Balfour Beatty

ANNUAL REPORT AND ACCOUNTS 2021

Building New Futures

ABOUT US

Balfour Beatty is a leading international infrastructure group with 24,500 employees driving the delivery of powerful new solutions, shaping thinking, creating skylines and inspiring a new generation of talent to be the change-makers of tomorrow.

We finance, develop, build, maintain and operate the increasingly complex and critical infrastructure that supports national economies and deliver projects at the heart of local communities.

Opportunities in infrastructure

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

UK £650bn

Positive outlook for the UK

The infrastructure market outlook is positive and is boosted by the Government's £650bn National Infrastructure Strategy, providing the highest levels of investment in decades.

US $1.2tn

Strong infrastructure stimulus in the US

Driven by the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act, infrastructure growth in the US will experience a significant boost, and in particular in Balfour Beatty's chosen states.

HK $240bn

Stable spend in Hong Kong

The outlook is positive in the medium term, supported by the Government's plan to increase land supply, speed up railway development projects and rehabilitate the city's ageing buildings, combined with an additional total investment of HK$240bn to combat climate change.

FIND OUT MORE
Read our Market review p16

Take a look at our project showcases from the UK, the US and Hong Kong

M+ Museum, Hong Kong p14

Midtown Atlanta developments, US p40

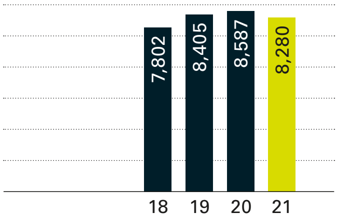
HS2 high-speed railway line, UK p56

FRONT COVER: Danilo Mertola, Section Engineer and Kyle McNeillie, Assistant Quantity Surveyor working for Balfour Beatty on HS2.

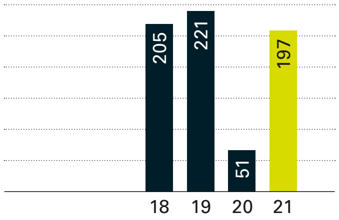
FINANCIAL PERFORMANCE

The Group has presented financial performance measures which are considered most relevant to the Group and used to manage the Group's performance. An explanation of these measures and appropriate reconciliations to statutory measures are provided on pages 89 and 95.

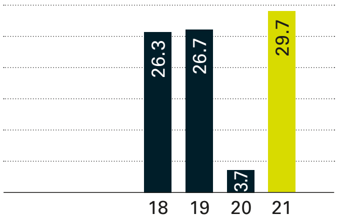
CONTINUING UNDERLYING REVENUE[1] £m



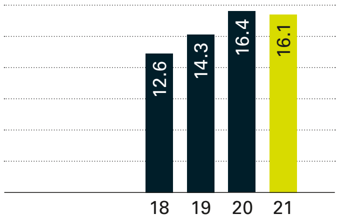
CONTINUING UNDERLYING PROFIT FROM OPERATIONS (PFO) £m



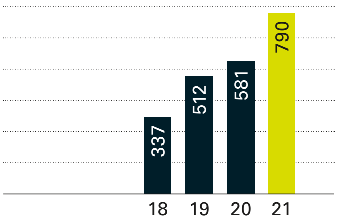
CONTINUING UNDERLYING EARNINGS PER SHARE (BASIC) Pence



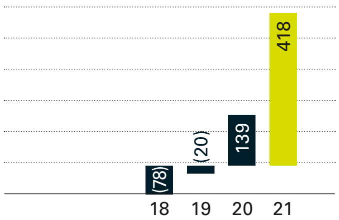
ORDER BOOK[1] £bn



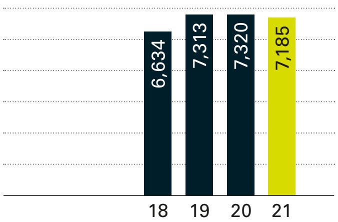
NET CASH £m



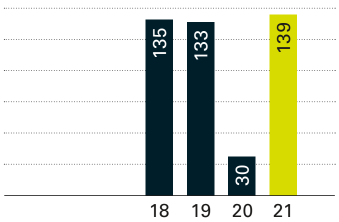
STATUTORY NET CASH/(BORROWINGS) £m



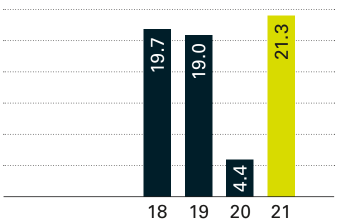
STATUTORY REVENUE £m



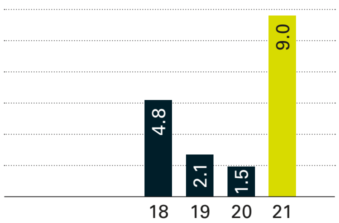
STATUTORY PROFIT FOR THE YEAR £m



STATUTORY EARNINGS PER SHARE (BASIC) Pence



DIVIDENDS PER SHARE Pence



KEY Performance measures
Statutory measures

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

CONTENTS

International infrastructure experts

Balfour Beatty is driving the transformation of the construction and infrastructure industry to meet the challenges of the future.

Our cultural framework

Our cultural framework provides a simple and clear view of our purpose, values and behaviours under our Build to Last strategy.

SCAN FOR MORE INFORMATION ON OUR CULTURAL FRAMEWORK

Our purpose

Building New Futures

We are leading the transformation of our industry to meet the challenges of the future. We harness the power of digital and cutting-edge innovation to redefine the possible and drive productivity. Trusted by customers to deliver sustainable solutions and strengthen communities we leave a legacy we are proud of. Always safe. Always reliable. Always improving lives.

We support each other to deliver and succeed, placing equal value on all perspectives by embracing diversity and inclusion. Together we deliver powerful new solutions, collaborating with governments, our customers and partners to shape thinking, create skylines and inspire a new generation of talent to be the change-makers of tomorrow. Balfour Beatty: Building New Futures.

Our strategy - is the day-to-day guide we use to uphold our purpose.

p12

Our values - the way we do business. The norms and beliefs that drive the way we work and how we measure ourselves.

LEAN
EXPERT
TRUSTED
SAFE
SUSTAINABLE

p12

Our behaviours - reflect the things we will do to consistently deliver to the standard set out in our values.

TALK POSITIVELY
COLLABORATE RELENTLESSLY
ENCOURAGE CONSTANTLY
MAKE A DIFFERENCE
VALUE EVERYONE

p87

Group highlights

UNDERLYING REVENUE[1]
£8.3bn

UNDERLYING PROFIT BEFORE TAX
£187m

NUMBER OF EMPLOYEES
24,500

DIRECTORS' VALUATION INVESTMENTS PORTFOLIO
£1.11bn

ORDER BOOK[1]

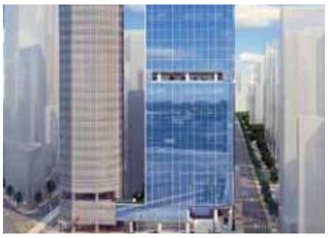
United Kingdom **£8.1bn**
United States **£5.4bn**
Hong Kong **£2.6bn**

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

Strategic report

Our divisions

CONSTRUCTION SERVICES



Hong Kong: 54 Queen's Road East office tower, Swire Properties

SUPPORT SERVICES

UK: Hinkley Connection Project, National Grid

INFRASTRUCTURE INVESTMENTS

US: Automated People Mover, Los Angeles International Airport

Expert capabilities

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

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

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

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

Selective bidding for contracts

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

Construction Services	Support Services	Infrastructure Investments
ORDER BOOK[1]	ORDER BOOK[1]	DIRECTORS' VALUATION
£13.6bn	£2.5bn	£1.11bn

Financial performance

Construction Services	Support Services	Infrastructure Investments
UNDERLYING REVENUE[1]	UNDERLYING REVENUE[1]	UNDERLYING REVENUE[1]
£6,746m	£1,066m	£468m
UNDERLYING PROFIT FROM OPERATIONS	UNDERLYING PROFIT FROM OPERATIONS	UNDERLYING PROFIT BEFORE TAX
£79m	£102m	£61m
STATUTORY PROFIT FROM OPERATIONS	STATUTORY PROFIT FROM OPERATIONS	STATUTORY PROFIT BEFORE TAX
£30m	£97m	£15m

p42 p50 p52

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

It is a privilege to chair such a high-quality Group

CHARLES ALLEN, LORD ALLEN OF KENSINGTON, CBE
Non-executive, Group Chair

Dear Shareholder,

Welcome to Balfour Beatty's 2021 Annual Report – my first. It is a privilege to have taken up the role of Chair of such a high-quality Group. As I have familiarised myself with our operations, I have been impressed by what we achieve, and never more so than during such a difficult period; responding to COVID-19 with agility and pace to adapt our ways of working to constantly changing conditions yet continuing to capture emerging opportunities and to invest in the future.

It is both the scale of Balfour Beatty's capabilities - the complexity and critical nature of the projects it undertakes - and the entrepreneurial spirit of the people who work here that has struck me most.

Throughout this period, the values articulated in Balfour Beatty's culture have rung true: they are much more than words on paper. I would like to express my thanks on behalf of the Board for the continued hard work, resilience and dedication Balfour Beatty's people have shown, as they live our values and deliver on our purpose; giving back to the communities in which we work, every day. As a large and diverse Group we are also dependent on many thousands of supply chain partners, customers, shareholders and other stakeholders, all of whom I thank for their ongoing support.

The Board

Part of our role as a Board in creating value while representing the best interests of all our stakeholders including investors, is to offer constructive counsel and challenge to the executive leadership. My priorities as Chair are therefore to ensure that Balfour Beatty has a strong and appropriate Board and to provide our Group Chief Executive and his team with support in their execution of the Company strategy to deliver profitable managed growth and cash generation.

On behalf of the Board, I would like to pay tribute to the invaluable contribution Philip Aiken AM made during his tenure and to convey our best wishes to him for the future. These pages serve as testimony to his wise leadership during his six years as Chair, during what has been one of the most transformational periods in Balfour Beatty's history. He served the Group with diligence, dedication, and a determination to do his utmost to help guide it through intense change in order to secure the Group's future. I would also like to express my personal thanks to him for his insights and for making the transition so seamless.

Balfour Beatty is committed to building a truly diverse and inclusive workforce. Its aim is to attract talented people from a wide range of backgrounds, expertise, and perspectives. I am personally passionate about diversity in its broadest sense. For me, harnessing the full spectrum of experiences, skills and thinking 'in the room' inevitably leads to better decision making and ensures that the business has the capabilities it needs to take advantage of the next opportunity and to prepare for the next challenge. Board diversity is a key element within that and will be a focus of my contribution to that wider approach. I am delighted to welcome Louise Hardy who will be joining the Board as a non-executive Director with effect from 1 April 2022. Louise, a Chartered Civil Engineer, has over 30 years of business and leadership experience in the construction and infrastructure sector. She has held senior executive roles in client, contractor, strategic supplier and consultant organisations across projects in multiple countries. I am confident that Louise, with her in depth sector knowledge and technical expertise, will make a strong addition to the Board.

I mentioned that I have begun to witness first-hand the energy and commitment of Balfour Beatty's hard-working people as they deliver the inspiring projects which Balfour Beatty is renowned for. I will continue to visit as many sites and meet as many colleagues and those working with us, as possible. Since starting in my role, I have visited over 25 of our UK projects including HS2 and Hinkley Point C (which you can read more about on pages 56 and 45) and have spoken to

“I continue to be impressed by our remarkable teams.”

LEFT
Photo from Charles' site visit to the Hinkley Point C Tunnelling and Marine Works scheme.

hundreds of my colleagues – I continue to be impressed by our remarkable teams. I will be visiting our US and Hong Kong operations in the near future.

Sustainability

I also have a particular interest in ensuring that the Group is 'future-fit' and investing in increasingly critical areas of innovation, including digital and our response to climate change. Construction has long been thought a laggard in these areas, but that is now changing and Balfour Beatty has the vision and strength – not least through its involvement in leading-edge infrastructure projects – to be at the forefront of that transformation.

Balfour Beatty is focused on delivering its Group-wide sustainability strategy Building New Futures, which sets out clear 2030 targets and 2040 ambitions to go Beyond Net Zero, Generate Zero Waste and Positively Impact More than 1 Million People.

Over the last year, we have continued to make strong progress, better understanding the carbon emissions relating to the Group's activities, using its scale and influence to drive positive meaningful change, and positioning the business and its customers for success in a net zero future.

Last year also saw debates and commitments around climate change and decarbonisation move into the mainstream with the COP26 climate change conference taking place in Glasgow in November. Balfour Beatty had a full programme of activities timed to coincide with COP26 and to further the delivery of our sustainability targets and ambitions. These are outlined in more detail on pages 27 and 70.

To ensure the Group maintains its positive trajectory, Balfour Beatty must continue to attract, train and retain the best available talent; talent that will allow it to drive forward sustainable solutions and innovations.

Since I have taken up my role as Chair, I have watched with great pride Balfour Beatty's commitment to inspiring and educating the next generation to consider the construction and infrastructure industry as an attractive long-term career choice.

To this end, last year, Balfour Beatty further bolstered its commitment to young people, making a public declaration to increase the number of UK apprentices, graduates and trainees it employs by c.60%. With 6% of its UK workforce now in these positions, Balfour Beatty is already exceeding its charter promise to The 5% Club. It is clear to me that those who join Balfour Beatty now will help improve the innovative thinking and fresh ideas required to sustain the industry – and the Group – into the future.

The Board gives full and close consideration to environmental, social and governance (ESG) factors when assessing the impact of the decisions it makes and supports. As a result of its early focus on sustainability since its baseline year in 2010, the Group now has an enviable position in the high-growth markets of the future and is well-positioned to accelerate the journey to net zero in its core geographies.

We see it as our responsibility to make a positive difference to society and the environment, as well as continuing to deliver good outcomes for customers and clients, and attractive returns to shareholders.

US Department of Justice military housing investigation

In December, the US Department of Justice's military housing investigation concluded. Balfour Beatty Communities pleaded guilty to one count of fraud. This regrettable period in Balfour Beatty Communities' history amounted to a breach of its partners' trust and a failure to uphold the Group's values; values to which the Board attaches great importance. As Communities moves on from these events we will continue to ensure that we maintain the highest standards in line with our Code of Conduct, acting always with integrity and building on the hard-earned trust and confidence of colleagues, customers, partners, and the communities we serve.

Health and Safety

It is a matter of deep regret that, during 2021, there were two fatalities across the Group – one within Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, and one in the US.

In July, a man working on a joint venture hospital project in Pennsylvania suffered a fatal injury when a drilling rig tipped over during a lifting operation. He was an employee of our client's civil engineering inspection firm.

In October, a woman working for a cleaning subcontractor on the Advanced Manufacturing Centre project in Hong Kong, fell through a service opening in a normally non accessible plant area being prepared for waterproofing works.

One fatality on one of our sites is one too many: each is a personal tragedy, and our sympathies go to their families and loved ones. These incidents remind us that, despite our constant focus on delivering Zero Harm, construction remains a high-risk industry.

The Safety and Sustainability Committee received reports setting out details of each incident and the subsequent investigations, including an analysis of safety measures and improvements and lessons learnt which have been embedded in the Group's operations. Safety alerts were also sent to our teams across the Group to ensure any lessons are shared, learnt, and applied, and that we all remain vigilant to all possible risks.

The Board remains committed to driving industry-wide improvements in health and safety to better protect all who work within Balfour Beatty's operations.

Significant future capital returns

Balfour Beatty is in the second year of a multi-year capital allocation framework and is increasingly confident of delivering significant future capital returns. This is evidenced by the announcement of a £150m share buyback programme for 2022. The Board is also recommending a final dividend of 6.0 pence per share, giving a total recommended dividend of 9.0 pence per share for the year.

Conclusion

As we look to the future, beyond 2021, a year in which we delivered ahead of expectations, I am excited by the opportunities that lie ahead for the Company. There is a strong pipeline of significant, profitable projects in all three core geographies, anchored in large government-funded infrastructure schemes, in addition to those already in our high-quality order book.

Balfour Beatty has a long and remarkable history spanning well over a century. As Chair of your Board, I am committed to furthering this impressive legacy by helping the Group add to its successes every year, constantly improving, evolving and building our new future.

Charles Allen, Lord Allen of Kensington, CBE
Non-executive, Group Chair
10 March 2022

Section 172 statement

The Directors take their responsibilities to stakeholders very seriously. During 2021, the Board reviewed the existing channels of engagement with each of the Group's stakeholder groups to ensure that their views can be understood and considered in Board discussions and decision making. In addition to having regard to the interests of the Group's stakeholders, Directors also consider the impact of the Group's activities on the communities within which it operates, the environment and the Group's reputation. The Directors seek to act in good faith in the way most likely to promote the success of the Company for the benefit of its shareholders in the long term and to act fairly between all of the Company's stakeholders. Through the Board and its Committees, Directors have taken action to promote and support these objectives across the Group, details of which can be found throughout this Annual Report as set out here:

- The Company's purpose, values and behaviours on pages 2, 12 and 87.
- A description of key stakeholder groups and how the Group has engaged with stakeholders on pages 26 to 31.
- The range of activities undertaken across the Group relating to sustainability matters on pages 66 to 80.
- Details of how high standards of integrity are maintained on pages 63 to 64.
- The proactive and pragmatic approach of the Group toward risk on pages 100 to 112.
- The framework of the Company's decision making on pages 132 to 135.
- Details of the Company's governance processes and practice on pages 121 to 138.

In this Q&A, we talk to Charles about his experience as Chair of Balfour Beatty over the last 10 months. He shares his first impressions, his future focus as well as sharing an insight into his personal and career journey to date.

Q What led you to become the Chair of Balfour Beatty?

I've been fortunate enough in my life to have been given a lot of opportunities and the chance to build a wealth of experience. With my father passing away when I was 18, it meant that University wasn't a financially viable option for me. Fortunately, a pre-graduate apprenticeship with British Steel at age 18, provided me with the springboard into my career. Thereafter, sheer determination and hard work was required as I was given new responsibilities and challenges.

At 23, I pivoted into the hospitality industry and went to work in the Middle East which ultimately led to me becoming the Chief Executive of Granada Group and then Executive Chairman of Granada Media, which I grew and created ITV where I was CEO. In my 'plural' non-executive career I have had the opportunity to work in various sectors. Most recently as Chair of ISS A/S, a large facilities management contracting company with operations in over 50 countries and over 400,000 colleagues. Many of the experiences I had, and lessons learnt there are very relevant and applicable to Balfour Beatty. Needless to say – I love a challenge and bringing people on the journey with me.

Balfour Beatty is a 24,500-person strong ship of opportunity. Regardless of the company that I found myself working in throughout my 47-year career, it was the people that inspired me; bringing together diverse thought – I find – brings out the very best of a business.

Balfour Beatty is going from strength to strength, and I realised, when researching it, that there is a collection of inspirational individuals across a myriad of projects, delivering day in day out, to ensure the cogs of the economy keep moving smoothly. I knew that Balfour Beatty was a business I wanted to work with; and I'm pleased to say that the people I have met so far, have not disappointed!

Q What are you most looking forward to in your role as Balfour Beatty Chair?

One of the things that has always struck me about construction is how many popular preconceptions about the industry are out of date. This is a sector that has moved forward at real pace in recent years and is still transforming. Every day we adapt with agility, putting in place new and exciting digital tools to drive efficiencies, implementing the sustainable solutions required for a net zero future and recruiting the diverse workforce we need to make us a better, more inclusive business.

I've visited over 25 sites, including our largest projects HS2 and Hinkley Point C, over the last ten months and met hundreds of colleagues in my role as Chair. It's been great to meet women design engineers, engineering a digital lift of a 25-tonne bridge, and to hear about strides we have taken to develop our inclusive personal protective equipment, so that all of our people – no matter their gender or religion – have the equipment appropriate for the job, with the correct fit and comfort.

Construction is also an industry that has many opportunities for young people. I have been impressed by the enthusiasm of the apprentices and graduates I have met on my various site visits and am pleased that over 6% of our UK workforce are emerging talent – apprentices, graduates, and those in training – many of whom will be tomorrow's leaders. This reminded me of my early days at British Steel.

It is the people who make a business. Diversity of background, gender, race, sexuality, ethnicity, ability, religion, and point of view are all critical if we're to evolve into a more modern and agile organisation, able to leverage the opportunities that our core markets offer and – importantly – demand the margins that our hard work so deserves.

I'm excited to amplify the myriad of voices across our organisation, internally and externally. In doing so, it will become clear that our industry offers far more opportunities than people would first assume. It's an exciting notion that you're able to offer lifelong careers, and I'm looking forward to ensuring that Balfour Beatty is truly reflective of the communities which we serve.

Q What will you focus on and what do you think you'll look to develop over time?

You should be paid for what you deliver. That's something I've kept front of mind as I've delved into Balfour Beatty over the last ten months; are we getting the value that our hard work so deserves?

It's something that I feel strongly about, and I know that Leo, as Group Chief Executive, has been championing this message too. The power of our offering is something that could be hard to quantify – but we should, and we must. Underpinned by a digital sustainable footprint and mindset, integrating our design, construction and engineering capabilities with our M&E skills, we're able to offer an 'end to end' solution to a client, who perhaps thought they needed two, three or even four contractors on site.

Not only this, but we're trusted to deliver – there is power in our brand and strength in our balance sheet that our competitors simply can't offer.

I want to ensure that this is really being driven across the business. Trust is hard to gain and easily lost and everyone must fight to build trust every day. And across the UK, US, and Hong Kong we must drive fair and just terms and conditions to ensure that we're securing the value that our skills, capabilities and expertise deserve. It's not just about securing value for the quality of our work, but for our people as well.

QUICK FIRE QUESTIONS

Q Who has most influenced your career?

My mentor was Sir Gerry Robinson who became Chairman of Granada Group Plc and who sadly passed away in 2021.

Q What's been your favourite job so far?

This is such a Sophie's Choice question. I have enjoyed the range of roles and different industries that I have worked in. The common factor is the importance of attracting, developing and retaining great people. I also love the diversity that my portfolio of roles brings and the opportunity to take learnings from one organisation to another.

Q What do you do when you're not working as Chair of Balfour Beatty?

I live in London, Kensington with my partner. I enjoy travel and escaping to the country in Somerset at the weekends for long walks with our two American Cocker Spaniels, Lucy and Faith.

Q What is the one professional skill you are working on?

I have all the latest tech kit so keeping up with how to use it is always a challenge. When you are on a Teams or Zoom call, remembering to turn off the mute button is a talent!

Q What behaviour do you most attribute success to, and why?

Probably not one but three things – tenacity, determination, and curiosity. Never be afraid to ask "why" or you'll never know "how". Curiosity may have killed the cat, but it empowers people! Never be afraid to ask for help; this is not a sign of weakness but a sign of strength.

Q What's the biggest misconception people have about your position?

That it's a figurehead position. A Chair and its Board have the power to effect real, meaningful change to the benefit of all stakeholders and I'm excited to do just this at Balfour Beatty. I am an engaged Chair - and enjoy 'rattling around' the business. However, it is important to have clarity on the roles of the Chair and Chief Executive; my role is to lead the Board and deliver for all our stakeholders and Leo's role as Chief Executive is to lead the Company, a role he has performed brilliantly in turning Balfour Beatty around.

Expert capabilities matched to favourable infrastructure markets

LEO QUINN
Group Chief Executive

2021 results ahead of expectations

In 2021, the Group reported underlying profit from operations from the earnings-based businesses of £181 million which represents a significant recovery from the prior year (2020: £75 million) and is also 5% ahead of pre-pandemic levels (2019: £172 million). In addition, after approximately £180 million of returns to shareholders in the year, the Group delivered another year of significant cash flow with the year-end net cash balance at £790 million (2020: £581 million) and average net cash at £671 million (2020: £527 million).

Balfour Beatty transformed into resilient, diversified Group

The strong financial performance in 2021 was delivered by the Group's diversified portfolio (both geographically – UK, US and Hong Kong; and operationally – Construction Services, Support Services and Infrastructure Investments) which provided the resilience required to address the significant challenges of COVID-19.

Since the launch of Build to Last, the Group's portfolio has been transformed and will continue to focus on high quality opportunities that utilise Balfour Beatty's capabilities. Support Services is now characterised by profitable recurring revenues underpinned by long-term contracts following its strategic exit from gas and water. The power, road and rail maintenance business are all performing well and during the year the Group upgraded its Support Services margin target from 3-5% to 6-8%. Construction Services saw another strong contribution from Gammon alongside the recovery of US Construction to pre-pandemic levels. UK Construction delivered a profit in the second half of the year, recovering from the loss position in the first half. During the year, the decision was taken that Balfour Beatty will no longer bid for fixed price residential property projects in central London.

Higher quality order book provides clear visibility

Looking forward, the Group's £16.1 billion order book provides clear short- and medium-term visibility. The Group's focus on selectively bidding for contracts where Balfour Beatty has expert capability has resulted in a higher quality order book providing a measure of inflation protection through improved contract terms. The risk profile continues to decrease at UK Construction, where at year end only 14% of the order book is from fixed price contracts (2020: 20%; HY 2018: 50%).

Expert capabilities matched to favourable infrastructure markets

Balfour Beatty's chosen markets all have a favourable outlook. As a key lever of economic growth, the construction and infrastructure sector is central to a sustainable recovery in the Group's core markets. New infrastructure - HS2, low carbon wind power, energy efficient buildings, carbon capture, new nuclear, highways, airports and rail electrification - will all play a leading role in stimulating economic growth from which Balfour Beatty is well placed to benefit.

RIGHT
Leo presenting to school children for COP26 at our Digital Innovation Hub in Scotland.

Attractive Infrastructure Investments portfolio and opportunities

The Infrastructure Investments business strategy is to continue to invest in new opportunities (targeting a minimum 2x end to end multiple) whilst optimising value through the disposal of operational assets. The Group achieves enhanced returns when Infrastructure Investments, Construction Services and Support Services deliver as one. The Directors' valuation of the Investments portfolio remained at £1.1 billion (2020: £1.1 billion). In 2021, Balfour Beatty re-commenced disposals of assets with all transactions above the Directors' valuation, demonstrating the continuing strength of the secondary market for assets where values are positively correlated with inflation.

Significant future capital returns

With a transformed portfolio and a favourable outlook, Balfour Beatty is confident of delivering significant future shareholder returns. As such, the Board is today recommending a final dividend of 6.0 pence per share, giving a total recommended dividend for the year of 9.0 pence per share (2020: 1.5 pence) equivalent to £57 million. The Group has also increased its 2022 share buyback programme from the intention of at least £100 million, announced in December 2021, to £150 million. The buyback will commence immediately and is expected to complete during 2022.

The increased share buyback programme and recommended final dividend announced today will bring the cumulative return to shareholders since the introduction in 2021 of the multi-year capital allocation framework to £367 million.

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

The Group's Build to Last transformation strategy has created a self-help culture based on five core values: Lean, Expert, Trusted, Safe and Sustainable. The Group's progress is measured using cash flow and profit from operations, employee engagement, customer satisfaction, Zero Harm and CO_2 emissions, respectively.

Lean: The disciplines learnt during Build to Last have served the Group well in ensuring effective and efficient operations. In 2021, underlying net operating expenses remained at £226 million (2020: £226 million) – a reduction of more than 50% since the start of Build to Last (2014: £460 million, adjusted for foreign exchange movements). The emphasis on efficiency is best demonstrated by My Contribution (MyC), the Group's employee engagement programme, which continues to deliver tracked and measured employee led improvements for the business. In 2021, more than 2,500 MyC ideas were submitted with those delivered generating over £4 million of cash inflows, £20 million of cost savings and 241,000 hours of time saved.

The Group's continued focus on cash generation is evidenced by another increase in average net cash to £671 million (2020: £527 million). As a key part of its strategy to create value by achieving market leadership, the Group has invested around £700 million since 2015 in equity assets (Infrastructure Investments), capex (IT, plant and fleet) and capability (training and development).

Expert: Customers buy Balfour Beatty's services due to the expert capabilities of the Group and its employees. The key metric for Expert is employee engagement.

The latest annual employee engagement survey was collated in October 2021, with the results again very positive as the overall engagement score reached its highest level under Build to Last at 76% (2020: 75%; 2019: 66%). The survey provides a clear tracker of progress in creating the kind of company where people want to build long-term fulfilling careers, which is of key importance not least in the current labour market, where demand across all sectors is high. Encouragingly, in response to the question "I can see myself working here in 12 months", 85% responded yes (2020: 76%, 2019: 67%). The challenge to recruit, train and retain the best employees is omnipresent across construction, as with other industries, and in 2021 there was an increase in the Group's voluntary attrition rate in the UK, with the twelve-month rolling average at 14% (2020: 10%).

ABOVE
Leo's site visit to our Hinkley Connection Project for EDF Energy, UK.

> "As a key lever of economic growth, the construction and infrastructure sector is central to a sustainable recovery in the Group's core markets."

Build to Last: Lean, Expert, Trusted, Safe, Sustainable continued

In January 2021, the UK Prime Minister's Build Back Better Business Council was created. The Council, which brought together 30 business leaders from across the British economy, met four times during 2021. As the first representative from the construction and infrastructure sector, I engaged with the UK Government and other CEOs representing all sectors of the economy in a series of focused sessions. Key industry themes for policy-makers distilled from these meetings, included: the need for pipeline certainty; planning system reform; action to address the skills gap; and the importance of a genuinely collaborative approach to deliver net zero.

Trusted: Balfour Beatty is trusted to "do what we say we will do" and is measured on this metric by customer satisfaction. In the year, over 1,500 customer satisfaction reviews were carried out with the Group customer satisfaction score at 96% (2020: 95%).

However, in December, the US Department of Justice's military housing investigation concluded with Balfour Beatty Communities agreeing to pay US$65 million. Moving forward, the Group must ensure that it maintains the highest standards in line with its Code of Conduct, acting always with integrity and building on the hard-earned trust and confidence of colleagues, customers, partners, and the communities it serves.

The Group continues to focus on active risk management underpinning strict adherence to the Build to Last values with investment in IT-based processes and controls. These include the Gated Business Lifecycle process, Circles of Risk, the Digital Briefcase and Project on a Page. Together, these provide management with a clear, consistent line of sight on all stages of work being bid and delivered, together with key tools for managing commercial risk and project execution. The Group also continues to make strong progress on its digital journey with a number of key milestones being reached in 2021. In the UK, a number of major highway projects have installed AIMS, a leading-edge real time activity management tool, to better enable monitoring of on-site progress, down to individual work teams, and feed back into the plan on a daily basis.

Safe: Construction is an inherently dangerous industry. It is therefore essential that the safety and health of everyone who comes into contact with Balfour Beatty's operations is the top priority.

The Group's lost time injury rate (excluding international joint ventures) increased to 0.14 in the year (2020: 0.10; 2019: 0.14) reflecting a wider industry trend as working practices return to normal post-pandemic. Balfour Beatty's safety focus remains on its four Zero Harm Golden Rules (Be fit for work; Always receive a briefing before starting work; Report all unsafe events and conditions; and Stop work if anything changes). Leading indicators continue to trend positively, exampled by increased health and safety observations and employee health safety and wellbeing survey results. Observations, a sign of workforce engagement, have risen by over 40% in 2021.

However, vigilance can never be relaxed. In July, a man working in the Group's US joint venture operations lost his life. In October, a subcontractor working for the Group's Gammon joint venture in Hong Kong suffered a fatal accident after falling from height. In remembering those lost, the Group has conducted thorough investigations, taking the lessons learnt onboard across the business, and continues to strive for Zero Harm across all of Balfour Beatty's operations.

Sustainable: In December 2020, Balfour Beatty launched the Group's refreshed sustainability strategy, Building New Futures, to update its approach and raise the bar on its performance. This is now the blueprint guiding how Balfour Beatty does business.

Building New Futures is focused on the three areas most material to the Group's business – the environment, materials, and communities. These areas were determined through consultation with key stakeholders including the Group's customers, employees, shareholders, and the communities in which the Group operates. The strategy sets firm 2030 targets, including achievement of a science-based target to reduce carbon emissions, a reduction in waste generated by 40% and the delivery of £3 billion in social value. It also outlines the Group's 2040 ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People.

In 2021, Balfour Beatty became a signatory to the UN Race to Zero campaign, aligned with the Paris Agreement to limit global temperature increase to 1.5°, and is on schedule to submit its target for validation by the Science-Based Target Initiative (SBTI) during 2022. The Group is currently rated AA by MSCI and medium risk by Sustainalytics, which recently awarded Balfour Beatty 'Top Rated' for its industry.

Generating zero waste means moving increasingly to a circular economy approach where the Group focuses on choosing the right materials and using less, reducing how much waste is produced and creating value from the materials no longer needed rather than sending them to landfill. The total waste generated in 2021 was 204 tonnes per £ million of revenue, a 35% reduction from 2020. In the UK, over 99% of the waste produced avoided landfill. The UK business delivered over £700 million in social value in 2021, including using local supply chain partners and employees wherever possible, targeting spend to deprived areas of the country, and investing in future talent through apprenticeship schemes and work placement opportunities.

Outlook

The Board's expectations are that its earnings-based businesses (Construction Services and Support Services) will deliver further profit growth in 2022, whilst at Infrastructure Investments, the Group will continue to divest assets and make new investments in line with its capital allocation framework.

For 2023 and beyond, the strength of the Group's order book and positive infrastructure markets create the visibility to deliver profitable managed growth and sustainable cash generation. With a transformed portfolio, the Group is confident of delivering significant future shareholder returns.

Leo Quinn
Group Chief Executive
10 March 2022

RIGHT
Leo on a site visit to our Automated People Mover scheme for Los Angeles Airport.

How do we...

shape the world we live in?

For over a century we have shaped the world we live in, pioneering new technologies and transforming the built environment. We invest locally and build sustainably to connect communities and create the infrastructure that underpins our daily lives.

SCAN TO WATCH THE VIDEO

Watch our video to find out what we do and how we shape the world we live in.

Delivering Build to Last

Launched in 2015, Build to Last is our strategy for continuous improvement. It is the day-to-day guide we use to uphold our purpose, and underpins everything we do.

Our values

Lean

We create value for our customers and drive continuous improvement

Expert

Our highly skilled colleagues and partners set us apart

Our strategy

Our strategy, Build to Last, is fundamental to how we're building a market-leading Balfour Beatty for the next 100 years. It's our platform for sustainable growth, productivity, inclusive talent – all ensuring the best capability to deliver on our promises and our enduring commitment to Zero Harm.

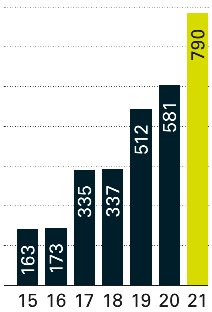
Lean: We're thoughtful and agile, continuously challenging our ways of working to improve health and safety and productivity, eliminate waste and enhance quality to make us more competitive.

Expert: Our people are leaders. We're the experts of today and inspire the leaders of tomorrow. We invest in our colleagues, building their skills and knowledge, to develop a passionate, world-class workforce drawn from all parts of our society.

Our KPIs

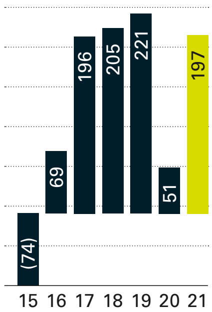
The Build to Last strategy is measured against our five values – Lean, Expert, Trusted, Safe and Sustainable.

NET CASH £m
excluding non-recourse borrowings



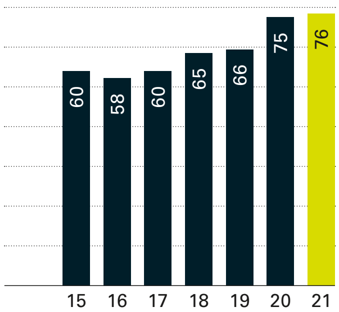
2021:
£790m

UNDERLYING PROFIT/(LOSS) FROM CONTINUING OPERATIONS £m



2021:
£197m

EMPLOYEE ENGAGEMENT INDEX %



2021:
76%

More information

Find out how our strategy is supported by the current market on pages 16 to 23. For the risk appetite in the context of the Company values see page 103.

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> Since the launch of Build to Last, the Group's portfolio has been transformed and will continue to focus on high-quality opportunities that utilise Balfour Beatty's capabilities."

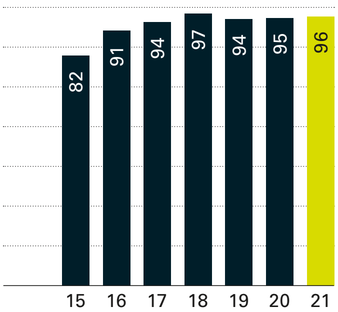
Leo Quinn, Group Chief Executive

Trusted

We deliver on our promises and we do the right thing

We build trust every day by delivering on our promises, always. We're accountable for our decisions and work with the utmost integrity to ensure we're making the right choices.

CUSTOMER SATISFACTION AVERAGE %



2021:

96%

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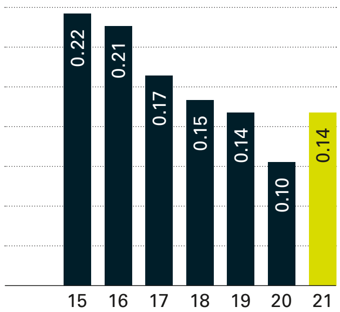
Safe

We make safety personal

Safety is our license to operate. Nothing is more important than the health, safety and wellbeing of our colleagues and the communities we serve. We are unrelenting and uncompromising in our commitment to achieving Zero Harm.

LOST TIME INJURY RATE (LTIR)
excluding international joint ventures



2021:

0.14 LTIR

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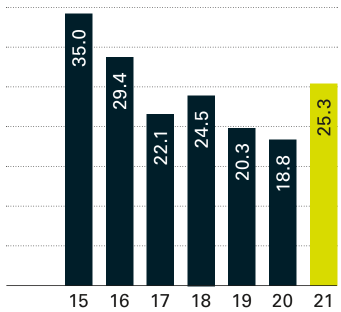
Sustainable

We act responsibly to protect and enhance our planet and society

We leave a positive legacy for the people we work with, the communities we work in, and the world in which we operate. We want to enhance our impact on the environment, working with our supply chain partners, customers and communities to ensure our choices are sustainable.

TOTAL SCOPE 1 & 2 EMISSIONS (tCO_2e) PER £m REVENUE



2021:

25.3 tCO_2e/£m

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How do we...

create an iconic cultural landmark?

We bring together a team of 300 experts armed with the latest digital tools including 3D scanning, lasers, drones and augmented reality, all contributing to precision engineering and improved planning, progress tracking and decision making.

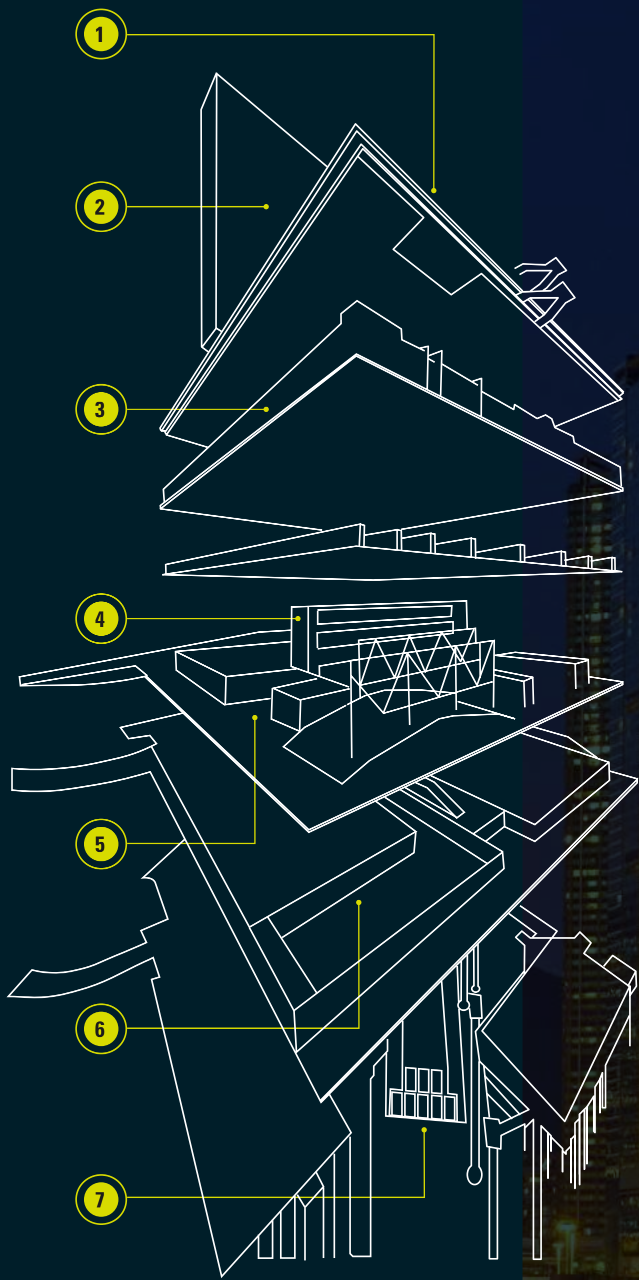
Deploying these tools effectively, we constructed a Hong Kong first by placing mega-sized trusses at a lower level to support the weight of the building that sits above two live railway tunnels. With care and accuracy enabled by the latest technology, pressure and vibrations on the railway tunnels were minimised to make sure there was no interruption to services on one of Hong Kong's most important modes of transport.

As well as enabling the impressive construction of the building's structure, our digital tools produced substantial time and cost savings. They also ensured all mechanical, electrical and plumbing services are hidden from view, adding to the aesthetic appeal of the facility.

The result of our expert engineers deploying the latest technology is M+, a one-of-a-kind cultural landmark that brings together some of the world's finest collections of visual art, design and architecture, moving images and Hong Kong visual culture in 33 galleries, three cinemas, a learning hub and a research centre. A giant 110 x 65.8-metre tall LED system was installed on the south façade of the tower to display moving images for passers-by.

KEY TO THE M+ MUSEUM FEATURES

1. Rooftop gardens
2. Administration tower
3. Podium galleries
4. Mega-size trusses
5. Ground floor galleries
6. Basement galleries
7. Railway tunnels



An illustration of the M+ Museum design features

FIND OUT MORE
Read about Gammon in our Operational review
p48

KEY FACTS

Project name
M+ Museum

Location
West Kowloon, Hong Kong

Customer
West Kowloon
Cultural District Authority

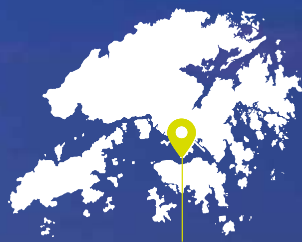
Contract award date
2018

Contract value
HK$5.5bn
(c.£551.9m)

Status
Complete

17,000m²

exhibition space



Well positioned in our chosen markets

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

Macro trends

Balfour Beatty's chosen markets show strong underlying drivers and continue to deliver significant opportunities to the Group. While COVID-19 impacted the global construction industry outlook, this has been less severe in Balfour Beatty's focus areas of public projects. The principal markets in which Balfour Beatty operates have recovered and many are showing strong signs of enhanced growth on the back of government infrastructure stimulus.

UK public sector spend

In the UK, most sectors have bounced back to pre-COVID levels. In both the short and long term, the infrastructure market outlook is positive and is boosted by the Government's £650bn National Infrastructure Strategy, providing the highest level of investment in decades. This is further enhanced by the Government's Net Zero Strategy, which creates opportunities for major infrastructure projects in the carbon capture, hydrogen and new nuclear sectors, and is underpinned by significant volumes of work to electrify the railway and strengthen the electricity grid to support the roll-out of electric vehicles and renewables generation.

Growth in the public buildings market is supported by the £3.7bn of funding to build 40 new hospitals by 2030 and various programmes to build new primary, secondary and further education establishments, including the £2bn Learning Estate Investment Programme in Scotland.

While inflation may somewhat dampen industry growth, Balfour Beatty continues to manage inflationary pressures across its portfolio. Mitigation is provided through contractual protection in the form of target cost and cost-plus contracts and back-to-back supply chains.

Strong infrastructure stimulus in the US

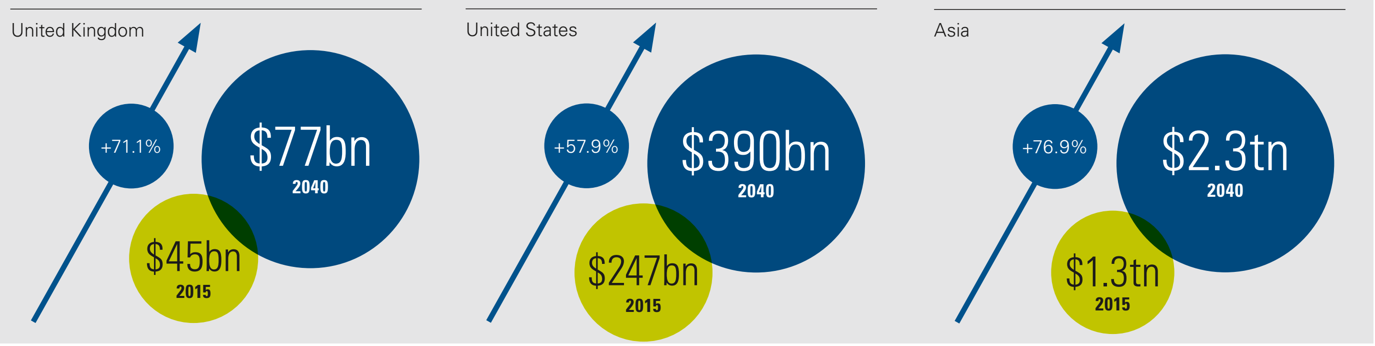
The buildings market in the US recovered in 2021 and is expected to grow over the next couple of years.

