charged against)/credited to profit		
8.1 Continuing operations		
8.1.1 Trading results of Rail Germany (including £10m (2015: £13m) of other net operating expenses)	**1**	(3)
8.1.2 Results of certain legacy ES contracts	**(6)**	(8)
8.1.3 Amortisation of acquired intangible assets	**(9)**	(10)
8.1.4 Other non-underlying items:		
– Build to Last transformation costs	**(14)**	(23)
– provision increases resulting from revised legal guidelines and settlements	**(25)**	–
– release of Trans4m provisions on liquidation	**8**	–
– provision increases resulting from reassessment of industrial disease related liabilities	**(14)**	–
– gain on sale of Balfour Beatty Infrastructure Partners	**3**	–
– impairment of land/goodwill relating to Blackpool Airport	**(3)**	(4)
– gain on disposal of Signalling Solutions Ltd	**3**	16
– gain/(loss) on disposal and impairment of parts of Rail Germany	**2**	(10)
– pension fund settlement gain	**1**	3
– restructuring costs relating to Heery and Rail Germany	**–**	(9)
– cost of implementing the shared service centre in the UK	**–**	(8)
– impairment of IT intangible asset	**–**	(17)
Total other non-underlying items from continuing operations	**(39)**	(52)
	(53)	(73)
8.1.5 Share of results of joint ventures and associates:		
– release of Trans4m provisions on liquidation	**1**	–
– Rail Germany	**–**	(3)
Non-underlying items credited/(charged) to share of results of joint ventures and associates	**1**	(3)
Charged against profit/(loss) before taxation from continuing operations	**(52)**	(76)
8.1.6 Tax on items above	**4**	4
Non-underlying items charged against profit/(loss) for the year from continuing operations	**(48)**	(72)
8.2 Discontinued operations		
8.2.1 Other non-underlying items:		
– gain on disposal of Parsons Brinckerhoff	**24**	5
– loss on disposal of Rail Italy	**–**	(4)
Credited to profit/(loss) before taxation from discontinued operations	**24**	1
8.2.2 Tax on items above	**–**	–
Non-underlying items credited to profit/(loss) for the year from discontinued operations	**24**	1
Charged against profit/(loss) for the year	**(24)**	(71)

8 Non-underlying items continued

Continuing operations

8.1.1 Rail Germany was reclassified from discontinued operations in 2014 and has continued to be presented as part of the Group's non-underlying items within continuing operations. In 2016, the remaining parts of Rail Germany generated a profit before tax excluding share of joint ventures and associates of £1m (2015: £3m loss before tax).

8.1.2 The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts in non-underlying items. These contracts were classified as non-underlying items in 2014 as the performance of these contracts was linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work. These contracts resulted in a loss before tax for the Group of £6m in 2016 (2015: £8m). No tax credit has been recognised on this loss.

8.1.3 The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £6m (2015: £6m); customer relationships £3m (2015: £3m); and brand names £nil (2015: £1m). These have been included as non-underlying items as they relate to costs arising on acquisition of businesses.

The charge was recognised in the following segments: Construction Services £3m (2015: £4m) and Infrastructure Investments £6m (2015: £6m).

8.1.4.1 The Group launched its Build to Last transformation programme in February 2015. The transformation programme is aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies. As a result of this programme, restructuring costs of £14m were incurred in 2016 relating to: Construction Services £12m; Support Services £1m; and Corporate £1m. These restructuring costs comprise: redundancy costs £9m; external advisers £2m; property-related costs £1m; and other restructuring costs £2m.

In 2015, the Group incurred restructuring costs of £23m relating to: Construction Services £14m; Support Services £6m; and Corporate £3m. These restructuring costs comprise: redundancy costs £13m; external advisers £5m; property-related costs £1m; and other restructuring costs £4m.

8.1.4.2 In 2016, potential liabilities on historical health and safety breaches were reassessed following new sentencing guidelines introduced and the settlement of other historical claims previously treated as non-underlying items. As a result of this, the Group has revised its legal provisioning levels relating to these items, recognising an expense of £25m. This has been presented as non-underlying because its size would otherwise distort the underlying financial performance achieved by the Group and the events giving rise to these expenses occurred in prior years.

The charge was recognised in the following segments: Construction Services £13m and Support Services £12m.

8.1.4.3 In 2016, the Group has released all remaining provisions relating to Trans4m Ltd (Trans4m) amounting to £9m, £1m of which has been recognised at the joint venture level. Trans4m was an equal joint operation between Balfour Beatty and three other partner shareholders and was contracted to Metronet as part of the London Underground PPP. The provisions were originally recorded in non-underlying items in 2007. Trans4m went into creditors' voluntary liquidation on 27 June 2016.

The credit was recognised in the following segments: Construction Services £8m and Support Services £1m.

8 Non–underlying items continued

Continuing operations continued

8.1.4.4 In 2016, the Group commissioned a revised independent actuarial report on its exposure to industrial disease related liabilities. These are mostly for asbestos-related claims in relation to events pre-1972 which are not insured by the Financial Services Compensation Scheme. As a result of the findings within this report, the Group has increased its provision held with respect to industrial disease related liabilities, resulting in a £14m charge to the income statement. This has been presented as non-underlying because its size would otherwise distort the underlying financial performance achieved by the Group and the events giving rise to these liabilities occurred in prior years.

The entire charge was recognised within Construction Services.

8.1.4.5 In 2016, the Group disposed of its interest in Balfour Beatty Infrastructure Partners, comprising its 17.8% interest in the Infrastructure Fund and 100% interest in the fund's advisor. Initial consideration of £48m was received, resulting in a gain of £3m to the Group. Refer to Notes 20.2.4 and 20.2.5.