Infrastructure growth is mainly driven by the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act, which will start delivering projects across a wide range of sectors.

Stable spend in Hong Kong

The building sector in Hong Kong, which is largely driven by private investment, has experienced a slowdown over the last two years, due to both the political climate and the pandemic. Nevertheless, the outlook in the civils sector is more positive, especially in the medium term, mainly supported by the Government investing in increasing land supply, speeding up railway development projects, and rehabilitating the city's ageing buildings.

FORECAST INCREASE IN THE UK, THE US AND ASIA INFRASTRUCTURE SPEND ON CURRENT TRENDS
2015–2040 (US$ 2015 prices)



Source: Global Infrastructure Hub

RIGHT
An example of a successfully completed further education establishment, Forth Valley College in Scotland.

With a wide range of capabilities across buildings and civils, Gammon is well equipped to act on these recent changes in the market.

Strong market drivers

Through Build to Last, Balfour Beatty has focused its operations on markets with strong fundamental drivers, underpinned by macro demographic and economic trends.

The first factor is increasing emphasis on decarbonisation and sustainability. The COP26 conference played a key role in accelerating many policies that countries already had in place. In the UK, the Government's new Net Zero Strategy sets out the path to halving carbon emissions in the next decade and reaching net zero carbon emissions by 2050, and is driving an ever-increasing demand for efficient, decarbonised infrastructure solutions able to meet the country's current and future needs. The same sentiment is echoed in the US, with the President having re-joined the Paris Agreement, committing the US to net zero by 2050 and promising to invest in modern clean energy solutions and decarbonisation. Balfour Beatty's focus on being a sustainable contractor, as set out in its sustainability strategy, Building New Futures, makes the Group a suitable partner to deliver this green infrastructure work.

The second of these is public sector spend – as monetary policy stimulus reaches its limit, governments are increasingly turning to fiscal stimulus through infrastructure investment to drive employment and economic growth. This can be exemplified by the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act in the US (of which US$550bn is additional new federal spending), and the £650bn National Infrastructure Strategy in the UK. As a trusted partner to public sector clients, the Group benefits from not only increasing spend, but also long-term certainty around that spend.

The third factor is around increasing partnership in established infrastructure markets. As client organisations mature, Balfour Beatty is increasingly able to work collaboratively to develop mutually beneficial models of working, sharing risk and upside appropriately. This is exemplified by the UK Government's Construction Playbook which allows us to assist the Government in creating better outcomes as a customer – for example by focusing on an appropriate allocation of risk between contractor and customer, the whole life cost of infrastructure, and increasing the social value impact of projects. In the US, the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act encourages a greater number of public and private relationships by increasing the opportunities for joint investment into infrastructure projects.

The fourth is growth, both in population and productivity – as infrastructure remains a critical pillar necessary to support population and economic growth. In the US, the Group continues to benefit from population migration to its chosen geographies (despite a temporary drop off due to the pandemic), which necessitates increased investment in new and upgraded infrastructure, particularly within healthcare and transportation segments.

UK: Construction Services and Support Services

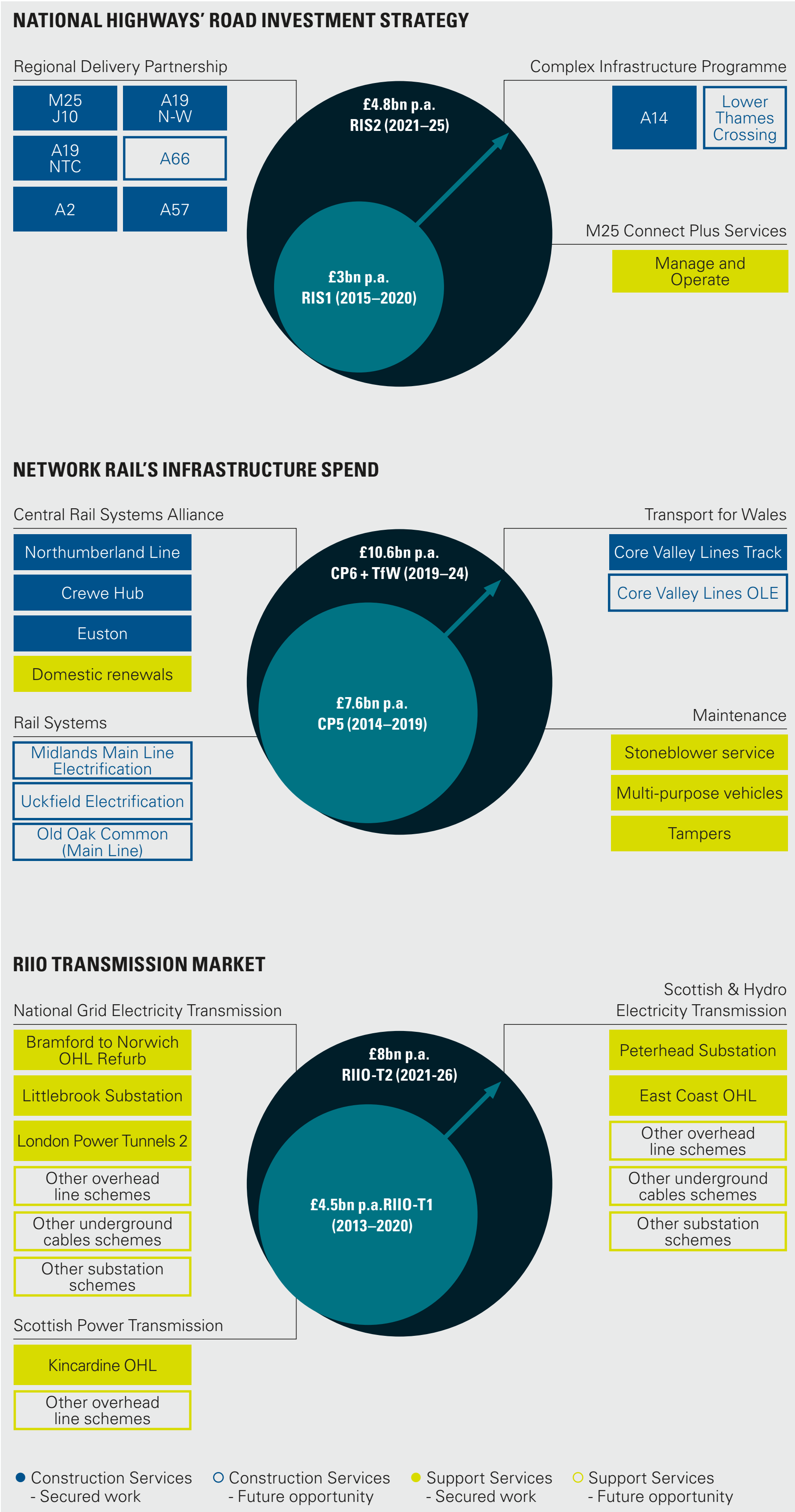
Strong underlying growth

National Highways: enhanced spending
The Government's Road Investment Strategy (RIS) continues to be a strong driver for the sector, with the current RIS2 spend of £24bn between 2021 and 2025, a significant increase over the £15bn seen during 2015–2020 RIS1 period. Through its positions on the Regional Delivery Partnership (RDP) framework, Balfour Beatty is well positioned deliver this increased workload.

Exciting local roads market
The local highways maintenance market has seen significant growth, driven by an additional £2.7bn in pothole repair funding over five years. Further, Balfour Beatty continues to see additional capital funding to transform cities and town centres to improve the public realm, encourage active transport such as walking and cycling and meet Local Authorities' objectives to reach net zero carbon. There are several contracts coming to market between 2022 and 2026, and with long-term security from its ongoing contracts, Balfour Beatty is well positioned to capitalise, win new work, and achieve sustainable growth.

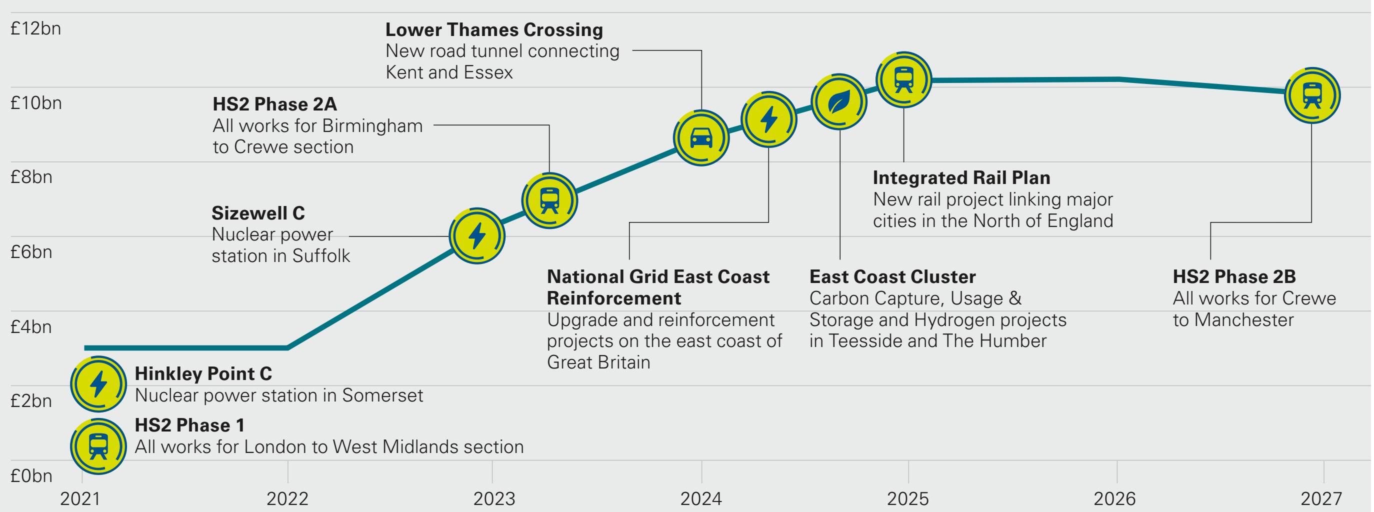
Investment in Great British Railways
Recovery from the COVID-19 pandemic is heavily supported by the Government, which is committed to improving rail as set out in the recent Williams-Shapps Plan for Rail. The plan also aims to end the railway's fragmentation and provides major improvements for passengers, freight, customers and taxpayers under a new public body with a single, national leadership, Great British Railways (GBR). As a collaborative partner, Balfour Beatty is well positioned to support Network Rail and the wider industry with this transition.

The Government has also pledged £500m for the Restoring Your Railway programme, which includes building and reopening lines and stations closed during the Beeching cuts. Further, the Integrated Rail Plan (IRP) will see the biggest ever Government investment in Britain's rail network, with a £96bn package of rail construction and upgrades for the Midlands and the North. This includes the electrifying and upgrading of the Midlands Main Line and the TransPennine Main Line, as well as upgrading the East Coast Main Line. As an agile operator offering a range of rail capabilities, Balfour Beatty is well placed to deliver both maintenance and core construction work within the schemes and to support the efficiency increase and co-operation mandated by GBR.



UK: TRANSFORMATIONAL PROJECTS GENERAL INVESTMENT IN TRANSPORT AND ENERGY INFRASTRUCTURE

Gross addressable client spend per year



Strong power pipeline

The power transmission and distribution industry is experiencing a wave of new demand as the UK plans for a green industrial revolution. Trusted and safe contractors such as Balfour Beatty are well placed to deliver these works and the associated infrastructure to enable the networks to support this influx of new, green power generation and the roll out of electric vehicles. Programmes such as the National Grid East Coast reinforcement works are expected to drive growth over the next 10 years and could be further enhanced by several proposed interconnectors.

Transformational green infrastructure agenda

The UK Government has prioritised the decarbonisation of the transport and energy sectors to meet its target of net zero carbon emissions by 2050. To make this ambition a reality, a generational investment in infrastructure is planned through the £650bn National Infrastructure Strategy. Through the policies and spending brought forward in the Net Zero Strategy, £26bn of Government capital investment has been mobilised for the green industrial revolution. Balfour Beatty's Building New Futures sustainability strategy supports this agenda, with Beyond Net Zero Carbon, Generate Zero Waste and Positively Impact More than 1 Million People as ambitions for 2040.

New nuclear

Nuclear has been identified as a key source of large scale, low-carbon energy for the UK and the Government is providing £525m to bring forward the next generation of new nuclear power stations. Balfour Beatty is playing a critical role in constructing Hinkley Point C and is well placed for the proposed Sizewell C nuclear plant, which is receiving up to £1.7bn in direct government funding. The Government's Nuclear Energy Financing Bill enables the Regulated Asset Base model for new nuclear projects, which encourages a wider range of private investments.

High-speed rail

The confirmation of HS2 Phases 1, 2A and 2B has reaffirmed the Government's commitment to Rail, with this project set to transform connectivity in the UK. The Integrated Rail Plan has set out the proposed generational investment in this sector for years to come. Balfour Beatty is already playing a pivotal part in this transformation through its work on both HS2's Old Oak Common station and the main civils works at Area North.

Smarter procurement

Construction Playbook

The implementation of the UK Government's Construction Playbook aims to make the public sector a more responsible and sustainable buyer, emphasising the importance of creating value, both socially and in terms of work delivered.

This new focus matches well with Balfour Beatty's Build to Last values and given its strong track record, Balfour Beatty is well positioned to support these goals. This is further strengthened by Balfour Beatty's sustainability strategy, Building New Futures, which focuses on three specific areas: Environment, Materials and Communities.

Growth of public sector frameworks

Construction procurement in the UK continues to evolve, presenting opportunities for progressive and collaborative contractors. Leading the way are innovative frameworks such as the Crown Commercial Services (CCS), the NHS Shared Business Services (SBS) and the SCAPE Civil Engineering frameworks, which are redefining how construction is procured nationwide and on which Balfour Beatty is participating as a major contractor.

Long-term strategic alliances

Public bodies charged with operating and maintaining infrastructure assets are increasingly embracing longer term alliances which encourage industry collaboration to drive higher efficiency and service standards. Network Rail's Track Alliances bring together leading industry players, including Balfour Beatty, to deliver collaboratively and quickly a combined £1.5bn of work over a 10-year period.

US: Construction Services

Growth is expected across all our markets

Transportation
Investment in transport infrastructure is expected to see strong growth, receiving bipartisan support at a federal level with authorised funding of around US$634bn of the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act designated to road and rail. This is a 108% increase compared to the FAST Act that was in effect from 2016 to 2020, which had a total amount of authorised funding of US$305bn.

Health
The COVID-19 pandemic has exposed the need for urgent investment in the health sector and, along with an ageing population demographic, is expected to drive continued growth in healthcare both in new construction and replacement facility demand.

Education
US$170bn of the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act signed in March 2021 is set aside for education and is expected to drive strong spend in school building construction.

Multifamily housing
Although impacted by the COVID-19 pandemic, a strong economic recovery is expected to drive demand in the multifamily housing market as demand rises in lower density and lower cost markets combined with continuing migration to Balfour Beatty's chosen states and core metropolitan areas such as Seattle and Washington D.C.

Commercial
The commercial office buildings market is projected to to recover slowly to pre-pandemic levels by 2024.

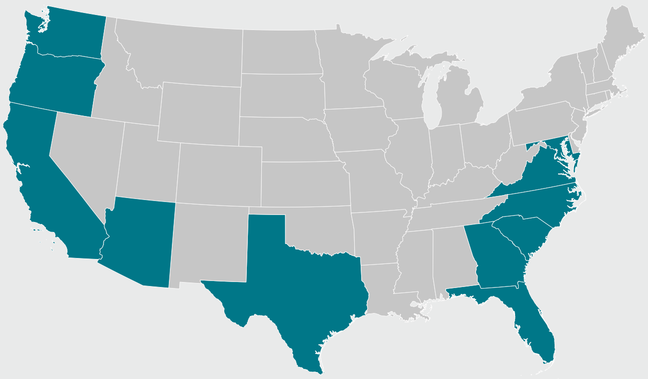
Hospitality and leisure
The hospitality and leisure sectors were substantially impacted by the COVID-19 pandemic. However, these sectors are bouncing back and are expected to see strong recovery in the medium term.

Federal
Large government spending programmes for shovel ready projects that are within Balfour Beatty's expertise are now being released. These are expected to increase over the next three years as various government agencies are readying for replacement facilities and rehabilitation or repurpose projects. Opportunities are expected in all of the Group's core markets, but especially in the Mid-Atlantic.

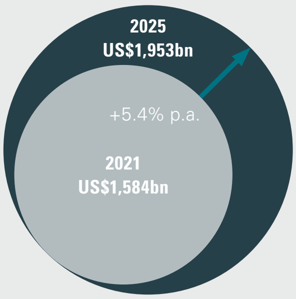
Our chosen states are the fastest growing in the US

Balfour Beatty's US operations are focused primarily on specific, high growth regions known internally as 'The Southern Smile'. This starts in the Pacific Northwest, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington D.C. These areas are population hubs with growth and migration projected to continue driving increased investment, particularly in transportation and social infrastructure.

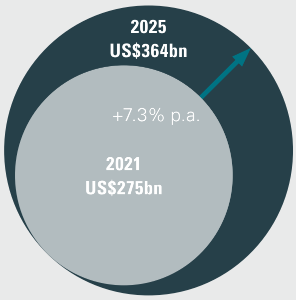
OUR CHOSEN STATES
Selected states are poised for growth



NATIONWIDE



OUR CHOSEN STATES



- Our sectors are receiving support through the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act
- US$634bn designated to transport, a third of which is for roads, bridges, and major infrastructural projects
- US$170bn for education, the largest single investment into schools ever in the US

Source: Dodge and FMI Market Forecast

> "Large scale federal funding puts our markets in position to grow."

Gammon

Stable core markets

Hong Kong

Significant investments in transportation and social infrastructure are expected to drive growth in Hong Kong. Investments into major expansions of Hong Kong Airport and the MTR subway system have started, bringing a strong pipeline of infrastructure projects which will be further supported by the Government's recent announcement to materially increase investment in the medium term. The increase in civils spend is set to offset a slowdown in the building sector. Gammon, with a diverse set of capabilities across both the building and civils sectors, is in a good position to respond to this shift in the market.

Singapore

Project delays have materially impacted the Singapore market in the last two years. However, projects have started in 2021, driving a quick recovery in this market as public spend commences on infrastructure works such as the Cross Island MRT line and the Jurong Lake district development.

GAMMON WINS PRIVATE MODULAR INTEGRATED CONSTRUCTION (MIC) PROJECT: FIRST IN HONG KONG

As a pioneer and market leader in innovation, Gammon is working on Hong Kong's first private residential project to adopt concrete modular integrated construction (MiC). Located in the heart of West Kowloon and providing gross floor area of over 9,600 square metres, the application of MiC on the 22-storey building is expected to cut 68% of construction waste, reduce noise pollution by 75% and substantially lower carbon emissions. To facilitate the construction process, Gammon's digital supply chain monitoring solution, STAMP, will be deployed with data log devices to monitor the delivery and installation of prefabricated components. Through this project, Gammon is paving the way for the adoption of modular technology more widely across Hong Kong.

HONG KONG CONSTRUCTION MARKET

Government Investment Driving Strong Infrastructure Growth

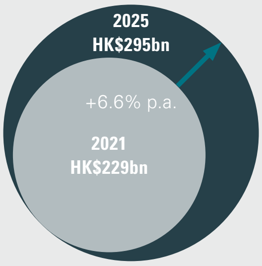
Long-term aviation investment
The HK$144bn Three Runway System (3RS) development at Hong Kong Airport marked the beginning of a long-term investment in aviation, with a further HK$9bn expansion programme already underway.

Residential and rail developments
Over 15 sites have been designated for sale in 2021-22, to provide up to 16,500 new homes and three new railway developments as the Government aims to meet its target of building 430,000 new homes by 2029.

Hospital development plans
Over HK$500bn earmarked to expand, redevelop, and construct new hospitals to serve 500,000 more patients by 2036. The Hong Kong Hospital Authority is pressing ahead with the implementation of the first 10-year Hospital Development Plan (HDP) and the planning of the second 10-year HDP.

HK$1.2 trillion infrastructure investment
Over the next decade, the Hong Kong Government plans to invest over HK$1 trillion in developing infrastructure.

TOTAL CONSTRUCTION OUTPUT



Investments: UK & US

Continued demand for infrastructure assets

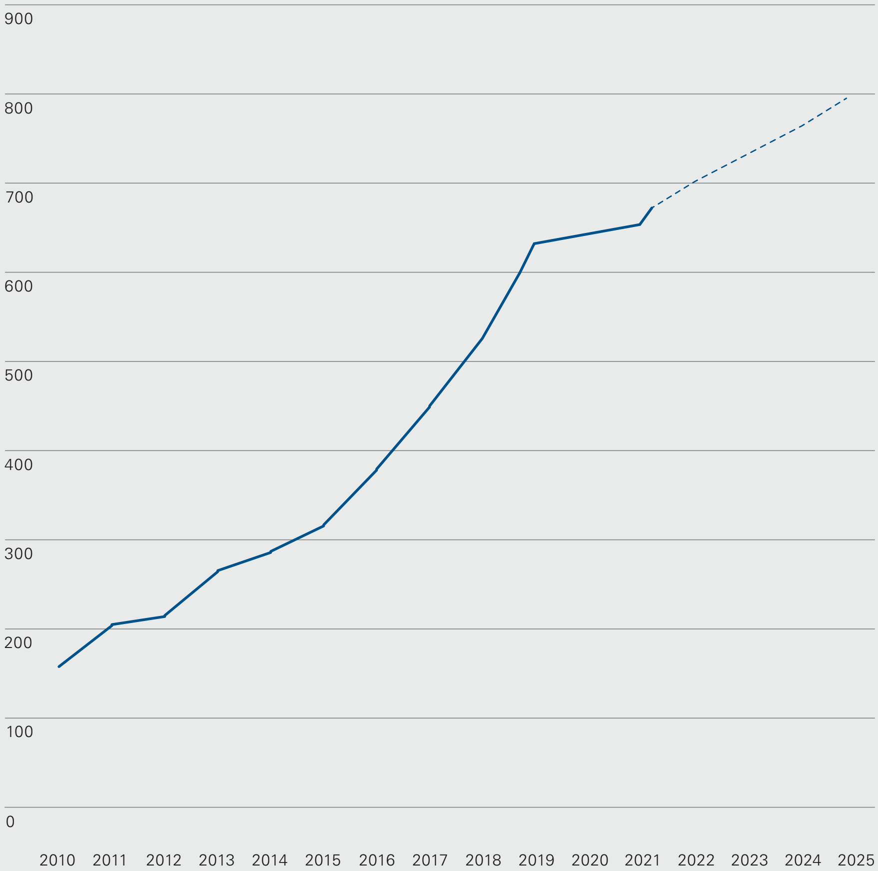
Many infrastructure assets, including Balfour Beatty's PPP schemes, have an explicit revenue link to inflation in the concession contracts. Those that don't, such as student accommodation and multi-family housing projects, have indirect inflation-linked income through a rental mechanism, providing some natural inflation protection. Therefore, there is some link between earnings and inflation, driving higher valuations in periods of higher inflation.

Further, while inflation increases continue to outstrip interest rate rises, low real rates of return will continue to drive yield-seeking investors towards infrastructure assets.

Attractive range of opportunities continue to come to market

Student accommodation: strong US/UK demand
Across the UK and US, demand for student accommodation remains strong as universities continue to improve their facilities to attract students.

GLOBAL UNLISTED INFRASTRUCTURE ASSETS UNDER MANAGEMENT
US$bn



Source: Prequin

ON TRACK TO NET ZERO: EAST COAST INDUSTRIAL CLUSTERS

Balfour Beatty has been selected to assist in the design and development of optimal technical solutions for Net Zero Teesside's planned 860MW power station and carbon capture and compression plant. Additionally, Balfour Beatty is supporting the development of the new hydrogen production facility in the Humber industrial cluster. The Teesside and Humber facilities are planned to draw CO_2 emissions from the industries in these two regions and to transport it to the Northern Endurance Partnership's aquifer under the North Sea to securely store nearly 50% of all UK industrial CO_2 emissions. This will represent up to 27m tonnes of carbon emissions a year by 2035 and a large step towards the UK's net zero future.

States, counties and cities using P3
The US has become an increasingly exciting market for public-private partnership, and, to date, 38 states (plus D.C.) have passed legislation allowing P3 projects. The 2015 federal FAST Act helped to expedite P3 planning processes and led to some major local projects. The US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act provides funding for local governments to evaluate P3 opportunities which is expected to drive increased adoption of this approach.

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

Energy transition
As the UK's energy mix transitions to more renewable sources, such as wind, solar and hydrogen, and more sustainable transport, such as electric vehicles, there are opportunities for private sector investment with large upside potential. The Group continues to evaluate these changes for both investment and construction opportunities.

TARGET SEGMENTS

UK TARGET SEGMENTS

Student accommodation
Student accommodation procured directly from the university and privately developed accommodation directly let to students.

Energy transition
New opportunities driven by the decarbonisation agenda.

Residential/Regeneration
Urban regeneration in partnership with local councils.

US TARGET SEGMENTS

Student accommodation
University procured on-campus and off-campus student housing and other buildings.

P3 social and transport
Courthouses, schools and other government buildings. Mass transport and roads.

Military housing
Military personnel housing renovations and improvements.

Multifamily housing
Acquiring and renovating housing, focusing on geographies with strong population and existing Balfour Beatty Investments presence.

RIGHT
An example of a successfully completed student accommodation scheme, the University of North Carolina Wilmington student housing community in the US.

Designed to deliver value

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

Why our customers choose us

World-class track record
With over 110 years of experience successfully delivering transformational infrastructure projects, Balfour Beatty has cultivated a strong track record of quality and reliability.

Financial stability
Balfour Beatty's strong balance sheet is a testament to strong governance. It gives customers confidence we are able to deliver, and we are here for the long term.

Expert people
Our engineering and project management expertise allows us to deliver complex, one-of-a-kind projects and has made us a trusted construction partner for public and private sector alike.

Innovation
Innovation is part of the Balfour Beatty culture, harnessing the power of digital and cutting-edge technology to drive productivity and redefine the possible.

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

Sustainable focus
Balfour Beatty takes its responsibility as a custodian of the planet seriously and seeks to leave a positive legacy in the communities it works in.

BELOW
HS2 Curzon Street Station viaduct works in Birmingham, UK.

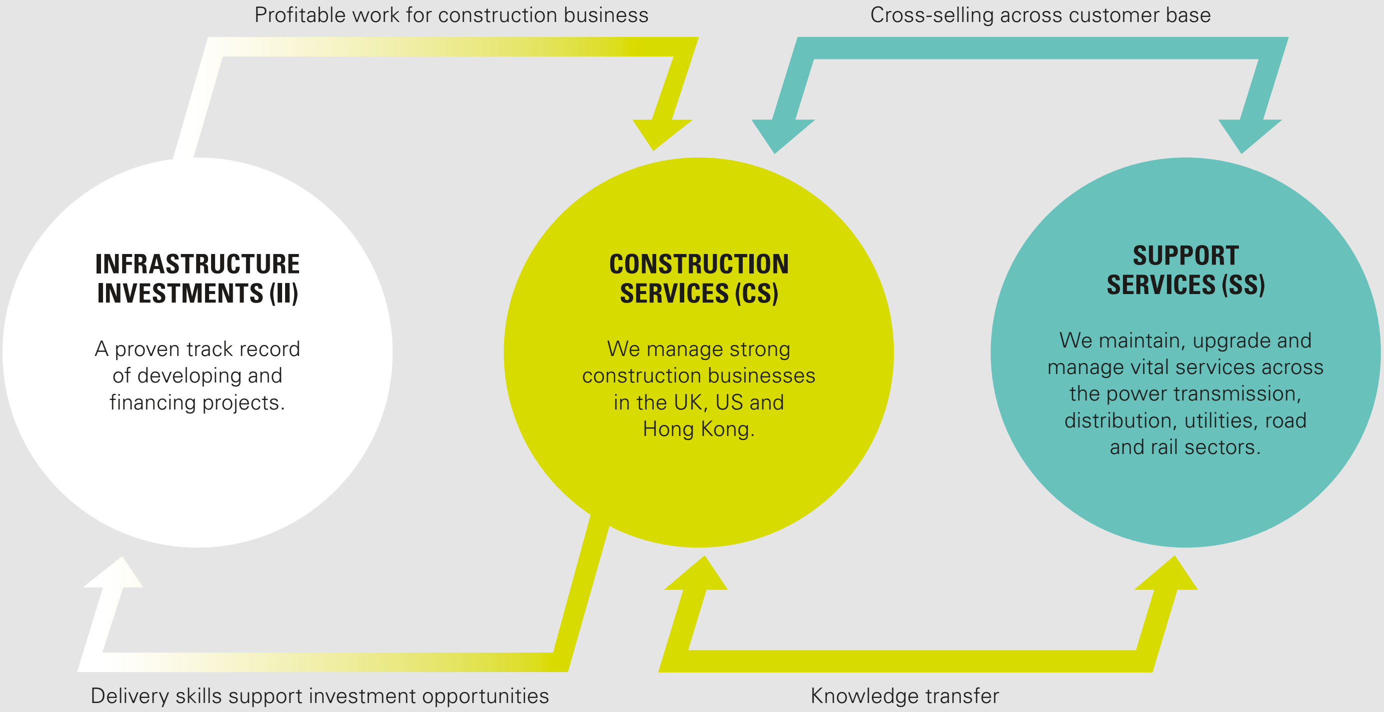
Reducing risk in our order book

As part of our Build to Last strategy, Balfour Beatty has strengthened its governance, focusing on reducing risk in its order book by selectively bidding for work it is best placed to deliver on terms that are attractive to the Group. This reduction has been most noticeable in the UK Construction business, where the proportion of fixed price work has fallen to 14% at the end of 2021, partly as a result of the HS2 Area North contract. In cost plus and target cost contracts some or all of the risk of inflation is borne by our client. Where the contract is fixed price, we aim to manage the risk of rising prices via our supply chain.

	HY2018	FY2021
Cost plus	4%	12%
Target cost	46%	74%
Fixed price	50%	14%

HOW OUR GROUP WORKS TOGETHER

Multi-disciplinary collaboration is core to Balfour Beatty's identity; our Construction Services, Support Services and Infrastructure Investments teams work closely together to ensure high-quality outcomes for our stakeholders. The Group's business model has not changed as a result of COVID-19 or the UK leaving the European Union.



WORKING COLLABORATIVELY ACROSS THE GROUP

M25, UK

In 2009, Balfour Beatty in joint venture was awarded the design, build, finance and operate contract for the M25, which included the widening and upgrade of sections of the London orbital motorway. The Group continues to operate and maintain the M25 through its stake in Connect Plus Services.

II CS SS

Bowie State University, US

In 2021, US Construction Services delivered a 557 bed on-campus housing community, including an Entrepreneurship Center, for Bowie State University. The project was developed under a procured P3 arrangement by Balfour Beatty Campus Solutions on behalf of the university and the Maryland Economic Development Corporation.

II CS

Hinkley Point C, UK

The new nuclear programme capitalises on the breadth of Balfour Beatty's capability. Construction Services is carrying out the tunnelling and maritime works package, plus the mechanical and electrical works through the MEH Joint Venture. Support Services is delivering the 48km, 400kV overhead line connection project on behalf of National Grid.

CS SS

Sharing the value we create

In striving to achieve its purpose of Building New Futures, Balfour Beatty touches the lives of many people across the UK, US and Hong Kong. Working with its stakeholders across the industry and beyond, the Group continues to innovate, lead the market through driving change, shape the debate and inspire a new generation of talent to be the change-makers of tomorrow.

Customers

Why are they important?

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

Our priorities

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

How we engage

We implement customer account management plans and regularly communicate with our customers at operational, management, executive and Board level.

We collaborate with our customers to trial new approaches that help to solve industry challenges including carbon reduction and skills shortages.

In the UK and US, our MAP process, which is aligned to ISO 44001, the international accreditation for collaboration, is used to capture customer feedback. Our MAP tool includes electronic surveys and in-person reviews of our performance at operational, management, executive and Board level, depending on the requirements of the customer and project.

In Hong Kong, Gammon host partnering events to understand customer perception and customer satisfaction sessions to collect opinions from customers and consultants to help improve how they work with them.

How we create value

Balfour Beatty is trusted to "do what we say we will do" and is measured on this by customer satisfaction. In 2021, around 1,500 customer satisfaction reviews were carried out with the Group's customer satisfaction score currently standing at 96%.

We have recently completed our 100th Scape civil engineering project, the A51 Tarvin Junction on behalf of Cheshire West and Chester Council on time and on budget, creating a positive legacy beyond the project itself through training and employment opportunities for thousands of people. In 2021, over £1bn was spent with SMEs and local businesses in the UK, and employees got involved in numerous volunteering and fundraising schemes.

We use the latest technologies to solve our customers' challenges. This includes our Operational Control Hub which uses a digital management system to create cross-service, real-time visibility of our activities and across our Herefordshire Council Public Realm Services contract. After one year in operation, the Hub has produced £260,000 in efficiency savings and improved our response times.

You can find out more about the Operational Control Hub by watching our video.

SCAN TO WATCH THE VIDEO

To accelerate our industry's progress toward net zero, we've launched our 'Towards a Zero Carbon Construction Site' roadmap at the Royal Botanic Garden Edinburgh – Biomes project. The initiative is exploring innovative approaches, developed in collaboration with the Royal Botanic Garden Edinburgh, the designer and our supply chain partners and will help our customer progress on their journey to transition to net zero. We are freely documenting all our progress and the obstacles we come up against and sharing them in an online diary.

SCAN THE QR CODE TO READ ABOUT OUR PROGRESS

CASE STUDY: MAKING A SMARTSTART

In the US, our SmartStart® programme helps us to develop our project delivery strategies and create high-performing teams. Implemented at the beginning of a project, it focuses on four core areas:

- **Alignment –** developing a high-performance team by agreeing expectations around team behaviours, values, governance and decision-making criteria and milestone planning.
- **Collaborative planning –** planning the construction processes and approach with key stakeholders.
- **Proactive design –** effective and efficient methodologies to produce a detailed and comprehensive plan for design.
- **Support systems –** to help identify problems, promote the right behaviours and remove any barriers to success.

Penn Medicine's US$1.6bn hospital, The Pavilion, was successfully delivered by a six-member joint venture team. Multiple SmartStart sessions helped create a high-performing team.

Employees

Why are they important?

Talented and engaged employees committed to upholding our values enable us to deliver on our Build to Last strategy, ensuring we win, and expertly deliver, the best and most exciting projects whilst continuing to build a great place to work.

Our priorities

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

How we engage

A full range of communications channels, both digital and in-person, enable us to broadcast need-to-know, time-sensitive messages, and encourage feedback, conversation and connections across the Group.

In 2021, we improved the functionality of The Hub, our SharePoint intranet, to enable employees quicker and easier access to business and topic-led news across the Group, including campaigns.

We have well-established employee-led affinity networks across the Group to build a better understanding of diversity and inclusion. With the support of the members, we formulate plans together to help create an inclusive workplace.

My Contribution, our employee-led change programme, empowers employees to have a voice by submitting and owning their ideas and driving positive business change. Powered by Yammer, our internal social networking tool, thousands of employees across multiple locations share their ideas and develop them through conversations with their colleagues. Those who do not have access to Yammer, can phone the Balfour Beatty helpline team who will take the details and post into Yammer on their behalf, and there are also physical 'idea cards' which can be submitted.

In the UK, our behaviour champion awards programme (see page 87) enables us to reward and recognise our people for bringing the behaviours in our Cultural Framework (see page 2) to life each and every day.

How we create value

The key metric for Expert is employee engagement and in 2021, our Group Employee Engagement score was 76%; up 1% on 2020 and 10% on 2019. Our surveys are run by an independent company and when benchmarked, our engagement score for 2021 was 12% above companies of a similar size.

In addition to the overall engagement score improving, following the 2020 Employee Engagement Survey results, we listened to feedback and made purposeful interventions in specific areas. Our colleagues told us they wanted more opportunities to give something back – in May 2021 we launched our new charitable and volunteering approach in the UK: we've partnered with three charities at a corporate level, The Prince's Trust, Groundwork and Project Recce and established a network of employee charity champions. To encourage our colleagues to fundraise and take part in volunteering, they each have up to 16 hours of paid Employee Engagement volunteer leave each year. In the 2021 employee engagement Survey, 64% of UK colleagues told us they felt able to give something back, a 6% increase on 2020.

Following our successful Group-wide September Safety Stand Down, where our workforce stopped what they were doing and came together in their teams to renew their collective and individual focus on safety, we saw a 2% Employee Engagement Survey increase across the Group on the Employee Survey question 'I feel able to discuss my health, safety and wellbeing at work', up to 82% in 2021. The Safety Stand Downs adopted a mandated multi-communications channel approach across all three geographies encompassing in-person and virtual events, written and rich media content and training.

In 2021, more than 2,500 My Contribution ideas were submitted with those delivered generating over £4m of cash inflows, £20m of cost savings, 241,000 hours of time saved, and 370 ideas delivered in the Better Place to Work category that have helped us improve safety and create a more sustainable business.

We celebrate and take part in a range of diversity and inclusion focused events to help create an inclusive workplace. In 2021, this included Hispanic Heritage Month, Women's Equality Day and Black History Month in the US, International Women's Day in Hong Kong and the UK, as well as, amongst others, International Day of People with Disabilities Pride Month and International Women in Engineering Day in the UK.

For details on how the Board engages with our employees see pages 129 to 130.

CASE STUDY: COP26 – THINK GLOBAL, ACT LOCAL, MAKE A DIFFERENCE

To show leadership in our sector and encourage colleagues to get directly involved in delivering the ambitious goals set out in our refreshed sustainability strategy, we used the momentum of the United Nations climate change conference (COP26) in Glasgow to drive engagement and action across our business.

We kick-started the campaign in July 2021, using our My Contribution employee led change programme and received a magnificent 780+ ideas. Of those, 170 ideas are being taken forward, with 14 already delivered, collectively generating £527,000 of cost out.

In the run up to the conference, we launched our Sustainable Evolution Showcase at Shotts and our Digital Innovation Hub in Glasgow, encouraging local colleagues and supply chain partners to attend in person as well as hosting visits for over 400 school children. We also used the power of digital to take stakeholders outside of Scotland on virtual tours, through livestreams and rich media content.

Colleagues were also encouraged to attend live webinars, listen to podcasts and complete sustainability training. Our social media channels hosted our #SmarterGreenerFaster take-overs, where four supply chain partners took charge for the day, generating over 26,000 engagements and c.700,000 impressions.

Supply chain and strategic partners

Why are they important?
Our many supply chain partners, large and small, are an invaluable resource fundamental to the successful delivery of all of our projects. We also work with trusted partners in a number of long-term joint ventures which are critical to our success.

Our priorities
- Deliver the Group's sustainability 2030 Targets and 2040 Ambitions to go Beyond Net Zero Carbon, Generate Zero Waste and Positively Impact More than 1 Million People
- Zero Harm – no injury, ill health or environmental incident caused by our work
- Improved transparency through digital tools and automation
- Mitigate and manage risks through collaboration
- Be the customer of choice
- Keep cash flowing through the supply chain

How we engage
As part of our digital transformation, we're implementing new ways of working that phase out labour intensive, slow processes and replace them with streamlined, automated tools that provide greater speed and transparency.

To create the best solutions for our customers and be the customer of choice for our supply chain partners, we engage our supply chain partners early in the work winning process, applying their expertise and innovation to influence safety, sustainability and product specifications and accelerate the adoption of new technologies. This helps us to mitigate and manage risks to successful project delivery.

We hold regular review sessions with our supply chain partners across the Group to review performance so that we can jointly identify areas of good practice, learning and improvement and provide them with support to upskill.

We host webinars, conferences and events to engage with our supply chain partners and provide support in emerging areas such as cyber security.

We encourage and support our supply chain partners to create added social value in the community we operate in and work collaboratively with them to reduce our environmental impacts.

We have established relationships at operational, management, executive and, in most instances, Board level with our joint venture partners. These relationships underpin the collaborative culture that is vital to the success of a joint venture.

How we create value
In the UK, our eProcurement Portal, Jaggaer, helps reduce risk by creating a standardised, consistent process for our supply chain partners to tender for work packages. The Portal also provides access to catalogues for commonly procured items, helping us to concentrate our spend with the best performing partners and procure goods and services with consistent levels of quality.

Across the Group, we work with our supply chain partners to develop and adopt innovative approaches that improve project delivery and help reduce carbon emissions and waste. In Hong Kong, this includes the introduction of the Enertainer battery storage system which can replace diesel generators on site. In the UK, we've worked with our partners to complete a world-first emissions retrofit exhaust solution to cut emissions from construction plant and improve air quality.

We support the creation of a best-in-class supply chain in the UK through our membership of the Supply Chain Sustainability School, a collaboration between customers, contractors and supply chain partners who want to build a skilled supply chain. Through our partnership with the School, we undertook a joint survey targeting nearly 40,000 supply chain partners in our industry. The survey helped us to better understand the barriers they faced in relation to carbon reduction and the support they need. We published our findings and shared them with key customers, other Tier 1 contractors, and the UK Government in our thought paper 'Greening the Chain: Overcoming Barriers for a Net Zero Supply Chain'.

In September 2021, we hosted a Supply Chain Conference in the UK. At the conference we were able to engage our supply chain partners around what is important to us and share knowledge and understanding around key areas including digitising our industry.

Our supply chain partners support our fundraising and charity initiatives. In the UK, in 2021, one of our rail project teams worked with its supply chain partners to build and donate a tarmac ramp to a local children's hospice, enabling the children to have direct access to the gardens. Meanwhile, in the US, one of our joint venture teams in North Carolina, partnered with the local community to prioritise repairs to a major roadway which was damaged during a hurricane.

In line with the UK's Prompt Payment Code, we are committed to paying all of our supply chain partners on time and to mutually agreed terms. We continually invest in our processes and procedures to improve our payment performance and enhance accuracy and transparency. In the second half of 2021, we increased the percentage of invoices paid within 60 days in the UK to 93%.

CASE STUDY: SUPPLY CHAIN PARTNERING DRIVES IMPROVEMENT

Procured via the UK SCAPE Civil Engineering frameworks, which provide customers with early access to our expertise, Wokingham Borough Council's Major Highways Programme provides vital infrastructure upgrades to alleviate congestion and enhance accessibility. We have worked with our customer and key supply chain partners from the early stages to develop the designs of the nine schemes that make up the programme of works. This early involvement improves our supply chain partners' understanding of the project requirements, provides them with visibility of upcoming works to help them plan their resources and gives them the chance to help create solutions that are sustainable and can be delivered safely and efficiently.

Communities

Why are they important?

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

Our priorities

- Deliver the Group's sustainability 2030 Targets and 2040 Ambitions to go Beyond Net Zero Carbon, Generate Zero Waste and Positively Impact More than 1 Million People
- Work in partnership with communities to understand and support local needs
- Establish relationships with key community stakeholders to develop a programme of impactful community investment activities
- Contribute to environmental wellbeing
- Zero Harm – no injury, ill health or environmental incident caused by our work

How we engage

To deliver our Group sustainability Targets and ambitions, each business unit has a sustainability lead responsible for delivering the business unit's local action plan, which covers the environment, materials and communities. To support the delivery of these plans, we have community engagement plans in the UK and Hong Kong and local initiatives in the US.

In the UK, we employ a network of community engagement specialists who plan and deliver activities to engage and enhance local communities. They help our projects to take positive action to add social value in local communities.

Through our participation in the Considerate Constructors Scheme in the UK, we engage with communities to make sure we are working in a considerate manner.

How we create value

We work with our customers and supply chain partners to reduce carbon emissions throughout an asset's lifecycle and reduce waste during construction.

We're adopting electric and hybrid plant and equipment where possible, helping to reduce carbon emissions and improve air quality.

We plan works to be delivered with minimal disruption to local stakeholders and engage with them ahead of works starting to make sure they are aware of any impacts the works may have.

We deliver STEM activities with schools, colleges and universities to raise awareness of careers in these areas and to attract new entrants to our industry.