8.1.4.6 In 2016, an impairment of £3m was recognised on land held at Blackpool Airport. The land was originally held in connection with the Group's former operation of the airport. In 2015, goodwill amounting to £4m in relation to Blackpool Airport was fully written down.

8.1.4.7 On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Ltd (SSL) for a cash consideration of £18m, resulting in a £16m gain in 2015. In 2016, additional consideration received resulted in a further gain of £2m being reported. In addition to this, a £1m pension settlement gain arose as a result of transferring pension liabilities relating to the employees of SSL to the new employer. This gain was recognised within Construction Services.

8.1.4.8 In September 2016, the Group completed the disposal of parts of Rail Germany to Tianjin Keyvia Electric Co Ltd for a cash consideration of £15m. Refer to Note 20.2.7. This sale resulted in £2m gain as a result of recycling of foreign currency reserves. The related assets disposed were impaired by £11m in 2015 to reflect the value of the agreed consideration. £4m of that impairment was recognised at the joint venture level. Refer to Note 8.1.5.2.

In 2015, the Group disposed of other parts of Rail Germany to the Rhomberg Sersa Rail Group for a cash consideration of £9m resulting in a £3m loss in 2015.

8.1.4.9 A settlement gain of £1m (2015: £3m) was recognised in relation to commutation options offered by the Balfour Beatty Pension Fund since 2014. Refer to Note 17.

8.1.4.10 In 2015, following the disposal of Parsons Brinckerhoff (PB) on 31 October 2014, the Group incurred £4m of costs relating to restructuring the continuing operations of Heery Inc. which was previously reliant on PB for its back office functions.

In 2015, additional restructuring costs of £5m were incurred in Rail Germany relating to the restructuring of overheads post completion of disposal of parts of the business. These restructuring costs comprise redundancy costs of £1m and other restructuring costs of £4m.

Both Heery and Rail Germany are included within the Construction Services segment.

8.1.4.11 In 2015, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £8m.

8 Non–underlying items continued

Continuing operations continued

8.14.12 In 2015, an impairment charge of £17m was recorded to write down intangible assets in relation to costs capitalised in the transformation of the Group's UK IT estate from a federated to a more centralised model.

The charge was recognised in the following segments: Construction Services £9m; Support Services £7m; and Corporate £1m.

8.1.5.1 Refer to Note 8.1.4.3.**8.1.5.2** In 2016, the joint venture within Rail Germany generated a trading gain of £nil for the Group (2015: £1m gain). In addition to this, a £4m impairment charge was recognised on the joint venture following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. Refer to Note 8.1.4.8.

8.1.6 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £4m comprising: £3m tax credit on amortisation of acquired intangible assets; £3m charge on the results of Rail Germany; and £4m credit on other non-underlying items (2015: £4m comprising: £2m charge on the results of Rail Germany; £4m credit on amortisation of acquired intangible assets; and £2m credit on other non-underlying items).

Discontinued operations

8.2.1.1 In 2015, the Group finalised the cash consideration due on the disposal of Parsons Brinckerhoff (PB) amounting to additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. In accordance with the stock purchase agreement, the Group received cash of £20m relating to historical tax matters (£16m of which was recognised as a current tax receivable in the prior period) and the Group also released an indemnity provision relating to an historical legal claim of £3m which was successfully settled during the period. Offsetting this additional non-underlying gain on disposal were separation costs incurred during the period of £4m, of which £2m were paid during the period, and the write-off of a deferred tax asset of £7m resulting in an overall net gain of £5m. Transaction costs of £9m, which were accrued in the prior period, were paid in the year.

Subsequently in 2016, the Group reached a settlement with the purchaser of PB in relation to outstanding tax matters and indemnities. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters have been released, resulting in an overall gain to the Group of £24m.

8.2.1.2 On 11 March 2015, as part of the ongoing process to exit the Mainland European rail businesses, the Group disposed of Rail Italy for a cash consideration of £5m, resulting in a £4m loss being recognised in the year.

8.2.2 The non-underlying items credited to profit from discontinued operations gave rise to a tax charge of £nil (2015: £nil).

9 Income taxes

Continuing operations[x]	Underlying Items[1] 2016 £m	Non-underlying items (Note 8) 2016 £m	Total 2016 £m	Total 2015 £m
Total UK tax	**2**	**–**	**2**	15
Total non-UK tax	**10**	**(4)**	**6**	(8)
Total tax charge/(credit)	**12**	**(4)**	**8**	7

Continuing operations[x]				
UK current tax				
– current tax on profits for the year at 20% (2015: 20.25%)	**(1)**	**–**	**(1)**	3
– adjustments in respect of previous periods	**(6)**	**–**	**(6)**	(5)
	(7)	**–**	**(7)**	(2)
Non-UK current tax				
– current tax on profits for the year	**1**	**2**	**3**	4
– adjustments in respect of previous periods	**(9)**	**(1)**	**(10)**	(5)
	(8)	**1**	**(7)**	(1)
Total current tax	**(15)**	**1**	**(14)**	(3)
UK deferred tax				
– origination and reversal of temporary differences	**9**	**–**	**9**	8
– adjustments in respect of previous periods	**3**	**–**	**3**	4
– UK corporation tax rate change	**(3)**	**–**	**(3)**	5
	9	**–**	**9**	17
Non-UK deferred tax				
– origination and reversal of temporary differences	**13**	**(5)**	**8**	(12)
– adjustments in respect of previous periods	**5**	**–**	**5**	5
	18	**(5)**	**13**	(7)
Total deferred tax	**27**	**(5)**	**22**	10
Total tax charge/(credit) from continuing operations	**12**	**(4)**	**8**	7

[x] Excluding joint ventures and associates.
[1] Before non-underlying items (Note 8).

The standard rate of corporation tax in the UK was 20% during the year. The rate will be reduced to 19% with effect from 1 April 2017, with a further reduction to 17% from 1 April 2020. These changes were all substantively enacted prior to the end of the year. The net impact of these rate changes was a £3m credit (2015: £5m charge) to the income statement and a £nil charge (2015: £2m) to equity.

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 14), except where tax is levied at the Group level.

In addition to the Group tax charge, tax of £16m is credited (2015: £49m) directly to other comprehensive income, comprising: a deferred tax credit of £1m for subsidiaries (2015: £16m); and a deferred tax credit in respect of joint ventures and associates of £15m (2015: £33m).

10 Earnings per ordinary share

Earnings	2016 Basic £m	2016 Diluted £m	2015 Basic £m	2015 Diluted £m
Continuing operations				
Earnings/(loss)	**–**	**–**	(206)	(206)
Amortisation of acquired intangible assets – net of tax credit of £3m (2015: £4m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £1m (2015: £nil)	**42**	**42**	66	66
Underlying earnings/(loss)	**48**	**48**	(134)	(134)
Discontinued operations				
Earnings	**24**	**24**	–	–
Other non-underlying items	**(24)**	**(24)**	(1)	(1)
Underlying loss	**–**	**–**	(1)	(1)
Total operations				
Earnings/(loss)	**24**	**24**	(206)	(206)
Amortisation of acquired intangible assets – net of tax credit of £3m (2015: £4m)	**6**	**6**	6	6
Other non-underlying items – net of tax credit of £1m (2015: £nil)	**18**	**18**	65	65
Underlying earnings/(loss)	**48**	**48**	(135)	(135)

	Basic m	Diluted m	Basic m	Diluted m
Weighted average number of ordinary shares	**680**	**684**	682	682

Earnings per share	Basic pence	Diluted pence	Basic pence	Diluted pence
Continuing operations				
Earnings/(loss) per ordinary share	**–**	**–**	(30.2)	(30.2)
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**6.1**	**6.1**	9.7	9.7
Underlying earnings/(loss) per ordinary share	**7.0**	**7.0**	(19.7)	(19.7)
Discontinued operations				
Earnings per ordinary share	**3.5**	**3.5**	0.1	0.1
Other non-underlying items	**(3.5)**	**(3.5)**	(0.2)	(0.2)
Underlying loss per ordinary share	**–**	**–**	(0.1)	(0.1)
Total operations				
Earnings/(loss) per ordinary share	**3.5**	**3.5**	(30.1)	(30.1)
Amortisation of acquired intangible assets	**0.9**	**0.9**	0.8	0.8
Other non-underlying items	**2.6**	**2.6**	9.5	9.5
Underlying earnings/(loss) per ordinary share	**7.0**	**7.0**	(19.8)	(19.8)

11 Dividends on ordinary shares

	2016 Per share pence	2016 Amount £m	2015 Per share pence	2015 Amount £m
Proposed dividends for the year				
Interim – current year	**0.9**	**6**	–	–
Final – current year	**1.8**	**12**	–	–
	2.7	**18**	–	–
Recognised dividends for the year				
Final – prior year		**–**		–
Interim – current year		**6**		–
		6		–

There were no proposed or recognised dividends for 2015. The Board took the decision to suspend the dividend in 2015, to ensure balance sheet strength was maintained during the initial stages of Build to Last. Following the demonstrable progress made by the Group in the first year of the transformation programme and in the expectation of further solid and measurable improvements, the Board is recommending a final dividend of 1.8p, following the interim dividend declared at the half year of 0.9p. The Board continues to anticipate a progressive dividend policy going forward.

The interim 2016 dividend was paid on 2 December 2016. Subject to approval at the Annual General Meeting on 18 May 2017, the final 2016 dividend will be paid on 7 July 2017 to holders on the register on 21 April 2017 by direct credit or, where no mandate has been given, by cheque posted on 6 July 2017 payable on 7 July 2017. The ordinary shares will be quoted ex-dividend on 20 April 2017.

12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2016	997	(153)	844
Currency translation differences	**116**	**(25)**	**91**
Additions (refer to Note 20.1)	**2**	–	**2**
Disposals	**(5)**	**5**	–
At 31 December 2016	**1,110**	**(173)**	**937**

Carrying amounts of goodwill by cash-generating unit	2016 £m	2016 Pre-tax discount rate %	2015 £m	2015 Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.2**	248	10.2
Balfour Beatty Construction Group Inc.	**452**	**12.6**	377	12.6
Rail UK	**68**	**10.4**	66	10.4
Gas & Water	**58**	**10.2**	58	10.3
Balfour Beatty Communities US	**54**	**12.6**	45	12.6
Other	**57**	**10.2–12.8**	50	10.3–12.7
Group total	**937**		844	

12 Intangible assets – goodwill continued

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected workload of each cash-generating unit (CGU), giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three Year Plan, which covers the period from 2017 to 2019 and includes the stabilisation and recovery of the Construction Services UK business to more normal levels of performance. The cash flow forecasts for each CGU were compiled from each of its constituent business units as part of the Group's annual financial planning process.