To help create a positive lasting legacy, we develop and deliver training programmes for apprenticeships, graduates and work experience as part of our commitment to The 5% Club in the UK. (www.5percentclub.org.uk)

In the UK, we've partnered with The Prince's Trust, Groundwork and Project RECCE and continue to work with local charity partners too. This provides an opportunity for our people, particularly project teams, to positively impact local people and volunteer to support good causes. In the US, we have partnered with over 20 charitable organisations and we encourage our employees to raise money and volunteer their time with these organisations.

We hold regular Meet the Buyer days in the UK to raise awareness in local communities of opportunities to work with us. This helps us to select local supply chain partners and ensures that project spend supports the local economy and jobs.

Across the UK, our teams attend careers fairs and other similar events to raise awareness of the types of careers available in our industry and promote local job opportunities. In 2021, this included the Jobs, Jobs, Jobs Fair at Derwentside College in Durham, Derby Jobs Live and working with Skills Development Scotland to promote apprenticeship opportunities to underrepresented groups.

Across our military housing portfolio in the US, our award-winning LifeWorks programme provides a busy calendar of engaging events and activities for residents of all ages, from fitness clubs and seasonal crafts to community gardens and cooking classes.

For more examples on how we create value for the communities we work in, see pages 78 to 80.

CASE STUDY: MYROAD CUSTOMER SERVICE

Developed in collaboration with National Highways and one of our strategic design partners, Atkins, MyRoad delivers a step-change that puts the road user first in every decision and creates a continuous cycle of improvement.

Watch the video to find out more about how MyRoad is helping to create a better experience for road users in England.

SCAN TO WATCH THE VIDEO

Governments

Why are they important?

Governments set the policy and legislative context within which we operate, which has significant implications for our operations.

We are one of the UK Government's 40 Strategic Suppliers due to the importance of the work we do for a number of government departments and agencies and the significant amount of public money invested in many of the schemes we work on.

In the US, we work on projects for a number of federal and state agencies. Our Buildings and Civils businesses work for the US Army Corps of Engineers, the Naval Facilities Engineering Systems Command (NAVFAC) and the General Services Administration (GSA). Balfour Beatty Communities is one of the largest military housing owners in the US, working closely with the US Department of Defense, and is a joint venture partner with the US Army, Navy and Air Force in projects that manage housing on 55 military installations across the country. It also has a diversified range of residential multi-family housing assets. In Hong Kong, where our 50:50 joint venture Gammon is based 70% of the £2.6bn order book is public and regulated work.

Our priorities

- Build strong working relationships with key decision makers
- Protect and enhance Balfour Beatty's reputation to help the business secure work with governments
- Help to inform and shape the policy and legislative framework to ensure that Balfour Beatty is aware of new priorities and able to highlight potential negative implications of proposed legislation

How we engage

We take a targeted approach, engaging key government decision makers through a range of channels: largely 1:1 relationships, but also using media, social media, engaging events and thoughtful written collateral - including responses to key government consultations and calls for evidence - to ensure our views on key topics are well-articulated and disseminated.

How we create value

Thanks to the relationships we have established with key stakeholders across the UK Government, we have been able to make specific asks of Whitehall departments in order to improve our ability to deliver vital public sector projects efficiently.

In addition, we secured supportive quotes from the Prime Minister and other ministers for proactive initiatives undertaken by the business, including a quote from Business Secretary Kwasi Kwarteng about our Towards a Zero Carbon Construction Site initiative and Education Secretary Nadhim Zahawi about our commitment to Apprentices, Graduates and Trainees.

We also invite Ministers, Mayors and other political stakeholders to visit sites and other facilities to showcase our work and assist them with a deeper understanding of the sector.

CASE STUDY: BUILD BACK BETTER BUSINESS COUNCIL

Throughout 2021, Leo Quinn, Group Chief Executive, was a member of the UK Prime Minister's Build Back Better Business Council. Led by both the Prime Minister and Chancellor Rishi Sunak, the Council brought together UK Government and business leaders to work in partnership to drive economic recovery and growth across the UK, support the transition to a net zero economy by 2050 and promote 'Global Britain'. This gave Balfour Beatty a platform to communicate its position on key issues facing the construction and infrastructure industry and to help shape policy on areas of industry-wide importance, including skills and planning policy, via roundtables and 1:1 meetings. Thanks to the positive work done as part of the Build Back Better Business Council, we have developed key stakeholder relationships at the heart of UK Government which will be invaluable going forward.

CASE STUDY: ANNUAL POLICY AND BUDGET CONSULTATION IN HONG KONG

In Hong Kong, Gammon participates in an annual Policy Address and Budget consultation, offering the business community an opportunity to input into policy formation. A number of Gammon employees sit on Industry Bodies, directly engaging with the Government of the HKSAR. These include the Business Environment Council, the Electrical and Mechanical Contractors Association and the Hong Kong Construction Association.

Shareholders

Why are they important?

With over 650 million shares in issue, Balfour Beatty's shareholders are a critical stakeholder for the Group. Shareholders, defined as a person, company, or institution that owns at least one share of a company's stock, are the owners of Balfour Beatty. More generally, shareholders are categorised into two groups: retail investors, individual or non-professional investors who buy and sell shares personally; and institutional investors who invest others money on their behalf. The Board places great importance on building and maintaining positive relationships with all shareholders and seeks to ensure there is an appropriate level of regular and informative dialogue with them.

Our priorities

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

How we engage

Balfour Beatty has scheduled, public engagements with shareholders throughout the year. This includes full year results in March, the publication of the Annual Report and Accounts in April, half year results in August, two trading updates and an Annual General Meeting in May. Financial results presentations and the AGM offer the opportunity for shareholders to engage with Executive Directors in person.

For business news which is categorised as market sensitive, a regulatory news announcement is shared directly with the market, ensuring shareholders receive financially important information.

The Head of Investor Relations is responsible for the day-to-day engagement with shareholders and leads on a comprehensive investor roadshow programme for the Group Chief Executive and Chief Financial Officer around the Group's financial calendar. This involves face to face and virtual meetings with major shareholders including new or prospective investors.

Content on the Group's approach to shareholders is available on a number of dedicated pages on the Balfour Beatty corporate website: www.balfourbeatty.com/investors

How we create value

Balfour Beatty has established one of the strongest balance sheets in its sector. From its position of strength, Balfour Beatty announced a new capital allocation framework in March 2021. This provides a balanced approach between the investment needs of the business, regular dividend payments and additional returns to shareholders. The Board expects dividends to grow over time with underlying profit. In addition, the Company delivered a £150m share buyback programme for 2021.

Throughout 2021, around 100 meetings were held with shareholders across all geographies both virtually and face to face.

For details on how the Board engages with investors see page 130.

CASE STUDY: GOING LIVE

Responding to restrictions put in place due to the COVID-19 pandemic, we delivered our Half and Full Year Results presentations virtually in 2021.

Attendees had the option to join via either the webcast, and/or a conference call. This approach meant that both events could be easily accessed, with the call allowing people to speak directly to our Group Chief Executive, Leo Quinn, and Chief Financial Officer, Phil Harrison, and ask them questions about the results that were announced earlier in the day.

Throughout 2021, we also held around 100 meetings with shareholders, across all geographies both virtually and face to face, giving them the opportunity to better understand our business and ask specific questions.

Staying ahead of the curve

Balfour Beatty continues to drive innovation, foster an innovation culture and invest in value-adding initiatives across the UK, the US and Hong Kong.

Balfour Beatty's focus on innovation and our digital transformation journey began in 2015 as a critical element of our Build to Last strategy and ensuring that our business is future-ready and agile. Over the past seven years, we have honed our approach. From using it initially as a way of improving financial transparency through 'project on a page', to being fully embedded in operations through collaborations such as Tradex, providing a Digital platform for all invoice payments across the supply chain, or Msite, providing each employee with a digital identity that enables contactless entry to site using biometrics. Our strategy has matured, proving its worth as we responded with agility to the COVID-19 pandemic and delivering increasing benefits to our customers, employees, supply chain partners and to Balfour Beatty.

ABOVE
Watch our video to learn about the first EU Stage V equivalent retrofit solution in Europe – taking the piling rig to the lowest emissions level possible.

Innovating to deliver our Sustainability Strategy

- Gammon, the Group's 50:50 joint venture based in Hong Kong, successfully used new technology on the Sai Sha Road Widening Works at Shap Sze Heung, Sai Kung in Hong Kong. The project involves improvements to a 2km long road with active traffic. The aim is to successfully complete works with as little disturbance to the environment as possible. Holistic tree management was carried out digitally, using tree-health sensors on site, and – in a Hong Kong first – a 180-tonne giant twin tree was also relocated using remote controlled twin bogies, reducing transplanting time and increasing the chance of its survival. Meanwhile, comprehensive digital tree management has been achieved through the development of an app and use of wireless sensors that manage the stability and health of more than 1,600 trees. Drone and 3D land surveying were also used to monitor the 4.1km-long site area to maintain instant and reliable project progress records.
- To reduce emissions linked to construction activities, HS2 has set stringent engine emission standards for all plant and machinery across the programme. As part of efforts to meet these standards, a Non-Road Mobile Machinery retrofit solution has been developed by UK company Eminox Ltd. This adds exhaust technology to existing engine systems on plant machinery to upgrade it to the latest EU Stage V engine class. The retrofit solution was trialled on a Balfour Beatty piling rig and rotary rig used on the project. The results were validated and certified by the Energy Saving Trust, making the solution available industry wide. By reducing emissions and embodied carbon benefits are realised for the environment, communities, and the HS2 workforce. In addition, significant direct capital savings are made through reducing plant scrappage and the need to purchase high volumes of new large specialist plant.

ABOVE
Gammon used a digital tree management system to remotely relocate a 180-tonne giant tree.

RIGHT
In collaboration with Sunbelt Rentals, we launched EcoSense – a sustainable site cabin design with integrated disability and neurodiverse features.

BELOW
Our Balfour Beatty developed HSES Observation App.

- In December, a first for the UK construction and infrastructure industry, Balfour Beatty, in collaboration with Sunbelt Rentals launched EcoSense – a sustainable site cabin design with integrated disability and neurodiverse features. EcoSense boasts a range of sustainable applications and components including occupier-activated extractor fan sensors and lower kilowatt heaters with built-in, self-regulating digital thermostats, which will reduce CO2 emissions by up to 30%. The new site cabin design is now being introduced as standard to all new UK site set-ups and is expected to save a minimum of 1,400 tonnes of CO2 emissions each year. When combined with EcoNet technology, which effectively manages the power supply of site compounds, an additional 4,000 to 5,000 tonnes of CO2 savings can be expected annually. Following an idea born through Balfour Beatty's employee-engagement programme, My Contribution, EcoSense also incorporates wider corridors for wheelchair users, coloured plug sockets and switches to assist the visually impaired, and tri-coloured LED lighting for those who are hyper-sensitive to bright light; marking a positive step forward in making site cabins a more inclusive environment for neurodivergent people.
- Balfour Beatty US civils business, as a part of the Colorado Constructors (CRC) joint venture, celebrated the completion in May of Central Texas Regional Mobility Authority's (Mobility Authority) new US 183 South tolled expressway in Austin. Hydraulic infrastructure, such as bridges and culverts, are a part of larger facilities that help drain stormwater on roadways. For highway widening and reconstruction projects such as the US 183 South expressway, conveying hydraulic flow is beneficial in minimising the risk of flood loss and the impact of floods on human safety and the environment. To efficiently convey hydraulic flow, the project needed a solution that was far from traditional. With the roadway's surface area increasing from 10 lanes to 15 lanes, the traditional concrete box culvert structure along the corridor was no longer equipped to meet the increased drainage requirement. Team members provided an innovative design and solution that would meet the drainage needs of the expanded highway: an innovative solution of installing an arch culvert bridge system to efficiently convey hydraulic flow along the expressway's corridor, thereby delivering a transformative highway project that is safe for travellers, environmentally friendly for the community, and cost-effective for the client and partners.

Innovating to deliver Zero Harm

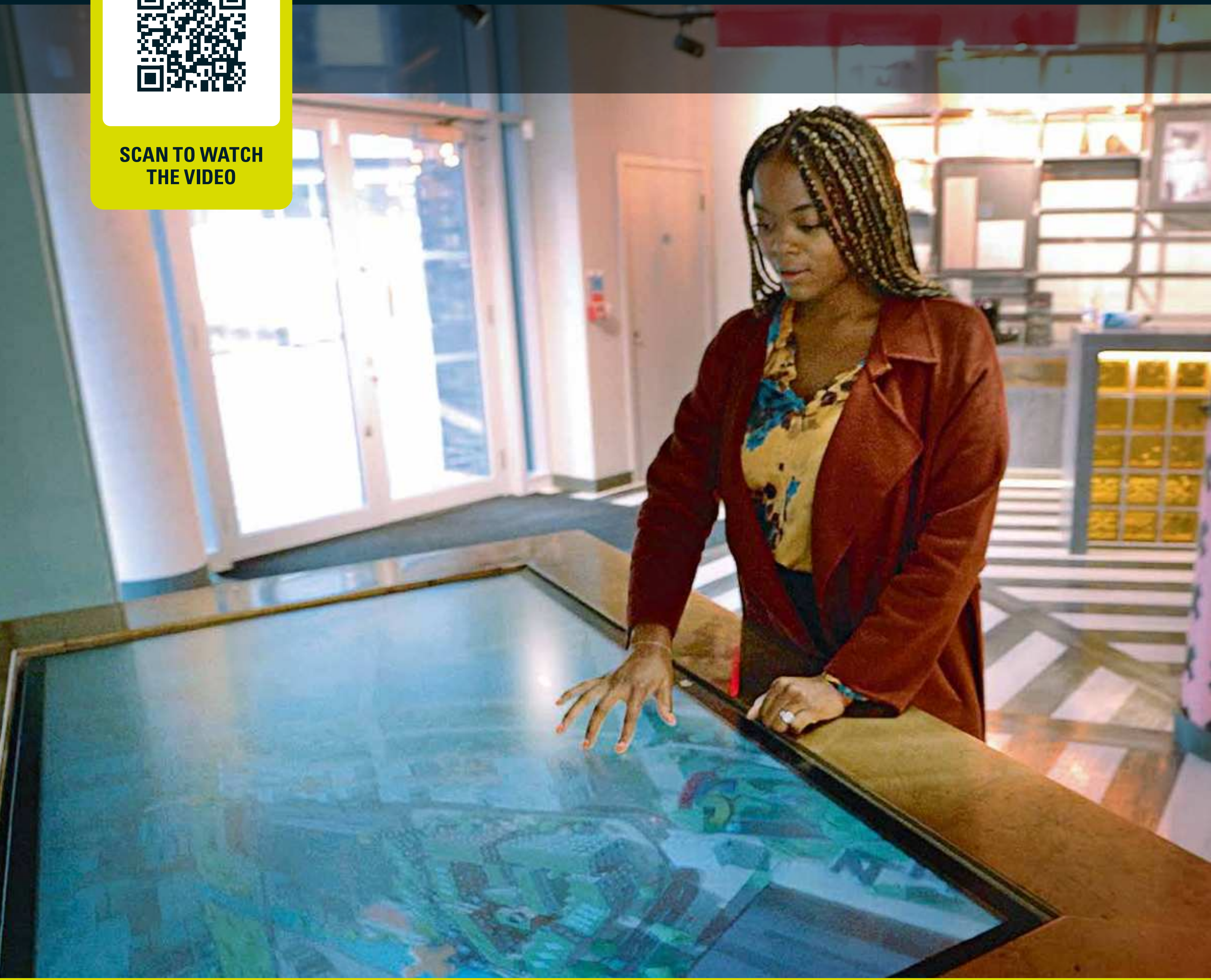
- Observations play an extremely important role in Balfour Beatty's drive to achieve Zero Harm and 'Report all unsafe events and conditions' is our third Golden Rule. In 2021, a new version of our HSES Observation App was launched across the UK and US businesses, responding to feedback raised via My Contribution, the company's employee-led change programme. The App makes raising an observation quick and easy, streamlining the process to ensure the right information gets to the right people quickly. It is designed to keep people on site doing their jobs rather than in offices filling in forms. The HSES Observation App – downloadable freely on app stores – enables reporting to 'celebrate the good', 'fix the bad' and learn lessons from both.

How do we... use digital tools to deliver better outcomes?

Our digital-first mindset is developing new ways of working, streamlining our processes and driving productivity all whilst improving safety through data and design.

SCAN TO WATCH THE VIDEO

Watch our video to learn more about our digital approach.



ABOVE
Our OpenSpace software enables our US team to capture, organise and store images to observe real-time site progress.

LEFT
Balfour Beatty VINCI pioneered the UK's first 'box-slide' bridge to carry HS2 trains over the M42 motorway in North Warwickshire.

Innovating to deliver Zero Harm
continued

- In May, Gammon formed a strategic partnership with 3D Repo, a multi-award winning cloud-based platform for Building Information Modelling (BIM) data. Gammon is the first organisation in Hong Kong to use the 3D Repo platform, which is equipped with SafetiBase, a 4D tool that helps improve health and safety through collaborative risk identification. Part of Gammon's ongoing work to leverage technology to help mitigate and manage risk, 3D Repo's health and safety issue tracking tools, allow project teams to view potential problems and collaboratively resolve them in 3D before physical construction starts. The partnership follows Gammon's recent roll-out of 3D Repo and SafetiBase on high-profile projects, such as the new Advanced Manufacturing Centre (AMC) project in Hong Kong. Following this success, there are plans roll it our to other Gammon projects and co-develop solutions for 4D modelling, IoT and immersive BIM CAVE environments.
- Digital tools have helped eliminate musculoskeletal risks on the Hinkley Point C project such as the HCA elbow collaboration solution. The early adoption of digital tools by the delivery team provided the key to driving effective collaboration and sharing of reliable information. The visual base was used for method reviews, worker briefings for the formwork erection, reinforcement installation, COVID-19 social distancing compliance and the technical detailed planning of the concrete pour, ultimately resulting in much more effective collaboration and control of significant health and safety risks. The whole operation was then repeated for the second unit demonstrating that, by using our in-house expertise, working collaboratively to safely plan and execute complex lifting and installation operations, the overall safety requirements of a Nuclear Class 1 structure could be met and musculoskeletal health hazards could be reduced significantly.
- The Balfour Beatty VINCI joint venture has pioneered the UK's first 'box-slide' bridge over the M42 motorway in North Warwickshire. Over Christmas, the team undertook preparatory works in advance of the 10,000 tonne bridge being slid into position using a hi-tech raft in 2022. The bridge was originally designed as a traditional structure, which would have meant significant traffic disruption for motorway users, with around two years of reduced lane widths, 50mph speed limits and weekend and night closures. A 100-strong team, drawing on expertise across a range of disciplines, developed this unique method of building the whole structure on land next to the motorway and then sliding it into place in one movement, meaning only two one-week closures of the motorway over a 12-month period. This method will also dramatically improve the health and safety of the workforce, who will not need to work in close proximity to a live carriageway.
- In the US, Balfour Beatty is using OpenSpace, cutting-edge, cloud-based software that has revolutionised how teams capture, organise and store images. Among its many operational benefits, OpenSpace has enabled remote team members to observe real-time job site progress. It also allows teams to conduct virtual safety walks and provides often needed historical side-by-sides, all stored in one organised cloud space location, preventing the once cumbersome process of searching through network folders and eliminating the possibility of lost documentation. OpenSpace utilises interactive and artificial intelligence (AI) tools that enable teams to perform documentation and critical communication tasks throughout the project. These tasks include comparing work put in place with a coordinated Building Information Modelling (BIM) model, checking the placement of sleeves and penetrations before concrete pours to coordinated locations, converting field notes into BIM 360 issues and assigning responsible parties to execute any relevant change orders. Before leveraging OpenSpace, Balfour Beatty's US Buildings teams used platforms that required a teammate to manually mount a 360° camera on a tripod, capture progress photos and pin those photos to the correct building location. Through the use of a 360° hard-hat mounted camera, OpenSpace enables a faster and safer hands-free job site walk and has increased capture rate by roughly 75 times from the previous platform. If an issue does arise, project teams can resolve the situation faster, potentially avoiding an expensive and time-consuming demolition to stay on track with the project schedule and budget.

ABOVE
A screenshot of the DESTINI Estimator software which helps our US teams deliver greater cost precision and predictability for customers.

RIGHT
Balfour Beatty's robotic payload documents construction progress for autonomous 3D data on site.

Innovating to deliver efficiently for our customers

- Estimators across the US Buildings business are leveraging leading-edge technologies to deliver greater cost precision and predictability to customers. Using DESTINI Estimator software, pre-construction teams are able to create parametric estimates and model-based estimates. Using high-level project data such as total building square footage or elevations from schematic plans, DESTINI Estimator can extrapolate an estimate based on Balfour Beatty's live database of current and historical costs, significantly reducing the time once required to manually create estimates from schematic drawings. While parametric estimates are a differentiator at the schematic phase, they can also be a powerful tool for public clients that rely on bond funding. DESTINI Estimator's ability to integrate 3D models into estimates creates significantly greater efficiency and accuracy throughout design development. As the model evolves, DESTINI Estimator seamlessly incorporates and updates new design details and quantities, eliminating the once time-consuming process of repeated take-offs.
- Plant and Fleet Services in the UK has been using a robotic payload platform, which was developed by Boston Dynamics to document the construction progress for autonomous 3D data capture on site. Software company Trimble has integrated its X7 3D laser scanner and FieldLink software with Boston Dynamics' robot for autonomous 3D data capture on site. The advantage of this combination is increased efficiency and real-time use of data analysis in the field and in the office. It uses 3D laser scanning technology to capture precision scans of the site, checking that the building work carried out matches architectural plans and that everything is going smoothly. The robot can navigate stairs and other obstacles using its four legs, and either work semi-autonomously or be controlled by a remote. Balfour Beatty is the first company in the UK to have the fully integrated Trimble workflow between the two platforms.
- The US civils business' Military Cutoff Road Extension project in Wilmington, US, recently pioneered an innovative continuous flight auger (CFA) post system method to prevent water and soil seepage. Becoming the first and only North Carolina Department of Transportation project to use the CFA post system, the team has achieved significant time and budget savings on this US$95m project. The CFA post system uses a hollow auger drill to drill the hole. Concrete is pumped through the auger and down to the bottom as the shaft is removed. As soon as the auger is removed from the hole, the pile is inserted. This method prevents water and soil seepage and is completed in one step, requiring less equipment and a smaller crew. The team can set up to 10 posts a day, whereas the previous standard averaged an installation of six posts a day. With less equipment, fewer materials and a smaller crew, the team estimates that it has saved up to 20% on cost and 20% on schedule compared to the casing installation method while providing a high-quality construction service. Self-performing the work has also increased site safety, further lowering risk on the project. The US civils business is currently the only contractor providing this service in North Carolina, and the Southeast team is working to apply this innovative solution on other projects.

Innovating in collaboration with our supply chain partners and customers

- The Balfour Beatty VINCI Systra joint venture has been working with subcontractor Clipfine to roll out automated data collection and aggregation platform, Qflow, across the HS2 project at Old Oak Common. Qflow's technology uses machine learning to scan waste transfer notes (WTN) and delivery tickets (GRNs), automatically digitising key data such as volume, carrier, permit/ facility numbers, and certification/ chain of custody. It is then able to notify the team if a WTN or GRN is missing a key piece of information, reducing the risk of the wrong material being installed or waste going to an unlicensed facility. By capturing delivery tickets, key materials such as concrete, steel and timber can be tracked and quantified in line with targets to reduce carbon. Qflow has been integrated with interactive data visualisation software, Power BI, allowing the sustainability team to easily identify which subcontractors are performing best and which need more help than others, ensuring they can support their supply chain partners to deliver on the stringent commitments set by HS2. The commercial team is also using the data to access payment requests and ensure supply chain are paid correctly and on time.

- Balfour Beatty Flannery, a partnership between Balfour Beatty and Flannery Plant Hire, launched its Operator Skills Hub – a purpose-built facility in Birmingham offering innovative training programmes to inspire young people and upskill plant operators in the UK. With the construction and infrastructure industry rapidly scaling up to deliver major infrastructure projects, the Operator Skills Hub's Trailblazer Plant Operative Apprentices scheme, aims to support 30 young people in the first year. The facility will also increase the retention of skilled operators, providing 200 supplementary courses to enhance existing knowledge and training over 500 operators in readiness for HS2. Key to addressing the construction and infrastructure sectors significant skills shortage, the facility will utilise state-of-the-art training simulators as well as the latest semi-autonomous vehicles to prepare plant operators and apprentices for the modern-day, digitally-enabled construction site.
- To meet the demands of the significant pipeline of infrastructure and railway developments in Hong Kong, Gammon identified the need for a capable future-proofed digital platform to store, manage and analyse project data in order to facilitate efficient project management and delivery. This has seen Gammon begin a strategic partnership with Sensat, a leading UK digital twin technology company, to integrate all drone-captured topographical, asset and real-time operation data into one of the world's most advanced digital platforms, to help the industry deliver infrastructure projects more efficiently through visualisation of project data anywhere, anytime. Sensat's platform is a cloud-based Common Visualisation Environment® that allows project managers to layer, locate and compare site data over time across teams, and visualise dynamic project performance, accessing site data remotely. Sensat turns complex visual and spatial data into what is described as "contextual simulated reality" designed to enable computers to solve real world problems.

> The Operator Skills Hub provides innovative training programmes to inspire young people and upskill plant operators in the UK."

RIGHT
The Operator Skills Hub, a purpose-built facility in Birmingham offering innovative training programmes.

Strategic report

My Contribution (MyC)

Critical to the success of our Build to Last strategy is ensuring that every member of our workforce is engaged and has a personal stake in making the business stronger and helping us to deliver continuous improvement for all our stakeholders.

My Contribution (MyC) is the tool we use to crowd source good ideas, harness collective expertise and directly engage every staff member at every level of the business by enabling them to suggest and drive positive changes. It was relaunched in 2019 across the UK using a new Yammer-based platform, to make it easier for our thousands of employees to share their ideas and develop them through conversation with their colleagues. It provides an open channel for real-time collaboration, which crosses over functions, business units and geographic locations, bringing together experts from across our business to crowd-source ideas, innovate and problem solve.

MyC encourages and empowers everyone to be an innovator and for innovation to take place across every part of our business. It has played a key role in helping Balfour Beatty go from strength to strength over the past seven years, and supports our macro agenda through focused campaigns on strategic areas of importance – most recently in support of the Group's new sustainability strategy, Building New futures, which we relaunched in December 2020.

Since the relaunch three years ago, we've seen more than 9,000 ideas shared, celebrated nine 1,000th idea milestones and delivered more than 1,700 ideas – every single one of them having a positive impact for our business. MyC demonstrates the true collaborative nature of Balfour Beatty, and it has been wonderful to see so many of our people getting involved with over 120,000 likes, comments and shares on Yammer. That's 120,000 times colleagues got involved to improve our business.

9,000th idea – solar-powered CCTV

The 9,000th idea, which was submitted by Gavin Jagger, Balfour Beatty's Technology Lead in the Highways business, was to replace the current roadworks temporary CCTV methodology that uses fibre and power cables connected to a staffed monitoring station, with a solar-powered multi SIM card CCTV tower where all images and alerts are monitored at a central location 24/7. Analytics can be set up to activate an alarm to detect missing PPE, Automatic Number Plate Recognition (ANPR) or if vehicles are within the road works.

Working in partnership with Clearway Technology, Balfour Beatty trialled two CCTV towers on the M3 Smart Motorway project with both units installed and fully operational within an hour. This contract required 125 temporary CCTV cameras, which to install traditional cameras the programme required both daytime and night-time traffic management closures, five days a week for 12 weeks. The new solar-powered towers could reduce the installation programme by ten weeks by eliminating the need for vegetation clearance for cable routes and installation of power and fibre cables.

Gavin's idea has been submitted as an entry to our second MyC Kudos Awards which are taking place in the first quarter of 2022. MyC Kudos Awards provide an opportunity to showcase and recognise the outstanding improvements and contributions across the UK business, and the people who have made them happen.

LEFT
The 9,000th idea, solar-powered CCTV towers.

- Balfour Beatty Living Places has been using the JCB Pothole Pro on their Lincolnshire highway maintenance contract. The JCB Pothole Pro is a unique 3-in-1 solution specifically designed to sort out any pothole repair or large reinstatement operations, efficiently, economically and permanently. It provides a right first time fix for sections of carriageway that are in poor condition and is suitable for small potholes and large patches. Because it comes with three dedicated attachments to cut, crop and clean, there is no need for additional specialist equipment or extra manpower, saving both time and money: a typical pothole is repaired in eight minutes. The JCB Pothole Pro also eliminates the need for labour intensive preparation and for additional, costly, specialist equipment.
- Balfour Beatty have been working on the central aggregation of our operated and non-operated plant telematics data. Working with one of the leading worldwide original equipment manufacturers, Balfour Beatty has developed JCB LiveLink and deployed it across the UK business. This solution allows single screen access to operational performance data and statistics for plant and machinery whether Balfour Beatty owned, hired in from Tier 1 supply chain partners or owned by our joint venture partners and subcontract delivery teams. Working towards the ISO 15143 standard, individual and Group-wide benefits have been demonstrated which are directly attributed to the use of JCB LiveLink. For example, in the last 12 months there has been a 35% increase in plant equipment, operating for over 500,000 hours, while at the same time reducing machine idling has reduced by 12% meaning increased productivity and performance.
- The Integrated Project Team Area North, which includes Balfour Beatty VINCI as a key player, the leading innovator across HS2 Phase 1 with an exciting innovation programme targeting tangible outcomes that will improve how HS2 is delivered and how the construction industry operates. £1.3m of innovation funding has been secured demonstrating both HS2's and Balfour Beatty VINCI's commitment to transforming the industry through deploying Innovation.
- Balfour Beatty has been working with Sentry, a local start-up company to trial and adopt a digital time and motion study tool. Sentry produces accurate and robust data to support and enable informed decisions on site-based process improvements. Turning data into knowledge into action will help us realise productivity and safety benefits.

ABOVE
Gammon utilises Guildhawk's AI technology to digitise manuals or PDF drawings to efficiently share data.

- CRISP (Community Resource Information Support Platform) matching app facilitates the sharing of resources across HS2 Area North, reducing cost and waste. CRISP also includes the functionality to support donations of surplus resources to local charity projects. Through CRISP, teams across the 90km route can efficiently work together to ensure assets remain utilised, keeping them out of storage and out of the waste skip.
- Aegis is specialist platform that utilises artificial intelligence to support more proactive management of schedule risk. Working with start-up company Nodes and Links, this AI enabled tool supports the analysis and risk management associated with our the works programme.
- Effective stabilisation of sulphate rich soils – testing of innovative techniques for soil stabilisation that has enabled a significant time saving. This in turn has reduced the project's carbon footprint, by both reducing material use and the associated transportation and installation works associated with more traditional use cases.
- Gammon is partnering with Guildhawk, a tech-led language consultancy, to accelerate the creation of tomorrow's Smart Cities. Using Guildhawk's AI technology, Gammon is using multilingual information to link data from built assets to digital twins – digitised versions of manuals or PDF drawings. This enables optimisation of all interactions with these buildings, whether in terms of access to and sharing of data, avoidance of costly and potentially dangerous errors, or insights into more efficient maintenance. It allows people to be trained using systems developed using Guildhawk's ultra-pure data lake, avatars and AI, bringing essential training to life.
- In June, Balfour Beatty took the next step in digitalising its supply chain tendering process as the Construction Design Management (CDM) Supplier review and approval process was streamlined by digitalising the Demonstration of Competence forms (DoC) and the Designer Assessment Questionnaire. This will now be carried out through the Jaggaer, e-Procurement portal. This change will significantly improve the approval process and will present a more efficient document management system, ensuring information is more accurately shared between users and reducing the amount of processing time, while safeguarding data. All communication can now be managed and stored via the Jaggaer e-Procurement portal, with automated notifications and responses available as and when required.

Conclusion

Technology and innovation is reshaping our customers' expectations of collaboration, efficiency and access to information – and how we help them meet their decarbonisation and sustainability goals. To meet these changes head-on, Balfour Beatty continues to innovate to stay ahead of the curve, constantly adapting and propelling itself forward, using technology and digital and collaborating with a range of exciting partners to exceed expectations.

How do we...

build the ultimate place to live, work and play in the heart of a city?

You bring together a team of infrastructure experts to create a dynamic, multifamily community in the heart of Midtown Atlanta.

Collaborating with two customers with one shared goal, our 500-strong team used lean construction methods and the latest technologies to deliver three projects in one.

Starting in the basement, we dug out 150,000 cubic yards of materials and created a 832 space underground car park. As the car park neared completion, we began works on the new 12-storey 'A+' 14th+Spring Office Tower and a 14 floor, 340-unit multifamily apartment tower. The multifamily tower was constructed using the latest technologies and off-site construction methods to accelerate schedules and increase the speed of construction.

Making sure the buildings are efficient and easy to maintain, all architecture, engineering, and building systems in the Novel Midtown Residential Tower have been designed to National Green Building Standard® and the 14th+Spring Office Tower is tracking to become LEED Certified® – a mark of quality and achievement in green building.

Situated across from the flagship Whole Foods store, which was delivered by our experts in 2018, residents of the new towers will enjoy unparalleled views of Midtown Atlanta and easy access to the I-75/I-85 Downtown Connector, adding to the attractiveness of this live, work and play destination that attracts more than six million visitors each year.

2019

We dug out 150,000 cubic yards to bottom out the 378,000-square foot, 832-space underground parking deck

2020

We set a total of 132 caissons on all three jobs combined

2021

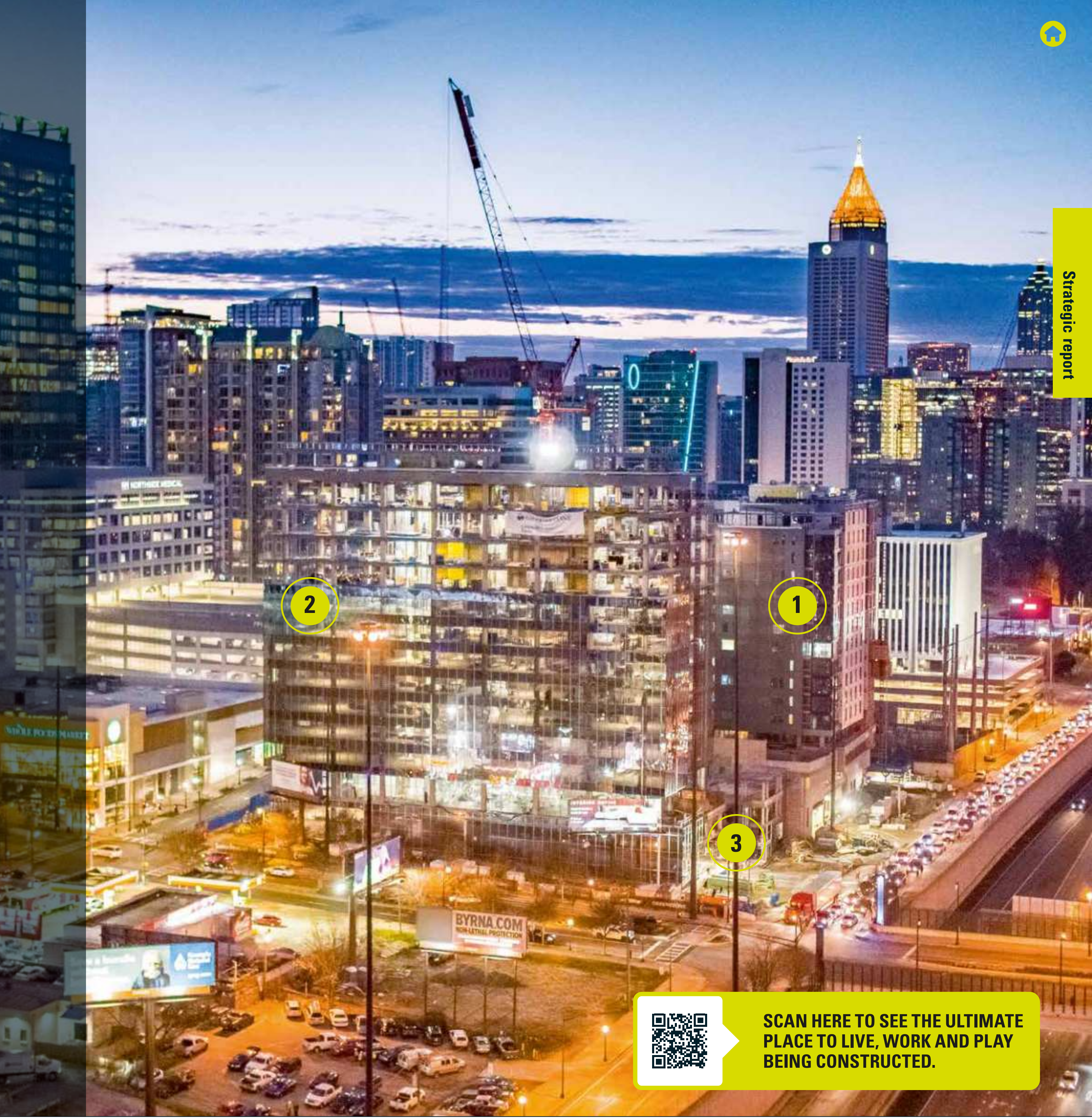
We topped-out both the residential tower and the office tower

2022

Will mark the completion of all three projects culminating in 38,163 cubic yards of concrete poured, 3,800 tonnes of vertical rebar placed, 483,000 pounds of post-tension cable placed, and 150,000 cubic yards of dirt and rock removed from the site

During 2022 the Novel Midtown Residential Tower is on track to receive a National Green Building Standard® certification and the 14th+Spring Office Tower is tracking to become LEED Certified®

FIND OUT MORE
Read about US Construction in our Operational review
p47



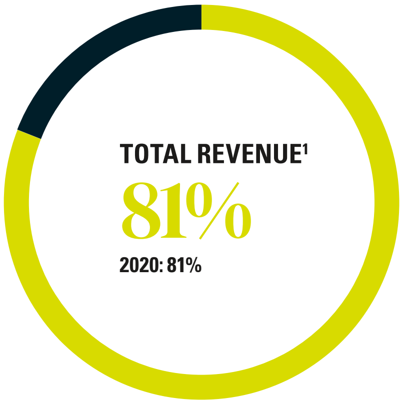
SCAN HERE TO SEE THE ULTIMATE PLACE TO LIVE, WORK AND PLAY BEING CONSTRUCTED.

KEY FACTS

Project name	1 Novel Midtown Residential Tower	2 14th+Spring Office Tower	3 14th+Spring Garage
Location	Atlanta, Georgia, US	Atlanta, Georgia, US	Atlanta, Georgia, US
Customers	Crescent Communities	Greenstone Properties	Greenstone Properties
Contract award date	2019	2019	2019
Contract value	US$73m	US$45m	US$41m
Status	Ongoing	Ongoing	Complete

Construction Services

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



UNDERLYING REVENUE[1]
£6,746m
2020: £6,964m

STATUTORY REVENUE
£5,920m
2020: £5,968m

UNDERLYING PROFIT FROM OPERATIONS
£79m
2020: £29m

STATUTORY PROFIT FROM OPERATIONS
£30m
2020: £41m

ORDER BOOK[1]
£13.6bn
2020: £13.7bn

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

Financial review

Whilst underlying revenue at £6,746 million was down 3% (2020: £6,964 million), with higher volumes in UK Construction being offset by lower volumes at US Construction and Gammon, this represents a 1% increase at CER as operations continued to normalise post-pandemic. Underlying profit from operations increased to £79 million (2020: £29 million) as both US Construction and Gammon recorded PFO in line with pre-pandemic levels (2019). Statutory profit for the year was £30 million (2020: £41 million) after a net charge of £49 million for non-underlying items (2020: £12 million credit) which included a provision for rectification works to be carried out on a development in London. The order book was down 1% at £13.6 billion (2020: £13.7 billion), a 1% decrease at CER.

Across the Group's construction markets, there has been continued disruption to project schedules caused by longer lead times for product deliveries and price inflation where materials and skills are in scarce supply. Whilst not immune to this, Balfour Beatty looks to mitigate these risks through contractual protection and early buyout using the Group's scale and supply chain management.

UK Construction: Underlying revenue in the UK increased by 18% to £2,593 million (2020: £2,190 million) as a result of the growth in the order book in 2020 with higher volumes at HS2 and Hinkley Point C. In 2021, 90% of UK Construction revenue was from public sector and regulated industry clients (2020: 82%).

UK Construction reported a £2 million underlying loss from operations in the year (2020: £26 million loss), as the result was negatively impacted by performance issues at three private sector property projects in central London. One of these projects was completed in November 2021, with the remaining two projects expected to complete in the middle and at the end of 2022 respectively. As announced in August 2021, Balfour Beatty will no longer bid for fixed price residential property projects in central London. In the second half of the year, UK Construction recorded an underlying profit of £21 million at a 1.6% PFO margin.

The UK Construction order book, having more than doubled in 2020 following Notice to Proceed on HS2, decreased 12% to £5.6 billion (2020: £6.4 billion) as the Group continued to selectively bid for new projects, particularly when entering into contracts with private clients. At the year end, 91% of the UK Construction order book was from public sector and regulated industry clients (2020: 88%).

US Construction: Although revenue in the US decreased by 12% to £3,344 million (2020: £3,789 million), the reduction was only 6% at CER. US Construction recorded a £51 million underlying profit from operations in the year (2020: £26 million), broadly double the prior year and in line with the pre-pandemic level (2019: £52 million).

The US Construction order book increased 4% (2% at CER) to £5.4 billion (2020: £5.2 billion) as tendering activity returned to pre-pandemic levels. Although nationwide forecasts continue to show a relatively flat overall construction market, Balfour Beatty is positioned in regions that are expected to outperform the national forecast as demographic trends continue to favour the Group's chosen states in the medium term.

CONSTRUCTION SERVICES

	2021 Revenue[1] £m	2021 PFO £m	2021 Order book[1] £bn	2020 Revenue[1] £m	2020 PFO £m	2020 Order book[1] £bn
UK	**2,593**	**(2)**	**5.6**	2,190	(26)	6.4
US	**3,344**	**51**	**5.4**	3,789	26	5.2
Gammon	**809**	**30**	**2.6**	985	29	2.1
Underlying[2]	**6,746**	**79**	**13.6**	6,964	29	13.7
Non-underlying	**–**	**(49)**	**–**	6	12	–
Total	**6,746**	**30**	**13.6**	6,970	41	13.7

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

In addition, the bipartisan Infrastructure Investment and Jobs Act is positive for the industry given that the legislation includes additional funding for infrastructure.

Gammon: The Group's share of revenue decreased by 18% (12% at CER) to £809 million (2020: £985 million). At Gammon, the timing of projects is more variable around a small number of large contracts. Underlying profit remained strong at £30 million (2020: £29 million).

The Gammon order book increased by 24% (24% at CER) to £2.6 billion (2020: £2.1 billion) following the award of four significant construction contracts in the year: Ang Mo Kio Station and Tunnels in Singapore; an office tower on Hong Kong Island; four new residential towers in Kowloon; and three further residential towers in Tseung Kwan O New Town.

Operational review

UK Construction

In November 2020, the UK Government released details of its five-year plan, the National Infrastructure Strategy (NIS), which sets out its plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050. The £650 billion of funding for developments in roads, railways, power networks, schools, hospitals and telecommunications represents an increase of around £110 billion compared to the status quo. Included within the NIS are budgets for some of the Group's key customers such as National Highways and Network Rail. At National Highways the second Road Investment Strategy (RIS2) budget of £24 billion over the 2020-2025 period is a significant increase over the £15 billion spent during RIS1 (2015-2020), even after the postponement of future all lane running Smart Motorway projects.

> "Balfour Beatty will continue to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and improved contract governance."

RIGHT
An intake tunnel for the cooling-water system at Hinkley Point C – the first new nuclear power station built in the UK in a generation.
EDF Energy, UK.

RIGHT
The completed Woolwich Station, a 276-metre-long underground station. Crossrail, UK (artist's impression).

> The Group has been increasingly focused on utilising its unmatched scale and capability to deliver major projects for the UK Government."

Operational review continued

UK Construction continued

In December 2020, the UK Government launched the Construction Playbook, which sets out a shared ambition between government and industry for the sector to deliver public sector works in a more modern and efficient way. The 14 key policies in the Playbook set out how the Government will assess, procure and deliver construction and outlines the role the construction sector will play in both the UK's recovery from COVID-19 and work to bring greenhouse gas emissions down to net zero by 2050. The Playbook builds on the great strides made by industry and the Government in recent years, notably during COVID-19, and is instrumental in ensuring the sector moves forward together with its key customer.

Following the Grenfell Tower tragedy in 2017, the Group mobilised a dedicated team to review its approach to building fire safety. This included expert advice, enhancing its training and development approach and establishing a Fire and Building Safety resource. The current landscape around building fire safety in the UK is complex and involves multiple stakeholders. Balfour Beatty is not a significant residential property developer with only a small portfolio of residential projects. The Group has received a small number of enquiries in the UK regarding completed building projects with cladding and is working with the relevant parties to resolve any issues.

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

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

Balfour Beatty has a market leading position in the UK infrastructure market. Under Build to Last, the Group has been increasingly focused on utilising its unmatched scale and capability to deliver major projects for the UK Government. In 2021, 90% of UK Construction revenue was from public sector and regulated industry clients (2020: 82%). Whilst the infrastructure market is positive, with the highest level of investment in decades, the buildings market is more challenging. Balfour Beatty will continue to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and improved contract governance.

At Major Projects, Woolwich Station and Whitechapel Station were successfully handed over to Crossrail in June and August respectively, marking the substantive completion of Balfour Beatty's involvement in the programme. Woolwich involved the delivery of a 276-metre long underground station, with Balfour Beatty Ground Engineering providing the associated diaphragm walls and bearing piles. In addition, Balfour Beatty was responsible for installing Mechanical and Electrical plant at two portals as well as station operations rooms where the Elizabeth line trains will leave the Thames Tunnel at North Woolwich and Plumstead. Whitechapel is acknowledged as one of the most complex and challenging stations on the Crossrail project. The new station concourse was constructed on a bridge consisting of 2,800 tonnes of structural steelwork, above the existing station and two operational railway lines – the London Overground and London Underground.

In December, Balfour Beatty completed the A19 major upgrade project for National Highways, four months ahead of schedule. Originally expected to complete in Spring 2022, the new dual carriageway (increasing capacity from two to three lanes) opened in December 2021. As part of Balfour Beatty's commitment to leaving a lasting, positive legacy in the communities in which it operates, over 60% of the project's overall workforce was local to the scheme. In addition, Balfour Beatty hosted an event at Holme House prison to provide a group of select learners with construction career training and interview guidance, further building on the numerous community initiatives held in Teesside since the start of the project.

At HS2, good progress continues to be made on the Area North civils package east of Birmingham and at Old Oak Common station in London. In 2021, both projects successfully met their performance targets. In December, Area North launched its first tunnel boring machine (TBM) at Long Itchington Wood. Around 170 engineers worked on the 2,000 tonne, 125-metre long TBM during its construction and assembly. A tunnelling team will now work around the clock in shifts to operate the machine for around five months as it excavates the first bore of the one-mile tunnel. The machine will remove a total of 250,000 cubic metres of mudstone and soil which will be transported to the on-site slurry treatment plant where the material is separated out before being reused on embankments and landscaping along the route.

At Old Oak Common permanent works commenced in June as construction started on a 1.8-kilometre long underground diaphragm wall around what will become the station's 'underground box', where six HS2 platforms will accommodate trains serving the Midlands and the North. Pilling rigs are in the process of installing 160 reinforced concrete columns inside the wall to help form the box and support the structure.

At Hinkley Point C, following the completion of the first intake tunnel in 2020, Balfour Beatty completed the outfall tunnel in 2021 and carried out extensive preparatory dredging work in the Bristol Channel. For the outfall tunnel, 24 metres below the Bristol Channel, a TBM excavated 100,000 tonnes of material and a trial lift for the tunnel intake and outfall heads has also been undertaken.

Procurement processes continue across multiple HS2 workstreams. A Balfour Beatty/VINCI/TSO joint venture is shortlisted for four lots of track systems contracts and a Balfour Beatty / NG Bailey joint venture is shortlisted for a tunnel and M&E systems contract. The Group will also tender for contracts on Phase 2a, for the extension north of Birmingham to Crewe, which was approved by the UK Parliament in February 2021.

In December, the Technip Energies and General Electric Gas Power consortium for which Balfour Beatty is the construction partner, was selected (as one of two) to participate in a Front-End Engineering Design (FEED) competition for the Net Zero Teesside Power, Capture and Compression project. The proposed development of the UK's first full-scale integrated power and carbon capture scheme, the FEED competition will see Balfour Beatty assist in the design and development of optimal technical solutions for Net Zero Teesside Power's planned 860MW power station and carbon capture plant as well as the Northern Endurance Partnership's high-pressure CO_2 compression and export facilities.

The Regional business comprises:

- Regional Construction: public and private projects, providing customers with locally delivered civil and construction services;
- Balfour Beatty Ground Engineering: specialist geotechnical contractor providing innovative piling and ground improvement solutions; and
- Balfour Beatty Kilpatrick: heavy mechanical and electrical (M&E) installations and building services.

RIGHT
HS2 Old Oak Common Station, a new super-hub set to be the best connected station in the UK, (artist's impression image).

Operational review continued

UK Construction continued

Construction procurement in the UK continues to evolve, presenting opportunities for progressive and collaborative contractors. Leading the way are innovative frameworks such as SCAPE, Crown Commercial Services (CCS) and NHS Shared Business Services (SBS) which are redefining how construction is procured nationwide, and Balfour Beatty is participating as a major contractor on all. The frameworks allow local authorities, local enterprise partnerships and other public sector bodies to commission works through a procurement process that provides the fastest route to market. In October 2018, it was announced that Balfour Beatty had been appointed as the sole contractor to SCAPE's second-generation civil engineering frameworks, valued at a combined total of up to £2.1 billion over four years (2019-2022).

In January 2022, Balfour Beatty completed its 100th project procured through the SCAPE civil engineering frameworks; the A51 Tarvin Junction on behalf of Cheshire West and Chester Council. The £7 million project saw Balfour Beatty deliver a series of major junction, carriageway and roundabout improvement works to reduce traffic congestion and increase capacity along the A51 corridor between Tarvin and Chester. Under the frameworks, Balfour Beatty has worked with over 40 public sector customers to complete those projects, on time and to budget. The Group is currently working on its bids for the third-generation SCAPE frameworks.

BELOW
Manchester Engineering Campus Development, the UK's largest engineering campus for The University of Manchester.

In May, the Regional business successfully handed over the Manchester Engineering Campus Development (MECD) to the University of Manchester. MECD represents one of the largest construction projects completed by a higher education institution in the UK and provides world-class research facilities. The development includes a number of existing and new buildings: the eight-storey Engineering Building A; Engineering Building B; the James Chadwick Building; refurbished Grade II listed Oddfellows Hall; and the York Street Building. In addition, during the year, the business completed a teaching and learning hub for the University of Strathclyde and an upgrade of Queen Street station in Glasgow for Network Rail.

The Regional business continues to make good progress on its contracts. During the year, Balfour Beatty won and then delivered a new COVID-19 testing laboratory in Royal Leamington Spa, Warwickshire, on behalf of NHS Test and Trace. Awarded through the Crown Commercial Services framework, the Group constructed a new 225,000 square foot laboratory which enabled the adding of hundreds of thousands of tests to the UK's daily COVID-19 testing capacity. Works included the construction of a series of laboratory lines within the facility as well as the associated welfare and waste management facilities to support these essential operations, with Balfour Beatty Kilpatrick providing the associated mechanical and electrical works. In addition, significant progress has been made at the Lewisham Gateway project where Balfour Beatty is constructing four mixed-use buildings, at the Edinburgh Future Institute project for Edinburgh University, and at the North Bridge refurbishment for the City of Edinburgh Council.

During the year, Balfour Beatty was awarded a £68 million contract by Audley Group to complete the new Mayfield retirement village in Watford which will include 255 one and two bed apartments, alongside communal facilities. To support the delivery of its sustainability strategy, Balfour Beatty will deploy safe and sustainable working practices throughout the project lifecycle including the offsite manufacture of 180 apartment balconies, reducing the working at height risk as well as improving overall project efficiency. The award follows on from previous developments for Audley with Balfour Beatty having delivered the first and second phase of the Cooper's Hill development in Surrey. In addition, Balfour Beatty secured awards from NHS Highland for a National Treatment Centre, and on the A630 which links

Rotherham and Sheffield. Included in awarded but not contracted (ABNC) at 31 December 2021, the Group has been selected as preferred bidder to deliver a significant project for the Atomic Weapons Establishment.

US Construction

In the US, the US$1.2 trillion bipartisan Infrastructure Investment and Jobs Act includes around US$550 billion of new funding to upgrade roads, bridges, public transport and energy projects over the next five years. As part of this significant infrastructure investment, the US$634 billion of funds allocated to the FAST Act (2021 – 2026) is more than double the previous five-year period. Not only is this investment positive for the infrastructure sector, but it also provides funding for local governments to evaluate P3 opportunities (38 states having now passed P3 legislation) in which Balfour Beatty combines the expertise of its Construction Services and Infrastructure Investments businesses.

In the US approximately 80% of revenues are generated from the general building market (Buildings), with the civil infrastructure market (Civils) accounting for the remaining 20%. Balfour Beatty's US Buildings business operates in specifically chosen growth regions. As the population further migrates south and west, it continues to drive urbanisation and demand for buildings and social infrastructure.

US Buildings is focused on specific states, known internally as 'The Southern Smile'. This starts in the Pacific Northwest, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington D.C. The core markets remain as commercial, education, hospitality, residential and healthcare. Balfour Beatty was recently named the Southeast's No.1 contractor in the education sector for 2020 (Florida, North Carolina, South Carolina, Georgia, Alabama and Tennessee) and has long been one of the largest education contractors in California (ENR rank No.2). The US Buildings business model is considered lower risk as the supply chain is largely bought out on back-to-back terms when the main contract is signed.

This diversified geographical and operational capability provides resilience. Following a slow-down in the Buildings market during COVID-19, tendering levels are now back to pre-pandemic levels. With blue-chip repeat customers and significant state-backed education bonds, including another US$13 billion approved in California at the same time as the Presidential election in 2020, the Group's opportunities remain robust in the medium term.

LEFT
The Jasper, a new 12-storey mixed-use building for The Beach Company in South Carolina, US.

In the year, Buildings completed several notable projects including:

- The Jasper: In September, Balfour Beatty successfully completed the construction of a new 12-storey mixed-use building located in Charleston, South Carolina. The property features retail space, office space and luxury rental homes;
- UNCW Student Village: In October, Balfour Beatty delivered phase two of the student village at the University of North Carolina Wilmington (UNCW). The project included the construction of 776 additional student beds and a student success centre;
- Penn Medicine: In December, a joint venture team including Balfour Beatty completed the US$1 billion Pavilion at the University of Pennsylvania. The project team provided general contracting services to deliver the new medical centre that will provide world class care for the community; and
- 1001 Office Towers: in December, Balfour Beatty achieved substantial completion on this contract located in Bellevue, Washington. The project included construction of two 15-storey office towers, on top of an 8-level below-grade parking garage.

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

- Broward County Convention Center: In October, Balfour Beatty substantially completed the West Expansion on this project in Florida. To successfully reach this milestone, the Group delivered major site work and utility relocations, completed demolition activities and built a new Central Energy Plant to service the County's Convention Center. Balfour Beatty will continue to work on this multi-phase project over the coming years;
- Midtown Atlanta: Balfour Beatty is progressing three construction projects in the same city block in Atlanta, Georgia – the Novel Midtown Residential Tower, the 14th+Spring Office Tower and an associated garage for both towers. The residential tower and the office tower both topped out in 2021, whilst the garage was bottomed out during the year. In 2022, the Novel Midtown Residential Tower is on track to receive a National Green Building Standard certification and the 14th+Spring Office Tower is tracking to become LEED Certified;
- Jane & John Justin Patient Surgical Tower: In March 2021, Balfour Beatty topped out on this nine-storey patient tower which will add 144 patient beds, 15 surgical suites and a new pre-operative and post-operative services area to the Texas Health Fort Worth hospital; and
- Block 216; During the year Balfour Beatty topped out the hotel portion at level twenty on this 35-storey, high-rise tower project. Work continues on the curtain wall and completed precast at the project in Portland, Oregon.

Operational review continued

US Construction continued
In the year, the Buildings business booked material new phases of existing contracts and standalone new contract awards as follows:

- Broward County Convention Center: in 2019, Balfour Beatty signed a construction agreement for the expansion of the Broward County Convention Center. In December 2021, phase four (out of five) of the US$780 million project in Fort Lauderdale, Florida, was signed;
- 2000 & 2001 South Bell Street: Balfour Beatty was selected by repeat client JBG Smith to construct a two-tower residential complex with 775 units in Arlington, Virginia. Balfour Beatty provided two years of dedicated preconstruction work before the project award;
- Del Sol High School: Balfour Beatty has been selected to construct the new Del Sol High School in Oxnard, California, which features classroom buildings and a library, gymnasium and multi-purpose building. The project also includes an athletics stadium, baseball and softball fields, and pool building;
- Hazel and Azure National Landing: Located in Arlington, Virginia, this new multifamily residential development will comprise two 14-storey mixed-use buildings with 492 apartment units, ground-floor retail space, a two-level parking garage, and an open-air plaza. ZOM Living and Balfour Beatty are long-standing partners, successfully constructing several multifamily units across the US including the Solitair Brickell, a luxury residential tower in Miami which was awarded the Eagle Award and Project of the Year Award by Associated Builders and Contractors' Florida chapter; and
- Sage at National Landing: In November, Balfour Beatty was contracted to construct another residential and multifamily building in Arlington, Virginia. The tower will feature 306 new apartments over 19 floors including retail and entertainment space.

Included in ABNC at year end, US Buildings has been made preferred bidder for a number of material projects including: phase five of the Broward County Convention Center to deliver a 800-room hotel; a 40-storey multi-use development in Washington; a 13-storey residential project in the District of Columbia; a 47-storey residential building in Texas; and 84,000 square feet of ancillary buildings for a college in California.

In Civils, the Group is focused on highway projects in Texas and the South East and mass transit rail projects in major cities across the US, including the electrification of existing lines. These large and growing markets are supported by the c. US$77 billion 2020 Unified Transportation Program (UTP) of the Texas Department of Transportation (TxDOT) and a number of state-backed infrastructure bonds (over US$200 billion of multi-state transportation bonds).

LEFT
I-635 East 11-mile road widening project. Texas Department of Transportation, US.

During the year the Civils business completed the Elysian Street project in Houston, Texas. The scope of the project, which was adjacent to IH-10 in downtown Houston, included bridgework and the building of several direct connectors. In 2020, when there were fewer cars on the road, Balfour Beatty and TxDOT maximised opportunities to fast-track the project, enabling an expedited completion in 2021.

Progress has also been made on Civils projects notably at Caltrain where, in December, the Group reached a US$347 million contractual agreement to revise and modify the scope of work and project schedule from the original contract valued at US$697 million in 2016. The agreement, which is exclusive to the construction scope of work, is the result of Balfour Beatty and project stakeholders partnering to find the most efficient and cost-effective solutions to deliver the rail service's 25kv AC Overhead Catenary System (OCS). The Caltrain Electrification project will electrify the commuter rail corridor from San Francisco's 4th and King Caltrain station to the Tamien Caltrain station in San Jose.

During the year, Civils won two highways projects in the South East - Effingham Parkway in Georgia and Harkers Island in North Carolina - both of which are for long term customers where the scope of work fits within the expertise and capabilities of the business.

Gammon
Gammon has a material share of the Hong Kong market and is well positioned to benefit from the social and economic infrastructure outlook in the region following the Government's announced ambition in its February 2021 budget to increase spend materially to around HK$1 trillion over the next decade. Major expansions of Hong Kong Airport and the MTR subway system have commenced, whilst social infrastructure programmes to develop hospitals and housing are also well underway.

In Buildings, the focus is on the use of Design for Manufacture and Assembly (DfMA) and modular construction to improve productivity and efficiency and expanding the customer base on a selective basis. In Civils, the strategy is to lever engineering excellence, with a key area of future work likely to be from significant infrastructure programmes in Hong Kong and in Singapore.

During the year Gammon completed the M+ museum in West Kowloon. The museum features 33 galleries, three cinemas, a Mediatheque, a Learning Hub, a Research

Centre and other facilities. Given the complexity of the project, Gammon made extensive use of advanced construction technology during the planning and implementation of the works. Among the technologies deployed were Building Information Modelling (BIM), 3D scanning, lasers, drones, IoT sensors and Augmented Reality (AR), all integrated under Gammon's Integrated Digital Project Delivery (IDPD) approach for better planning, progress tracking and decision-making. Other notable projects completed in 2021 included the Water World Ocean Park, The Fullerton Ocean Park Hotel, the University of Hong Kong Medical Complex extension, the Lohas Park Package 9 residential development and the fit out of the St. Regis serviced apartments at the Londoner, Macau.

Gammon also continues to make good progress at Hong Kong Airport where it is delivering the structures for the Automatic People Mover and Baggage Handling System in addition to working on the Terminal 2 (T2) expansion. The T2 project, Gammon's largest ever award, is to expand the main Terminal 2 building, construct interconnecting bridges and associated viaducts and roads and carry out mechanical and electrical works. The T2 expansion forms part of the three-runway system project, which on completion will allow for both arrivals and departures from one terminal and increase overall passenger capacity. During the year, the terminal concrete frame works continued, with the first of the 21 steel roof modules completed.

On major highways projects, Gammon is also progressing well, including at the Central Kowloon Route (CKR) project where it is constructing buildings and carrying out mechanical and electrical works. Gammon is also building the Kai Tak West section of the CKR which includes underwater and cut-and-cover tunnels, as well as roads.

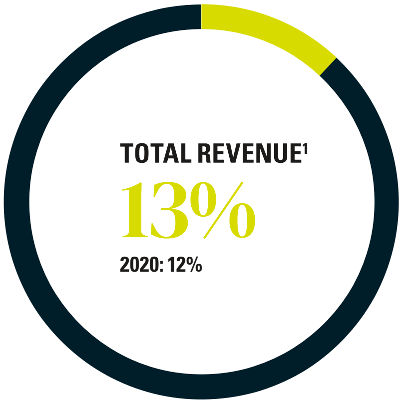
Gammon had a number of notable new contract awards in the year including:

- Ang Mo Kio MRT Station and Tunnels: a S$644 million contract from Singapore's Land Transport Authority for the design and construction of Ang Mo Kio MRT Station and Tunnels for the Cross Island Line. Gammon will deliver the works in a 50:50 joint venture with Bachy Soletanche. The contract includes the construction of a new underground station, two underpasses and six passenger entrances, as well as alteration works to the existing above-ground Ang Mo Kio Station;
- Ho Man Tin towers: a HK$2.6 billion contract for Chinachem Group to construct four residential towers, providing 845 units next to Ho Man Tin MTR Station. The project aims to achieve BEAM Plus Platinum and WELL Gold. Gammon will also be aspiring to its own sustainability targets of zero waste in energy, water and resources and an overall reduction in carbon intensity through approaches such as off-site precasting and use of green concrete;
- Lung Cheung Road: a HK$1.8 billion high-rise residential development including 133 units overlooking Kowloon Peninsula. The project will deploy Gammon's co-developed mass battery storage system, the Enertainer, for power supply in lieu of diesel generators to reduce carbon emissions and fuel consumption;
- Lohas Park Package 11: a HK $2.7 billion residential development for 1,800 units through construction of three towers atop a five-level podium and four link bridges;
- Lohas Park Package 12: a HK$ 3.4 billion residential development including 2,000 units; and
- Queen's Road East: Gammon has been contracted to construct an office tower and associated infrastructure on Hong Kong Island. With the support of the client, a 5G network within the entire construction site area will be developed to facilitate effective data flow as well as support the application of operational innovation during construction cycle.

LEFT
Lohas Park Package 9, development of three 54-56 storey residential towers for Wheelock and Company Limited, Hong Kong.

Support Services

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



UNDERLYING REVENUE[1]
£1,066m
2020: £1,067m

STATUTORY REVENUE
£1,046m
2020: £1,037m

UNDERLYING PROFIT FROM OPERATIONS
£102m
2020: £46m

STATUTORY PROFIT FROM OPERATIONS
£97m
2020: £50m

ORDER BOOK[1]
£2.5bn
2020: £2.7bn

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

Financial review

Following the strategic repositioning of Support Services to focus on power, road and rail maintenance, it is now characterised by profitable recurring revenues underpinned by long-term contracts. The significant outperformance in 2021 is a result of improved performance across the portfolio, coupled with the exit from the gas and water sector and end of contract gains. Support Services continues to deliver for its clients and has a robust order book and a positive market outlook. During the year, Balfour Beatty upgraded its margin target range from 3-5% to 6-8%.

Support Services revenue was flat at £1,066 million (2020: £1,067 million) as higher volumes at power, road maintenance and rail maintenance were offset by a reduction in gas and water. Underlying profit from operations more than doubled to £102 million (2020: £46 million). The Group's decision to withdraw from the gas and water sector, which had a negative impact on the prior year PFO, contributed to an increase in profit for the year. PFO also benefited from the recognition of a completion bonus at the Eleclink project. After delays caused by regulatory approvals, the power and rail maintenance businesses are successfully completing the project, providing a 1GW electricity interconnector between France and England through the Channel Tunnel.

Operational 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. The overall market is positive with areas of growth in power, road and rail partially offset by areas of decline in gas and water where Balfour Beatty has withdrawn from the market as future opportunities did not meet the Group's selective bidding criteria.

In Support Services, the markets for power, road and rail maintenance are all positive. In power, the proposed RIIO-T2 spend period (2021-2026) includes £30 billion for investment in energy networks and potential for a further £10 billion on green energy projects. The highways maintenance market is forecast to see significant investment with the announcement of an additional £2.7 billion in funding for road patching, increasing local council budgets by around 50% over the next four years. The rail maintenance market also has a positive trajectory with an additional £10 billion of funding for maintenance and renewals as part of Network Rail's current CP6 control period (2019-2024).

Utilities revenue decreased by 17% to £469 million (2020: £565 million) and the order book decreased to £0.5 billion (2020: £0.7 billion), following the Group's exit from the gas and water sectors.

SUPPORT SERVICES	2021	2020
Order book[1] (£bn)	**2.5**	2.7
Revenue[1] (£m)	**1,066**	1,067
Profit from operations[2] (£m)	**102**	46
Non-underlying items (£m)	**(5)**	4
Statutory profit/(loss) from operations (£m)	**97**	50

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

Performance in power transmission and distribution continues to improve. During the year, the Group completed the Beauly to Keith overhead line upgrade contract. This project reinforced over 100 kilometres of overhead line and its upgrade will play a key role in ensuring security of supply for the communities served by the line. The refurbishment has also enabled the connection of 70MW of new solar energy generation to the grid, supporting the transition to a net zero economy.

In September, Balfour Beatty announced that it had successfully built the world's inaugural T-pylon on behalf of National Grid, representing the first new electricity pylon design in the UK for almost 100 years. Upon completion, the 116 newly designed pylons to be erected along the 57-kilometer route in Somerset will connect six million homes and businesses in the surrounding area with low-carbon electricity generated at Hinkley Point C, the UK's first nuclear power station in a generation.

Also at Hinkley Point C, Balfour Beatty completed the installation of over 100 kilometres of high voltage, 400kV cables under the Mendip Hills Area of Outstanding Natural Beauty. The next milestone is the jointing and testing of the cables with energisation expected in the second half of 2022. Reinstatement of the land is already underway on different parts of the route. The Mendip cables section of the Hinkley Connection Project will be fully complete by the end of 2023.

During the year, work continued at the Viking Link project, a £90 million contract to deliver the onshore civil works for the Viking Link interconnector project with National Grid Ventures. As part of the four-year contract Balfour Beatty will be responsible for the civil engineering and installation of 68 kilometres of high voltage cabling across Lincolnshire.

In 2021, the power, transmission and distribution business won a number of key contracts and positions on long term frameworks with key customers:

- Port Ann to Crossaig: An £85 million contract to deliver the second phase of overhead line works in Scotland on behalf of SSEN Transmission. Phase Two of the scheme will see Balfour Beatty design, construct, and engineer a new 45-kilometre 275kV double circuit overhead line between the existing substations at Port Ann and Crossaig;
- London Power Tunnels (LPT): A £52 million contract on behalf of National Grid to deliver essential cabling works as part of the LPT2 project. Having delivered the cabling works for phase one of the project in 2017, Balfour Beatty will now install 200 kilometres of 400kV cables within a 32.5-kilometer underground tunnel network between Wimbledon and Crayford; and
- National Grid's £1.5 billion RIIO-2 electricity transmission construction framework: Balfour Beatty was selected on all three parts of the new framework which will cover the design, engineering, manufacturing, supply, project management, construction and commissioning of overhead line, underground cable systems and substations for the UK's power infrastructure.

In gas, the Group managed two long term gas contracts in the RIIO-GD1 period which both completed in 2021. The gas market is no longer considered viable to the Group because of the unfavourable working capital and onerous terms and conditions. The Group has completed its contracts under the AMP6 UK water regulatory cycle. Under the new AMP7 regulatory period (2020-2025) contracts are generally being awarded on terms that are not acceptable to Balfour Beatty and the Group is now only engaged in one contract for Anglian Water.

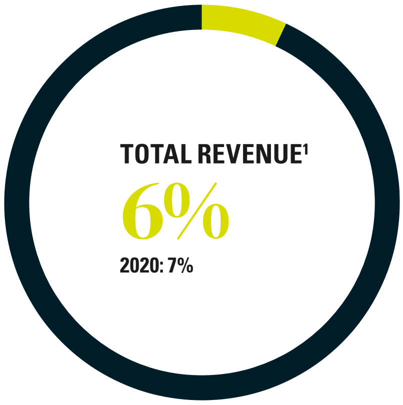
Transportation revenues increased by 19% to £597 million (2020: £502 million), with increased volumes in both road and rail maintenance, whilst the order book was consistent with prior year at £2.0 billion (2020: £2.0 billion).

Balfour Beatty continues to maintain, manage and operate major highway and road networks across the UK. The largest contract, for M25 Connect Plus, will continue for another 20 years. The Group also provides reactive and capital works for the following local authorities: Lincolnshire County Council; Herefordshire County Council; Southampton City Council; Telford & Wrekin Council; Warwickshire County Council and West Sussex County Council. In addition, Balfour Beatty delivers street lighting maintenance contracts for certain local authorities across the UK.

The largest contract in rail maintenance is for Network Rail under a £1.5 billion Central Rail Systems Alliance contract. Balfour Beatty has an 80% share in the ten-year alliance which is responsible for the development, design and delivery of track renewals and crossings, as well as associated infrastructure works across the London North West, London North East and East Midland routes. Performance has been good since inception of the contract in 2019 with sustainable and consistent delivery of the work ensuring that vital national rail infrastructure remains operational. In 2021, Balfour Beatty completed its work under the Alliance on the King's Cross Remodelling Project which redesigned the approach to the station. The work included six kilometres of new track, more than 30 new sets of points and the re-opening of a disused tunnel to add two additional lines into the station from the north.

Infrastructure Investments

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



UNDERLYING REVENUE[1]
£468m
2020: £556m

STATUTORY REVENUE
£219m
2020: £315m

UNDERLYING PROFIT BEFORE TAX
£61m
2020: £20m

STATUTORY PROFIT BEFORE TAX
£15m
2020: £15m

DIRECTORS' VALUATION
£1.11bn
2020: £1.09bn

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

Financial review

Underlying pre-disposals operating profit increased to £14 million (2020: £8 million), broadly consistent with pre-pandemic profitability (2019: £13 million).

As a result of the market uncertainty generated by the pandemic, and the strong liquidity position of the Group, Balfour Beatty did not dispose of any investments assets in 2020. In June 2021, the Group recommenced asset disposals with the sale of its stake in the BC Children's and BC Women's hospitals in Vancouver, Canada, for £20 million (profit on disposal of £7 million). In the second half of the year it sold a bundle of UK assets for £48 million (profit on disposal of £19 million) and two US multi-family housing projects for £12 million (profit on disposal of £9 million).

All transactions were above the Directors' valuation, demonstrating the strength of the secondary market for infrastructure assets. The demand for infrastructure assets continues to exceed supply and Balfour Beatty will maximise shareholder value through selective disposal of assets from its portfolio.

Underlying profit from operations was £49 million (2020: £8 million). Net interest income was in line with the prior year at £12 million (2020: £12 million), contributing to an underlying profit before tax of £61 million (2020: £20 million). Statutory profit before tax for the year was £15 million (2020: £30 million), as a result of the net effect of non-underlying items which included the DoJ resolution.

Operational review

The majority of operations in the UK continued as normal, supported by the Government's advice that private finance initiative (PFI) contractors should consider themselves to be part of the public sector response to COVID-19. Availability-based assets were not affected but a number of demand-based road projects were impacted by lower traffic volumes, which are expected to continue to recover as COVID-19 restrictions lift. The Group's strategy to invest in on-campus accommodation in partnership with established universities resulted in the impact on these projects being immaterial as universities continued to nominate rooms and income remained strong.

In the US, Balfour Beatty Communities continued to work with its partners to support military families, noting that employees were required to work to social distancing rules, as agreed with the US military, which restricted access to properties and thus maintenance activity. The Group's strategy to work in partnership with universities limited the impact on US student accommodation and in the longer term there are clear demographic drivers to support future cash flows for student accommodation.

The Infrastructure Investments business strategy is to continue to invest in new opportunities (targeting a 2x end to end multiple) whilst optimising value through the disposal of operational assets. The Group achieves enhanced returns when Infrastructure Investments, Construction Services and Support Services deliver as one, as currently evidenced by student accommodation projects for Sussex University in the UK and the University of North Carolina Wilmington in the US. There is an inherent advantage in bidding for projects

INFRASTRUCTURE INVESTMENTS

	2021 £m	2020 £m
Pre-disposals operating profit[2]	**14**	8
Gain on disposals	**35**	–
Profit from operations[2]	**49**	8
Net investment income[+]	**12**	12
Profit before tax[1]	**61**	20
Non-underlying items	**(46)**	(5)
Statutory profit before tax	**15**	15

2 Before non-underlying items (Note 10).

[+] Subordinated debt interest receivable, net interest receivable on PPP financial assets and non-recourse borrowings, impairments to subordinated debt receivable and accrued interest, and fair value gain on investment asset.

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

when the Infrastructure Investments business utilises the expertise of the wider Group.

Balfour Beatty's competitive expertise to finance, develop, build and maintain infrastructure puts the Group in a strong position to capitalise on new investment opportunities, most notably in US P3. In addition, the Group is focused on student accommodation opportunities in the US and UK. The demand for infrastructure assets from the secondary market continues to exceed supply and having re-commenced disposals, Balfour Beatty will continue to selectively sell assets to maximise value from its portfolio.

In December, Balfour Beatty Communities (Communities) reached a resolution with the US Department of Justice (DoJ) which resolved the DoJ's criminal and civil investigations into specific performance incentive fees improperly claimed by Communities between 2013 and 2019 related to maintenance work at certain US military housing installations. Under the terms of the resolution, Communities pleaded guilty to one count of fraud and agreed to the appointment of an independent compliance monitor for a three-year period. The resolution brings the DoJ investigation of Communities to a close, with Communities paying a total resolution amount of US$65 million in January 2022.

Balfour Beatty is committed to the highest standards of ethical conduct. The wrongdoing that took place is completely contrary to the way the Company expects its people to behave. The Company apologises for the actions of Communities to all its stakeholders. It has been made clear to all employees that breaches of policies, procedures, or law will not be tolerated. Communities welcomes the appointment of the independent compliance monitor and looks forward to a constructive engagement. Communities is committed to delivering a consistently high level of performance to the military residents it serves and will continue to work responsively with its military partners and other government stakeholders to achieve this.

Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required Communities to develop a comprehensive Performance Improvement Plan (PIP). The plan, which included a variety of objectives and performance metrics, was agreed with the Air Force in 2020. All initiatives set out in the plan have been completed, including implementing a significant management restructuring to better align technical support and resident services and appointing a Transformation Director. In 2021, all 44 lines of effort were approved by the Air Force.

There are opportunities for Infrastructure Investments in the military housing sector in connection with ongoing efforts by the US Army to refinance its military housing projects. Proceeds from any such refinancing of projects within Balfour Beatty's military housing portfolio would be used to build new homes and renovate existing housing stock across a number of Army bases.

RIGHT
Royal Holloway, University of London, student village development at Rusham Park in Surrey, UK, (artist's impression).

Strong track record of value creation

The Directors' valuation increased 2% to £1,106 million (2020: £1,086 million). With more investment in the US and more disposals from the UK the portfolio is now 57% weighted towards the US (2020: 53%). The number of projects in the portfolio decreased to 64 (2020: 67).

The value of the UK portfolio is positively correlated with inflation. The US portfolio is also positively correlated with inflation, although indirectly through the link to rental inflation.

Balfour Beatty invested £19 million (2020: £46 million) in new and existing projects. During the year, the Group added four new assets with two student accommodation projects (Vanderbilt University and Royal Holloway) and two US multi-family housing projects in Houston, Texas and San Mateo, Florida.

Cash yield from distributions amounted to £62 million (2020: £72 million) as the portfolio continued to generate cash flow to the Group, net of investment. The continuing yield during COVID-19 demonstrates the essential nature of the Infrastructure Investments portfolio.

Balfour Beatty recommenced disposals in the year with proceeds of £81 million (2020: £nil). This included: £48 million from the sale of its stakes in a portfolio of three assets in the UK (Aberdeen Western Peripheral Route, Woodland View Hospital and North West Fire and Rescue); £20 million from the sale of its 70% stake in BC Children's and BC Women's hospitals in Vancouver; and £12 million from the sale of two multifamily projects in Alabama and Florida.

Unwind of discount at £83 million (2020: £83 million) is a function of moving the valuation date forward by one year with the result that future cash flows are discounted by twelve months less. Operational performance movements resulted in a £27 million increase (2020: £20 million decrease) whilst Other (which includes foreign exchange, gains on disposals and new wins) amounted to £34 million (2020: £19 million decrease).

PORTFOLIO VALUATION DECEMBER 2021

Value by sector

Sector	2021 No. projects	2020 No. projects	2021 £m	2020 £m
Roads	**12**	13	**158**	188
Healthcare	**2**	3	**108**	114
Student accommodation	**5**	4	**95**	88
OFTOs	**3**	3	**44**	44
Waste and biomass	**2**	2	**46**	51
Other	**3**	4	**23**	29
UK total	**27**	29	**474**	514
US military housing	**21**	21	**491**	446
Student accommodation and other PPP	**4**	5	**72**	73
Residential housing	**12**	12	**69**	53
North America total	**37**	38	**632**	572
Total	**64**	67	**1,106**	1,086

Value by phase

Phase	2021 No. projects	2020 No. projects	2021 £m	2020 £m
Operations	**60**	65	**1,070**	1,037
Construction	**3**	2	**34**	49
Preferred bidder	**1**	–	**2**	–
Total	**64**	67	**1,106**	1,086

Value by income type

Income type	2021 No. projects	2020 No. projects	2021 £m	2020 £m
Availability based	**17**	22	**311**	371
Demand – operationally proven (2+ years)	**39**	39	**580**	519
Demand – early stage (less than 2 years)	**8**	6	**215**	196
Total	**64**	67	**1,106**	1,086

MOVEMENT IN VALUE 2020 TO 2021

£m	2020	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Operational performance	Other, including FX	2021
UK	514	2	(21)	(49)	38	(24)	14	**474**
North America	572	17	(41)	(32)	45	51	20	**632***
Total	1,086	19	(62)	(81)	83	27	34	**1,106**

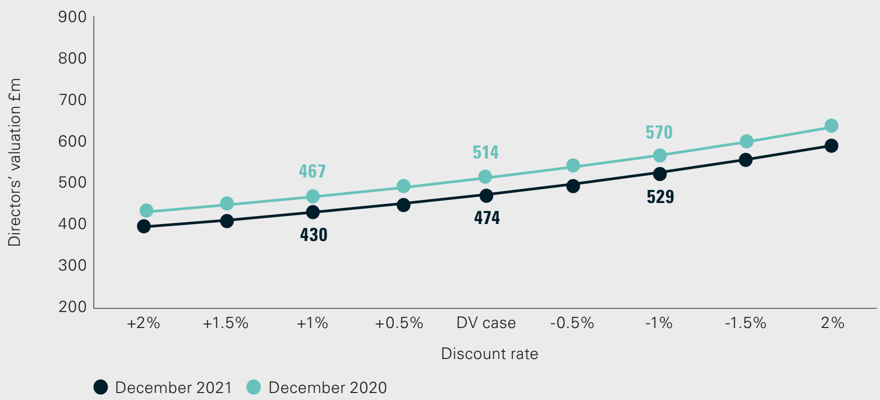
* US valuation includes future estimated costs of monitorship of the military housing business but excludes the resolution payment to the DoJ.

The operational performance movements in the UK were primarily due to the increase in future corporation tax rates. In the US, the operational performance movements were primarily due to higher military housing rents agreed for 2022, as well as rent increases realised in student accommodation and residential housing within the year.

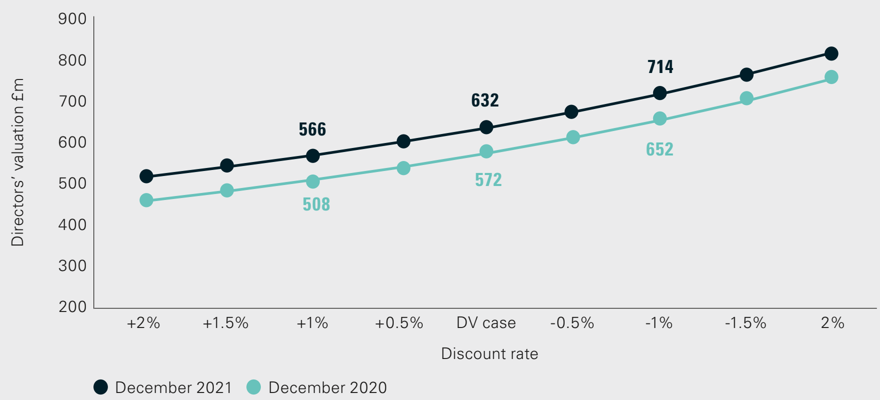
The methodology used for the Directors' valuation is unchanged, producing an asset by asset valuation that reflects market value and therefore changes with movements in the market. Cash flows for each project are forecast based on historical and present performance, future risks and macroeconomic forecasts. They also factor in secondary market assumptions. These cash flows are then discounted using different discount rates, which are based on the risk and maturity of individual projects and also reflect secondary market transaction experience. As in previous periods, the Directors' valuation may differ significantly from the accounting book value of investments shown in the financial statements, which are produced in accordance with International Financial Reporting Standards (IFRS) rather than using a discounted cash flow approach. A full reconciliation is provided in section i) of the Measuring Our Financial Performance section.

Discount rates applied to the UK portfolio range between 7% and 9.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.1% (2020 8.0%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.3% (2020: 8.4%). Consistent with other infrastructure funds, Balfour Beatty's experience is that there is limited correlation between the discount rates used to value PPP and similar infrastructure investments, and long-term interest rates. In the event that interest rates increase in response to rising inflation, the impact of any increase in discount rates would be mitigated by the positive correlation between the value of the UK portfolio and changes in inflation. A 1% change in the discount rate would change the value of the UK portfolio by approximately £50 million. A 1% change in the discount rate would change the value of the North American portfolio by approximately £74 million.

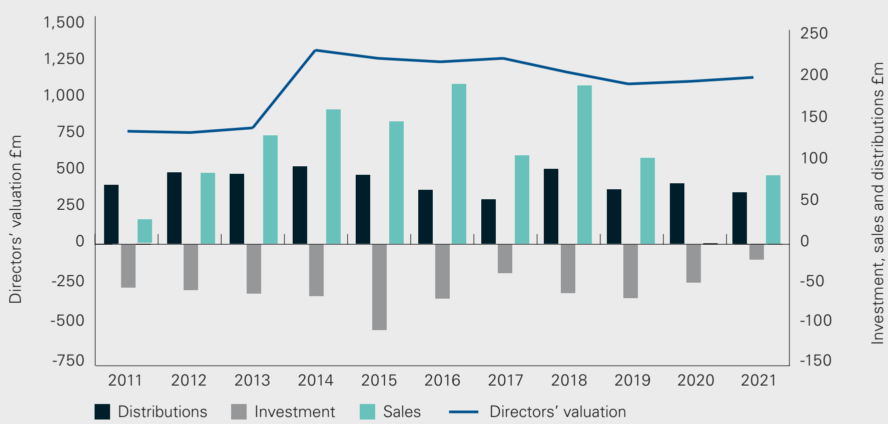
UK PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES



US PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES



PORTFOLIO INVESTMENT, DIVESTMENT AND DISTRIBUTIONS



How do we... construct a 90km section of a high-speed railway?

By bringing together two global leaders in the delivery of critical infrastructure to shape a sustainable solution.

Our joint venture, Balfour Beatty VINCI, is designing and building part of the most exciting railway project in Europe – HS2. It spans from Long Itchington Wood tunnel to the West Coast Main Line tie-in near Lichfield with a major junction into Curzon Street Station in central Birmingham. Our main works civil engineering contracts will deliver earthworks, ground engineering, and many structures including bridges, viaducts and tunnels along a 90km-long stretch of the UK's new high-speed railway line.

Beginning work in 2017, our multidisciplinary team has developed innovative solutions to help deliver one of the UK's biggest infrastructure challenges. Recognising the need to create a skilled workforce and lasting legacy, we've developed innovative training solutions to attract new people to our industry and upskill existing workers. These include working with Walsall College to launch a new T-Level qualification that gives 16-18 year olds qualifications in construction design, surveying and planning whilst spending 20% of their studies on an industry placement. We've also partnered with Flannery Plant Hire to launch our Operator Skills Hub - a purpose-built facility in Birmingham offering innovative training programmes to inspire young people and upskill plant operators.

In collaboration with HS2 and our supply chain partners, we've also been trialling new solutions to help reduce our emissions and improve air quality, including the retrofit of energy saving solutions to construction vehicles and non-road mobile machines.

Receiving notice to proceed in 2020, our skilled workforce has started the design and construction of the main works civils contracts and in late 2021, we launched the first tunnel boring machine on the Midlands section of HS2. Around 170 engineers constructed and assembled the 2,000 tonne, 125m long machine and our expert tunnelling team is working around the clock in shifts to operate the machine for around five months as it excavates the first bore of the one-mile tunnel.

The main civil engineering works is one of three packages that we're delivering for HS2, with our expert team delivering environmental works between the West Midlands and Crewe and our Balfour Beatty VINCI Systra joint venture delivering Old Oak Common Station in London.

FIND OUT MORE

Read about our UK Construction business in our Operational Review p43

Key milestones

2017

JULY
We announced notification of intent to be awarded two main works civils contracts by HS2

2019

SEPTEMBER
We were awarded the construction and delivery of HS2's new c. £1bn Old Oak Common station in London

2020

APRIL
We received notification from HS2 to proceed with its two main works civils contracts

JUNE
In an innovative and skills-focused partnership with Walsall College, we launched a new T-Level qualification to provide young people with a two-year industry placement working on HS2

AUGUST
We welcomed the first rail freight delivery at HS2's Washwood Heath site in Birmingham

SEPTEMBER
We celebrated the formal start of construction on Europe's largest infrastructure project

2021

APRIL
We were awarded a £52m contract to deliver environmental works across the route from West Midlands to Crewe via the SCAPE Civil Engineering framework

DECEMBER
We launched the first tunnel boring machine (TBM) in the Midlands 'Dorothy'

KEY FACTS

Project name HS2 high-speed railway line	**Notice to proceed** 2020
Location West Midlands, UK	**Contract value** c.£5bn
Customer HS2 Limited	**Status** Ongoing

7,000+

Job opportunities

Balfour Beatty VINCI is set to be one of the biggest recruiters in the West Midlands with over 7,000 skilled people required to deliver the contract.

SCAN TO LEARN ABOUT THE LAUNCH OF OUR TUNNEL BORING MACHINE 'DOROTHY'

Committed to creating a safe and healthy workplace

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

Our commitment to Beyond Zero Harm

'Safe' is one of the five Build to Last values, and all the Group's operations must ensure the health and safety of everyone who comes into contact with its activities. The Group's Beyond Zero Harm vision is founded on Balfour Beatty's commitment to make safety personal. We keep people healthy and safe, and we strive to enhance the communities and environment where we work. Unrelenting and uncompromising, Balfour Beatty is committed to go Beyond Zero Harm.

The Group's safety culture is led by the Board and the Executive Committee. The Board's Safety and Sustainability Committee reviews the Health, Safety, Environment, and Sustainability (HSES) Strategy, monitors progress and ensures accountability (see page 67 in the sustainability section for the governance structure). The Executive Committee sets strategic priorities and reviews any serious incidents. Site visits by executive leaders form one of the leading key performance indicators (KPIs) used to monitor performance; 2,167 executive site visits for health and safety were recorded in 2021 for the Group.

The HSES strategy is underpinned by 12 key areas, including leadership, learning and sharing, subcontractor and supply chain management, HSES by design, Balfour Beatty's bespoke behavioural change programme, and locally sponsored initiatives. Each of these key areas has an action plan designed to drive continual improvement.