The other key inputs in assessing each CGU are its long-term growth rate and discount rate. The discount rates have been calculated using the Weighted Average Cost of Capital (WACC) method, which takes account of the Group's capital structure (financial risk) as well as the nature of each CGU's business (operational risk). Long-term growth rates are assumed to be the estimated future GDP growth rates based on published independent forecasts for the country or countries in which each CGU operates, less 1.0% to reflect current economic uncertainties and their consequent estimated effect on public sector spending on infrastructure.

In the derivation of each CGU's value-in-use, a terminal value is assumed based on a multiple of earnings before interest and tax. The multiple is applied to a terminal cash flow, which is the normalised cash flow in the last year of the forecast period. The EBIT multiple is calculated using the Gordon Growth Model and is a factor of the discount rate and growth rate for each CGU. The nominal terminal value is discounted to present value.

			2016			2015
	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	**1.8**	**1.1**	**2.9**	1.6	1.2	2.8
Balfour Beatty Construction Group Inc.	**1.9**	**1.5**	**3.4**	1.6	1.7	3.3
Rail UK	**1.8**	**1.1**	**2.9**	1.6	1.2	2.8
Gas & Water	**1.8**	**1.1**	**2.9**	1.6	1.2	2.8
Balfour Beatty Communities US	**1.9**	**1.5**	**3.4**	1.6	1.7	3.3
Other	**1.9**	**1.4**	**3.3**	1.6	1.7	3.3

Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the discount rate and the long-term growth rate.

Using a pre-tax discount rate of 12.6% and nominal long-term growth rate of 3.4% the recoverable amount of the remaining goodwill in Balfour Beatty Construction Group Inc. is £594m based on value-in-use, with consequent headroom of £142m. A 1.0% increase in the discount rate and a 1.0% reduction in the growth rate would lead to an impairment of £41m.

Except as noted above, a reasonable possible change in key assumptions will not give rise to an impairment in any of the Group's CGUs.

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

13 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2016	489	(267)	222
Currency translation differences	**50**	**(33)**	**17**
Additions	**11**	**–**	**11**
Disposals	**(7)**	**4**	**(3)**
Charge for the year	**–**	**(21)**	**(21)**
Impairment charge	**–**	**(1)**	**(1)**
Removal of fully amortised intangible asset	**(48)**	**48**	**–**
At 31 December 2016	**495**	**(270)**	**225**

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

14 Joint ventures and associates

			Infrastructure Investments		
	Construction Services+ £m	Support Services £m	UK^ £m	North America £m	Total £m
Income statement – continuing operations					
Revenue[1]	**1,381**	**27**	**220**	**120**	**1,748**
Underlying operating profit[1]	**29**	**1**	**6**	**15**	**51**
Investment income	**2**	**–**	**126**	**7**	**135**
Finance costs	**(1)**	**–**	**(114)**	**(9)**	**(124)**
Profit before taxation[1]	**30**	**1**	**18**	**13**	**62**
Taxation	**(3)**	**–**	**(4)**	**–**	**(7)**
Profit after taxation before non-underlying items	**27**	**1**	**14**	**13**	**55**
Share of results within non-underlying items	**1**	**–**	**–**	**–**	**1**
Profit after taxation	**28**	**1**	**14**	**13**	**56**
Balance sheet					
Intangible assets:					
- goodwill	**35**	**–**	**–**	**–**	**35**
- Infrastructure Investments intangible	**–**	**–**	**19**	**–**	**19**
- other	**3**	**–**	**12**	**–**	**15**
Property, plant and equipment	**29**	**–**	**33**	**–**	**62**
Investment properties	**–**	**–**	**–**	**61**	**61**
Investments in joint ventures and associates	**4**	**–**	**–**	**–**	**4**
PPP financial assets	**–**	**–**	**1,941**	**188**	**2,129**
Military housing projects	**–**	**–**	**–**	**121**	**121**
Net cash/(borrowings)	**341**	**–**	**(1,340)**	**(182)**	**(1,181)**
Other net (liabilities)/assets	**(268)**	**4**	**(331)**	**(42)**	**(637)**
Net assets	**144**	**4**	**334**	**146**	**628**

^ Including Singapore and Australia. + Excludes the Group's share of the balance sheets of BK Gulf LLC and Dutco Balfour Beatty LLC (Dutco) as this is presented within provisions for the reasons set out below.
[1] Before non-underlying items (Note 8).

14 Joint ventures and associates continued

The Group has recognised losses in relation to Dutco+ in excess of the carrying value of its investment as the Group has constructive obligations to provide further funding to make good these losses. At 31 December 2016, these losses amounted to £12m (2015: £9m) and have been classified as other provisions.

As detailed in Note 24, on 26 January 2017 the Group reached agreement to sell its 49% interests in Dutco+ to its joint venture partner. The sale subsequently completed on 1 March 2017.

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.

	2015					
			Infrastructure Investments			
	Construction Services £m	Support Services £m	UK^ £m	North America £m	Infrastructure Fund £m	Total £m
Income statement – continuing operations						
Revenue[1]	1,168	25	187	91	–	1,471
Underlying operating profit[1]	8	1	8	11	3	31
Investment income	2	–	160	4	–	166
Finance costs	(2)	–	(129)	(7)	–	(138)
Profit before taxation[1]	8	1	39	8	3	59
Taxation	(3)	–	(9)	–	–	(12)
Profit after taxation before non-underlying items	5	1	30	8	3	47
Share of results within non-underlying items	(3)	–	–	–	–	(3)
Profit after taxation	2	1	30	8	3	44
Balance sheet						
Intangible assets:						
- goodwill	30	–	–	–	–	30
- Infrastructure Investments intangible	–	–	25	–	–	25
- other	–	–	11	–	–	11
Property, plant and equipment[2]	38	–	26	–	–	64
Investment properties[2]	–	–	–	39	–	39
Investments in joint ventures and associates	5	–	–	–	–	5
PPP financial assets	–	–	2,159	77	–	2,236
Military housing projects	–	–	–	101	–	101
Infrastructure Fund Investment	–	–	–	–	38	38
Net cash/(borrowings)	234	–	(1,525)	(82)	–	(1,373)
Other net (liabilities)/assets	(204)	4	(291)	(23)	–	(514)
Net assets	103	4	405	112	38	662
Reclassify net liabilities relating to Dutco+ to provisions	9	–	–	–	–	9
Adjusted net assets	112	4	405	112	38	671

^ Including Singapore and Australia.
+ Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.
1 Before non-underlying items (Note 8).
2 Re-presented to show assets that are held by the Group to generate rental income and/or capital appreciation separately from property, plant and equipment. These assets meet the definition of investment properties and have been reclassified accordingly.

15 Trade and other receivables

	2016 £m	2015 £m
Current		
Trade receivables	**653**	506
Less: provision for impairment of trade receivables	**(7)**	(11)
	646	495
Other receivables	**60**	45
Due from joint ventures and associates	**58**	55
Due from joint operation partners	**7**	10
Contract retentions receivable+	**242**	202
Accrued income	**17**	24
Prepayments	**36**	54
	1,066	885
Non-current		
Other receivables	**4**	2
Due from joint ventures and associates	**25**	12
Contract retentions receivable+	**151**	100
	180	114
Total trade and other receivables	**1,246**	999

+ Including £390m (2015: £298m) construction contract retentions receivable.

16 Trade and other payables

	2016 £m	2015 £m
Current		
Trade and other payables	**936**	838
Accruals	**701**	755
Deferred income	**15**	7
VAT, payroll taxes and social security	**73**	67
Advance payments on contracts	**4**	–
Due to joint ventures and associates	**11**	25
Dividends on preference shares	**6**	5
Due on acquisitions	**3**	3
Due on disposals (Note 20.2.8)	**3**	–
	1,752	1,700
Non-current		
Trade and other payables	**110**	86
Accruals	**20**	18
Deferred income	**–**	1
Due to joint ventures and associates	**7**	11
Due on acquisitions	**14**	14
	151	130
Total trade and other payables	**1,903**	1,830

17 Retirement benefit liabilities

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

The investment strategy of the Balfour Beatty Pension Fund (BBPF) is to hold assets of appropriate liquidity and marketability to generate income and capital growth. The BBPF invests partly in a diversified range of assets including equities and hedge funds in anticipation that, over the longer term, they will grow in value faster than the obligations. The equities are in the form of pooled funds and are a combination of UK, other developed market and emerging market equities. The remaining BBPF assets are principally fixed and index-linked bonds and derivatives, providing protection against movements in inflation and interest rates and hence enhancing the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

Since 2014, the Group has been offering a commutation option for pensioner members and dependants with benefits with a value of less than £30,000 and £18,000, respectively, to extinguish their benefits within the BBPF in exchange for a cash lump sum. The acceptance of this offer by certain members and dependants gave rise to a settlement event resulting in a decrease in liabilities of £1m (2015: £3m), which was recognised in other non-underlying items. Refer to Note 8.1.4.9.

On 1 July 2015, the Group established a Scottish Limited Partnership (SLP) structure into which its investment in Consort Healthcare (Birmingham) Holdings Ltd (Consort Birmingham), which owns the Group's 40% interest in the Birmingham Hospital PFI investment, was transferred. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in Consort Birmingham for other investments from time to time. On 29 December 2016 the Group transferred into the SLP its investment in Holyrood Student Accommodation Holdings Ltd, which owns the Group's 100% interest in the Edinburgh student accommodation project.

Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension deficit presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. The first distribution was received in December 2015 and amounted to £1m. A further distribution was received in 2016 and amounted to £1m.

Alongside the establishment of the SLP, agreement was reached to make a series of deficit payments to the BBPF with the first payment of £4m paid in 2016. A further £5m is due in 2017; £7m due in 2018; £9m due in 2019; £13m due in 2020; £17m due in 2021; £22m due in 2022; and £25m due in 2023.

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2016. As a result, the Group agreed to make ongoing deficit payments in addition to those set out above of £5m for the period from January 2017 to April 2017; £17m per annum from April 2017; £19m per annum from April 2018; and £3m per annum from April 2020.

If the dividend cover ratio is below an agreed trigger level then the contributions set out above may need to be accelerated.

17 Retirement benefit liabilities continued

This agreement constitutes a minimum funding requirement (MFR) under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the BBPF would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF have been settled. Implementation of the draft Amendment to IFRIC 14 when it becomes effective will not affect this accounting**.**

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

		2016		2015
	Balfour Beatty Pension Fund %	**Railways Pension Scheme %**	Balfour Beatty Pension Fund %	Railways Pension Scheme %
Discount rate	**2.50**	**2.50**	3.70	3.70
Inflation rate – RPI	**3.20**	**3.20**	3.00	3.00
– CPI	**2.00**	**2.00**	1.60	1.60
Future increases in pensionable salary	**2.00**	**2.00**	1.60	1.60
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.95**	**2.15**	2.85	1.80

	Number	**Number**	Number	Number
Total number of defined benefit members	**31,032**	**3,077**	31,956	3,078

In December 2016, following independent advice from the Group's actuaries, the Group reassessed the difference between RPI and CPI measures of price inflation from 1.4% in December 2015 to 1.2% increasing the retirement benefit liability by a further £44m which was recognised in the Statement of Comprehensive Income.