ZERO HARM STRATEGY 2022–2024

WORKFORCE ENGAGEMENT	AUTHENTIC LEADERSHIP
LEARNING AND SHARING	TRANSPARENT GOVERNANCE
COLLABORATIVE SUPPLY CHAIN PARTNERSHIPS	ELIMINATING RISKS THROUGH DESIGN AND INNOVATION
CONTINUOUSLY DEVELOP AND BUILD COMPETENCE AND CAPABILITY IN OUR PEOPLE	MAKING HEALTH AND SAFETY PERSONAL
CELEBRATING SUCCESS	TREATING HEALTH LIKE SAFETY
SUPERVISOR DEVELOPMENT	LOCALLY SPONSORED INITIATIVES

Each year a programme of events is produced, setting out central business-wide initiatives linked to Zero Harm. These are proactive initiatives based on evidence and risk profile, and include focused campaigns and Group-wide stand downs on key topics. Each individual site or project is encouraged to take ownership of the resources and make safety personal to their part of the business as well as share their innovations, learning and successes. In 2021 focus areas included health, COVID-19 security, work at height, lifting, and people plant interface.

Balfour Beatty's target is to go Beyond Zero Harm, and every day hundreds of Balfour Beatty sites send their colleagues home safely. For example, Plant and Fleet Services in the UK achieved 12-months Lost Time Injury (LTI) free. In the Power, Transmission and Distribution business, Inveraray Crossaig overhead line project achieved 18 months, Littlebrook substation team achieved two years and Crossrail C530 celebrated five years and 5m hours RIDDOR free. In the US, the Northeast Water Purification Plant project achieved 5m hours LTI free. All have a strong safety culture.

As a leading international infrastructure organisation, Balfour Beatty is uniquely placed to leverage its skills, knowledge, and expertise from across its different geographies. Learning, best practice, safety alerts and guidance are shared through the Group Health Safety Environment and Sustainability forum, Fatal Risk Groups (FRGs), Management System changes and annual operations-led safety stand down activities. In 2021, the safety stand down activities focused on going back to basics; reinforcing the Group's four Golden Rules, making personal safety commitments, setting people to work safely, and promoting the raising of safety observations. This focus on relentless international collaboration allows the Group to push boundaries, drive standards and consistently exceed local regulatory requirements.

Balfour Beatty awards

Balfour Beatty has won many awards for its health and safety performance in 2021, including seven Green Apple Awards in the UK. Balfour Beatty Kilpatrick once again achieved the RoSPA Order of Distinction Award for Health and Safety Performance in recognition of winning 20 consecutive gold awards. Balfour Beatty Plant and Fleet Services received the Motor Transport Award in the UK, while the Ventura California team in the US, won the 2021 Construction Risk Partners Build America Award.

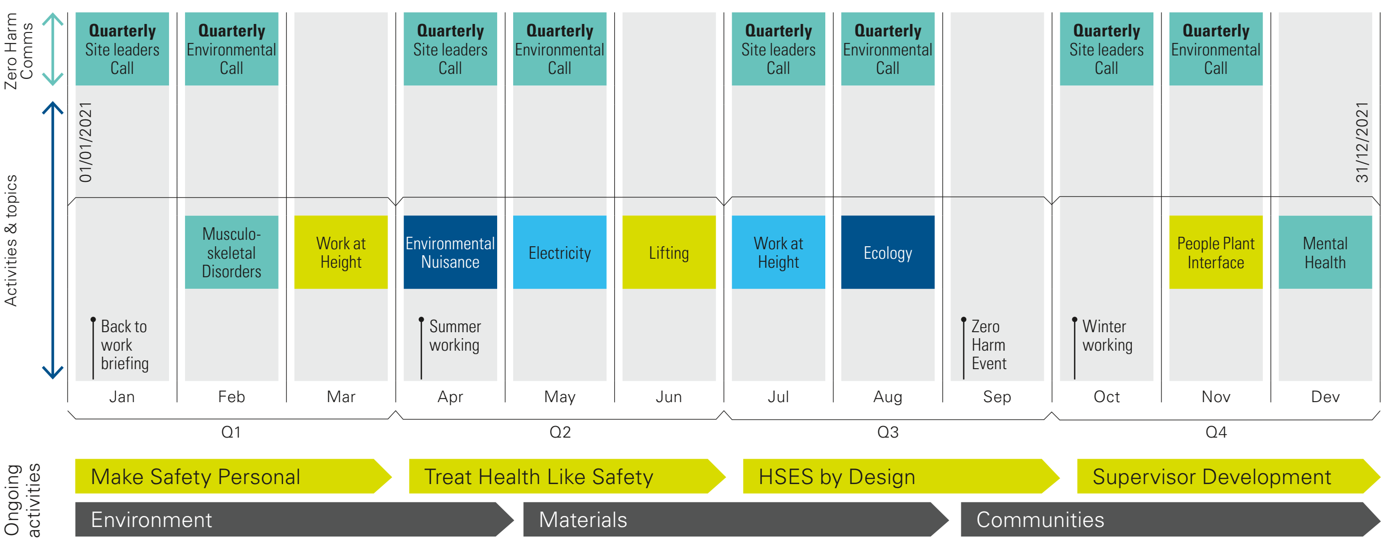
Fatal risk management

Balfour Beatty's FRG Working Groups have continued to develop. Led by operational managing directors and supported by HSES directors, these focus on Balfour Beatty's 10 fatal risks and eliminating risk by design. The FRGs meet regularly, and progress is reported at Board, Executive Committee and operational Safety, Health, Environment Leadership Team (SHELT) meetings. The outputs of each FRG are made available to all personnel and published on Balfour Beatty's intranet pages as well as being shared more widely.

Following a workforce suggestion through the My Contribution scheme, 'Lunch and Learn' sessions have been rolled out by the FRGs, starting with electricity. Graduates and apprentices have received information awareness sessions.

FRGs have focused on enhancing Balfour Beatty's training activities. In the UK, the lifting FRG has worked with in-house experts to develop an e-learning module on lifting practices, enabling upskilling to continue safely despite COVID-19 restrictions. The lifting FRG has also developed a new syllabus for Crane/Lift Supervisor Training. Alongside the National Plant Operators Registration Scheme (NPORS) the FRG developed new bespoke training, in addition to the existing training, which can be adapted to cover the equipment that candidates are required to supervise such as overhead travelling cranes, pedestal cranes, and telehandler suspended loads.

SAMPLE ZERO HARM EVENTS CALENDAR 2021

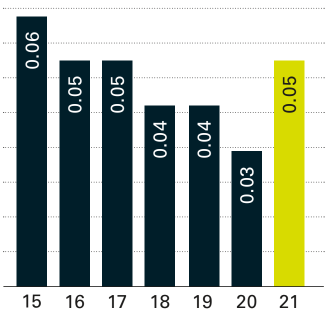


ROAD SAFETY SCHEME OF THE YEAR AWARD, SPONSORED BY SRL TRAFFIC SYSTEMS

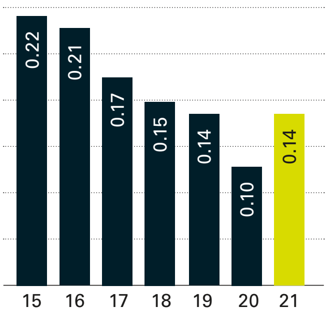
Balfour Beatty, Atkins and National Highways were awarded for improving traffic management on the A19 Norton to Wynward Improvement Scheme. In response to over 200 drivers accidentally entering the traffic management in Spring 2020 putting our workforce at risk, Balfour Beatty formed a working group across its Highways Delivery Community (HDC), an ISO 44001 accredited community of strategic suppliers. Sharing best practice and working together to drive industry improvements, the aim was to develop and set a uniform, standardised Safe System of Work (SSOW) to be used on all Balfour Beatty and community projects to reduce the risk of incursions into work areas, thereby increasing the safety of site teams.

The collaboration identified several measures to influence road user behaviour and worked with the National Highway's Yorkshire and North-East Communications team to deliver a communications campaign informing customers of the interventions and to increase awareness around the works. The number of incursions consequently reduced from 200 in Spring 2020 to fewer than 10 in 2021.

MAJOR INJURY RATE*



LOST TIME INJURY RATE*

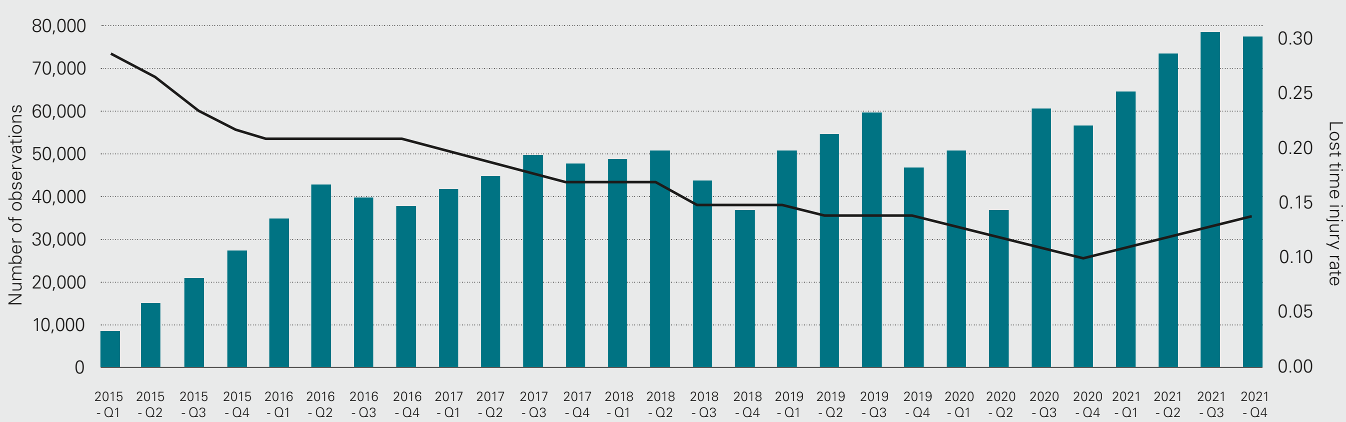


* Excluding international joint ventures.

Safety performance trends

2021 was another challenging year to ensure sites could remain open and COVID safe. In line with the rest of the sector, the Group's lost time injury rate (LTIR) increased, partly down to COVID fatigue and skill shortages. This was the first increase in six years, from 0.10 to 0.14, excluding international joint ventures. The Group's focus continues on risk elimination, upskilling and the key role of supervisors.

BALFOUR BEATTY GROUP LOST TIME INJURY RATE AND OBSERVATIONS*



* Excluding international joint ventures.

Balfour Beatty continues to return strong performance in its lagging indicators and will ensure continued focus on the LTIR. To continue driving safety performance, the UK business has also set challenging leading indicators around the percentage of colleagues who should receive training, including the Manage the Conversation course, an element of our mental health programme, formal supervisor development training, our safety leader/coach programme and Make Safety Personal for key suppliers; high performance targets have also been set for projects achieving the Health Maturity Matrix 'Established' status. In the US, the roll-out of Question, Persuade, Refer (QPR) training has begun. QPR is a training programme that teaches people how to detect, intervene with, and manage someone at risk of suicide. To support continued learning, the definition of High Potential Incidents (HiPos) has been widened even further to encompass a range of less serious incident types and learnings shared across the businesses.

Tragically, despite a continued focus on Zero Harm, two fatal incidents occurred during 2021. On 6 July in the US a man employed by the client's civil engineering inspection company suffered a fatal injury when a drilling rig tipped over during a lifting operation on the Penn First hospital joint venture. All drilling rigs are now supported with assist cranes and mandated exclusion zones have been extended. On 24 October at Gammon's Advanced Manufacturing Centre (AMC) project a woman working for a subcontract cleaner fell through a service opening in a normally non-accessible plant area. Although edge protection and nets had been provided alternative more permanent safeguarding measures have now been developed and deployed across Group. Lessons have also been shared across the sector.

Industry leaders

Balfour Beatty has continued to support and co-chair the Health in Construction Leadership Group (HCLG) and is an active participant in all of the HCLG's working groups. The respiratory disease working group's main objective is 'eliminating exposure to respiratory hazards in construction by 2030'. As part of this work, Balfour Beatty has been re-designing a pre-existing British Occupational Hygiene Society (BOHS) training course to produce a more bespoke training vehicle to upskill site supervisor level colleagues on how to effectively manage all health risk issues in construction. This is scheduled for completion in March 2022 and we will share it with industry partners and the BOHS for onward cascade and further development.

In the mental health working group Balfour Beatty and industry partners looked to address the ongoing impact of COVID-19 on mental health. Alongside mental health charities and other industry bodies, Balfour Beatty brought together guidance on returning to work following the lifting of lockdown restrictions in Summer 2021, and looked at how 'new normal' ways of working could improve the mental health of the construction industry. This material was showcased in HCLG's webinar in October.

Balfour Beatty has also worked with Mates in Mind to develop and roll out the Listen, Support, Signpost training. This training helps Mental Health First Aiders refresh and develop their skills, using case study examples and signposting exercises.

Manage the Conversation mental health training for line managers is in progress across the UK business in parallel with the ongoing roll-out to operational management.

CORPORATE WELLBEING AWARD

Gammon has been presented with the Best Corporate Wellbeing Programme Grand Award at the CTgoodjobs Best HR Awards 2021. The award recognises the caring and wellbeing programmes Gammon has put in place to look after both the mental and physical health of colleagues. Gammon has gone beyond increasing precautions and enhancing hygiene practices in response to COVID-19. It has continued to provide onsite health checks by in-house nurses to protect the physical health of employees and implemented mental health initiatives to support the mental wellbeing of employees.

Key numbers

296,737
OBSERVATIONS

43%
INCREASE IN OBSERVATIONS RAISED

2,167
EXECUTIVE SITE VISITS

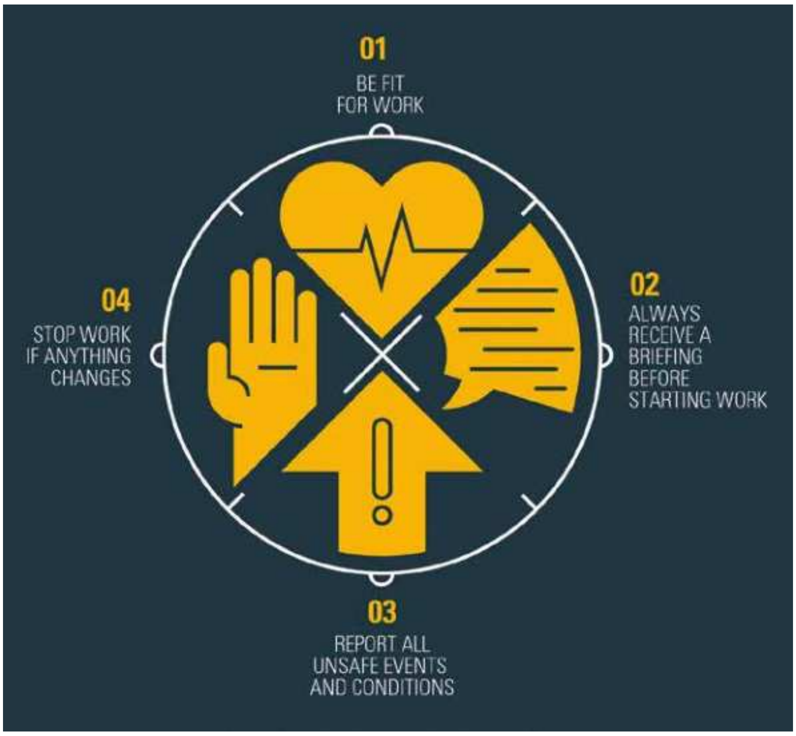
200+
MY CONTRIBUTION SAFETY IDEAS

IN THE 2021 EMPLOYEE ENGAGEMENT SURVEY:

94%
of employees feel cared for

82%
felt able to discuss health, safety and wellbeing

87%
agreed they saw evidence of Zero Harm in their workplace



ABOVE
The Group's four Golden Rules remain pivotal to delivering Zero Harm.

> Balfour Beatty believes in treating health like safety and mental health like physical health."

HSE RESPIRATORY HEALTH CAMPAIGN

In October 2021, Balfour Beatty was a leading supporter of the Health and Safety Executive's (HSE) Respiratory Health Campaign. The campaign focused on raising awareness, risk control and data collection on the control measure businesses have in place to manage respiratory risks from construction dust and occupational lung disease.

Positive interventions

Balfour Beatty's maturity as an organisation and the willingness of colleagues to make safety personal and support members of the public in distress have resulted in a number of positive interventions on sites in 2021. Balfour Beatty colleagues have on numerous occasions intervened to save the lives of members of the public using their mental health training. Following a number of such incidents in the UK, Balfour Beatty has started to develop training and guidance for its teams should they find themselves in a similar situation.

Promoting a culture of making safety personal

Raising observations remains key to the Group's safety culture. In 2021, the number of recorded observations increased by 43% compared to 2020. The Observation App has now been rolled out in the US and has been well received. The US project teams have implemented ways to include subcontractors' contacts within the portal so that safety-related issues are sent directly to the subcontractor leadership on site. This process has decreased the initial notification time, while increasing the amount of communication around safety between Balfour Beatty teams and subcontractor workers. The adoption of the app has led to 42,000 observations in the US in 2021.

The 2021 Group employee survey results demonstrated consistently high engagement scores on health and safety. 87% of responders agreed or strongly agreed that they saw evidence of Zero Harm measures being applied at their workplace. 82% agreed or strongly agreed that they felt able to discuss their health, safety, and wellbeing at work and 94% of employees said they felt cared for at Balfour Beatty. High levels of engagement led to a record breaking 290,000 observations and over 200 ideas relating to safety through the My Contribution employee suggestion scheme.

The Group's four Golden Rules remain pivotal to delivering Zero Harm. In January 2021, the focus of the back to work briefings was Golden Rule Number 1: Be Fit for Work. During their September Safety Stand Down activities, construction sites reinforced the importance of following all our golden rules, reminding their teams of previous incidents and how the correct implementation of the rules would have prevented them. In the UK, lessons learned and their corresponding Golden Rules are shared in weekly business reports to keep them front of mind.

Health and wellbeing strategy

Balfour Beatty recognises that a safe and healthy workforce is fundamental for a successful and sustainable business. Building upon the Group's commitment to treating health like safety, and as part of its Beyond Zero Harm vision, Balfour Beatty launched its new health and wellbeing strategy in the UK in January 2021 and has shared it with colleagues across the wider Group. The strategy outlines the core elements that will be used to drive positive outcomes for both employees, and the communities and environments in which the organisation operates.

The strategy is used to constantly drive improvement, using a Health Maturity Matrix to allow each project and business unit (BU) to benchmark against best practice. The matrix is a self-assessment tool designed to allow each project and BU to score its level of progress (beginner, committed, established, or advanced/leader) for 10 categories, including governance, employee engagement, mental health, and work/life balance. After scoring their current position, they must plan how to improve performance particularly for categories in the beginner phase or that are fundamental to their strategic objectives. The aim is to all achieve advanced/leader in all 10 categories by 2023, they will all achieve Level 4 in all 10 categories.

In 2022, the Group will continue its relentless focus and leadership on Zero Harm within the business and continue to strive to remain an industry leader on health, safety, and wellbeing.

Ensuring integrity within the business

Business ethics is about doing the right thing and living the Balfour Beatty value of being 'Trusted'. The business ethics programme makes 'doing the right thing' the responsibility of all employees, to ensure the Group operates with the utmost integrity, makes the right choices and is trusted.

Governance

Under the ownership of the Board, the business ethics programme implements a framework of policies and standards to ensure the Company's commitment to doing the right thing. During 2021, the following improvements and initiatives were introduced:

- Appointment of a US Chief Compliance Officer to oversee implementation of an ethics programme across US operations.
- Enhancements to the Speak Up whistleblowing process. In the UK case management and investigation is now undertaken by internal audit. Communications were issued to the business reminding employees of the importance of speaking up and how to report ethics concerns, with updated guidance documents including editable posters to allow project sites to translate key content into other languages. In the US, measures included improved responsiveness to helpline callers.
- In the UK, an updated Gifts and Hospitality policy was issued, introducing a new traffic light framework to help guide employees on the actions to take when offering or receiving gifts and hospitality. Scenarios based training was rolled out to for line managers and their teams to discuss practical scenarios during team meetings.
- In the US, an ethics and compliance programme assessment was undertaken to determine awareness of the compliance programme within the US and to assist in structuring a more consistent approach across the US business.
- Enhancement of the modern slavery working group with increased representation from the business and greater alignment with US initiatives. Further information on how the risk of labour exploitation is addressed within the Company and wider supply chain is available here: www.balfourbeatty.com/services/modern-slavery.

In 2022, the following initiatives will be targeted:

- A refreshed Code of Conduct will be launched, supported with updated mandatory training for all employees.
- Development of a joint ethics officer liaison programme between the UK and US.

Training

In the UK, Code of Conduct training is undertaken by all new employees within 30 days of starting. Thereafter, training is assigned through the learning and development platform to all employees on a two-year cycle. In the US, ethics training continues to be delivered in line with the Group and legal requirements annually in September, as part of 'compliance month'. During 2022, an updated Group ethics training programme will be implemented to support the roll-out of the refreshed Code of Conduct.

> "Code of Conduct training actively encourages all employees to speak up if they have a concern or talk to someone if they need guidance."

Speak Up ethics helpline

We actively promote our Speak Up helpline, which enables employees across the Group to raise issues or seek guidance on business ethics in person and in confidence.

During 2021, 196 calls were received on the Speak Up helpline, a decrease of 33% compared to 2020. This downwards trend is attributable to a number of factors including reduced numbers of reports concerning COVID-19 related matters and a general reduction in headcount across the Group. Based on the employee headcount for 2021, Balfour Beatty received an average of 11.2 cases per 1,000 employees.

Of the 196 reports received, 9.1% were substantiated (14% in 2020). Employee conduct constituted the majority of cases received (44% of cases compared to 27% in 2020), followed by cases relating to: fraud, deception and dishonesty; code of conduct violations; and bribery & corruption. Of investigations undertaken during 2021, 165 were closed and 31 remain open to be closed out during 2022.

We value openness and strive to create a culture where people feel they can speak up freely. One of the ways this is measured is through the anonymity rate of Speak Up reports across the business. When someone decides to remain anonymous, it indicates that there may be a fear of retaliation. In 2021 the anonymity rate was 47%, consistent with the rate of 48% in 2020.

Code of Conduct training actively encourages all employees to speak up if they have a concern or talk to someone if they need guidance. Employees are recommended to talk to a colleague, their manager, a member of the HR, legal or ethics team or to make use of Balfour Beatty's confidential Speak Up helpline.

Data privacy

The General Data Protection Regulations (GDPR), Irish Data Protection Act 2018 and UK Data Protection Act 2018 continue to apply. Balfour Beatty is regulated by the Information Commissioner's Office (ICO) for UK activities and the Irish Data Protection Commission for Irish processing.

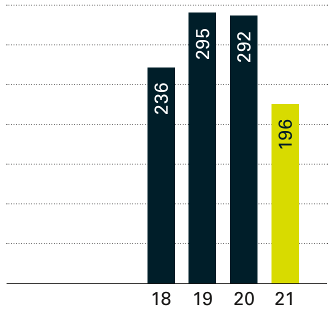
Balfour Beatty continues to use a dedicated privacy management tool. Throughout 2021 this system has been enhanced and workflows implemented for data protection impact assessments and information assessment qualifiers. This has enabled the privacy team to proactively support new digital initiatives and effectively mitigate privacy challenges on new technologies.

Other initiatives include the implementation of a data incident reporting module facilitating reporting via an interactive online form. In 2022, a refreshed data privacy strategy will be developed together with an updated training programme to raise awareness and understanding.

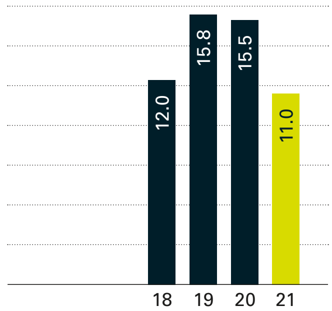
Improving industry standards

We play our part in supporting others too. Balfour Beatty sets an example to help improve ethical business standards across the industry. The Company regularly interacts and supports industry bodies for ethics, including the Institute of Business Ethics and the Business Ethics Leadership Alliance. As a member of the Modern Slavery Construction Protocol, the Company works closely with the Gangmasters and Labour Abuse Authority to prevent the exploitation of workers.

SPEAK UP HELPLINE CASES NUMBER



CASES PER 1,000 EMPLOYEES (BALFOUR BEATTY) NUMBER



Being a responsible taxpayer

This tax strategy has been prepared and published in accordance with paragraph 16 (2), Schedule 19, Finance Act 2016, on behalf of Balfour Beatty plc and all UK tax resident entities in the Balfour Beatty Group.

Being a responsible taxpayer

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

The Group's tax strategy, approved by the Board, is to sustainably minimise tax cost whilst complying with the law. In doing so, Balfour Beatty ensures it acts in accordance with its cultural framework, which provides a simple and clear view of the purpose, values and behaviours of the Group's Build to Last strategy. The Group aims to meet all legal requirements, filing all appropriate tax returns and making tax payments accurately and on time. The Group's tax strategy applies to all territories in which it does business.

Tax governance

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

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

Tax risk appetite

The Group manages its tax affairs in a proactive manner that seeks to maximise shareholder value and as such utilises tax incentives or opportunities for obtaining tax efficiencies where appropriate and where they support genuine commercial activity. The Group does not enter into artificial arrangements that lack commercial purpose in order to secure a tax advantage. The aim is to ensure full compliance with all statutory obligations and as a consequence attempt to minimise risk wherever possible.

Balfour Beatty does not tolerate tax evasion or the facilitation of tax evasion. Following the introduction of the Corporate Criminal Offence of Failure to Prevent the Facilitation of Tax Evasion legislation, Balfour Beatty applies appropriate procedures and controls which seek to prevent any person acting on its behalf from facilitating tax evasion.

Managing tax risk

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

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

Interaction with tax authorities

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

Building New Futures

Balfour Beatty prides itself on being a responsible, sustainable organisation that delivers long-term benefits for the business, society and the environment creating positive returns for all of the Group's stakeholders.

Introduction

The construction and infrastructure sector is a cornerstone of the global economy, driving growth and jobs – but it has a significant environmental footprint and as such is central to global efforts to reduce carbon emissions and waste. Our aim, set out in our sustainability strategy, Building New Futures, is to significantly reduce our impact on the environment and to help others reduce theirs, supporting local communities and leaving a positive legacy for future generations in addition to the infrastructure that is part of the fabric of daily life. We believe that 'doing good to do well' is fundamental to the future sustainability of our own business.

In 2009, Balfour Beatty published its first sustainability strategy, embedding sustainability across its operations. 11 years later, in 2020, we launched a refreshed strategy, Building New Futures, to update the Group's approach and raise the bar on its own performance. This is now the blueprint guiding how we do business.

Building New Futures is focused on the three areas most material to the Group's business – the environment, materials, and communities. These areas were determined through consultation with key stakeholders including the Group's customers, employees, shareholders, and the communities in which the Group operates. For further information, see the Group's Materiality Assessment webpage: www.balfourbeatty.com/materiality assessment.

> "Building New Futures" charts a course for us to go further, faster. It's been developed with input from key stakeholder groups in the UK, US and Hong Kong, and is focused on the three areas most important to our business – the environment, materials and communities."
>
> **Leo Quinn**
> Group Chief Executive

	ENVIRONMENT	MATERIALS	COMMUNITIES
	Responding to climate change and managing our impact on the environment	Choosing the right materials, using less materials and creating value from the materials we no longer need	Improving the prosperity and wellbeing of individuals and communities
2040 AMBITIONS	**Beyond Net Zero Carbon**	**Generate Zero Waste**	**Positively Impact More than 1 Million People**
2030 TARGETS	**Achieve our science-based carbon reduction target**	**40% reduction in waste generated**	**£3bn social value generated**
	Local Sustainability Action Plans		

The strategy sets firm 2030 targets, including achievement of a science-based target to be set in 2022 to reduce carbon emissions, a 40% waste reduction and delivery of £3bn in social value. The strategy also outlines the Group's 2040 ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People.

Delivering the strategy will be challenging, but the Group is already making good progress. Our customers, employees and investors expect Balfour Beatty to lead by example and act as a role model to supply chain partners and others in the sector. To make sure we deliver, Balfour Beatty is using every tool at its disposal, including a range of digital and other innovations; partnering with supply chain partners, customers, academia and others to explore the art of the possible; sustainable procurement; and upskilling employees and harnessing their ideas via My Contribution, our employee-led change programme. Balfour Beatty is also upskilling its workforce to make sure colleagues are equipped to help drive positive change. In 2021, Balfour Beatty piloted a carbon literacy education programme in the UK, to ensure that our workforce understands the carbon impact of their behaviour and how they can play their part in helping Balfour Beatty reduce its carbon footprint - as well as reducing the carbon impact of their own activities. The Carbon Literacy Project validated and approved the training, so Balfour Beatty is now a Bronze Carbon Literate Organisation. This training will be rolled out across the UK business in 2022.

Carbon Literate Organisation
Bronze

Governance

The Board's Safety and Sustainability Committee reviews the Group's sustainability strategy and monitors progress on climate related issues including, but not limited to, in relation to energy and carbon emissions, materials and waste management, and social and community matters. This ensures governance and accountability for delivery and performance at Board level. The Group Chief Executive has overall responsibility for setting Balfour Beatty's sustainability policy and overseeing how Environmental, Social and Governance (ESG) matters are managed.

Operationally, the Executive Committee sets the Group's sustainability ambitions and targets, helping each business unit develop its own action plan. Each business unit has a sustainability lead, who is responsible for cascading the sustainability strategy and developing bespoke sustainability action plans that are aligned to the Group's 2040 ambitions and 2030 targets. The senior leadership of each business unit is responsible for agreeing its Sustainability Action Plan and ensuring it is delivered and adequately resourced. The Sustainability Action Plans outline how each project will deliver sustainability at a local level. The plans recognise that Balfour Beatty has a responsibility to ensure that it is not negatively impacting the environment through its activities and bringing about environmental benefits where possible. Areas of focus within the Sustainability Action Plans include but are not limited to reductions in waste and water, using responsibly sourced timber, reducing GHG emissions, local employment and skills, supporting local businesses, and community engagement through charitable fundraising, volunteering, and mentoring.

The Safety and Sustainability Committee review performance against the Group's sustainability strategy and PricewaterhouseCoopers LLP (PwC LLP) is engaged by Balfour Beatty to provide limited assurance over selected greenhouse gas and social value performance data for annual reporting purposes.

HOW WE MANAGE SUSTAINABILITY

Safety and Sustainability Committee

The Group Safety and Sustainability Committee reviews the Group's sustainability strategy; monitoring progress and ensuring accountability at Board level.

Executive Committee

The Executive Committee sets ambitions and targets, helping each Business Unit develop its own action plan.

Business Units

Each Business Unit has a sustainability lead who is responsible for cascading strategy and developing bespoke Sustainability Action Plans that are aligned to the Group's 2040 ambitions. They ensure projects are managed sustainably while reviewing and sharing best practice and identifying opportunities for improvement.

Internal audit and external assurance

Internal audit teams review performance against the Group's sustainability strategy. PwC LLP® is engaged by Balfour Beatty to provide limited assurance over the reporting of social value, and the Group's Scope 1 and 2 greenhouse gas emissions.

How do we... power an excavator without fossil fuels?

Our team working on National Highways' A63 Castle Street scheme showcase how we're using renewable energy to power excavators to reduce our carbon footprint as we seek to go Beyond Net Zero carbon by 2040.

SCAN TO WATCH THE VIDEO

Watch our video to learn how we're using renewable energy to power excavators

UN Sustainable Development Goals

The Group's 2030 targets are aligned to the UN Sustainable Development Goals (SDGs) to provide a blueprint to achieve a better and more sustainable future for all. Whilst each area is aligned to one or more SDGs, the strategy as a whole focuses on parts of SDG 9 – Industry, Innovation and Infrastructure. For more information visit: www.balfourbeatty.com/sdgs

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

Part of Balfour Beatty's ongoing commitment to being a responsible, sustainable organisation is reflected in the benchmarking and metrics it uses from a variety of sources. ESG is of importance to the organisation, and to its stakeholders and shareholders which is why Balfour Beatty participates and is listed in the FTSE4Good index, Sustainalytics, MSCI and CDP.

In 2021, Balfour Beatty plc achieved a FTSE4Good[1] ESG score of 3.1 on a scale from 0 of 5 (higher scores are better). compared to 3.0 in 2020.

In January 2022, Balfour Beatty plc received an ESG Risk Rating of 25.6 from Sustainalytics[2] and was assessed to be at medium risk of experiencing material financial impacts from ESG. Balfour Beatty was also awarded the ESG Industry Top Rated badge.

In January 2021, Balfour Beatty plc received a rating of AA (on a scale of AAA-CCC) in the MSCI[3] ESG Ratings assessment. This MSCI ESG AA rating, which measures resilience to long-term industry material ESG risks, benchmarks Balfour Beatty as a leader in managing ESG risks.

In December 2021, Balfour Beatty achieved a CDP[4] rating of B which demonstrates that it is taking coordinated action on climate issues.

MY CONTRIBUTION (MYC) SUSTAINABILITY CAMPAIGN: THINK GLOBAL. ACT LOCAL. MAKE A DIFFERENCE

MY CONTRIBUTION

776 Ideas submitted	**274** Taking forward	**52** Delivered	**29** Benefits realised

ENVIRONMENT	MATERIALS	COMMUNITIES
142 Ideas **28** delivered	**100** Ideas **13** delivered	**32** Ideas **11** delivered
Responding to climate change and managing our impact on the environment	Choosing the right materials, using less materials and creating value from the materials when no longer needed	Improving the prosperity and well being of individuals and communities

We know that there are no limits to what we can achieve when we put our minds to it. That's why we used MyC, our employee-led change programme, to help focus our employees' hive-mind and generate game-changing ideas on the critical issue of sustainability. In July 2021, we launched a month-long MyC sustainability campaign with a 'Think Global. Act Local. Make a Difference.' theme to encourage employees to share ideas to help our UK businesses achieve their targets aligned to our 2040 sustainability ambitions.

Each Business Unit campaign focused on the key areas set out in their local Sustainability Action Plan. These plans ensured Balfour Beatty's employees helped to address specific local challenges and priorities, as well as leaving a positive legacy in the communities we serve.

ESG PERFORMANCE INDICATORS

FTSE4Good

SUSTAINALYTICS
ESG INDUSTRY TOP RATED 2022

MSCI ESG RATINGS AA

CCC	B	BB	BBB	A	AA	AAA

CDP

1 Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that Balfour Beatty plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

2 This publication contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at: www.sustainalytics.com/legal-disclaimers.

3 The use by Balfour Beatty plc of any MSCI ESG Research LLC or its Affiliates (MSCI) data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of Balfour Beatty plc by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.

4 CDP drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Over 9,600 companies with over 50% of global market capitalisation disclosed environmental data through CDP in 2020. This is in addition to the over 920 cities, states and regions who disclosed in 2019, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change.

Environment: Beyond Net Zero Carbon

Balfour Beatty is committed to minimising its impact on climate change and to helping our customers to do the same. To deliver our beyond net zero ambition, we're building on the progress we've already made in the past decade and rethinking how we operate. This includes transitioning to a low-carbon fleet, decarbonising our on site operations and working closely with our supply chain partners to bring down our emissions and theirs – using innovative technologies and lower carbon materials.

To make sure we're on track to deliver our ambition, we are setting a midway target to achieve a science-based target by 2030 aligned with the Paris Agreement to limit global temperature increase to 1.5°C, with further year-on-year milestone targets set at strategic business unit level. The Group is on schedule to submit its target for validation by the Science-based Target Initiative (SBTI) during 2022.

The Group also became a signatory to the Business Ambition for 1.5°C, a global coalition of UN agencies, businesses, and industry leaders, in partnership with the UN Race to Zero campaign.

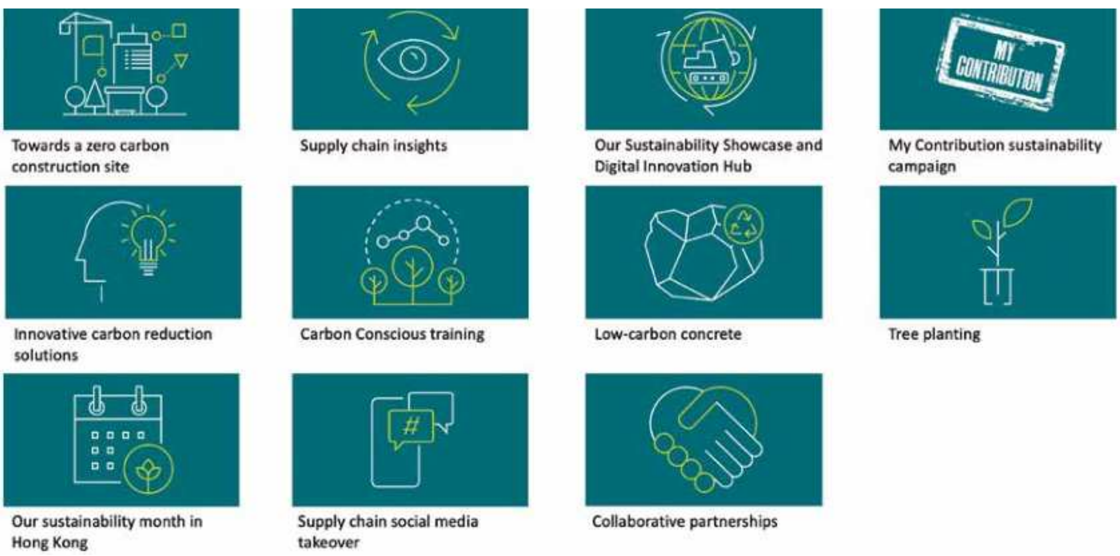
Balfour Beatty was proud to see the progress made recognised in 2021, when it was listed on the Financial Times Europe Climate Leaders List, which lists the top 300 companies that achieved the greatest reduction in their greenhouse gas emissions intensity (tonnes of emissions of CO_2 equivalent per €1m of revenue) between 2014 and 2019.

At an operational level the Group continues to implement and explore new opportunities to reduce Scope 1 and 2 GHG emissions and its reliance on fossil fuels, for example, using low or no carbon technologies and algorithms such as the power and plant profilers that have been developed in-house to assist decision making and to drive sustainability performance improvement. In 2021, a net zero roadmap (pictured on page 72) for Scope 1 and 2 GHG emissions for the UK was produced, identifying new processes and key technologies to be explored, trialled and or implemented out to 2030. These include improving the fuel efficiency of Balfour Beatty's fleet by introducing fully electric vehicles, installing electric vehicle charging points and expanding electric plant options. The roadmap is continually updated as new low-carbon technology alternatives and processes are identified or when data from technology trials or other external factors result in technologies not being viable for the Group. Similar net zero road maps are being developed for other regions.

UK ECOSENSE

The new site cabin design is being introduced as standard to all new site set-ups from January 2022. It is expected that Balfour Beatty will save a minimum of 1,400 tonnes of carbon dioxide emissions across its site cabin portfolio each year.

FIND OUT MORE
In our Innovation section
p33



UN CLIMATE CHANGE CONFERENCE OF THE PARTIES (COP26)

In November 2021, world leaders gathered for the 26th UN Climate Change Conference of the Parties (COP26), where they reiterated their commitment to tackling climate change. As the conference host, the UK Government called on British companies to get involved and showcase the amazing work already underway to build a better, greener future.

Balfour Beatty rose to the challenge, undertaking a full programme of activities working with supply chain partners and customers to address head-on some of the biggest issues facing the sector, including the barriers the supply chain faces in decarbonising and how to deliver zero carbon construction sites.

Read more about Balfour Beatty UK's COP 26 activities at: www.balfourbeatty.com/cop26

EMISSIONS RETROFIT

Working in partnership with HS2, Eminox Ltd and Imperial College London, Balfour Beatty has successfully developed a world-first emissions retrofit exhaust solution that can be retrofitted to existing specialist plant to bring it in line with the latest engine standards. This cuts emissions and carbon and improves air quality and is certified by the Energy Saving Trust.

FIND OUT MORE
In our Innovation section
p32

Where data collected from trials demonstrates a significant GHG emissions reduction potential these are translated into actionable targets at the region or strategic business unit level. In the UK, Plant and Fleet Services implemented a target to have a fully sustainable car fleet (100% electric/plug-in hybrid electric vehicle/hybrid/RDE2 compliant) by 2024 - six years ahead of the UK Government target to end the sale of new petrol and diesel cars and vans by 2030. In 2021, traditional diesel engines were removed completely across all car grade options, 85% of which were diesel in 2019. Within every car grade option there is at least one plug-in hybrid vehicle option. The total estimated emissions reduction associated with the company car list, based on 2021 orders, is 2,497 tonnes of CO_2e per annum.

Similar targets have been developed for commercial vehicles: 50% of light commercial vehicles (LCVs) electric or hybrid by 2025; 100% removal of diesel by 2030; and heavy goods vehicles (HGVs) 100% sustainable / alternative fuel from 2030. Various battery electric vehicles (BEVs) are already in use in the UK in the LCV category and Plant and Fleet Services is working with major HGV manufacturers to understand capability, capacity and suitability to Balfour Beatty's operations and requirements with a hydrogen dual-fuel trial (retrofitting hydrogen to existing HGVs for dual operation) currently underway on HS2 projects.

Balfour Beatty is working with supply chain partners, supported by Balfour Beatty Kilpatrick and Balfour Beatty Living Places, to ensure electric charging infrastructure demands are met, with significant investment allocated in 2021 and 2022 to install charging stations across the Group's largest office locations and project sites in the UK.

During 2021 substantial progress was made in machine control learning. This will significantly reduce the use of fossil fuels in large plant and equipment where more efficient, alternative low-carbon fuels and technologies are not yet available or financially feasible. Machine control is used to accurately position large earthwork and civils machinery on site based on 3D survey design models and GPS systems. The technology currently allows a machine to operate semi-autonomously with a view to fully autonomous operations in the future. The benefits noted to date include a 37% reduction in fuel and GHG emissions, 34% reduction in equipment operating hours and a 35% reduction in machine operating costs.

ISO 50001 ENERGY MANAGEMENT
UKAS MANAGEMENT SYSTEMS 0015

Balfour Beatty's EcoNet technology uptake has also increased in 2021. EcoNet is currently deployed on 50 project sites, with a total GHG emission saving of 3,300 tCO_2e.

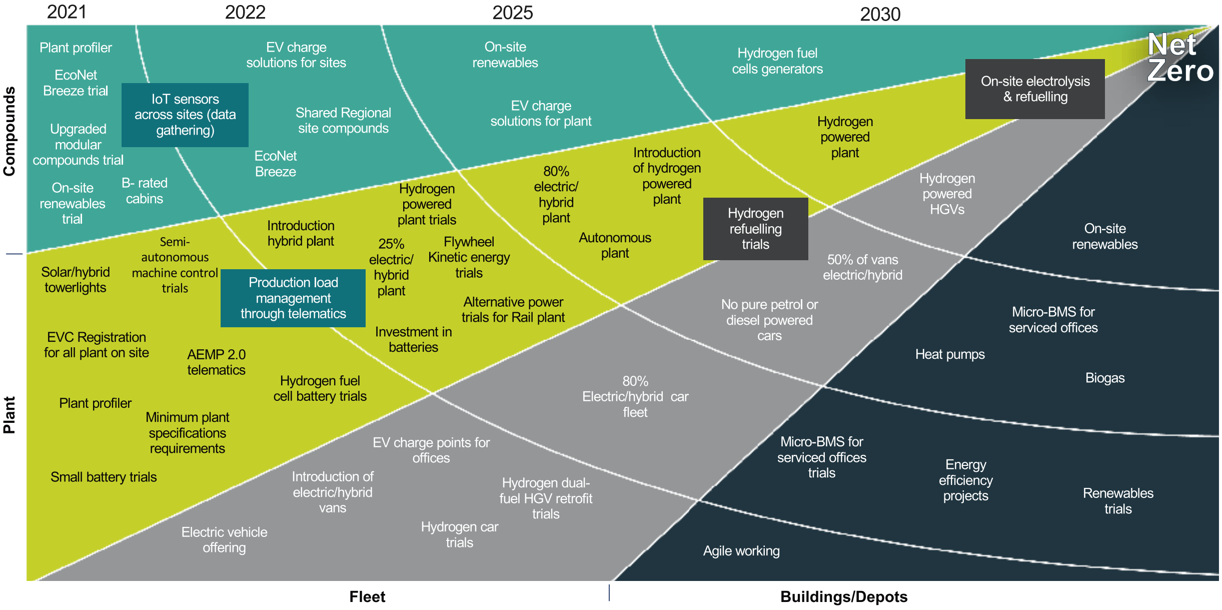
THE LARGEST SUSTAINABILITY LINKED LOAN IN THE UK CONSTRUCTION INDUSTRY

In October 2021, the Group announced an agreement to convert its £375m revolving credit facility (RCF) to the largest sustainability linked loan in the UK construction industry to date, extending the maturity to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score as determined by Sustainalytics.