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes.

The mortality assumptions as at 31 December 2016 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2005 to 31 March 2016. The mortality tables adopted for the 2016 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2015: SAPS S2 tables) with a multiplier of 102% for all male and female members (2015: 102%) and 109% for female widows and dependants (2015: 109%); all with future improvements in line with the CMI 2015 core projection model (2015: CMI 2015 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2015: 1.25% per annum and 1.00% per annum).

		2016		2015
	Average life expectancy at 65 years of age		Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**22.1**	**23.9**	22.1	23.9
Members not yet in receipt of a pension (current age 50)	**23.4**	**25.0**	23.4	25.0

17 Retirement benefit liabilities continued

Amounts recognised in the Balance Sheet

	2016				2015			
	Balfour Beatty Pension Fund £m	**Railways Pension Scheme £m**	**Other schemes^ £m**	**Total £m**	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Other schemes^ £m	Total £m
Present value of obligations	**(3,683)**	**(416)**	**(56)**	**(4,155)**	(3,031)	(314)	(52)	(3,397)
Fair value of plan assets	**3,621**	**303**	**–**	**3,924**	2,988	263	–	3,251
Liabilities in the balance sheet	**(62)**	**(113)**	**(56)**	**(231)**	(43)	(51)	(52)	(146)

^ Available-for-sale investments in mutual funds of £23m (2015: £20m) are held to satisfy the Group's deferred compensation obligations.

The defined benefit obligation comprises £56m (2015: £52m) arising from wholly unfunded plans and £4,099m (2015: £3,345m) arising from plans that are wholly or partly funded.

Movements in the retirement benefit liabilities for the year		**2016 £m**
At 1 January 2016		(146)
Currency translation differences		**(9)**
Current service cost		**(6)**
Interest cost		**(122)**
Interest income		**118**
Actuarial movements	– on obligations from reassessing the difference between RPI and CPI	**(44)**
	– on obligations from changes to other financial assumptions	**(806)**
	– on obligations from changes in demographic assumptions	**(51)**
	– on obligations from experience gains	**76**
	– on assets	**704**
Contributions from employer	– regular funding	**2**
	– ongoing deficit funding	**41**
Benefits paid		**4**
Settlements		**2**
Businesses disposed		**6**
At 31 December 2016		**(231)**

The BBPF includes a defined contribution section with 13,290 members at 31 December 2016 (2015: 13,163 members) with £44m (2015: £45m) of contributions paid from continuing operations and charged in the income statement in respect of this section. The total net pension cost recognised in the income statement in respect of employee service for defined benefit and defined contribution schemes was £50m (2015: £53m).

Sensitivity of the Group's retirement benefit obligations at 31 December 2016 to different actuarial assumptions

	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Increase in discount rate	**0.5%**	**(8.0)%**	**(330)**
Increase in market expectation of RPI inflation	**0.5%**	**5.9%**	**241**
Increase in salary growth	**0.5%**	**0.1%**	**4**
Increase in life expectancy	**1 year**	**4.3%**	**177**

Sensitivity of the Group's retirement benefit assets at 31 December 2016 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	**(9.2)%**	**(359)**
Increase in market expectation of RPI inflation	**0.5%**	**4.6%**	**181**

18 Share capital

During the year ended 31 December 2016, 1,565,128 (2015: 7,292,588) ordinary shares were purchased for £4m (2015: £17m) by the Group's employee discretionary trust to satisfy awards under the Company's equity-settled share-based payment arrangements.

19 Notes to the statement of cash flows

19.1 Cash (used in)/generated from operations	Continuing operations				
	Underlying items[1] 2016 £m	Non-underlying items (Note 8) 2016 £m	Discontinued operations 2016 £m	Total 2016 £m	Total 2015 £m
Profit/(loss) from operations	**67**	**(52)**	**24**	**39**	(182)
Share of results of joint ventures and associates	**(55)**	**(1)**	**–**	**(56)**	(44)
Depreciation of property, plant and equipment	**29**	**1**	**–**	**30**	35
Amortisation of other intangible assets	**12**	**9**	**–**	**21**	25
Impairment of IT intangible assets	**1**	**–**	**–**	**1**	17
Pension deficit payments	**(41)**	**–**	**–**	**(41)**	(66)
Pension fund settlement gain	**–**	**(1)**	**–**	**(1)**	(3)
Movements relating to share-based payments	**7**	**–**	**–**	**7**	5
Profit on disposal of investments in infrastructure concessions	**(65)**	**–**	**–**	**(65)**	(95)
Net gain on disposal of other businesses	**–**	**(8)**	**(24)**	**(32)**	(14)
Profit on disposal of property, plant and equipment	**(5)**	**–**	**–**	**(5)**	(1)
Impairment of land relating to Blackpool airport (2015: impairment of goodwill)	**–**	**3**	**–**	**3**	4
Impairment of assets within Rail Germany	**–**	**–**	**–**	**–**	7
Other non-cash items	**–**	**–**	**–**	**–**	(1)
Operating cash flows before movements in working capital	**(50)**	**(49)**	**–**	**(99)**	(313)
(Increase)/decrease in operating working capital	**(82)**	**34**	**–**	**(48)**	178
Inventories and non-construction work in progress	**42**	**–**	**–**	**42**	27
Due from construction contract customers	**(14)**	**9**	**–**	**(5)**	182
Trade and other receivables	**(121)**	**(13)**	**–**	**(134)**	74
Due to construction contract customers	**60**	**(19)**	**–**	**41**	126
Trade and other payables	**(53)**	**(7)**	**–**	**(60)**	(236)
Provisions	**4**	**64**	**–**	**68**	5
Cash (used in)/generated from operations	**(132)**	**(15)**	**–**	**(147)**	(135)

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

19.2 Cash and cash equivalents	2016 £m	2015 £m
Cash and deposits	**605**	562
Term deposits	**157**	84
Cash balances within infrastructure concessions	**7**	20
Bank overdrafts	**(1)**	(3)
	768	663

19 Notes to the statement of cash flows continued

19.3 Analysis of net borrowings

	2016 £m	2015 £m
Cash and cash equivalents, excluding overdrafts and cash balances within infrastructure concessions	**762**	646
Bank overdrafts	**(1)**	(3)
US private placement	**(285)**	(236)
Liability component of convertible bonds	**(240)**	(233)
Loans under committed facilities	**(50)**	–
Other loans	**(12)**	(10)
Finance leases	**(1)**	(1)
	173	163
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2019 and 2048	**(240)**	(385)
Infrastructure concessions cash and cash equivalents	**7**	20
	(233)	(365)
Net borrowings	**(60)**	(202)

19.4 Analysis of movement in net (borrowings)/cash

	Infrastructure concessions non-recourse project finance 2016 £m	Other 2016 £m	Total 2016 £m	Total 2015 £m
Opening net borrowings	(365)	163	(202)	(226)
Currency translation differences	**(6)**	**30**	**24**	(15)
Net (decrease)/increase in cash and cash equivalents	**(13)**	**38**	**25**	(83)
Accretion on convertible bonds	**–**	**(7)**	**(7)**	(6)
Proceeds from new loans	**(65)**	**(52)**	**(117)**	(79)
Repayments of loans	**25**	**1**	**26**	12
Disposal of non-recourse borrowings	**191**	**–**	**191**	177
Net decrease in cash within assets held for sale	**–**	**–**	**–**	18
Closing net (borrowings)/cash	**(233)**	**173**	**(60)**	(202)

19.5 Borrowings

During the year ended 31 December 2016, the significant movements in borrowings were: an increase in new loans of £52m (2015: £nil); an increase of £65m (2015: £79m) in non-recourse loans funding the development of infrastructure projects in subsidiaries; disposal of non-recourse borrowings in streetlighting projects of £191m (2015: £177m on disposal of Thanet OFTO HoldCo Ltd); and repayment of £25m (2015: £11m) of non-recourse loans.

20 Acquisitions and disposals

20.1 Current and prior year acquisitions

On 30 September 2016, the Group acquired 100% of Omnicom Engineering Ltd for a purchase price of £3m. The consideration includes a deferred consideration element of £0.3m which is subject to Omnicom securing key orders at an acceptable level of margin. The acquisition resulted in goodwill of £2m. Refer to Note 12. There were no material acquisitions in 2015.

Deferred consideration paid during 2016 in respect of acquisitions completed in earlier years was £3m (2015: £3m). This related to the Group's acquisition of Centex Construction in 2007.

20.2 Current year disposals

Notes	Disposal date	Entity/business		Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain £m	Non-underlying gain/(loss) £m
20.2.1	15 April 2016	Connect M1-A1 Holdings Ltd	^	30%	15	(10)[&]	–	–	5	–
20.2.2	5 May 2016	Living & Learning Unit Trust	^	50%	19	(1)	(8)	(1)	9	–
20.2.3	1 July 2016	BSF Schools: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing, Derby City	^	80/90%	73	(27)	(8)	–	38	–
20.2.4	1 July 2016	BBIP Infrastructure Fund	+	17.8%	48	(48)	7	(1)	–	6
20.2.5	1 July 2016	BBIP Advisor	*	100%	–	(3)	–	–	–	(3)
20.2.6	7 September 2016	Humber Gateway	^	40%	2	–	–	–	2	–
20.2.7	21 September 2016	Parts of Rail Germany	*	100%	15	(14)	2	(1)	–	2
20.2.8	21 November 2016	Balfour Beatty Sakti Indonesia	^	49%	(3)	3	–	–	–	–
20.2.9	15 December 2016	Streetlighting: Sunderland, South Tyneside, Coventry, Cambridgeshire, Northamptonshire	*	80%	33	(37)	15	–	11	–
					202[x]	**(137)**	**8**	**(3)**	**65**	**5**

* Subsidiary.
^ Joint venture.
[+] Associate.
[x] Total cash consideration received by the Group also includes £9m of cash received in respect of Parsons Brinckerhoff (Note 8.2.1.1) and £2m of deferred cash consideration received in respect of SSL (Note 8.1.4.7).
[&] Net assets disposed include amounts due to the joint venture of £4m held by the Company.

20.2.1 On 15 April 2016, the Group disposed of a 30% interest in Connect M1-A1 Holdings Ltd for a cash consideration of £15m. The infrastructure concession disposal resulted in a net gain of £5m being recognised within underlying operating profit. The Group retains a 20% interest in Connect M1-A1 Holdings Ltd.