IEMA'S GREENHOUSE GAS MANAGEMENT HIERARCHY

ELIMINATE	Our decisions will consider options to eliminate carbon emissions.
REDUCE	We will use resources efficiently to lower our carbon intensity.
SUBSTITUTE	We will adopt low carbon alternatives.
COMPENSATE	We will offset unavoidable emissions through environmental projects.

NET ZERO ROADMAP FOR SCOPE 1 & 2 EMISSIONS FROM UK OPERATIONS



Environment: Beyond Net Zero Carbon continued

In the UK many of these energy efficiency improvements have been driven by Balfour Beatty's Plant and Fleet Services business that is certified to ISO 50001, the Energy Management System standard. The standard requires metrics and targets to be set and continually improved. Gammon is also certified to that standard.

Also in 2021, Gammon co-launched the Power Up Coalition with the Business Environment Council as a new initiative under the Low Carbon Charter, which aims to work with the private sector to ensure early connections to electricity at sites before construction starts.

Scope 1 and 2 GHG emissions

Balfour Beatty operates in three principal geographies – the United Kingdom, the United States, and Gammon in Hong Kong. Data from these geographies is captured and reported in this section.

Since 2010 total Scope 1 and Scope 2 GHG have reduced from 357,983 tonnes of CO_2e equivalent (tCO_2e) to 240,781 tCO_2e or 32.7%. Using a five-year rolling average reflects the cyclical nature of the construction industry and smooths distortions seen year on year when new projects commence and construction carbon-intensive activities such as earthworks and civils are at their peak.

Both five-year rolling average emissions and average intensity show a continued downward trend; this is similar when looking at the five-year rolling intensity average i.e. tonnes of CO_2e per £m revenue, despite our revenue from strategic projects rising.

In 2021, the Group saw an increase in its Scope 1 and Scope 2 GHG emissions, for a number of reasons outlined in more detail below. This increase in emissions validates the need for faster and more widespread adoption of emerging renewable and lower-carbon technologies and alternative fuels.

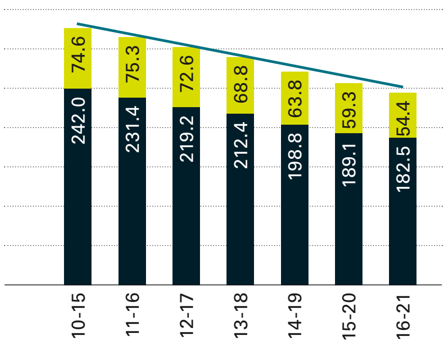
From 2020 to 2021 the Group's total Scope 1 and Scope 2 GHG emissions increased when using a location-based approach from 205,517 tonnes of CO_2e in 2020 to 240,781 in 2021, or 17.2%. Using the market-based approach there is a smaller but similar upward trend of 15.8%.

The Group's GHG emissions intensity in 2021 also increased compared to 2020 from 18.8 tonnes of CO_2e/£million (£m) revenue to 25.3 tonnes of CO_2e/£m revenue, or 34.6% when using a location-based approach. Using the market-based approach there is a smaller upward trend to 24.5 tonnes of CO_2e/ £m from 18.4 tonnes of CO_2e/ £m or 33.1%.

GHG emissions have increased in all regions compared to 2020, with the UK increasing 11%, the US increasing 15%, and the rest of the world increasing 25%. Much of the increase is due to the mobilisation of a number of noteworthy strategic projects in 2021.

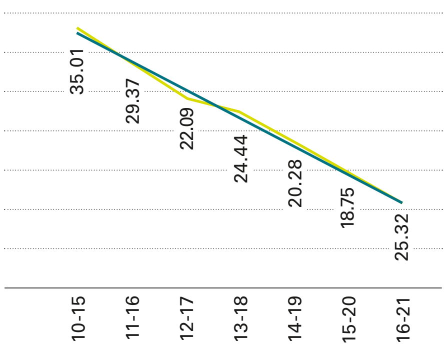
FIVE YEAR ROLLING AVERAGE, SCOPE 1 AND 2 GHG EMISSIONS

'000 tCO_2e



FIVE YEAR ROLLING AVERAGE, SCOPE 1 AND 2 GHG EMISSIONS

tCO_2e/£m revenue



In the early stages of such large projects, energy intensive construction activities such as earthworks and civils works which require heavy plant result in large GHG emissions. As these projects move through the construction lifecycle it is likely GHG emissions will decrease significantly over time.

- In the UK, the HS2 project mobilised and is now the single biggest project in the UK in terms of GHG emissions accounting for approximately 17.8% of the UK total.
- In the US, there was a significant increase in large projects mobilising in US Buildings including large commercial mixed use development projects like the Wharf Phase 2 and 2601 Victory Avenue resulting in upswings in workload and associated increases in energy demand and GHG emissions.
- Hong Kong has seen an increase in tunnelling projects and major bore piling in energy intensive works. The Prince of Wales Hospital and Hong Kong Airport expansion have seen the highest proportional increases in terms of emissions share. The airport is on a reclaimed and levelled island which does not yet have sufficient electricity supply so all projects rely on diesel for power. Deep foundations works for the new terminal's automated people mover, infrastructure expansion of terminal 2 and commercial developments have been the most significant strategic projects that have increased GHG emissions.

While these increases were significant in this reporting year, since establishing a baseline in 2010, the tonnes of CO_2e/£m revenue have decreased by 39% from 41.5 tonnes of CO_2e/£m revenue to 25.3 tonnes of CO_2e/£m revenue in 2021.

Reporting on Scope 3 emissions

Scope 3 emissions are those not directly controlled by Balfour Beatty. They occur largely in our supply chain and make up the bulk of the GHG emissions associated with Balfour Beatty's activities. As such, measuring and reducing these emissions is a priority for the Group.

The Group has engaged with external Scope 3 reporting experts during 2021 to support the development of a reporting methodology and to establish a Scope 3 baseline. We made significant progress in 2021 in collecting Scope 3 emissions related data across all operating regions.

Achieving net zero emissions throughout our entire supply chain will require effective and coordinated collaboration across many diverse stakeholders, the ability to share information and correctly designed incentives. In 2022 Scope 3 net zero roadmaps will be developed for the largest Scope 3 categories.

TOWARDS A ZERO CARBON CONSTRUCTION SITE

In 2021, Balfour Beatty set out a Roadmap towards a zero carbon construction site which is being trialled on a live site - the Royal Botanic Garden Edinburgh - Biomes Initiative.

Previous 'net zero' sites have focused only on Scope 1 and 2 emissions and incorporated carbon offsetting measures. Balfour Beatty is working through all the elements that go into creating the infrastructure it delivers, including Scope 3 emissions, being aware that some of the elements are not within its control. Balfour Beatty is working closely with supply chain partners, and drawing on the expertise of the whole UK business, to trial innovations and work through obstacles.

Progress and learnings are being shared across the sector and beyond in a live, publicly available 12-month diary. View here: www.balfourbeatty.com/our_diary

USING GREEN FINANCE TO ACCELERATE GREENER PERFORMANCE AND LOWER-CARBON EMISSIONS IN THE HONG KONG CONSTRUCTION INDUSTRY

In July 2021 Gammon and HSBC announced an agreement to implement a green guarantee of HK$258m to support the development of the Hong Kong International Airport Terminal 2 Expansion Works project. This flagship project of Airport Authority Hong Kong also received the first Sustainable Finance Certification (Pilot Project) issued by Construction Industry Council (CIC).

The green guarantee, executed as a green performance bond, is innovatively structured as a contract that the project will achieve its green obligations and deliver a Building Environment Assessment Method (BEAM) Plus Platinum rating – the highest qualification level of the comprehensive certification standard for green properties.

Gammon is delivering the project by using construction practices that reduce the environmental impacts of the terminal building, and improve environmental quality and user satisfaction. Several green initiatives have been implemented, including the use of prefabricated modules to facilitate low waste construction, recycling removed trees to reduce waste disposal, and re-using treated marine sediment to avoid marine dumping. The Enertainer, a mass battery storage system is also being used to reduce noise, air pollution and carbon emissions on site, along with ready-mix concrete with CIC Green Product Certification and the CIC Carbon Assessment Tool to track carbon performance.

Strategic report

Environment:
Beyond Net Zero Carbon continued

Reporting on Scope 3 emissions continued

While Balfour Beatty has made significant progress in establishing a 2020 baseline, this work remains subject to internal data quality control checks as well as external validation by the SBTI. Once validated by the SBTI all future disclosures will set out performance against a 2020 baseline for all scopes. As the data is subject to final internal review and subsequent external validation, the Group has decided not to disclose Scope 3 emissions in this Annual Report. Instead, quantitative performance since 2010 is disclosed for Scope 1 and 2 emissions only with a qualitative description of progress of action taken throughout 2021 by the Group to measure and reduce Scope 3 emissions. A full disclosure will be made in 2022.

Scope 1 and 2 GHG emissions

	Absolute tonnes of CO_2e					
	Base year 2010	2017	2018	2019	2020	**2021**
Scope 1	283,821	170,937	175,065	167,071	162,816	**199,002**Ⓐ
Scope 2 (location-based)	74,162	71,170	49,365	43,561	42,701	**41,779**Ⓐ
Scope 2 (market-based)	n/a	n/a	n/a	n/a	38,596	**34,340**Ⓐ
Total Scope 1 and 2 carbon emissions (location-based)	357,983	242,107	224,430	210,632	205,517	**240,781**
Total Scope 1 and 2 carbon emissions per £m revenue (location-based)	41.5	22.1	24.5	20.3	18.8	**25.3**Ⓐ
Total Scope 1 and 2 carbon emissions per £m revenue (market-based)	n/a	n/a	n/a	n/a	18.4	**24.5**Ⓐ

Note 1: Scope 1 emissions include those resulting from the activities relating to the direct combustion of fossil fuel and use of refrigerants

Note 2: Scope 2 emissions are indirect from the use of electricity.

Note 3: The Group's Greenhouse Gas disclosure metrics and descriptions can be found in Part 2 of the Global Sustainability Reporting Guidance version 1.5 https://balfourbeatty.com/sustainability reporting.

Note 4: Data includes all joint venture operations where Balfour Beatty has operational control including Gammon Construction.

Note 5: To calculate the carbon intensity an adjustment to the final revenue has been made from £8,532,987,722.92 to £9,508,382,858.49 in-line with our GHG reporting operational control methodology. Where we do not have operational control we do not account for any associated emissions or the associated revenue. Where we do have operational control of the joint venture, we report 100% of the emissions and we adjust the revenue to account for 100% of the associated revenue; an example of this is the Gammon joint venture in Hong Kong where an adjustment is made accordingly

Ⓐ Included within PwC LLP's limited assurance scope.

Energy use in MWh

Fuel	2019	2020	**2021**
Electricity	88,061	89,555	**94,807**
Natural gas	8,691	8,147	**8,867**
Industrial gases	4,095	4,687	**3,358**
5% biodiesel blend	414,387	245,452	**305,510**
5% biofuel petrol blend	63,305	54,799	**123,906**
Biodiesel different blend	104	53	**33**
E85 petrol	1,278	188	**886**
Gas oil (red diesel)	197,590	344,754	**437,247**
100% mineral diesel	13,298	14,071	**14,614**
100% mineral petrol	–	3,701	**3,988**
LPG	187	57	**143**
Shell GTL	–	–	**3,155**
Boiler fuel	214	454	**472**
Global total	791,210	765,918	**996,986**
UK energy use % of total	45.4%	50.0%	**32.9%**

Note 1: The figures in this table include energy from all joint venture operations where we have operational control, including Gammon.

GHG reporting and assurance

Balfour Beatty's GHG emissions are reported in accordance with the UK Government's GHG reporting requirements covering all seven UNFCCC/Kyoto gases. The Group uses the operational control approach under the GHG Protocol Corporate Accounting and Reporting Standard as of 31 December 2021 to report emissions from its operations around the world.

In 2021, alongside the location-based method, Balfour Beatty reported against the GHG Protocol Scope 2 market-based reporting methodology. This method allows the application of an emissions factor of zero tonnes of CO_2e equivalent per kWh to supply contracts from

SCOPE 1 & 2 CO_2e (MARKET BASED) BY COUNTRY

■ UK	40%
■ US	18%
■ Europe	1%
■ Rest of the World	41%

958%

RENEWABLE ELECTRICITY GENERATED BY THE GROUP COMPARED TO 2020

suppliers of purchased electricity from renewable sources with a guarantee of origin certificate. For example, in 2021 in the UK 15,812.43 MWh of Renewable Electricity Guarantees of Origin (REGO) certificates for electricity were procured for electricity purchased through the Group's utility procurement contract. A residual mix emission factor is applied to electricity where a REGO is not available. For electricity which does not come from a renewable source and a country specific residual mix emission factor is not available, Balfour Beatty has applied either the appropriate supplier factor based on the supplier's published fuel mix where it is known and can be evidenced, or the country average electricity emission factor provided by the IEA, EPA or Defra (as appropriate). Balfour Beatty's total energy consumption in MWh is shown on page 74 to allow readers to make more informed comparisons of the Group's energy use.

Although Balfour Beatty's Scope 1 and 2 tonnes of CO_2e emissions increased by 17.2% (35,264 tonnes) from 2020 to 2021, energy use measured in MWh increased by 30.2% (231,068 MWh). This difference can be explained by the fact that different fuels have different carbon intensities, with some fuels attracting greater carbon conversion factors than others. Furthermore, the MWh table does not include fugitive emissions.

The energy use table illustrates that there has been a 27% rise in gas oil (red diesel) and a 24% increase in 5% biodiesel consumption in 2021 as a result of the noteworthy strategic projects across all geographies. This demonstrates the significant challenges faced by the sector in terms of adopting low-carbon alternative technologies for large operational plant as well as the cyclical nature of infrastructure project delivery, with years of particularly carbon intensive activity when multiple strategic projects are mobilised.

Balfour Beatty's Scope 1 and 2 CO_2e GHG emission sources include emissions from assets that are otherwise not referred to across the rest of the financial statements, such as energy provided by landlords or customers that Balfour Beatty does not pay for. In 2021, the Group generated 372,008 kWh of renewable electricity from the widespread adoption in 2021 of solar cabins, solar tower lights, solar mobile signage and hybrid generation on project sites. This represents an increase of 958% from the 35,141 kWh generated in 2020.

The Group has determined and reported the emissions it is responsible for within this boundary and does not believe there are any material omissions. The Group uses the UK Government's carbon conversion factors, updated in 2021, to calculate its emissions into equivalent tonnes of carbon dioxide (CO_2e) and the IEA's 2021 international conversion factors for electricity (Scope 2) except for the UK and the US where the UK Government and the US EPA conversion factors were applied as they more accurately reflect geographical carbon intensities of local grids.

PwC LLP was engaged to undertake an independent limited assurance engagement of the Group's Scope 1 and 2 emissions, and resulting emissions intensity (expressed as a ratio of emissions to revenue) reporting to Balfour Beatty plc, using the assurance standards ISAE 3000 (Revised) and ISAE 3410 over the GHG data that has been highlighted in this report with the symbol Ⓐ. PwC LLP's full statement is available at: www.balfourbeatty.com/ILA

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

Non-financial performance information, GHG quantification in particular, is subject to more inherent limitations than financial information. The limited assurance statement should be read in the context of the reporting criteria and metrics as set out in Balfour Beatty's Global Sustainability Reporting Guidance available at: www.balfourbeatty.com/sustainabilityreporting. The guidance outlines the non-financial KPIs measured by the Group, their definitions, and evidence requirements.

Biodiversity

Significant progress has been made in tackling environmental issues in the past decade, but much of the focus has been on carbon, waste and water. Biodiversity – which includes nature, plant life, wildlife and their habitats is equally important to ensuring that we have a healthy planet. Balfour Beatty supports the principle of delivering a 'Net Gain' for biodiversity and supports customers wherever possible in using Net Gain approaches. By considering up front how construction schemes can boost biodiversity, the need to build more infrastructure to support economic growth and provide new houses and places of employment can be balanced with environmental concerns. Net Gain provides the opportunity to generate significant benefits for communities living near these schemes, helping to gain local support and leave a genuine legacy in terms of outcomes such as community spaces, improved air quality and reduced flood risk. In the UK, under the Environment Act 2021, nationally significant infrastructure projects (NSIPs) are subject to a minimum 10% mandatory biodiversity Net Gain requirement. Public authorities in England such as local authorities, government departments and agencies and utility companies have a legal duty to "have regard for" biodiversity, while customers including National Highways and NetworkRail have committed to 'no net loss' and 'net gain/ positive' outcomes for biodiversity in their infrastructure projects. This is a concept which is expected to continue to gain traction.

How do we...

tackle climate change whilst supporting local wildlife?

In 2021, Balfour Beatty fulfilled its commitment to plant 15,000 trees in the UK – one for each UK employee. A number of our own people volunteered to assist with planting new native broadleaf trees across 1,000 acres of grassland to encourage the creation of habitats for local wildlife such as the endangered red squirrel.

SCAN TO WATCH THE VIDEO

Hear from some of our volunteers to find out more.

Materials: Generate Zero Waste

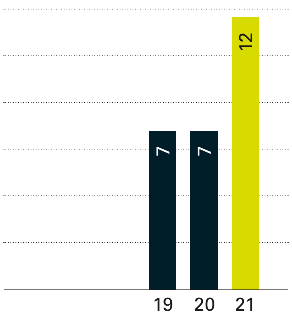
Balfour Beatty supports the transition to a circular economy to protect the valuable natural resources we all rely on. This means choosing the right materials, using less, reducing waste and creating value from the materials no longer needed. To help deliver this, the Group has in place a robust sustainable procurement strategy which guides what it buys, who it buys from, and ensures that it is working with supply chain partners that share Balfour Beatty's values. The UK and Hong Kong businesses align to the ISO 20400 sustainable procurement standard to embed sustainability into their procurement strategies.

The Group's sustainability strategy includes a 2040 ambition to generate zero waste from operations and a 2030 target to reduce the amount of waste generated per £1m of revenue by 40%. Through collaboration with its supply chain partners, the Group also aims for all products and materials procured to be net zero carbon by 2040.

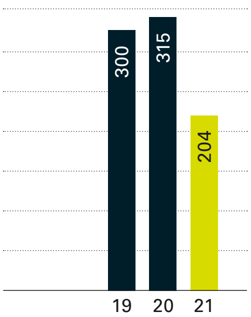
The Group has robust data on waste for the UK and Gammon. The US has worked to establish baselines in 2021 which will be used moving forward. Comparing waste data year on year will also vary depending on the type of projects the Group undertakes and the stages of those projects. Balfour Beatty is working with its operating businesses to constantly improve this data.

1,830,527 tonnes of waste that Balfour Beatty produced were avoided from landfill in 2021 but this does not include materials that were reused directly without entering the waste stream. Balfour Beatty wants to go further, and knows that the best way to address waste in the construction sector is to reduce the amount produced in the first place. This will mean a greater shift towards Design for Manufacture and Assembly (DfMA) techniques which are inherently more resource efficient and will require all parties to rethink how construction projects are planned and procured, to ensure that circular economy principles are baked in from the outset.

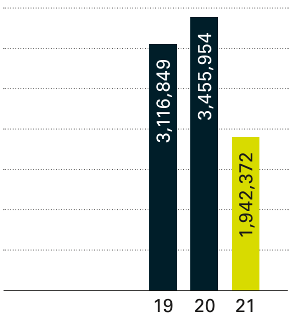
WASTE LANDFILLED (TONNES/£m REVENUE)



WASTE GENERATED (TONNES/£m REVENUE)



WASTE GENERATED (TONNES)



Note 1: Waste Generated refers to waste generated to be recycled and waste generated to be landfilled.

INTERMODAL TRANSFER TERMINAL: BONDED VEHICULAR BRIDGE AND ASSOCIATED ROADS

At the Intermodal Transfer Terminal – Bonded Vehicular Bridge and Associated Roads project, the construction required the excavation of old marine sediment on land and in the sea before foundations could commence. Originally the marine-based sediments would have needed dumping at sea while the land-based sediments were to be stabilised and re-used. The team proposed to avoid the dumping at sea and instead to stabilise all the excavated sediments and reuse them on site. This saved 88% of marine trips. Also, through trials and testing the team were able to reduce the amount of cement needed by 1,964 tonnes, from a typical 5–20% to only 0.5% which avoided around 1,993 tonnes CO_2e emissions.

BALFOUR BEATTY WINNING ON AGGREGATE

Balfour Beatty Living Places (BBLP) worked with Southampton City Council to trial a new sustainable and lean initiative. Rubber-modified asphalt (RMA) was used to convert waste tyres, which would have otherwise gone to landfill, into new roads and footpaths helping to offset the environmental impact of highways maintenance activities. The RMA mix is made and laid at lower temperatures than conventional hot mix, resulting in lower CO_2 emissions during production and less energy use. The lower temperature allows re-surfaced roads to reach an appropriate temperature for traffic faster, allowing them to re-open more quickly and thereby reducing disruption.

Similar techniques were trialled on the HS2 Old Oak Common project. Waste tyres have been incorporated into asphalt on temporary haul roads, and used in conjunction with lower temperature 'warm mix' methods. One kilometre of carriageway laid using this technique would contain the rubber from 750 waste tyres and provide carbon savings in the range of 5-10%. Following its successful implementation on these two trials, RMA is now being looked at across the portfolio of Balfour Beatty Living Places contracts and for use on other haul roads.

Communities: Positively impact more than 1 million people

Balfour Beatty wants to make a meaningful contribution to the communities it works in. The Group's sustainability strategy includes a 2040 ambition to Positively Impact more Than 1 Million People and a 2030 target to generate £3bn of social value calculated using the National Social Value Measurement Framework which is a method of reporting and measuring social value to a consistent standard.

Balfour Beatty's best-in-class approach uses a proven model to deliver ambitious local content targets. Balfour Beatty's UK business alone delivered £716.5mⒶ in social value in 2021 while approaches to measuring social value continue to be developed in Gammon and the US.

To benefit local areas, the Group uses local supply chain partners and employees wherever possible and invests in future talent through apprenticeship schemes and work placement opportunities. In the UK over £1bn was spent with SMEs and local businesses in 2021.

Please read details on our talent development programme in our people section page 83.

Social value reporting and assurance

PwC LLP was engaged to undertake an independent limited assurance engagement of the social value generated in the UK, reporting to Balfour Beatty, using the assurance standard ISAE 3000 (Revised) on the social value data that has been highlighted in this report with the symbolⒶ. PwC LLP's full statement is available at: www.balfourbeatty.com/ILA

The level of assurance provided for limited assurance is substantially lower than a reasonable assurance engagement. In order to reach its opinion, PwC LLP performed a range of testing procedures over the social value data. A summary of the work PwC LLP performed is included within its assurance opinion. Non-financial performance information, is subject to more inherent limitations than financial information.

The limited assurance statement should be read in the context of the reporting criteria as set out in Balfour Beatty's Global Sustainability Reporting Guidance available at: www.balfourbeatty.com/sustainabilityreporting

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

Community investment through volunteering and charitable fundraising

Balfour Beatty has a long and proud history of supporting charities that align to its priority focus areas. This is seen as a really tangible way of 'Building New Futures'.

Balfour Beatty's employees are passionate about the communities they work and live in. Employees are encouraged to make use of the opportunity to volunteer up to two days per year to give something back to local communities: in 2021 Balfour Beatty colleagues contributed to over 23,000 hours of volunteering.

The Balfour Beatty Shaping Better Futures (SBF) Charitable Trust was dissolved in 2021 and replaced with a new approach. Balfour Beatty in the UK donated £461,400 to charity, including £200,000 to its charitable partners: The Prince's Trust, with which the Group has a longstanding partnership, received £100,000 towards its work with young people aged 11 to 30 to provide opportunities and help equip them with the tools to start their careers and learn; Project REECE, which supports veterans looking to embark on new careers in construction, and Groundworks, which transforms lives in the UK's most disadvantaged communities, received £50,000 each. The focus areas for the Group's charitable work have been on:

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

As well as supporting these three charities, Balfour Beatty continues to work with its associate charity partners who support our business objectives, including The 5% Club, Mates in Mind and Women into Construction as well as local charity partners who provide the opportunity to positively impact local people and good causes.

In 2021 Gammon contributed £247,418 (HK$2.6m) to charity, while Balfour Beatty US contributed £314,007 (US$423,471). The US business expanded its charity partner network enabling employees to partner with over 20 charitable organisations across the country, a few examples include:

£716.5mⒶ

SOCIAL VALUE GENERATED IN THE UK

£1bn

MORE THAN £1BN UK SPEND WITH SMES AND LOCAL BUSINESSES

42.63

AVERAGE CONSIDERATE CONSTRUCTORS SCHEME SCORE IN BALFOUR BEATTY. (INDUSTRY AVERAGE: 38.23)

£1,022,825

TOTAL AMOUNT FOR CHARITABLE CONTRIBUTIONS

Atlanta public schools

At Gideons Elementary School our Balfour Beatty US team saw the opportunity to go beyond the project and celebrate the school community's past, present and future. In collaboration with Atlanta Public Schools and The Kindezi Schools, Balfour Beatty helped develop a mural to tell the school's story and create a positive and vibrant environment.

SCAN TO WATCH THE VIDEO

OLD OAK COMMON VOLUNTEERING

Balfour Beatty's Major Projects team on the Old Oak Common station project has made a commitment to support children in local schools to improve their STEM curriculum. Colleagues have worked in collaboration with HegartyMaths SPARX to roll out an online mathematics learning system to secondary schools in three London Boroughs local to the project. The principle of the HegartyMaths SPARX online mathematics system is to provide an easy-to-use student interface that reinforces mathematics in-classroom curriculum learning. The system will support more students to achieve minimum standards in many skills required to access employment opportunities in the construction industry. The project team have committed to an investment of £50,000 per annum for five years to deliver this programme.

In the period from launching the partnership on 1 September 2021 to 3 February 2022, 16 local schools have been enrolled onto the platform with 10,422 students participating. In this time 63,655 hours of learning has been delivered. It has proven to be of particular interest to female learners, with 5,744 females participating in the programme compared to 4,678 males, and female learners completing 41,200 hours of learning compared to 22,400 hours by male learners.

63,655
HOURS OF LEARNING DELIVERED

10,422
STUDENT PARTICIPATED ACROSS 16 SCHOOLS

ARBOR DAY FOUNDATION COMMUNITY TREE RECOVERY PROGRAM

Balfour Beatty US donated US$6,000 to benefit Arbor Day Foundation's Community Tree Recovery Program which supported six local communities. The programme provides replacement and recovery tree services for residents and communities that have suffered damage and loss as a result of major disasters. Supporting the Community Tree Recovery Program is an impactful way for Balfour Beatty to support recovery efforts in communities across the nation, and also help Balfour Beatty colleagues, families, clients and industry partners who have been directly impacted by fires, tornadoes and hurricanes.

Balfour Beatty US also committed to planting 4,500 trees, with each tree representing a team member, of which 3,495 were planted in 2021. Local operating teams are working with their local forestry service to arrange for planting based on the best timing and season for each location.

10th Annual Green Apple Day of Service San Marcos Unified School District
The 10th annual Green Apple Day of Service took place at Knob Hill Elementary School, a project spearheaded by Balfour Beatty and San Diego Green Building Council to create an outdoor classroom and learning garden for its students. This Day of Service brought students, teachers, parents, and community members to the school to create an outdoor classroom and learning garden for students to learn and engage in a connective and hands-on way.

SCAN TO WATCH THE VIDEO

Make-A-Wish® Central and South Texas
Balfour Beatty US colleagues delivered a wheelchair-accessible sensory backyard renovation for a nine-year-old from Round Rock, Texas, and also donated their time and building skills to help make a difference for a young girl and her family in Georgia. Working alongside Make-A-Wish® Georgia, the team built a dream playground for the four-year-old who has sight and mobility challenges and is largely limited to her home base. The Dallas Civils team in Texas also got involved in the COVID-19 Community Relief Drive by preparing personal protective equipment kits for distribution.

> 77% of colleagues say that "Balfour Beatty genuinely cares about having a positive impact on the environment and local communities."

GREENING THE SUPPLY CHAIN

In 2021, Balfour Beatty partnered with the Supply Chain Sustainability School in the UK, to undertake a joint survey targeting around 40,000 of the construction and infrastructure industry's suppliers, to understand the barriers, issues and opportunities faced by the sector. The report, Greening the Chain found that the sector is overwhelmingly positive about the opportunities presented by the drive towards a sustainable future, with 74% of respondents saying the UK Government's push for Net Zero represents a positive opportunity for their business; and just under 90% of the businesses surveyed already implementing - or in the process of developing - a carbon reduction strategy. However, 64% of those surveyed believe that the sector is not ready and needs considerable support to overcome barriers. These include a lack of necessary skills in the workforce and the poor availability of low or Net Zero carbon materials. These are issues that need addressing with urgency if we are to decarbonise the built environment. Balfour Beatty is using these findings to fine-tune its own approach and has shared the results widely with customers, other Tier 1 contractors, design partners and the Government.

Supply chain sustainability

Supply chain sustainability is a key element of ensuring that Balfour Beatty is as lean and efficient as possible and that it maximises the social value delivered through its work activities, while driving down carbon emissions. The Group has a robust sustainable procurement strategy in place which guides what Balfour Beatty buys, who it buys from, and ensures that the supply chain partners it works with share its values. Procurement decisions are based on best value and consider the environmental, social, and economic impact of all activities. The UK and Hong Kong businesses align to the ISO 20400 sustainable procurement standard to embed sustainability into their procurement strategies. Collaborating with supply chain partners is a critical element of delivering Balfour Beatty's Building New Futures ambitions.

SUPPLY CHAIN SUSTAINABILITY SCHOOL

Launched in 2012, the Supply Chain Sustainability School is a free learning environment, upskilling those working within, or aspiring to work within, the built environment sector.

The School focuses on 17 key topics of sustainability, as well as addressing topics in offsite, digital, procurement, lean construction and management.

Membership is free and gives access to thousands of learning resources and CPD-accredited content. The School also offers CPD training and networking activities.

The School is a collaboration between clients, contractors and suppliers with a mutual interest in building the skills of their supply chain. Balfour Beatty is proud to be a funding Partner and Gold member of the School as well as having representation on the School's Board.

Our people

Despite the continued challenges posed by the pandemic in 2021, Balfour Beatty remained focused on creating a great place to work, adapting to and embracing new ways of working while continuing to support and develop our people. We're proud to be an organisation where all colleagues and teams are encouraged to develop and be their very best.

Creating a great place to work

Engagement

Employee engagement remains a key priority to support and enhance business performance, with support for wellbeing being an area of focus. We have created an environment where leaders build connections with their teams and employees are able to be themselves, develop professionally and thrive.

In 2021, the UK and US businesses continued their annual employee engagement survey, sharing immediate feedback on the results, ensuring transparency to build trust in the survey and the organisation. Gammon also joined the survey for the first time and received an impressive engagement index score of 76%.

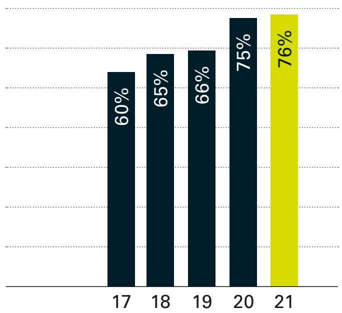
The Group engagement index score, which measures satisfaction, motivation, advocacy and retention, increased from 75% in 2020 to 76% in 2021. Employees across the Group report that they continue to feel cared for, with 94% of employees responding positively to this question, 85% of employees seeing themselves working here in 12 months' time (76% in 2020) and 77% of employees agreeing their team lives the Company values (66% in 2020).

We are working hard to build a truly inclusive culture, where employees live our values and feel cared for, so it is encouraging that we have made significant progress in this area. In the US, 85% said the culture is inclusive to all people, 96% of employees feel cared for by their team and 82% of employees agreed that they live the Company values, a 9% increase on the year before. In the UK, 85% of employees feel comfortable to be themselves at work and 83% say the culture is inclusive to everyone. In the UK it was also pleasing to see that females are more engaged with a score of 81% and multi-cultural colleagues had the highest engagement score of 83%. In addition to this, there was an increase in the engagement score from 64% in 2020 to 70% in 2021 for employees with a disability or long-term health condition.

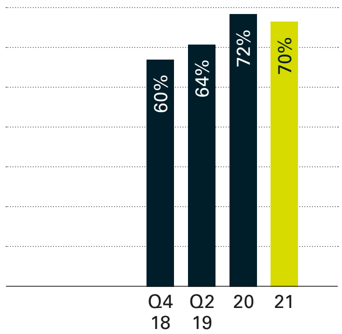
The survey results reflect our commitment to caring, embedding our values and the importance we place on retaining our teams.

Employee survey results

ENGAGEMENT INDEX SCORES %*



RECOMMEND AS A GREAT PLACE TO WORK %*



* Excluding international joint ventures in 2020 and earlier years.

Our three strategic pillars have helped us to remain focused on key enablers which support this objective.

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

2. Building expert capability
Recruit, develop and provide great career opportunities for our people, ensuring they have the skills, development, experience and capability to delight our customers.

3. Creating a great place to work
Grow an innovative, inclusive, and collaborative culture that is technology enabled, creating an existing and successful future for our employees, customers and shareholders.

Supporting the whole person

Our approach to engagement extends to ensuring we are providing support for the whole person.

In the UK, awareness has been raised across the business on neurodiversity, bereavement, baby loss and parents/carers, by establishing support networks and introducing or amending Company policies. 12 employees have been trained as Allies Against Domestic Abuse, to support colleagues. Balfour Beatty is a proud member of the Employers Initiative against Domestic Abuse and partners with various charities to provide professional support and guidance. UK employees are offered an enhanced family-friendly leave policy and are provided with a wide range of sustainable, lifestyle, health and wellbeing benefits and discounts, including charitable giving.

In the US, Buildings and Civils are currently working to proactively tackle and protect their employees from the risk of suicide. In 2021, a key industry partnership with Procore offered US employees access to certifiable Safety Qualified training focusing on mental health. In November 2021, The Question, Persuade and Refer (QPR) training programme was launched nationally, focusing on the signs of a person in crisis and how to get them the help they need to prevent a tragedy.

US Buildings have brought the cultural framework to life, creating a nurturing and supportive environment. Their teams have been celebrated through Kudos, an online instant recognition system, which surpassed 10,000 e-badges in 2021.

Giving something back

Our employees tell us giving something back is important to them and we have put this at the heart of our strategy this year. In the UK, colleagues are offered two days of paid volunteering leave per year and Balfour Beatty has partnered with three corporate charity partners to raise much-needed funds.

Volunteering is also used as a key development activity as part of the Future Leaders programme. The delegates work in collaboration with a charity on projects which enable communities to access better opportunities and futures. As with previous cohorts, 2021 delegates reported that charity projects gave them the opportunity to develop an all-round understanding of community, wellbeing and employability as well as test out and develop their leadership skills.

You can read more about the Group's approach to volunteering in the sustainability section.

AWARDS

Balfour Beatty US was named as one of the Top 5 Best Places to Work by the San Diego Business Journal and Orange County Business Journal.

In 2021, Balfour Beatty secured the top spot in the Heavy Construction category in the 2020 awards for Britain's Most Admired Companies.

Smart working policy

Flexible working and work life balance are desires for not only our current workforce but also future employees. Therefore, the Group has adapted its working practices in response to COVID-19 and the changing demands of employees in relation to work life balance. In the UK, Smart Working was launched, enabling employees to make the best use of location, technology, and time to best meet the needs of the business and support their personal wellbeing. Of the UK employees who responded that flexibility at work is important to them, 84% said they have flexibility in how, where or when they work. The US also adopted a similar remote working policy, supporting employees in Buildings and Civils, where appropriate, to work up to 40% of their time remotely.

23,146
TRAINING DAYS FOR 6,629 UK EMPLOYEES

383
DELEGATES ON LEADERSHIP MASTERCLASSES IN THE UK

74,500+
HOURS OF TRAINING COMPLETED IN GAMMON

Supporting and developing our people

We recognise the imperatives around retention of key skills and the ongoing need to develop our people.

Balfour Beatty continues to maintain a strong focus on its 'employee offer', ensuring competitive pay, recognition of professional qualifications and memberships as well as access to development and opportunity in an environment of support and encouragement.

In addition, the Group's approach to developing and supporting the whole person includes nurturing a learning culture with broadening access to development and career opportunities.

> "Our employees tell us giving something back is important to them and we have put this at the heart of our strategy this year."

Professional development

Supporting our people to grow and develop professionally is at the heart of what we do.

The US has continued its commitment to employee development, delivering more than 300 courses, completed by 3,960 employees in 2021. Their catalogue of courses focuses on both technical and interpersonal training. An example of this is Bright Minds, a series of short, engaging learning modules designed to enhance the way employees think, work and live. An interactive career development tool providing access to information relating to career paths, including expectations of technical tasks, competencies and next steps is now available, encouraging employees to develop and learn skills. This tool was accessed by 1,500 employees in 2021, with an average of 23 views per day.

Within Gammon, 7% of employees are taking part in sponsored training programmes, with 280 employees receiving training on teamwork and collaboration in One Team workshops and 15 people attending the Project Management programme, now in its second year. Gammon has also introduced a Production Managers Development Programme to strengthen employees' technical and soft skills.

In 2021 in the UK, 261 webinars were delivered to 6,767 people, including those from joint ventures and the supply chain. The Balfour Beatty Academy has been enhanced to promote a wider development offering, bringing together technical, professional, leadership and personal effectiveness skills. The UK has supported its project managers seeking accreditation and inclusion on the Register of Chartered Project Professionals (ChPP) through the launch of the ChPP Support Programme, which connects delegates with a mentor to guide their submission. The first four employees to go through the assessment process have successfully gained ChPP status.

Leadership programmes

Developing a well-established leadership pipeline remains integral to Balfour Beatty's strategy.

In the UK, 131 employees attended a Future or Aspiring Leaders programme, which aims to develop those with the potential to progress into leadership roles. We also piloted a Ones to Watch talent programme, which focuses on retaining and developing people at an early stage in their careers, to prepare them for future roles and opportunities. Balfour Beatty is continuing to embed its internal coaching and mentoring programme; over 400 coaching hours were recorded in 2021, benefiting 119 employees.

Unfortunately, due to COVID-19 restrictions, the US business was unable to run its Executive Leader Development Programme (ELDP) in 2021. However, the ELDP has been revamped and will host a new class in 2022. In place of the ELDP, the VIRTUAL POWER Leadership Forum was run in 2021 for a smaller group to help support employees to grow their careers, build leadership skills and make an impact in their communities to inspire change.

Performance development

The Group has focused on continually improving the experience created by its annual performance development reviews (PDR), leveraging technology to enable great conversations between managers and their teams.

The PDR process in the UK has been updated, stripping out bureaucracy and launching new online performance and development tools, enabling employees to record and update objectives throughout the year and keep track of actions to support this. Over 80% of people have objectives agreed and on the system, with performance ratings and feedback to help them develop.

Gammon has recently launched a Human Resources Information System (HRIS), MyGammon. A combination of virtual and face-to-face roadshows were held to introduce HRIS, with 135 sessions conducted on core HR functionalities and performance reviews.

In the US, a new learning and performance management system has been introduced. Not only does this move the business closer to one comprehensive Human Capital Management (HCM) system, it also provides additional tools and technologies to advance how they develop, coach and retain employees.

Spotlight on line managers

At Balfour Beatty, we recognise the significant role our managers play in keeping our people safe, engaged, and performing to their best ability. In the UK, a new Line Manager Development Pathway was launched, with over 800 line managers attending a Fundamentals Workshop, which provided them with the behavioural skills needed to be an effective manager. This was well received and will be developed further in 2022.

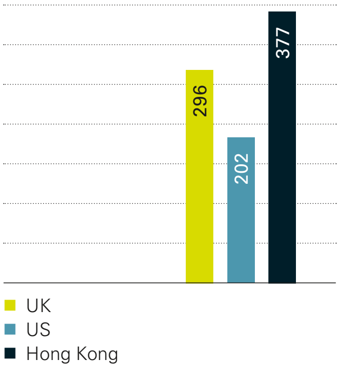
In the US, a Manager Success Training programme is under development to support newly appointed managers and is expected to launch in 2022.

AWARDS

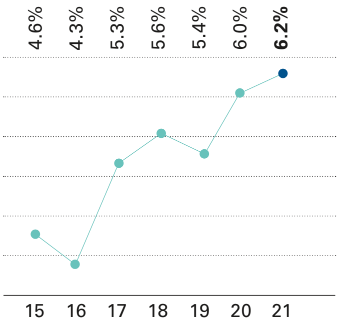
Our approach to aligning best practice in Project Management with a strong pathway of people development led to us being awarded the 2021 APM Award for Contribution to Project Management.

Balfour Beatty Academy has been externally recognised and shortlisted for Construction News Training Excellence and awarded Highly Commended (highest recognition) by the prestigious Princess Royal Training Awards for our 'exemplary' training, learning and development response in the face of COVID-19.

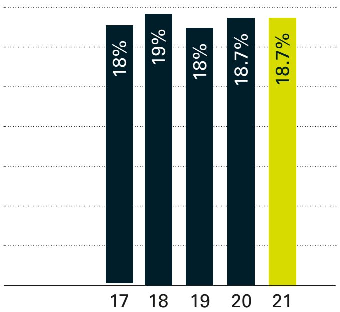
EMERGING TALENT HIRES – GRADUATES, APPRENTICES, TRAINEES, INTERNS AND INDUSTRIAL PLACEMENTS



% OF OUR UK WORKFORCE IN EARN AND LEARN POSITIONS



FEMALE EMPLOYEES ACROSS THE WORKFORCE %*



* Excluding international joint ventures in 2020 and earlier years.

Addressing the skills shortage

In addition to supporting our existing talent, Balfour Beatty proactively supports the future skills agenda for the construction industry.

In 2021, Balfour Beatty became a Gold member of The 5% Club in their inaugural Employer Audit, with 6.2% of UK employees in earn and learn positions. The diversity in this population remains high, with 27% female and 26% BAME. Gammon has partnered with Integrated Brilliant Education Limited (IBEL) to promote the hiring of minority groups with a career day arranged with the Construction Industry Council (CIC) for targeted trades.

In the UK, Graduate and Apprentice programmes support STEM and outreach activity through Building New Futures projects and the annual Balfour Beatty Brathay Apprentice Challenge. The UK has collaborated with Northumbria University to develop and launch an innovative Construction Quantity Surveyor Degree Apprenticeship, which aims to offer more construction-related courses to potential future employees.

In the UK, Balfour Beatty was named as a Top 100 Apprentice Employer in the 2021 RateMyApprenticeship listing. This was Balfour Beatty's first application, with the assessment based on a survey of apprentices under training in the business.

The US business has continued its partnership with Associated Builders and Contractors (ABC) for student Construction Management Competitions (CMC) and in 2021, 66 construction management students, representing 13 different universities, attended a three-day competition to simulate a client request for proposal and bidding experience. The US business has also recently partnered with various organisations to create a Construction Academy after-school programme and deliver a new facility, providing unique opportunities for the future of young people. Six intern videos exploring "What excites you about your Balfour Beatty internship?" were posted on the US business' Instagram page and in their Build to Last newsletter, winner, Diego Vildosola was chosen by the highest combined number of votes and likes.

Gammon has collaborated with CLAP@JC, a charitable trust which aims to smooth the transition from school to work for all young people. Gammon has also promoted the construction industry to secondary schools through school visits and has specifically targeted attracting girls into construction by partnering with the WinG network and The Women's Foundation to arrange a Girls Go Tech event at a construction site.

Beyond emerging talent, Balfour Beatty has focused on bringing people into construction from a wide range of backgrounds to ensure it has a healthy pipeline of skills for the future. The UK business continues to support veterans through the Armed Forces Covenant and provide fulfilling and robust second careers to those who have served the nation. Buildings and Civils in the US support the recruitment of veterans through their Diversity and Inclusion plan.

> "Beyond emerging talent, Balfour Beatty has focused on bringing people into construction from wide ranging backgrounds to ensure we have a healthy pipeline of skills for the future."

LEFT
Gammon was awarded Best Innovative HR Initiative Award by CTgoodjobs for the HRIS roll-out

Diversity and inclusion

What makes Balfour Beatty unique is the expertise and capability of its people. Attracting and retaining the best talent from all backgrounds is key to building a high-performance culture and tackling the skills shortage.

Leo Quinn, the Board-level sponsor for diversity and inclusion (D&I), is supported by a steering committee that sets the direction for D&I, and a working group that leads and co-ordinates diversity and inclusion initiatives and ensures consistently high focus.

The US business is developing a strategic plan with a focus specifically on issues impacting diversity, equity and inclusion. They have also contracted Nika White Consulting (NWC), a management consulting firm specialising in strategic diversity and intentional inclusion. NWC conducted an anonymous assessment to establish an authentic baseline for D&I and is analysing strengths and areas for improvement. Over 53% of employees responded to the survey, providing the key information to develop a data-driven strategy and plan, and strengthen future D&I efforts throughout all areas of the business.