20.2.2 On 5 May 2016, the Group disposed of its 50% interest in Living & Learning Holdings Custodians Pty Ltd (Living & Learning Unit Trust) for a cash consideration of £19m. The infrastructure concession disposal resulted in a net gain of £9m being recognised within underlying operating profit, comprising: a gain of £18m in respect of the investment in the joint venture, an £8m loss in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

20 Acquisitions and disposals continued

20.2.3 On 1 July 2016, the Group disposed of its entire interest in seven BSF (Building Schools for the Future) projects: Islington, Southwark, Blackburn with Darwen & Bolton, Oldham, Hertfordshire, Ealing and Derby City for a cash consideration of £73m. On this date, the Group ceased to jointly control these BSF projects by virtue of a put/call structure with a preferred bidder. The disposal completed on 22 August 2016. The infrastructure concession disposal resulted in a net gain of £38m being recognised within underlying operating profit, comprising: a gain of £46m in respect of the investments in the joint ventures and an £8m loss in respect of revaluation reserves recycled to the income statement.

20.2.4 On 1 July 2016, the Group disposed of its 17.8% interest in the BBIP Infrastructure Fund for an initial cash consideration of £48m. The disposal resulted in a net gain of £6m being recognised within non-underlying operating profit, comprising: a gain of £nil in respect of the investment in the associated undertaking, a £7m gain in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

20.2.5 On 1 July 2016, the Group disposed of its 100% interest in the BBIP Advisor for a cash consideration of £nil. The disposal resulted in a net loss of £3m being recognised within non-underlying operating profit, comprising a loss of £3m in respect of the investment in the subsidiary.

20.2.6 On 7 September 2016, the Group disposed of its right to a 40% interest in Humber Gateway OFTO Holdings Ltd. The infrastructure concession disposal resulted in a net gain of £2m being recognised within underlying operating profit comprising a £2m fee received on disposing of the Group's interest. The Group retains a 20% interest in Humber Gateway OFTO Holdings Ltd.

20.2.7 On 21 September 2016, as part of the ongoing process to exit the Mainland European rail business, the Group disposed of part of its Rail business in Germany to Tianjin Keyvia Electric Co Ltd for a cash consideration of £15m. This sale resulted in a £2m gain as a result of recycling of foreign currency reserves. The related assets disposed were impaired by £11m in 2015 to reflect the value of the agreed consideration which was recognised within non-underlying items (refer to Note 8.1.4.8). The disposal included cash disposed of £10m.

20.2.8 On 21 November 2016, the Group reached agreement to dispose of its 49% interest in Balfour Beatty Sakti Indonesia to its joint venture partner for a payment by the Group of £3m reflecting the Group's share of the net liabilities of the joint venture. This has been recognised as a disposal in the year as completion of the sale is not subject to any substantive terms at the year end. The amount due to the purchaser has been recognised in amounts due on disposal within trade and other payables (refer to Note 16).

20.2.9 On 16 December 2016, the Group disposed of 80% interests in five streetlighting projects for a cash consideration of £33m. This infrastructure concession disposal resulted in a net gain of £11m being recognised within underlying operating profit, comprising: a loss of £4m in respect of the investments in subsidiaries and a £15m gain in respect of fair value reserves recycled to the income statement. The Group retains 20% interests in the infrastructure concession projects which are accounted for as joint ventures under the equity method. The disposal included cash disposed of £16m.

20 Acquisitions and disposals continued

20.2.10 In 2015, the Group finalised the cash consideration due on the disposal of Parsons Brinckerhoff (PB) amounting to additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. In accordance with the stock purchase agreement, the Group received cash of £20m relating to historical tax matters (£16m of which was recognised as a current tax receivable in the prior period) and the Group also released an indemnity provision relating to an historical legal claim of £3m which was successfully settled during the period. Offsetting this additional non-underlying gain on disposal were separation costs incurred during the period of £4m, of which £2m were paid during the period, and the write-off of a deferred tax asset of £7m resulting in an overall net gain of £5m. Transaction costs of £9m, which were accrued in the prior period, were paid in the year.

Subsequently in 2016, the Group reached a settlement with the purchaser of PB in relation to outstanding tax matters and indemnities. The Group received an additional £9m as a result of this settlement. At the same time, provisions in relation to these matters have been released, resulting in an overall gain to the Group of £24m.

21 Contingent liabilities

The Company and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of their share of certain contractual obligations of joint ventures and associates and certain retirement benefit liabilities of the Balfour Beatty Pension Fund and the Railways Pension Scheme. Guarantees are treated as contingent liabilities until such time as it becomes probable payment will be required under the terms of the guarantee.

Provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

22 Related party transactions

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £344m (2015: £414m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 15 and 16 respectively.

During 2016, the Group also entered into the following transactions with related parties which are not members of the Group. The following companies were related parties in 2016 as they are controlled or jointly controlled by a non-executive director of Balfour Beatty plc.

	Sale of goods & services 2016 £m	Purchase of goods & services 2016 £m	Amounts owed by related parties 2016 £m	Amounts owed to related parties 2016 £m
Urenco Ltd	62	–	5	–
Anglian Water Group Ltd	13	9	–	–
	75	9	5	–

All transactions with these related parties were conducted on normal commercial terms, equivalent to those conducted with external parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

23 Principal risks and uncertainties

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

The Directors do not consider that the nature of the principal risks and uncertainties facing the Group has fundamentally changed since the publication of the Annual Report and Accounts 2015.

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

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

24 Events after the reporting date

On 26 January 2017, the Group reached agreement to sell its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC to its joint venture partner for a total cash consideration of £11m. The sale subsequently completed on 1 March 2017. The Group's investment in these entities did not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations at the balance sheet date and therefore continued to be presented within the Group's underlying continuing operations. Following the agreement to sell in January 2017, the criteria under IFRS 5 are now satisfied and therefore the Group's share of results in these entities will be presented as part of its discontinued operations with comparatives restated accordingly in its 2017 financial statements. The impact of the disposal will be presented as non-underlying within discontinued operations.