The UK business has a rolling three-year 'Value Everyone' D&I Action Plan which drives activity to nurture a culture of inclusion and improve diversity. It includes actions to address barriers for all under-represented groups. Beyond this, in response to signing the Audeliss and Involve open letter in response to Black Lives Matter in November 2020, a Black Inclusion Plan was developed through consultation with Black employees in the business. In 2021, 8% of our UK emerging talent intake were black.

D&I networks and events

To ensure employees have a represented voice, the Group continues to run affinity groups/voice forums across the business.

Within the UK, the affinity networks have over 1,000 members. The Gender Affinity Network has been re-invigorated to focus on the barriers that are faced by both women and men in the business. International Men's Day was celebrated within the business for the first time in 2021, recognising that to make change the majority group needs to be engaged. There was also a renewed focus on disability in the business, with the introduction of a Workplace Adjustment Policy and guidance, and re-accreditation as a Disability Confident Employer, demonstrating that Balfour Beatty is an inclusive employer. The US business has continued to increase the voice given to minority groups with the launch in 2021 of Somos a new Latin@ affinity group and REGAL, a new Asian American Pacific Islander affinity group. Gammon ran five D&I workshops, reaching 148 people, raising awareness and encouraging individuals to share. These workshops were enhanced through D&I e-learning launched at the end of October.

The UK continues to support National Inclusion Week which is led by our Affinity Network Groups. In 2021, over 300 people participated in webinars, 5,000+ people viewed our launch video and there were over 120,000 social media impressions.

VALUE EVERYONE ACTION PLAN

BLACK INCLUSION PLAN

Leadership and culture

As part of Global Diversity month, the US business held a Together Allies Summit, centred around 'The Power of Conversation'. The summit was intended to spark dialogue, build bridges of understanding and encourage the action necessary to propel D&I efforts forward. The seven-session event was a huge hit with 1,247 US employees attending.

In the UK, the Leading Inclusively programme has been promoted, with 18 senior leadership teams (200 individuals) participating. The programme looks to build and maintain a high performing, inclusive culture and the positive engagement of employees by supporting leaders to understand the strategic value and importance of inclusive leadership, how to remove barriers to underrepresented groups and encourage leaders to take personal responsibility for creating an inclusive culture in Balfour Beatty. In addition to the Executive-level programme, each business unit and the Group's Joint Venture partners in Old Oak Common (HS2) were supported on the development of their own Reverse Mentoring programmes, in total there were six active programmes and 71 partnerships throughout 2021. Topics explored were broad and far-reaching including neurodiversity, unconscious bias, anti- racism, retention, allyship and strategic direction.

To ensure employees in and out of the workplace feel supported and included, in November 2021, the UK business piloted a Parental Leave Buddy Programme, to better support parents returning to work. The pilot provides all expecting or new parents with the opportunity to connect with a buddy, who can provide practical and emotional support during a challenging time. 22 volunteer buddies are participating in the pilot and it is hoped to launch a Company-wide programme in 2022.

NEURODIVERSITY SPECIALIST WORKING GROUP

Neurodiversity became a focus for the business in 2019, and in 2021 a group of employees with personal experience of neurodiverse conditions came together to form a sub-group of the Ability Affinity Network, our dedicated employee-led network for colleagues with a disability. The group wanted to examine the barriers that people with neurodiverse conditions, such as autism or ADHD, can face in the workplace, and look at how Balfour Beatty can help to remove them. The group has worked with Lexxic, a consultancy working with individuals and employers to empower diverse minds and help them be their best at work. As well as this, our HR and property teams have all attended workshops to raise their understanding of Neurodiversity and how they can help remove barriers for employees and visitors to our buildings.

Throughout 2021, Empower, the established UK career development programme for female talent was attended by 66 delegates. Since the programme launched in 2016, 387 females have completed the programme. In March 2021, Thrive, a career development programme for other under-represented groups was launched, 37 delegates have completed the pilot in 2021.

GENDER BREAKDOWN

At 31 December 2021	Male	Female	Total	% Male	% Female
Board	6	2	8	75.0%	25.0%
Senior managers[1]	97	28	125	77.6%	22.4%
Directors of subsidiaries not included above[2]	34	11	45	75.6%	24.4%
Employees[3]	19,944	4,597	24,541	81.3%	18.7%

1 Senior managers are employees of the Company, its subsidiaries and Gammon, who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of it, excluding Directors of Balfour Beatty plc.
2 Directors of all subsidiaries have not been included as senior managers as this would not accurately reflect the Group's executive pipeline.
3 All employees of the Company and its subsidiaries, together with all employees of Gammon, the Group's 50:50 joint venture with Jardine Matheson based in Hong Kong.

How do we...

embed our behaviours into everything we do?

Every year across our UK business, we invite our employees to nominate colleagues they think are deserving of a Behaviour Champion Award.

In 2021, we received over 700 nominations and named more than 45 Behaviour Champions – employees who exemplify our behaviours in the eyes of their peers.

Among our 2021 Behaviour Champion winners was David Williams from our Highways business. David is a Senior General Foreman on our M4 Smart Motorway upgrade project and was recognised with a 'Making a Difference' Award for the actions he took to help a young person in mental distress on a high footbridge.

David arrived before the emergency services and used his training as a mental health first aider to calm the young person and encourage them to move to a place of safety off the bridge.

His story is just one of the many amazing examples we hear about through the Behaviour Champion initiative of how our employees live the Balfour Beatty values every day.

DAVID WILLIAMS
Behaviour Champion winner in 2021

Our behaviours

TALK POSITIVELY	COLLABORATE RELENTLESSLY	ENCOURAGE CONSTANTLY	MAKE A DIFFERENCE	VALUE EVERYONE
We're passionate about what we do, talking with pride and enthusiasm about our business, our colleagues, our industry, and our future.	We're at our best when we share ideas and expertise, build connections and work as a team to drive performance and strengthen relationships.	We nurture a supportive environment, empowering, motivating and inspiring each other with regular and powerful feedback, giving credit where credit is due so we can all reach our potential.	We challenge ourselves to always have a positive impact, find solutions and stand up and be counted when it matters.	We are inclusive, celebrating difference and respecting one another for who we are and the perspectives we bring to the table.

SCAN TO WATCH THE VIDEO

Hear from our employees about why they joined Balfour Beatty.

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

Reporting requirement	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes	
Environmental	Our sustainability strategy – Building New Futures Sustainability policy Sustainable procurement policy Environmental policy ISO 14001:2014 & ISO 20400:2017	Sustainability Task Force on Climate-related Financial Disclosures (TCFD)	**page 66** **page 114**
Employees	Health and safety policy Code of Conduct	Health, safety and wellbeing Ethics and compliance Our people	**page 58** **page 63** **page 81**
Social and community matters	Social value policy Code of Conduct	Sustainability Ethics and compliance	**page 66** **page 63**
Respect for human rights	Modern slavery statement Code of Conduct	Ethics and compliance	**page 63**
Anti-corruption and bribery matters	Supplier Code of Conduct Code of Conduct	Ethics and compliance	**page 63**
Innovation		Innovation	**page 32**
Description of the business model		Balfour Beatty at a glance Our strategy: Build to Last Market review Business model	**page 2** **page 12** **page 16** **page 24**
Stakeholders		Stakeholder value	**page 26**
Description of principal risks and impact of business activity		Risk management Principal risks	**page 100** **page 105**
Non-financial key performance indicators		Our strategy: Build to Last Health, safety and wellbeing Ethics and compliance Sustainability Our people	**page 12** **page 58** **page 63** **page 66** **page 81**

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

Providing clarity on the Group's alternative performance measures

The Group includes this section in its Annual Report and Accounts with the aim of providing transparency and clarity on the measures adopted internally to assess performance.

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

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

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

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

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

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

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.

Performance measures used to assess the Group's operations

Underlying profit from operations (PFO)
Underlying PFO is presented before non-underlying items, finance costs and interest income and is the key measure used to assess the Group's performance in the Construction Services and Support Services segments. This is also a common measure used by the Group's peers operating in these sectors.

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

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

These returns take the form of subordinated debt interest receivable, interest receivable on PPP financial assets and fair value gains on certain investment 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 and any impairment of subordinated debt receivables and accrued interest, which is included in the Group's income statement in finance costs.

Operating cash flow (OCF)
The Group uses an internally defined measure of OCF to measure the performance of its earnings-based businesses and subsequently to determine the amount of incentive awarded to employees in these businesses under the Group's Annual Incentive Plan (AIP). This measure also aligns to one of the vesting conditions attributable to the Group's 2019, 2020 and 2021 PSP awards. Refer to pages 161 to 162.

Measuring the Group's performance

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

Statutory measures

Statutory measures are derived from the Group's reported financial statements, which have been prepared in accordance with International Accounting Standards and in accordance with UK-adopted International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006.

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 187 to 192.

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

Performance measures

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

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

a) Order book

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

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

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

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

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

b) Underlying performance

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

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions;
- costs of major restructuring and reorganisation of existing businesses;
- costs of integrating newly acquired businesses;
- acquisition and similar costs related to business combinations such as transaction costs;
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets); and
- impairment of goodwill.

These are non-underlying costs as they do not relate to the underlying performance of the Group.

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

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

A reconciliation has been provided on page 91 to show how the Group's statutory results are adjusted to exclude non-underlying items and their impact on its statutory financial information, both as a whole and in respect of specific line items.

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

	2021 £m	2020 £m
Order book (performance measure)	**16,057**	16,392
Less: Share of orders included within the Group's joint ventures and associates	**(2,974)**	(2,443)
Less: Estimated orders under framework agreements included in the order book disclosure	**(60)**	(367)
Add: Transaction price allocated to remaining performance obligations in Infrastructure Investments*	**1,664**	1,656
Transaction price allocated to remaining performance obligations for the Group* (statutory measure)	**14,687**	15,238

* Refer to Note 4.3.

Reconciliation of 2021 statutory results to performance measures

		Non-underlying items							
£m	**2021 statutory results £m**	Intangible amortisation £m	Repayment of grant income in relation to UK Job Retention Scheme £m	Release of Heery provision £m	Provision in relation to rectification works in London £m	Release of PB accrual £m	Settlement charge following resolution with DoJ £m	UK deferred tax asset £m	**2021 performance measures £m**
Revenue including share of joint ventures and associates (performance)	**8,263**	–	–	–	–	–	17	–	**8,280**
Share of revenue of joint ventures and associates	**(1,078)**	–	–	–	–	–	–	–	**(1,078)**
Group revenue (statutory)	**7,185**	–	–	–	–	–	17	–	**7,202**
Cost of sales	**(6,904)**	–	–	–	42	–	–	–	**(6,862)**
Gross profit	**281**	–	–	–	42	–	17	–	**340**
Gain on disposals of interests in investments	**26**	–	–	–	–	–	–	–	**26**
Amortisation of acquired intangible assets	**(5)**	5	–	–	–	–	–	–	**–**
Other net operating expenses	**(262)**	–	19	(6)	–	(1)	24	–	**(226)**
Group operating profit	**40**	5	19	(6)	42	(1)	41	–	**140**
Share of results of joint ventures and associates	**57**	–	–	–	–	–	–	–	**57**
Profit from operations	**97**	5	19	(6)	42	(1)	41	–	**197**
Investment income	**39**	–	–	–	–	–	–	–	**39**
Finance costs	**(49)**	–	–	–	–	–	–	–	**(49)**
Profit before taxation	**87**	5	19	(6)	42	(1)	41	–	**187**
Taxation	**52**	(1)	(4)	1	(8)	–	(4)	(29)	**7**
Profit for the year	**139**	4	15	(5)	34	(1)	37	(29)	**194**

Reconciliation of 2021 statutory results to performance measures by segment

		Non-underlying items							
Profit/(loss) from operations	**2021 statutory results £m**	Intangible amortisation £m	Repayment of grant income in relation to UK Job Retention Scheme £m	Release of Heery provision £m	Provision in relation to rectification works in London £m	Release of PB accrual £m	Settlement charge following resolution with DoJ £m	UK deferred tax asset £m	**2021 performance measures £m**
Segment									
Construction Services	**30**	–	13	(6)	42	–	–	–	**79**
Support Services	**97**	–	5	–	–	–	–	–	**102**
Infrastructure Investments	**3**	5	–	–	–	–	41	–	**49**
Corporate activities	**(33)**	–	1	–	–	(1)	–	–	**(33)**
Total	**97**	5	19	(6)	42	(1)	41	–	**197**

Measuring the Group's performance continued

Performance measures continued

Reconciliation of 2020 statutory results to performance measures

	2020 statutory results £m	Non-underlying items: Intangible amortisation £m	Grant income in relation to UK Job Retention Scheme £m	Provision release on blacklisting provisions £m	Loss on GMP equalisation £m	Results of Rail Germany £m	UK deferred tax asset £m	2020 performance measures £m
Revenue including share of joint ventures and associates (performance)	8,593	–	–	–	–	(6)	–	8,587
Share of revenue of joint ventures and associates	(1,273)	–	–	–	–	4	–	(1,269)
Group revenue (statutory)	7,320	–	–	–	–	(2)	–	7,318
Cost of sales	(7,081)	–	–	–	–	2	–	(7,079)
Gross profit	239	–	–	–	–	–	–	239
Amortisation of acquired intangible assets	(6)	6	–	–	–	–	–	–
Other net operating expenses	(208)	–	(19)	(2)	3	–	–	(226)
Group operating profit	25	6	(19)	(2)	3	–	–	13
Share of results of joint ventures and associates	38	–	–	–	–	–	–	38
Profit from operations	63	6	(19)	(2)	3	–	–	51
Investment income	38	–	–	–	–	–	–	38
Finance costs	(53)	–	–	–	–	–	–	(53)
Profit before taxation	48	6	(19)	(2)	3	–	–	36
Taxation	(18)	(2)	4	–	(1)	–	6	(11)
Profit for the year	30	4	(15)	(2)	2	–	6	25

Reconciliation of 2020 statutory results to performance measures by segment

Profit/(loss) from operations	2020 statutory results £m	Non-underlying items: Intangible amortisation £m	Grant income in relation to UK Job Retention Scheme £m	Provision release on blacklisting provisions £m	Loss on GMP equalisation £m	Results of Rail Germany £m	UK deferred tax asset £m	2020 performance measures £m
Segment								
Construction Services	41	1	(13)	(2)	2	–	–	29
Support Services	50	–	(5)	–	1	–	–	46
Infrastructure Investments	3	5	–	–	–	–	–	8
Corporate activities	(31)	–	(1)	–	–	–	–	(32)
Total	63	6	(19)	(2)	3	–	–	51

c) Underlying profit before tax

As mentioned on page 52, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

	2021 £m	2020 £m
Underlying profit from operations (section (b) and Note 5)	**49**	8
Add: Subordinated debt interest receivable*	**23**	25
Add: Interest receivable on PPP financial assets*	**5**	8
Less: Non-recourse borrowings finance cost*	**(11)**	(11)
Less: Impairment of subordinated debt receivable*	**(4)**	(10)
Less: Impairment of accrued interest*	**(10)**	–
Add: Fair value gain on investment asset*	**9**	–
Underlying profit before tax (performance)	**61**	20
Non-underlying items (section (b) and Note 5)	**(46)**	(5)
Statutory profit before tax	**15**	15

* Refer to Note 8 and Note 9.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2021 pence	2020 pence
Statutory basic earnings per ordinary share	**21.3**	4.4
Amortisation of acquired intangible assets net of tax	**0.6**	0.5
Other non-underlying items net of tax	**7.8**	(1.2)
Underlying basic earnings per ordinary share (performance)	**29.7**	3.7

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, the Board believes that including revenue that is earned from its JVAs better reflects the size of the business and the volume of work carried out and more appropriately compares to PFO.

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

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

f) Operating cash flow (OCF)

The table below reconciles the Group's internal performance measure of OCF to the statutory measure of cash generated from operating activities as reported in the Group's statement of cash flows (page 184).

Reconciliation from statutory cash generated from operations to OCF

	2021 £m	2020 £m
Cash generated from operating activities (statutory)	**353**	274
Add back: Pension payments including deficit funding (Note 30.2)	**42**	18
Less: Repayment of lease liabilities (including lease interest payments) (Note 28)	**(59)**	(64)
Add: Operational dividends received from joint ventures and associates (Note 19.5)	**60**	50
Add back: Cash flow movements relating to non-operating items	**1**	5
Less: Operating cash flows relating to non-recourse activities	**(5)**	(3)
Operating cash flow (OCF) (performance)	**392**	280

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

Pension payments including deficit funding (£42m): the Group has excluded pension payments which are included in the Group's statutory measure of cash flows from operating activities from its internal OCF measure as these primarily relate to deficit funding of the Group's main pension fund, Balfour Beatty Pension Fund (BBPF). The payments made for the deficit funding are in accordance with an agreed journey plan with the trustees of the BBPF and are not directly linked to the operational performance of the Group.

Repayment of lease liabilities (including lease interest payments) (£59m outflow): the payments made for the Group's leasing arrangements are included in the Group's OCF measure as these payments are made to third-party suppliers for the lease of assets that are used to deliver services to the Group's customers, and hence to generate revenue. Under IFRS, these payments are excluded from the Group's statutory measure of cash flows from operating activities as these are considered debt in nature under accounting standards.

Operational dividends received from joint ventures and associates (£60m inflow): dividends received from joint ventures and associates which are generated from non-disposal activities are included in the Group's OCF measure as these are cash returns to the Group from cash flows generated from operating activities within joint ventures and associates. Under IFRS, these returns are classified as investing activities.

Cash flow movements relating to non-operating items (£1m): the Group's OCF measure excludes certain working capital movements that are not directly attributable to the Group's operating activities.

Operating cash flows relating to non-recourse activities (£5m): the Group's OCF measure is specifically targeted to drive performance improvement in the Group's earnings-based businesses and therefore any operating cash flows relating to non-recourse activities are removed from this measure. Under IFRS, there is no distinction between recourse and non-recourse cash flows.

Measuring the Group's performance continued

Performance measures continued

g) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the year end. This is analysed using only elements that are recourse to the Group. Non-recourse elements are cash and debt that are ring-fenced within certain infrastructure concession project companies. In addition, lease liabilities recognised on the Group's balance sheet are deemed to be debt in nature under statutory measures.

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

Net cash/borrowings reconciliation

		2021 statutory £m	Adjustment £m	2021 performance £m	2020 statutory £m	Adjustment £m	2020 performance £m
Total cash within the Group		**1,033**	**(17)**	**1,016**	792	(22)	770
Cash and cash equivalents	– infrastructure concessions	**17**	**(17)**	**–**	22	(22)	–
	– other	**1,016**	**–**	**1,016**	770	–	770
Total debt within the Group		**(615)**	**389**	**(226)**	(653)	464	(189)
Borrowings	– non-recourse loans	**(260)**	**260**	**–**	(339)	339	–
	– other	**(226)**	**–**	**(226)**	(189)	–	(189)
Lease liabilities		**(129)**	**129**	**–**	(125)	125	–
Net cash		**418**	**372**	**790**	139	442	581

h) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and lease liabilities, and this performance measure shows average net cash of £671m for 2021 (2020: £527m).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and the lease liabilities recognised) gives average net cash of £279m for 2021 (2020: net cash of £71m).

i) Directors' valuation of the Investments portfolio

The Group uses a different methodology to assess the value of its Investments portfolio. As described on pages 54 and 55, the Directors' valuation has been undertaken using forecast cash flows for each project on an asset by asset basis, 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 £1.11bn at year end (2020: £1.09bn).

The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

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

	2021 £m	2020 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**599**	706
Less: Net assets not included within the Directors' valuation – Housing division	**(24)**	(27)
Comparable statutory measure of the Investments portfolio under IFRS	**575**	679

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

	2021 £m	2020 £m
Statutory measure of the Investments portfolio (as above)	575	679
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases:		
– historical cost		
– amortised cost		
– fair value	531	407
Directors' valuation (performance measure)	1,106	1,086

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

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

As referred to in the Strategic report on page 54, the Directors' valuation is calculated using discounted cash flows. In deriving these cash flows, assumptions have been made and different discount rates used which are updated at each valuation date.

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

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

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

j) Constant exchange rates (CER)

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

To measure changes in the Group's performance compared with the previous year 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 year's figures at the current year'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:

2021 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2021 statutory	2,593	3,327	–	5,920	1,046	219	7,185
2020 statutory	2,192	3,776	–	5,968	1,037	315	7,320
Statutory growth (%)	**18%**	**(12)%**	**–**	**(1)%**	**1%**	**(30)%**	**(2)%**
2021 performance*	2,593	3,344	809	6,746	1,066	468	8,280
2020 performance retranslated*	2,190	3,558	923	6,671	1,066	534	8,271
Performance CER growth (%)	**18%**	**(6)%**	**(12)%**	**1%**	**–**	**(12)%**	**–**
Order book (£bn)							
2021	5.6	5.4	2.6	13.6	2.5	–	16.1
2020	6.4	5.2	2.1	13.7	2.7	–	16.4
Growth (%)	**(12)%**	**4%**	**24%**	**(1)%**	**(7)%**	**–**	**(2)%**
2021	5.6	5.4	2.6	13.6	2.5	–	16.1
2020 retranslated	6.4	5.3	2.1	13.8	2.7	–	16.5
CER growth (%)	**(12)%**	**2%**	**24%**	**(1)%**	**(7)%**	**–**	**(2)%**

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

Delivered 2021 results ahead of expectations

PHILIP HARRISON
Chief Financial Officer

Group financial summary

The underlying profit from operations for the year at £197 million (2020: £51 million) represents a significant improvement from 2020 as Balfour Beatty recovered from the COVID-19 pandemic.

Construction Services underlying profit at £79 million (2020: £29 million) resulted from: continued strong performance from Gammon with £30 million of profit (2020: £29 million); US Construction broadly doubling its profit to £51 million (2020: £26 million) as it returned to pre-pandemic levels; and UK Construction recording a £2 million loss (2020: £26 million loss) as, following write-downs on private sector property projects in central London, it returned to profitability in the second half of the year.

Support Services more than doubled its underlying profit from operations to £102 million (2020: £46 million) as a result of improved performance across the portfolio, coupled with the exit from the gas and water sector and end of contract gains.

	2021 £m		2020 £m	
Results for the year	**Underlying[2]**	**Total**	Underlying[2]	Total
Revenue[1]	**8,280**	**8,263**	8,587	8,593
Profit from operations	**197**	**97**	51	63
Pre-tax profit	**187**	**87**	36	48
Profit for the year	**194**	**139**	25	30
Basic earnings per share	**29.7p**	**21.3p**	3.7p	4.4p
Dividends per share		**9.0p**		1.5p

Underlying profit/(loss) from operations[2]	**2021 £m**	2020 £m	2019 £m
UK Construction	**(2)**	(26)	47
US Construction	**51**	26	52
Gammon	**30**	29	26
Construction Services	**79**	29	125
Support Services	**102**	46	47
Earnings-based businesses	**181**	75	172
Infrastructure Investments pre-disposal operating profit	**14**	8	13
Infrastructure Investments gain on disposals	**35**	–	69
Corporate activities	**(33)**	(32)	(33)
Total	**197**	51	221

1 Including share of joint ventures and associates.
2 Before non-underlying items (Note 10).

At Infrastructure Investments underlying profits increased to £49 million (2020: £8 million) following the recommencement of disposals from the Investments portfolio, which yielded gains on disposal of £35 million.

In total, after including corporate costs, Balfour Beatty reported underlying profit from operations of £197 million (2020: £51 million). Statutory profit from operations was £97 million (2020: £63 million).

The order book decreased by 2% to £16.1 billion (2020: £16.4 billion), down 2% at constant exchange rates (CER) as a £0.8 billion decrease at UK Construction was partially offset by a £0.5 billion increase at Gammon. The quality of bookings is consistent with the Group's stated policy of selective bidding for those projects best aligned with its capabilities.

Underlying revenue was down 4% at £8,280 million (2020: £8,587 million) due to exchange rate movements in the year (no change at CER). Statutory revenue, which excludes joint ventures and associates, was £7,185 million (2020: £7,320 million). Construction Services underlying revenue was down 3% (up 1% at CER) at £6,746 million (2020: £6,964 million) with higher volumes at UK Construction more than offset by lower volumes at US Construction and Gammon. Support Services revenue was flat at £1,066 million (2020: £1,067 million) as higher volumes in power and transportation were offset by the exit from the gas and water sector.

Net finance costs decreased to £10 million (2020: £15 million) as a result of lower interest costs as Balfour Beatty fully redeemed its preference shares in July 2020. Underlying pre-tax profit was £187 million (2020: £36 million).

The taxation credit on underlying profits of £7 million (2020: £11 million charge) comprises a £36 million charge on underlying profits, a £26 million credit relating to the recognition of additional UK tax losses and a £17 million credit due to the impact of the UK corporation tax rate changes in March 2021. Underlying profit after tax for the year was £194 million (2020: £25 million).

Total statutory profit after tax for the year was £139 million (2020: £30 million), after a net charge of £55 million from non-underlying items (2020: £5 million net credit). The underlying basic earnings per share were 29.7 pence (2020: 3.7 pence), which, along with a non-underlying loss per share of 8.4 pence per share (2020: 0.7 pence gain), gave total basic earnings per share of 21.3 pence (2020: 4.4 pence).

Non-underlying items

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

Non-underlying items after taxation were a net charge of £55 million for the year (2020: £5 million net credit). This included two significant items.

The first item was £37 million net of tax in relation to a settlement charge following resolution in December 2021 with the US Department of Justice (DoJ) of its criminal and civil investigations into specific performance incentive fees improperly claimed by Communities between 2013 and 2019 related to maintenance work at certain United States military housing installations. Under the terms of the resolution, Communities pleaded guilty to one count of fraud and agreed to the appointment of an independent compliance monitor for a three-year period. The resolution brings the DoJ investigation of Communities to a close.

The second significant non-underlying item was £34 million net of tax in relation to a provision recognised for rectification works required on a development in London. Balfour Beatty entered into the contract for this development in 2013 with the work completed in early 2016. In June 2021, an initial structural expert assessment was received which indicated that the stone panels affixed to the façades needed to be modified, reinforced or replaced to meet performance requirements. It has now been determined that the remediation will require replacement of the façade with the current best estimate of the cost of the rectification work recognised as a provision. The provision does not include potential recoveries from third parties. In the financial statements for the half-year ended 2 July 2021, this matter was disclosed as a contingent liability as the Group was not able to make a sufficiently reliable estimate of the obligation. Full details of all non-underlying items are in Note 10.

RIGHT
The ElecLink Interconnector project. The world's first high voltage direct current interconnector in a live rail tunnel, increasing energy transmission capacity between the UK and France.

Cash flow performance

In 2021, the Group delivered positive cash flow with the year-end net cash balance at £790 million (2020: £581 million) and average net cash at £671 million (2020: £527 million). Positive operating cash flows at £115 million (2020: £127 million) were enhanced by working capital inflows of £281 million (2020: £167 million) partially offset by a £151 million outflow (including £1 million costs) as Balfour Beatty delivered the first phase of its multi-year share buyback programme (2020: £nil).

Cash flow performance	2021 £m	2020 £m
Operating cash flows	115	127
Working capital inflow	281	167
Pension deficit payments+	(42)	(18)
Cash from operations	354	276
Dividends from joint ventures and associates∞	60	50
Capital expenditure	(36)	(34)
Lease payments (including interest paid)	(59)	(64)
Ordinary dividends	(29)	–
Buyback of ordinary shares	(151)	–
Redemption of preference shares	–	(112)
Infrastructure Investments		
– disposal proceeds	81	–
– new investments	(19)	(46)
Other	8	(1)
Net cash movement	209	69
Opening net cash*	581	512
Closing net cash*	790	581

* Excluding infrastructure investments (non-recourse) net borrowings.
∞ Excludes £8m dividends received in 2021 in relation to Investments asset disposals within joint ventures and associates.
\+ Including £3m (2020: £3m) of regular funding.

Working capital

In the year, the Group's working capital position resulted in an inflow of £281 million (2020: £167 million). The strong performance was underpinned by around £110 million of advance payments from major projects in UK Construction and around £30 million of mobilisation payments at highways projects in US Construction. Collections from the gas and water business following exit from this sector also led to net contract inflows of around £30 million. Trade and other payables increased by £43 million following the introduction of the UK VAT domestic reverse charge for the construction sector and the cost of settlement relating to the DoJ resolution, which was paid in January 2022, partially offset by the timing of trade creditor payments. The increase in provisions of £28 million includes the non-underlying item related to the rectification works to be carried out on a development in London.

Working capital flows^	2021 £m	2020 £m
Inventories	11	(14)
Contract assets/ liabilities	221	154
Trade and other receivables	(22)	42
Trade and other payables	43	(69)
Provisions	28	54
Working capital inflow^	281	167

^ Excluding impact of foreign exchange and disposals.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £1,118 million (2020: £887 million). In the medium term, the Group expects negative working capital as a percentage of revenue to be in line with its historical long term average of 11-13% (2021: 15.6%; 2020: 12.1%) with the range continuing to be dependent on contract mix and the timing of project starts and completions.

UK Prompt Payment Code

Throughout 2021, the percentage of invoices paid within 60 days and the average time to pay invoices by Balfour Beatty in the UK continued to improve.

	Percentage of invoices paid within 60 days	Average days to pay invoices
Jan – Jun 2020	89%	41
Jul – Dec 2020	91%	40
Jan – Jun 2021	92%	38
Jul – Dec 2021	93%	36

Balfour Beatty is committed to paying all of its supply chain partners on time and to mutually agreed terms and remains focused on its efforts to do so, continually investing in its processes and procedures to improve its payment performance and enhance accuracy and transparency. However, the business operates in a sector where supply chains and contractual terms are complex, and prompt payment is often materially impacted by resolution of disputes and alignment to agreed contractual terms.

From 1 July 2021 the Prompt Payment Code introduced the requirement to pay 95% of invoices to businesses with fewer than 50 employees within 30 days instead of 60 days. In the second half of 2021, Balfour Beatty paid 80% of its suppliers identified with fewer than 50 employees within the 30-day timeframe, achieving 96% of invoices paid within 60 days. Whilst Balfour Beatty acknowledges that not all businesses with fewer than 50 employees have the latest systems to ensure prompt payment, the Group continues to take the appropriate action to further streamline its e-invoicing platform, and work with them, to try to meet the timeframe set out by the Code.

Net cash/borrowings

The Group's average net cash in 2021 improved substantially to £671 million (2020: £527 million). The Group's net cash position at 31 December 2021, excluding non-recourse net borrowings, was £790 million (2020: £581 million).

Non-recourse net borrowings, held in Infrastructure Investments entities consolidated by the Group, were £243 million (2020: £317 million). The balance sheet also included £129 million for lease liabilities (2020: £125 million). Statutory net cash at 31 December 2021 was £418 million (2020: £139 million).

Banking facilities

In October 2021, the Group extended its £375 million revolving credit facility (RCF) to October 2024 and converted the facility to a sustainability linked loan (SLL). At signing, it was the largest SLL that had been executed in the UK construction industry.

Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score as determined by Sustainalytics, an ESG research, ratings and data provider for institutional investors and companies. Performance in these three areas will be monitored during the lifetime of the facility and depending on the outcomes achieved, a credit margin reduction or increase will be applicable.

The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. During 2021 this facility remained undrawn.

The Group does not undertake supply chain financing arrangements.

Going concern

The Directors have considered the Group's medium-term cash forecasts and conducted stress-test analysis on these projections in order to assess the Group's ability to continue as a going concern. Having also made appropriate enquiries, the Directors 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 full year Group financial statements. Further detail is provided in Note 1 Going Concern.

Pensions

Balfour Beatty and the trustees of the Balfour Beatty Pension Fund (BBPF) have committed to a journey plan approach to managing the BBPF whereby the BBPF is aiming to reach self-sufficiency by 2027. The next formal triennial funding valuation is due with effect from 31 March 2022.

As a result of an acceleration mechanism agreed previously between the Group and the trustees plus discussions in light of Balfour Beatty's share buyback programme, Balfour Beatty made deficit contribution payments of £33 million to the BBPF in 2021. The Group is expected to make deficit contributions to the BBPF of £38 million in 2022 and £18 million in 2023.

Following the formal triennial funding valuation of the Railways Pension Scheme (RPS) as at 31 December 2019, the Group agreed to continue to make deficit contributions of £6 million per annum which should reduce the funding deficit to zero by 2025.

The Group's balance sheet includes net retirement benefit assets of £231 million (2020: £89 million) as measured on an IAS 19 basis, with the surplus on the BBPF (£321 million) partially offset by deficits on the RPS (£44 million) and other schemes (£46 million). The overall increase in the period is primarily due to strong investment performance and deficit contributions paid.

Dividend

The Board is committed to a sustainable ordinary dividend which is expected to grow over time, targeted at a pay-out ratio of 40% of underlying profit after tax excluding gain on disposal of Investments assets.

Following the 3.0 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 6.0 pence per share, giving a total recommended dividend for the year of 9.0 pence per share (2020: 1.5 pence).

Philip Harrison
Chief Financial Officer
10 March 2022

The heart of decision-making

The evolution of risk management

Introduction

2021 has seen Balfour Beatty further embed the enterprise risk management (ERM) framework across the business, building on the foundation established from its 2019 refresh and roll-out. The integration of the framework across the Group has allowed the business to enhance its understanding of operational risk profiles which has allowed a shift in focus on utilising output. Better understanding of the key risk themes and trends across the organisation is leading to more consistency and implementation of strong mitigation strategies.

In 2021, additional work was undertaken to integrate climate-related risks and opportunities into the existing ERM framework. Bespoke risk workshops were also held as part of actualising the TCFD disclosure which is outlined in pages 114 to 119. In 2022, work will continue to review current processes and ensure a holistic approach to how climate-related risk is considered as part of the Gated Business Lifecycle tier within the ERM framework.

The Group's risk process remains at the core of the ERM framework to maintain consistency in its application across all parts of the organisation. As the integration of the ERM framework evolves, the Risk Management function maintains oversight of the processes in support of the business and continues to ensure the Group adheres to regulatory requirements and adopts good practice in its approach to identifying, assessing, responding to and monitoring risk.

Our risk management process

Balfour Beatty's simple four-step process ensures the consistent identification, assessment, response and monitoring of risk across the organisation. Utilising this standard approach from project operations up to Group level ensures risks are understood, captured and communicated succinctly at each level of the organisation, maintaining the consideration of risk and opportunity remain at the heart of decision making at Balfour Beatty.

1

IDENTIFY

Objective-focused risk assessment continues to be a core component of the identify step. Linking risks back to operational, business and Group objectives allows risks to be validated and enables better insight into understanding the uncertainties faced. A detailed analysis of both the causes (drivers) of the risk and the potential consequences (outcomes) aids in understanding the conditions surrounding the risk, which can be mapped to the existing control environment to identify any gaps or weaknesses. Documenting the current control environment and its effectiveness forms part of the identify step.

2

ASSESS

Each risk and opportunity is assessed on the likelihood of the risk occurring and the potential impact should the risk occur, allowing risks and opportunities to be prioritised. This assessment is with reference to the effectiveness of the current control environment – controls that are in place at the time of assessment. This provides a real-time picture of the current risk exposure driving the required response.

A probability and impact matrix is used for assessment and is discussed further on page 104.

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

3

RESPOND

A response class is determined for each risk and opportunity dependent on its current assessment: accept or manage further. Actions are developed for those risks requiring further management, and are assigned clear ownership and implementation timeframes in relation to the current risk assessment.

4

MONITOR

Regularly reviewing risks ensures the information captured remains relevant, accurate and up to date, and the status of outstanding actions is tracked. The risk environment may change from time to time, with the emergence of additional causes or impacts requiring further management of a previously 'accepted' risk. Monitoring core themes across the business as they link to the Group profile is integral to maturing how risk information is used. Further detail on the policy, process and accountability for risk management is contained on page **101 to 104**.

Circles of Risk

Balfour Beatty's Circles of Risk guidance remains central to the Work Winning phase of the Gated Business Lifecycle to ensure high-level risk profiles are understood early in the pursuit of an opportunity and are aligned to the Group's risk appetite. This guidance ensures prospects do not proceed to the next gate without an awareness of their potential risk profile and appropriate management actions and remain a core decision-making tool when assessing new and/ or large-scale opportunities.

Refreshed in 2021, the guidance remains reflective of experience and lessons learnt from delivering a comprehensive range of projects for a wide range of customers and contains examples of specific risks and mitigations aligned to the Group's operating and commercial principles.

The Circles of Risk frame a discussion early on in the Gateway Review process to ensure proper consideration of risks associated with the project such as location, customer, supply chain, project scope and contractual terms.

If the Group does not have previous successful delivery experience across more than two categories in the Circles of Risk, the project will not proceed before further risk analysis has been undertaken, potential mitigation strategies identified, and an informed decision made on how to proceed.

This approach allows Balfour Beatty to make decisions in the context of its risk appetite and stay ahead of potential exposures by ensuring:

- alignment to Group objectives, business growth strategies and acceptable risk profiles;
- all opportunities are assessed in a consistent and robust way so that potential opportunities that do not fit with approved business objectives are qualified out; and
- the early identification of mitigation strategies in order to pursue the opportunity in line with the Group's operating and commercial principles.

COVID-19 risk profile

The COVID-19 pandemic has continued to have an impact on the world, with the threat of new and emerging variants present throughout 2021. The Group responded well to track potential impacts on day-to-day operations early in the pandemic, understand exposures and how these were being managed across the organisation, and to monitor any movement as the crisis evolved.

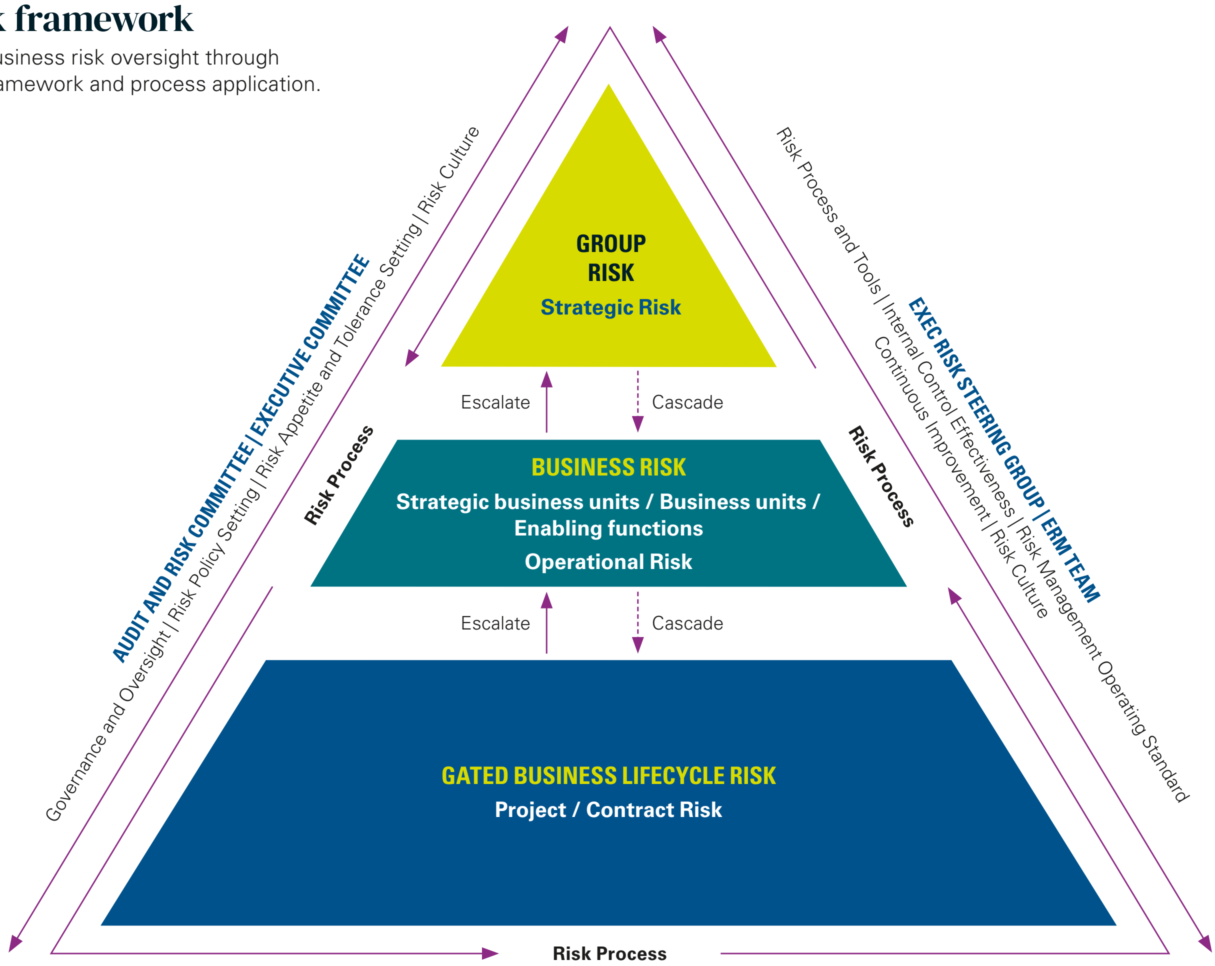
Such was the success of the measures that initial work to develop a COVID-19 specific risk profile conducted in 2020 was integrated into the existing Group risk register, acknowledging that operating in the COVID-19 impacted world had become 'business as usual' from a risk perspective. This integration exercise ensured that COVID-19 is included as a driver or cause where considered a factor against existing Group risks, such as impact to supply chain or issues presented by economic uncertainty.

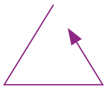
> "Circles of Risk frame a discussion early on in the Gateway Review process to ensure proper consideration of risks associated with the project."

CIRCLES OF RISK

Our risk framework

Enhancing business risk oversight through consistent framework and process application.





Governance and oversight

The Board accepts overall responsibility for risk management and has established procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its longer-term strategic objectives. The Directors continue to undertake a full assessment bi-annually of the Group risk profile including a review of emerging and principal risks faced by the Group, and the effectiveness of the risk management framework and internal control systems, including the financial, operational and compliance processes and controls that are in place to prevent the occurrence or limit the impacts of risks. The Audit and Risk Committee provides independent oversight of the effectiveness of the Group's risk management and associated internal control environment.

Group risk management

The dynamic structure of the Group's risk management process allows the Group Chief Executive to monitor the risk profile of the business through the Executive Committee (ExCom) and the Executive Risk Steering Group (ERSG).

Members of the ERSG act as executive sponsors for risk management and provide valuable input to Group risk themes based on profiles within their respective businesses and functions. The incorporation of the Group risk register into the Group's bespoke risk management software, IRIS (Intelligent Risk Information System), has enabled greater visibility of core and common themes and linkage of these themes between the Group and business risk profiles to better inform half and full year reviews. Updates in 2021 included development of a 'multiple ownership' function which allows for collective input and shared input to be reflected against certain Group risks, improving accountability and contribution to risk review updates.

Business risk management

Risk management across all operations is critical to informing the Group's risk profile. 2021 saw the embedding of the ERM framework and adoption of the risk process into US businesses following implementation of IRIS in 2020. The comprehensive adoption of the ERM system by strategic business units has increased transparency of operational and business risk profiles as well as increased the support for businesses in making risk-based decisions. Pragmatic interaction between operational delivery and enterprise risk teams, alongside increased risk reporting (through Power BI) evolved in 2021 to provide early risk indicators which are monitored in line with business and Group risk appetite.

Gated business lifecycle risk management

The Gated Business Lifecycle remains a core control at the centre of Balfour Beatty's internal control environment. The assessment of risk, as aligned to appetite (and for tenders, the Circles of Risk) is made at each review gate to ensure risk-based decision making remains at the heart of future prospect and live project reviews. This continues to be supported via increased project risk reporting augmented during 2021 to provide key risk indicators across project portfolios to aid timely escalation of project risk to business leadership. The quality of risk information is continuously improving, supported by alignment with internal and operational audit activities and driven by tone set from Senior Leadership on the importance of risk. The enhancement in 2021 of risk library content within IRIS highlights core and common risks specific to our operations with suggested mitigation strategies to support work winning teams and leverage existing knowledge across businesses.

Risk attitude and appetite

Understanding current and emerging risks remains integral to Balfour Beatty's decision making process. Risks that the Group remain exposed to throughout day-to-day delivery and the longer-term pursuit of strategic objectives continues to be monitored in line with appetite – and decisions taken in line with the organisation's attitude to risk.

The Group's risk appetite remains aligned to its Build to Last strategy, which ensures that risk-based decision making on whether to accept or tolerate risk supports the pursuit of objectives whilst remaining loyal to the Company's culture, values and behaviours and sustains a philosophy that can be adopted by all business areas and geographies. The strength and ongoing effectiveness of the internal control environment within the risk structure outlined on pages 144 to 149 has been considered in setting out the below.

The Board, it sub-committees and Executive Committee discuss and measure the nature and extent of current and emerging risks faced by the Group in achieving its long-term strategic objectives. This requires a thorough review of the effectiveness of its internal control environment within the risk management structure outlined on pages 144 to 149. The outcome of this assessment represents the Group's risk appetite and can be set out in the context of the Group's values as shown below.

Build to Last strategy	Risk attitude	Appetite	Related principal risks
We create value for our customers and drive continuous improvement **Lean**	Balfour Beatty remains committed to challenging ways of working to improve outcomes and become more competitive. In delivering better for less, the Group is prepared to accept a level of operational risk. Such risks must not be at the expense of meeting customer requirements. The Group's risk appetite for efficiency remains moderate.	M REMAINS MODERATE	7 p109, 9 p110, 12 p112
Our highly skilled colleagues and partners set us apart **Expert**	Balfour Beatty continues to develop its expertise in engineering, computer science, robotics, data analytics, electronics and electrical and mechanical engineering to deliver the very best solutions to its customers. This drive for sustained innovation is undertaken with industry experts in managed and safe environments to minimise risk. The Group continues to have a moderate appetite for expert risk.	M REMAINS MODERATE	2 p105, 3 p106, 6 p108, 7 p109, 13 p112
We deliver on our promises and we do the right thing **Trusted**	Balfour Beatty must deliver on its promises to stakeholders. Aligning delivery objectives to those of the customer is critical to ensuring successful outcomes – the Group strives for 'right first time' delivery. Ensuring integrity is embedded throughout the Group and its supply chain partners is key to 'doing the right thing'. The Group retains a low appetite for risks around meeting customer expectations.	L REMAINS LOW	2 p105, 3 p106, 4 p106, 5 p107, 6 p108, 7 p109, 8 p109, 9 p110, 10 p111, 11 p111
We make safety personal **Safe**	Conducting business in a safe way and providing a Zero Harm environment for Balfour Beatty's people and stakeholders is paramount. The Group's appetite for health and safety risk remains at zero.	0 REMAINS ZERO	1 p105, 7 p109
We act responsibly to protect and enhance our planet and society **Sustainable**	Balfour Beatty is committed to leaving a positive legacy for the society and communities it serves. The Group seeks to minimise its impact on the environment, working with supply chain partners, customers and communities to ensure its choices are sustainable, whilst delivering customer objectives, and pursuing new initiatives and technologies to achieve this. The Group's appetite for sustainability risk is moderate.	M REMAINS MODERATE	2 p105, 3 p106, 7 p109

Emerging risks

The identification of emerging risks faced by the business forms part of the Group's bi-annual risk management reporting process with each strategic business unit (SBU) and enabling function (EF) including specific reference to emerging risks in its half year and full year risk submissions. In 2021, functionality was developed in IRIS to flag emerging risks on respective strategic risk registers. This enables greater visibility of emerging risks and allows SBUs and EFs to monitor emerging risks alongside the existing review of their risk profiles. These risks form part of the discussion between Group and SBU management and relevant emerging risks are escalated to the Executive Risk Steering Group for further review and validation.

Balfour Beatty considers emerging risks in relation to their longer-term impact and shorter-term risk velocity and examines them in the context of its viability statement. The Group has defined emerging risks as those risks faced by the business that:

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

The discussion and review of emerging risks includes 'horizon scanning' activities around potential uncertainties that are not sufficiently defined or developed to enable an informed assessment to be made on their impact to the ongoing viability of the Group and whether they pose a threat or an opportunity. The review of emerging risks considers:

- economic and political factors (e.g. government or policy change in areas of operation);
- environmental and social factors (e.g. change in people or organisation behaviours);
- legal and regulatory risks (e.g. introduction to or significant change in the regulations which govern how the Group operates); and
- technological risks (e.g. development of innovative solutions and new technologies).

Our risk matrix

Balfour Beatty continues to use its probability and impact matrix (PI matrix) to enable the consistent assessment and prioritisation of risks faced across the business.

Each risk impact is assessed across three main themes: delivery; health, safety and sustainability; and financial.

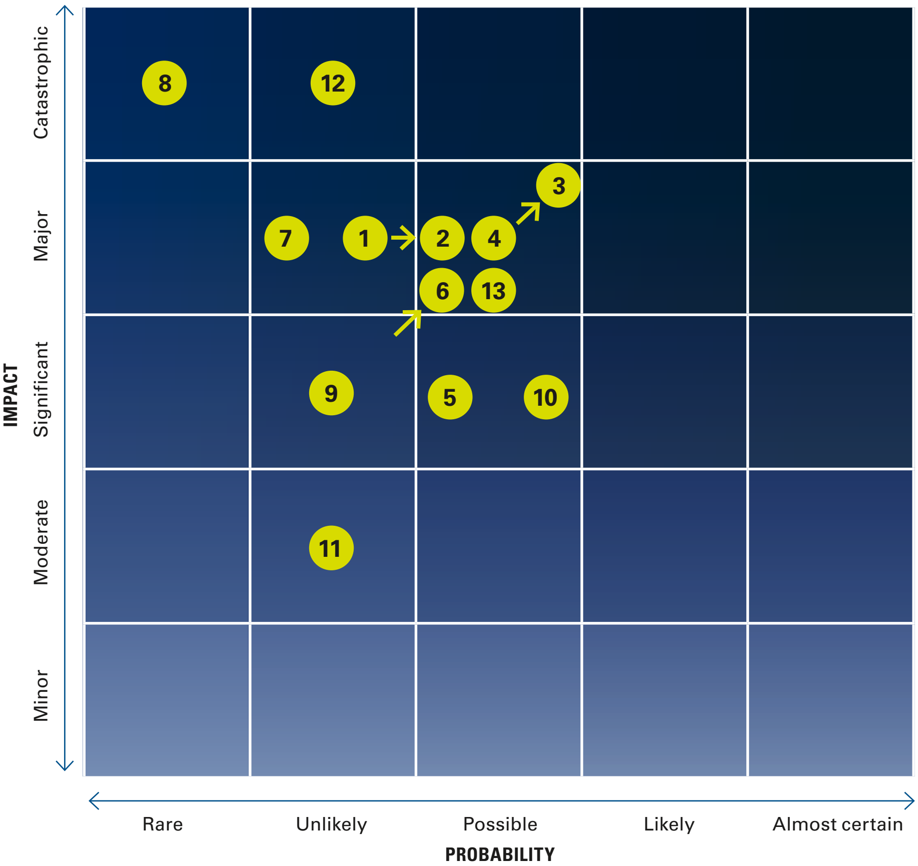
The assessment focuses on the 'current' exposure – that is, the probability of the risk occurring and the potential impact it may have based on the current controls that have already been implemented to manage the risk. This provides a more accurate insight into the potential exposure being faced by Balfour Beatty at that point in time and better positions the Group to make a decision on how to respond to the risk in line with risk appetite.

This PI matrix and its detailed associated impact descriptors is built into Balfour Beatty's risk management system (IRIS) to ensure consistency in the assessment of risks across the Group for delivery and health, safety and sustainability. For financial impacts, the matrix has been calibrated to cater for financial impacts across the three tiers of the risk management framework: Gated Business Lifecycle, business risk and Group risk. This allows the same matrix to be utilised for common assessment whilst providing a flexible, tailored approach for risks to be measured in the context of project or business financial objectives, whilst catering for adjustment on roll up to Group level.

The Group's principal risks have been mapped onto the PI matrix to show both current potential impacts and the movement from year end 2020 to year end 2021 in terms of likelihood and impact.

Probability and impact

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



1	Health and safety	p105
2	Managing commercial terms	p105
3	Project delivery	p106
4	Joint ventures	p106
5	Cybersecurity	p107
6	People and talent	p108
7	Sustaining focus on Build to Last strategy	p109
8	Financial strength	p109
9	Supply chain	p110
10	Code of conduct compliance	p111
11	Legal and regulatory	p111
12	Legacy pension liabilities	p112
13	Economic uncertainty	p112

Principal risks

Balfour Beatty's decision making remains centred on a comprehensive and detailed understanding of the exposures faced by the organisation. The identification of risks to achieving business and strategic objectives, alongside the use of detailed analysis to inform and prioritise responses, remains key to balancing risk taken in line with risk appetite.

The principal and emerging risks are mapped to strategic business plans to ensure a comprehensive coverage of risks, allowing the Board to undertake a robust assessment of the potential exposures faced by the Group and whether these represent new, increased or decreased threats and the level of response required to manage them. The risk profile comprises both interconnected and discrete risks at strategic, operational and project level and focuses on understanding the worst-case scenarios that could threaten the Group's strategy and business model. As a result, changes in the Group's risk profile and movements in some of the principal risks have been identified and are described on pages 105 to 112.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
1 HEALTH AND SAFETY			
The Group works on and delivers significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks. **What impact it might have** Failure to manage these risks presents the potential for significant harm, including fatal or life-changing injuries to employees, subcontractor staff, third parties or members of the public. It also presents the threat of potential criminal prosecutions, significant fines, debarring from contract bidding and reputational damage. For more information please see 'Health, safety and wellbeing' on pages 58 to 62.	Common themes which drive health and safety risks include: › inadequate risk identification/ assessment; › lack of competence; › processes that fail to deliver risk elimination or mitigation; › lack of clear safety leadership, impacting broader safety culture; › ineffective management of subcontractors, JV partners and other third parties; › failure to cascade and follow Health and Safety procedures; and/or › lack of focus on the wellbeing and mental health of staff faced by daily work and life pressures.	Balfour Beatty's Zero Harm Strategy and its supporting policies and procedures act as key controls in managing the risks. The strategy and associated action plans are regularly reviewed and monitored by management and external accreditation bodies. Experienced and competent health and safety professionals provide advice and support, monitor culture and undertake regular reviews. The Safety and Sustainability Committee of the Board and business Health and Safety executive leadership teams meet regularly throughout the year to capture lessons learnt and develop a consistent approach to health and safety best practice. Training programmes (including behavioural) are in operation across the business.	**Owner** Safety and Sustainability Committee **Risk movement** — **No movement** The risk continues to be managed by well-established controls and mitigations throughout the Group to represent a stable control environment. Multiple contemporaneous failures within this environment would be required for the risk to be realised.
2 MANAGING COMMERCIAL TERMS			

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
The Group repeatedly delivers high profile, complex projects that regularly carries specialised deliverables together with intricate, multifaceted, and sometimes onerous commercial terms. Establishing the right contractual terms and delivering customer obligations inside these terms alongside the supply chain, whilst maintaining a balance to protect the interests of all parties, maintain a profitable and sustainable order book, and delivering stakeholder value, can pose a risk if not managed correctly. **What impact it might have** Failure to fully understand or manage the application of commercial terms across contracts can result in potential disputes, requiring the use of valued time and associated cost of resource to manage them. Potential losses or reduction in profits and damage to relationships with key customers and supply chain partners could also impact the Group. Failure to effectively engage and collaborate with customers and supply chain partners to manage contract terms could additionally result in opting out of certain works or may even limit access to certain targeted markets in the future.	Key causes that could drive this risk include: › lack of clearly defined bid strategy; › misalignment between Balfour Beatty and client approach; › working with a new or unknown customer with no known established relationship; › supply chain lacking the capability to accept and manage back-to-back terms, resulting in increased risk carried by Balfour Beatty; › failure to engage in an early collaborative approach with the customer; › clients taking a risk adverse attitude resulting in a lack of balanced approach to allocation or sharing of risk; and/or › lack of early identification of a contracting strategy between all parties.	The Group Tender and Investment Committee reviews and challenges all proposals in line with minimum commercial expectations and Circles of Risk. Defined delegated authority levels are in place for approving all tenders and infrastructure investments. Customer adoption of the UK Government Construction Playbook steers an approach towards increased collaboration, which results in reduced risk, and an increased focus on quality of bid rather than being solely cost driven. A 'getting left early' approach adopted prior to the procurement process enables influence over contracting and procurement model and a two-stage tender, supports an early collaborative, solution-based approach with customers and minimises risk on both sides. A wide and ongoing range of work winning initiatives (including Cash is our Compass, High Value Selling and the Win Business Leadership community of practice) are in place across the Group to drive increased commercial and customer awareness and further embed an understanding of expectations on margins and cost. The Gateway review process highlights key commercial risks closely aligned to Circles of Risk to ensure adequate qualification and early mitigation of key exposures. Monthly business reviews pick up any early indicators with potential for disputes arising on contracts, including across the subcontractor base.	**Owner** Group Tender and Investment Committee **Risk movement** **Increasing** Risk increased in 2021 in existing portfolio. Controls to champion a more collaborative approach with customers to manage the risk remain key, alongside controls to prevent the Group from bidding for unsustainable work, and limit any potential exposure. Regular reporting of risk profiles and mitigation strategies to management throughout execution remain key. An improvement in governance controls for approvals increases alignment with Circles of Risk, improving focus on documenting tender risk profiles.

3 PROJECT DELIVERY

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
Failure to deliver projects consistent with customer expectations and required specifications, in line with schedule and budget. and minimise the risk of increased costs, delay related damages and defect liabilities. **What impact it might have** Failure to manage and/or deliver against customer expectations, scope specifications and key deliverables to schedule and budget could result in concerns such as design issues, contract disputes, rejected claims, liquidated damages, cost overruns and failure to achieve anticipated customer savings which in turn could reduce the Group's profitability and damage its reputation. The Group may also be at risk of longer-term exposures including litigation and costs to rectify defective or unsafe work. Delivery failure on a high-profile project could result in significant reputational damage, debarring from future work and significant associated costs of rectification or dispute resolution.	Failure to implement, maintain and challenge operational and commercial controls (as detailed within checklists at Gateway reviews) allowing: › lack of comprehensive understanding of contract obligations; › inadequate resource (people, plant and materials) or competency of resource; › unrealistic project schedules; › unrealistic progress assessments and cost to complete judgements which could arise due to poor training, lack of supervision, or lack of accountability; › overly optimistic claim recovery assumptions; › incomplete visibility and appreciation of scale of commercial judgements; › failings in administering the contract terms to safeguard or protect future claims, change orders and extensions of time (EOTs); and/or › poor management, selection and governance of subcontractors. Customer intervention and additional pressure to complete could also be a driver to this risk.	The Gated Business Lifecycle continues to maintain focus on identifying and reporting risks, including planning, programme accuracy, cost and cash forecasting and resource reviews. Early engagement of integrated work winning and project delivery teams across the Gateway processes ensures customer expectations are understood and realistic. Deployment and ongoing monitoring of strong commercial management and contract administration processes through the project lifecycle. Optimal scheduling of key staff and associated competencies within project delivery teams and senior management, with ongoing and focused training. The site mobilisation hub facilitates early and effective start-up on site. Drive for defect-free delivery including digital progressive assurance of project delivery championed by Quality Leadership Team with Executive Committee sponsorship. Pre-qualification and competency/capacity verification of supply chain partners, close monitoring of subcontractor and supplier performance throughout the project lifecycle. Professional indemnity cover in place to provide further financial safeguards.	**Owner** Group management **Risk movement** **Increasing** Consistent application of the Group's reporting systems and diligent use of short interval control processes remain in place across all stages of project delivery, providing greater certainty of operational outcomes. However, continued verification of the effectiveness of controls remains key to managing this risk together with an enhanced focus on quality performance.

4 JOINT VENTURES

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
Failure to implement robust controls around the selection of joint venture (JV) partners, define a clear governance structure to monitor delivery or establish a 'one team' culture may result in failure to deliver expected returns and minimise the risk of unexpected liabilities. **What impact it might have** Inability to select the right JV partner, aligned to Balfour Beatty's culture and values, may result in a mismatch of partner objectives, with a knock-on impact on the effective delivery of contract requirements, and a misalignment in approach. This could result in a significant impact to profitability and reputational damage. The failure of a JV partner may expose the Group to increased resourcing costs and ongoing liability, warranty and insurance risks. Disputes with JV partners could impact the Group's ability to operate successfully and/or expand within its chosen markets. Failure to align and integrate with the Group's health and safety management expectations could result in increased potential for injury and/or fatality.	The risk could be realised through: › ineffective assessment of potential JV partners including liquidity, capacity and capability; › failure to ensure 'fit for purpose' terms with the right JV partner; › lack of clarity of the delegated levels of authority between partners; › delayed and fettered decision-making process between partners; › segregation of management systems (financial and operational); › lack of understanding of contract requirements and expectations; › lack of oversight over JV reporting and application of processes implemented across the project; and/or › failure to align Balfour Beatty and JV partner cultures, values and practices.	The Group Tender and Investment Committee process applies to all joint venture proposals. The Group's primary course is to self-deliver projects where possible rather than as part of a JV, whilst recognising that establishing the right partnership can be an opportunity to deliver work. Appointment of an appropriately constituted JV board to act as the main governance vehicle for the Group. The Gated Business Lifecycle provides governance over the selection of JV partners, and highlights partner related risks closely aligned to Circles of Risk including those related to capacity, capability, previous experience with the Group and liquidity. Experienced project directors are appointed to manage the JV and provide an ongoing assessment of operational delivery risk. Good practice, including the use of joint reporting systems where appropriate, is shared between all partners to embed the Group's expectations and culture throughout JV delivery teams. Balfour Beatty monitors the performance of its JV partners throughout the lifecycle of a project.	**Owner** Group Tender and Investment Committee **Risk movement** — **No movement** New joint venture arrangements are the subject of renewed and enhanced control.

5 CYBERSECURITY

Failure to protect key Company and employee data or other confidential information due to a breach of system security. **What impact it might have** Realisation of this risk could result in: › reputational harm (loss of market and customer confidence); › potential fines and prosecution; › loss of intellectual property and competitive advantage; and › operational impact restricting ability to carry out business critical activities (disruption to business as usual). For more information please see 'Ethics and compliance' on pages 63 to 64.	There are several internal and external factors that could contribute to the realisation of this risk including: › poor internal governance; › failure to embed preventative culture; › lack of or inadequate staff training and awareness; › increased exposure to phishing attacks and ransomware due to increased use of personal devices and remote working; › lack of retention policy applied to data; › operational failure; › inconsistent approach to data security with joint venture / external partners; › increased use of cloud services without equivalent investment in modern threat prevention; and/or › cyber-attack.	The risk is managed via the following controls: › network and endpoint protection, encryption, patching and data back-up; › awareness training with mandated annual refresher in place across all users; › employee vetting; › data governance framework regularly reviewed, and supported by policies and certifications; › incident management feedback mechanism (embeds lessons learnt); › partner and supplier controls in place including vendor risk management assessments and established relationships with external security authorities; › infoSec actively monitoring for security incidents and remediating where necessary; › access to all core systems subject to multi-factor authentication; › systems are subject to 24x7 monitoring; › legacy operating systems removed or minimised, including upgrade and removal of employee legacy mobile devices;. › strong focus on supply chain partners to ensure they are resilient to fraud and cyber-attacks; › knowledge sharing initiatives with supply chain partners and wider industry; › reviewing core controls to provide additional protection in areas which have potential to be new attack paths; and › cyber-security maturity assessment providing assurance and oversight of the operation and effectiveness of the cyber controls.	**Owner** Group management **Risk movement** — **No movement** The risk posed by cyber-attack is continually growing and our controls have increased to reduce the likelihood of a major incident. Ongoing monitoring and review of controls remains key in managing this risk.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
6 PEOPLE AND TALENT			
Inability to attract and retain the required levels of skilled and competent staff and capability, as well as develop emerging talent, to deliver current and future pipeline and meet the Group's objectives. **What impact it might have** Failure to recruit and retain appropriately skilled people or grow in-house talent could harm the Group's ability to win or perform specific contracts, manage delivery cost increases, grow business and/or meet strategic objectives including acquisition of future order book. A high level of staff turnover or low employee engagement could result in a loss of competency, reducing business confidence within the market, a loss of stakeholder confidence and an inability to drive business growth or improvements. For more information please see 'Our people' on pages 81 to 86.	The failure to effectively mitigate the Group's people risks may arise through: › overheating of market causing significant increase in demand or competition for people, specifically in certain sectors and regions; › overbidding or ineffective workload and location scheduling; › lack of visibility of long-term pipeline or perceived career progression resulting in existing workforce leaving the Group or sector; › inability to recruit and retain strong performers; › failure to maintain a culture of pride and advocacy across the workforce; › ineffective and/or lack of adequate investment and decision making in the development of existing skills and capabilities; › lack of a diverse workforce; › issues throughout labour supply chain including UK's exit from the EU and onerous immigration controls; › 'post-pandemic' recovery driving increase in attrition and people movement; and/or › pressure from wage inflation and increase in competitive offers from other infrastructure opportunities.	Providing a positive working environment to support the development of its employees has been central to Build to Last. Specific controls to mitigate this risk include: › implementation of HR strategy and plan and associated measurement of KPIs to inform decision making against budgets; › a focus on strategic workforce planning protocol to prevent resource conflicts; › work winning and project delivery aligned to internal and external recruitment activities, with early review of people and resourcing needs via the gated business lifecycle to ensure adequate capability and capacity to deliver work prior to bidding; › competency frameworks within core job families identify and support the development of key knowledge, skills and expertise; › recruitment and retention rates are measured and regularly reviewed across all parts of the business, with succession plans identified for core disciplines; › annual PPR (people and talent reviews), with regular reviews of remuneration and incentive arrangements to ensure they are appropriate to help the Group attract, motivate and retain key employees; › Group-wide employee engagement surveys are undertaken to measure engagement and appropriate actions are developed and communicated; › the Balfour Beatty Academy has been established in the UK to support professional and personal development in line with role requirements; › training needs analysis and competency tools (COMAEA) identifies role capability requirements and highlights development gaps to inform investment decision making; › strong employee communication channels are in place celebrating individual, business and Group-level successes and increasing visibility of future pipeline and opportunities; › affinity networks established to create a diverse and inclusive working environment; and › increased investment in emerging talent such as strong graduate, apprenticeship, trainee, conversion programmes and industrial placement/internship schemes.	**Owner** The Board **Risk movement** **Increasing** Risk has increased in 2021, reflecting an upturn in people movement 'post-pandemic' and increasing pressure on wage inflation within the sector and wider economy. Retention of key skills alongside future access to required talent pools, remains a key focus for 2022.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
7 SUSTAINING FOCUS ON BUILD TO LAST STRATEGY			
Failure by the Group to sustain and build upon the strong foundation and culture created through its Build to Last strategy. **What impact it might have** Inconsistency in working practices and siloed cultures could drive inefficiencies including increased costs and operational errors resulting in reputational harm impacting all of the Group's stakeholders as well as an impact on the Group's ability to deliver sustainable profitable growth. For more information please see 'Our strategy: Build to Last' on pages 12 to 13.	Failure to deliver and/or demonstrate sustained focus and momentum could arise from: - complacency and/or localised adaptations within core disciplines or siloed cultures; - ineffective communication and reinforcement of messaging through a lack of leadership; - inadequate resourcing (financial, physical assets and people); - new systems and processes being used without appropriate controls being in place and/or tested; and /or - new people joining the organisation (including in leadership roles).	Ensuring Build to Last continues to deliver and demonstrate value is a strategic priority for the Group and is led by the Group Chief Executive. Controls include: - continuous measurement and reporting of KPIs aligned to Lean (cash flow and profit from operations), Expert (employee engagement), Trusted (customer satisfaction), Safe (Zero Harm) and Sustainable (carbon emissions) within each business unit; - refreshed cultural framework under Build to Last with associated engagement and embedment in systems and processes aligning the UK and US under one unified cultural framework and reinforcing expected values and behaviours; - senior leadership team well experienced in delivering business transformation successfully with clear and frequent senior leadership engagement across the businesses; - upskilling, training and development initiatives at key levels throughout the business to reinforce Build to Last principles in key job families i.e. commercial, project management, engineering etc; and - induction, recognition and PDR approach heavily weighted around Build to Last principles and culture including expected values and behaviours.	**Owner** The Board **Risk movement** — **No movement** The Build to Last strategy is key to the continuing success of the business.
8 FINANCIAL STRENGTH			
The Group's inability to maintain the financial strength required to operate its business and deliver its objectives. **What impact it might have** Failure to protect and effectively deliver the required financial strength will mean the Group: - fails to meet financial covenant tests, as set out in its financing facility agreements, leading to a default event if not remedied within a specific grace period; - fails to pass the required tests that allow it to continue to use the going concern basis of accounting in preparing its financial statements; - loses the confidence of its chosen markets; and/or - loses the ability to compete for key long-term contracts that are critical to its viability and delivery of its long-term objectives.	Failure to manage financial risks, including forecasting material exposures, and the financial resources of the Group that underpin its ability to: - meet ongoing liquidity obligations so that it remains a going concern; and/or - meet financial covenants as set out in financing facility agreements.	The Group continues to operate with a low level of financial risk as evidenced by the robust net cash position. The Group operates with a centralised Treasury function that is responsible for managing key financial risks, cash resources and the availability of liquidity and credit capacity. The Group maintains significant undrawn term committed bank facilities with a banking group of high credit quality to underpin the liquidity requirements of the Group. The Group maintains significant bank and surety bonding facilities to deliver trade finance requirements of the Group on an ongoing basis. The Group operates standardised reporting, forecasting and budgeting financial processes. This allows monitoring of the impact of business decisions on financial performance over future time horizons. Assets from the Investments portfolio can be sold to generate cash.	**Owner** The Board **Risk movement** — **No movement** Robust controls within Finance and Treasury functions continue to demonstrate a clear ability to manage existing and anticipated risk.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
9 SUPPLY CHAIN			
Supply chain partners fail to meet the Group's operational expectations and requirements in relation to capacity, competency, quality, financial stability, safety, environmental, social and ethical. **What impact it might have** Failure to effectively manage or monitor the delivery of subcontractors or suppliers would result in the Group becoming involved in disputes, being forced to find an alternative provider or undertaking/ redoing the work itself. This could result in delays, business disruption, additional costs or a reduction in quality/increased defects owing to lack of expertise or competency. Mistreatment of suppliers, subcontractors and their staff, or poor ethical standards in the supply chain, could lead to legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and debarment.	Lack of capacity, competency or stability within the Group's supply chain may arise through; › lack of capacity or failing to retain subcontractors in a buoyant market, over-reliance on a limited number of suppliers or a failure of key supplier relationships; › failure to embed the Group's expectations within the procurement process; › inadequate assessment of supply chain partner capabilities, capacity and process (including liquidity, quality, safety, ethics, materials stewardship, child labour, forced labour and modern slavery); › lack of supplier resilience (due to after effects from the UK's exit from the EU, prolonged effects seen as a result of COVID-19 and/ or the rising global cost of energy); › impact on supply and availability due to down-turn in production during the COVID-19 pandemic; › failure to accurately assess project resource requirements and key deliverables; › impact from the UK's exit from the EU including increased tariffs and border delays; › logistical impacts causing delays resulting from HGV shortages and warehousing issues; › inflation driving up prices; › lack of adequate oversight, supervision or management during delivery; and/or › unethical treatment of the supply chain.	The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations and dependencies. This includes relationship mapping with strategic suppliers, lessons learnt from previous projects together and briefing on order book requirements. The risk management framework and the Gateway review process allow for early (Gates 1–4) and ongoing (Gate 6) assessment of the appropriateness of resource allocation and dependencies and development of procurement strategies. Pre-qualification accreditation in place for core suppliers (validated in Gates 1–3), with oversight of supplier metrics and overall 'health'. Contingency plans address potential subcontractor failure, including replacement supplier list. A central database tracks individual subcontractor scoring in relation to capacity, compliance, performance and financial health. The Group obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency. Suppliers and subcontractors reviewed for third-party suitability compliance via PAS 91 Assessment (Industry Standard). Group-wide Code of Conduct and Supplier Code of Conduct, targeted training programmes and related policies and procedures in place.	**Owner** Group management **Risk movement** **No movement** 2021 has seen some volatility in the supply chain due to continued disruption from COVID-19 and other market pressures, however the Group maintains strong relationships with key supply chain partners and has robust controls in place to closely monitor core commodities.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
10 CODE OF CONDUCT COMPLIANCE			
Failure to comply with the Code of Conduct across the Group including employees, JV partners, and within the supply chain. **What impact it might have** Failure to comply with the Code of Conduct and Balfour Beatty values could leave the Group exposed to: › instances of bribery and corruption; › fraud, deception, false claims or false accounting; › unfair competition practices; › human rights abuses, such as child and other labour standards generally, illegal workers, human trafficking and modern slavery; › unethical treatment of and by the supply chain; and/or › ethics and values being compromised as a result of commercial pressures. Failures could result in legal investigations or disputes, resulting in business disruption, losses, fines and penalties, reputational damage and debarment. For more information please see 'Ethics and compliance' on pages 63 to 64.	Failure to comply with the Code of Conduct and Balfour Beatty values could arise from: › failure to adopt a compliance risk approach; › failure to establish appropriate corporate culture; › failure to embed the Company's values and behaviours throughout the organisation and across joint ventures; › lack of effective training programme and compliance monitoring; › failure to have a robust testing and monitoring programme in place; › lack of appropriate whistleblowing processes including ensuring awareness of such outlets across the organisation; and/or › deliberate or reckless non-compliance.	A Group-wide Code of Conduct and Supplier Code of Conduct, and related policies, procedures and training are in place and refreshed as appropriate. Ethics and Compliance updates are provided to the Audit and Risk Committee biannually. Each business unit, supported by the Ethics and Compliance function, is responsible for embedding the Code of Conduct and the Company's values and behaviours within its operations. The Group has a range of operational controls (commercial, including procurement, due diligence and risk assessment) that are designed to identify and manage risks internally and with third parties. An independent third-party whistleblowing helpline and dedicated email contact are in place and actively promoted. All in-scope complaints are independently investigated by the Internal Audit and Compliance teams and appropriate action is taken, where necessary. Balfour Beatty works with a limited number of agents, all of whom are, in addition to the Group's due diligence and approval process, subject to specific contractual clauses, policies and agreements. Use of a central database to track supplier and subcontractor performance history providing insight into their internal operating processes, governance and values.	**Owner** The Board **Risk movement** **No movement** The risk continues to be managed by well-established controls and mitigations throughout the Group to represent a stable control environment. Extra focus has been given to the US with the appointment of a US Chief Compliance Officer.
11 LEGAL AND REGULATORY			
The Group does not respond to any change in relevant legal, tax and regulatory requirements in a timely manner. **What impact it might have** The Group could face legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and exclusion from bidding. Such action could also impact upon the valuation of assets within the affected territory as well as have an impact on shareholder confidence.	A failure to recognise or adapt to potential impacts arising from changes in applicable laws affecting the Group's businesses may result from: › lack of awareness of any changes in law or regulations made; › ineffective communication of the requirements across relevant business units; and/or › entering into new markets and/ or sections with limited expertise and due diligence.	The Group monitors and responds to tax, legal and regulatory developments and requirements in the territories in which it operates. Changes in the law and the requirements arising from them are clearly cascaded to all affected businesses. Local legal and regulatory frameworks are considered as part of any decision to conduct business in a new territory. Appropriate and responsive policies, procedures, training and risk management processes are in place throughout the business.	**Owner** The Board **Risk movement** **No movement** Unforeseen exposure to legal and regulatory change is considered extremely unlikely. The controls embedded across the Group are considered effective in managing this risk.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
12 LEGACY PENSION LIABILITIES			
The Group is exposed to and must therefore effectively manage significant defined benefit pension risks. **What impact it might have** Failure to manage these risks adequately could lead to the Group being exposed to significant additional liabilities due to increased pension deficits. This has the potential to affect the ongoing sustainability of the Group as well as incur reputational harm.	The Group is unable to ensure that the trustees of the pension funds react effectively to or manage: › changes in interest rates or outlook for inflation; › an increase in life expectancies; › regulatory intervention or legislative change; › prudent funding assumptions; and/or › investment performance of the funds' assets.	The Group continues to constructively and regularly engage with the trustees of the pension funds to ensure that they are taking appropriate advice and the funds' assets and liabilities are being managed appropriately. This includes quarterly performance reporting and investment committee meetings in which the Company is represented. The funding and investment arrangements of the pension funds are subject to an in-depth triennial valuation and funding review with regular monitoring in years between. The Group's main UK fund has hedged in excess of 80% of its exposure to interest rate and inflation movements.	**Owner** The Board **Risk movement** **No movement** Triennial funding review of the main UK fund was completed in January 2020, with the next review date in March 2022. Diverse investment portfolio remains in place, with regular review on the trade-off between risk and cost. No change in risk.
13 ECONOMIC UNCERTAINTY			
The effects of national or market trends including political, societal or regulatory change, may cause customers to re-evaluate existing or future infrastructure expenditure and the procurement of services. It may also lead to changes in the price and availability of labour, products and services. Any significant delay or reduction in the level of customer spending or investment plans could adversely impact the Group's strategy and order book, reduce revenue or profitability in the near or medium term, and negatively impact the longer-term viability of the Group. Restrictions on the availability of skilled labour and competitively priced materials could lead to increased costs and hence potentially a devaluation of the business. Financial failure of a customer, including any government or public sector body, could result in increased financial exposure to counterparty risk.	Potentially negative impacts related to the effects of: › customers postponing, reducing or changing expenditure plans including any delays in funding or planning associated with COVID-19 or to meet 'greener' solutions; › impact of inflation to underlying cost base, driven by the rising global cost of energy, impacts from the UK's exit from the EU – e.g. increased tariffs or lack of UK investment having a knock-on effect and downturn in production or manufacturing during COVID-19 with demand outweighing supply and driving up prices; › increased competition (e.g. in the UK from foreign investors acquiring competitors); › political change or uncertainty; › increased supply chain risks (e.g. solvency, people and materials); and/or › reduced revenue or pressure on margins.	The Group primarily operates across three geographies (UK, US and Hong Kong) and three sectors (Construction Services, Support Services and Infrastructure Investments). This balanced portfolio of projects provides resilience and stability as the Group is less exposed to a downturn in a single geography or sector. The Group continues to actively monitor market trends and potential impacts. The financial solvency and strength of counterparties is always considered before contracts are signed and assessments are updated and reviewed whenever possible during the project lifecycle. The business also seeks to ensure that it is not over-reliant on any one counterparty. The annual review of market forecasts continues to remain a core part of the Group's Budget and Plan processes, and a focus on medium-term market outlook is considered and presented by each Strategic Business Unit.	**Owner** The Board **Risk movement** **No movement** There is an increase in opportunities associated with government infrastructure spend and the passing of the US Infrastructure Bill. Global inflation is increasing and is a risk that is being monitored closely by the Group.

Other risks

Climate change

Failure to manage and mitigate climate change is identified as a risk on the Group register. Understanding the impact of climate change on the business and deploying the right strategies to mitigate any exposure to the business is key. This includes allocation of expertise and resources to manage this across the organisation and understanding the longer-term impact that this risk may have on the business model, including to underlying project cost-base and broader Group strategy. The Building New Futures sustainability strategy sets out a path on how Balfour Beatty plans to deliver carbon-reduction measures across its operations.

Work undertaken by the Group to date to understand the impact of climate change, as well as potential risks and opportunities considered by the business, are further outlined in the TCFD section found on pages 114 to 119.

Common industry-wide risks

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

In accordance with the requirements of the Code, the Directors have assessed the Group's long-term prospects and its viability over a three-year period to 31 December 2024.

Assessing the Group's long-term prospects

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

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

In doing so, the Group is also mindful of the effects it has on the environment. The Group strives to adapt to the emerging demand to deliver innovative and sustainable solutions which ensure the impact of any adverse environmental impact is appropriately mitigated against. The Directors have assessed the impact of climate change on the Group's viability and have concluded that whilst no significant impact is expected in the medium term, the Directors will continue to monitor and assess any impact of climate change that may threaten the Group's viability in the longer term.

Assessing the Group's viability

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

The Directors and the Executive Risk Steering Group continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, its business model, future performance, solvency and liquidity. As part of assessing the Group's future viability, the Directors have considered these principal risks and the mitigations available to the Group. These principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 105 to 112.

In their assessment of the Group's viability, the Directors have also considered the need to be successful in focusing on the Group's values of Lean, Expert, Trusted, Safe and Sustainable detailed on pages 9 to 13. The Group's progress in relation to Build to Last for continuous improvement remains critical to future success, although success is also dependent on the Group's ability to selectively win new contracts which will be partly impacted by political changes.

The Directors have assessed the Group's viability in conjunction with its current position as well as its projections of its debt facilities and associated covenants. These financial projections are based on the Group's Three-Year Plan, which has been built on a bottom-up basis with a Group overlay to provide a more top-down view and align to the Group's strategic objectives. These projections indicate that the projected headroom, provided by the Group's strong liquidity position, including its net cash position and under the debt facilities currently in place, is adequate to support the Group over the next three years, whilst still enabling the Group to repay the third tranche of its US private placement loan of US$209m in March 2023. The Group does not have any other debt repayment obligations in the viability assessment period. In testing the headroom available under the key sensitivities modelled, the Group has assumed that this repayment will not be replaced with another form of debt.

The Group has access to its £375m committed bank facility, which was undrawn throughout the year to 31 December 2021 and remains fully available to the Group until October 2024.

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

- failure to manage effectively any adverse economic impact including any continuing effects caused by COVID-19 or the UK's exit from the European Union;
- an operating event that damages the Group's reputation and results in significant penalty; and
- failure to maintain progress made in relation to Build to Last.

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

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

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

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

Based on the assessment undertaken to stress-test the Group's viability against severe but plausible scenarios, and taking into account the strength of mitigations that are immediately available to the Group, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2024.

Our 2021 Strategic report, from pages 1 to 119, was approved by the Board on 10 March 2022.

Philip Harrison
Chief Financial Officer

10 March 2022

Climate change and TCFD

In the recent World Economic Forum's Global Risk Report 2022[1] climate action failure, extreme weather events, and biodiversity loss and ecosystem collapse are considered the top three of the top 10 risks by severity over the next 10 years. Action to limit future global greenhouse gas emissions will help restrict future changes to our climate system. Impacts from climate change are already being felt today and will continue to increase in the future.

In response to the climate emergency, Balfour Beatty has an ambition to go beyond 'net zero' greenhouse gas emissions by 2040 and by signing the Business Ambition for 1.5°C, a global coalition of UN agencies, businesses, and industry leaders, in partnership with the UN Race to Zero campaign, it has committed to halve its greenhouse gas emissions by 2030.

The business acknowledges the scale of the transformative action and all-encompassing nature of the changes required to achieve net zero and the role the construction and infrastructure sector plays to support the wider economy in becoming more resilient to threats posed by climate change.

For Balfour Beatty this means identifying and managing climate change risks now and in the future. It requires meaningful collaboration with infrastructure value chain members, trialling and adopting new technologies, materials, and processes, raising the bar on educating the Group's workforce on climate-related issues, and working together with industry peers to overcome the barriers we collectively face. Information on the business' activities in these areas can be found in the Sustainability section on pages 66 to 80 of this report.

Physical risks such as increased severity of extreme weather events, are likely to disrupt supply chains, halt operations and damage valuable assets. Transition risks such as creating capacity in power networks to keep up with the demand for electric charging infrastructure or the introduction of carbon pricing policies will put pressure on operating costs.

The transition to a low-carbon economy also presents significant opportunities. Diversification into new markets shaped by the global transition to a low-carbon economy such as the construction and management of infrastructure for green-hydrogen power, renewable electricity generation, or carbon capture and storage will generate new revenue streams and result in the creation of new jobs and skills.

Balfour Beatty welcomes the disclosure recommendations of the FSB's Task Force on Climate-related Financial Disclosures (TCFD). Aligning TCFD recommendations to its existing risk management framework enables the business to understand and manage relevant climate-related risks and opportunities.

The disclosures are consistent with the TCFD core elements areas of Governance, Strategy, Risk Management and Metrics and Targets and cover the 11 specific recommended disclosures. They reflect where the business currently is on its TCFD journey and over the next 12 months there will be a full disclosure of Scope 3 emissions and greater emphasis to work on financial analysis of the impacts and benefits to strengthen associated risk and opportunity disclosures.

Some elements of these disclosures are addressed elsewhere in the report and the table below outlines where this information can be found. Further signposting is indicated in the sections that follow.

PILLAR	TCFD RECOMMENDATION	SECTION NAME	PAGE
Governance	**a)** Board oversight	Division of responsibilities	**p132**
	b) Management role	Audit risk and internal control	**p144**
		Sustainability	**p66**
Strategy	**a)** Risks and opportunities	Division of responsibilities	**p132**
	b) Impact on organisation	Board composition, succession, and evaluation	**p136**
	c) Resilience of strategy	Sustainability	**p66**
Risk management	**a)** Risk identification and assessment process	Risk management	**p100**
	b) Risk management process		
	c) Integration into overall risk management		
Metrics and targets	**a)** Climate-related metrics	Sustainability	**p66**
	b) Scope 1, 2, 3 GHG emissions		
	c) Climate related targets		

1 World Economic Forum, The Global Risks Report 2022 17th Edition Insight Report, https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf

Governance

Balfour Beatty's governance structure and organisation hierarchy underpins all Group activities ensuring the business is managed and operated effectively. The structure allows the Board, its management committees and senior management to embed climate-related risks and opportunities into strategic and local decision making and operation activities. See pages 116 to 117 for illustration.

Board oversight

The Balfour Beatty plc Board is responsible for setting the cultural framework of the business including its purpose, strategy, values, and behaviours. Together with its sub-committees the Board provides leadership and oversight ensuring climate-related risks and opportunities are effectively assessed and managed.

The Safety and Sustainability Committee (SSC) reviews the Group's Building New Futures sustainability strategy, and monitors progress on climate-related issues. The Group Chief Executive, and two non-executive Directors are members of the SSC. The Group Chief Executive has overall responsibility for climate-related risks and issues as well as setting Balfour Beatty's sustainability policy and overseeing how ESG matters are managed. During 2021 the SSC agenda was separated into two specific areas of focus, (i) Health and Safety and (ii) Sustainability allowing for more emphasis on climate-related matters.

The SSC met three times in 2021, with the most recent meeting in November and included the attendance of other Board members, during which an update was received from external climate change specialists as well as the chair of the TCFD working group on progress on TCFD disclosure requirements.

The Audit and Risk Committee supports the Board in its oversight of all Group risks, which include climate-related risks and opportunities; it assesses the effectiveness of the Group's risk management framework, risk strategy, risk appetite and risk profile as well as compliance with regulatory requirements. In its March 2022 meeting the Committee considered the financial reporting and disclosure considerations in respect of climate change. Further information related to all Board meetings held and attended can be found in the Division of responsibilities section on page 132. Where climate-related matters were discussed, this is evidenced accordingly in meeting minutes.

Management role

The Executive Committee's (ExCom) responsibility includes setting ambitions and targets, set out in the Building New Futures sustainability strategy. This includes climate-related matters and supporting businesses to develop action plans. It is responsible for monitoring climate-related risks and opportunities.

Strategic Business Unit (SBU) Managing Directors have authority over the identification and management of climate-related risks relevant to their business and arrange ownership of targeted controls and actions. SBU Sustainability Leads enable oversight and management of sustainability matters, which include climate-related risks and opportunities at the project level. An illustration of this governance can be found in the Sustainability section on page 67. Climate-related risks are now highlighted by each business as part of the half year and full year internal control reporting process.

In April 2021, ExCom received an external briefing on climate change and TCFD reporting obligations and progress. A TCFD working group was subsequently formed focusing solely on climate-related risk management processes and reporting. ExCom is updated by the Group Audit and Risk Director as part of the ongoing assessment of risk management and internal control.

Climate-related issues are discussed with ExCom as part of the sustainability updates provided by the Group Health, Safety, Environment & Sustainability Director.

The TCFD working group led by the Group Risk and Audit Director, includes senior management representation from Finance, Risk, and Sustainability, and draws on functional support from the wider business. It engages with business management in ensuring climate-related risks and opportunities are adequately identified and incorporated into the Group's Enterprise Risk Management (ERM) system.

The key objectives of the working group are:

- to communicate TCFD reporting requirements to key stakeholders within the business;
- to build awareness of climate-related risks and opportunities that could impact the Group;
- to identify, analyse and disclose high priority or potentially material climate-related risks and opportunities; and
- to deliver ongoing review of climate-related risks in the risk management framework.

Strategy

The Build to Last business transformation strategy is fundamental to how the organisation shapes a market-leading Balfour Beatty for the next 100 years. Build to Last is a platform for sustainable growth and productivity and is well placed to enable the business to build resilience against the impacts associated with climate change over the short, medium, and long term. The Building New Futures sustainability strategy sets out the business' 2040 ambition to go beyond net zero carbon emissions.

In 2021 a risk review was conducted to identify climate-related risks and opportunities that could impact Balfour Beatty's strategy and financial planning across the Group's operations.

ABOVE
An example of a flood defence project, East Rhyl Flood Defences for Denbighshire County Council in the UK.

Strategy continued

Relevant risks and opportunities were ranked relative to each Business Unit's operational activities over the short, medium and long term. The time horizons refer to when the risk could likely have an impact. Risks and associated impacts were considered under current operating levels.

- Short term (0 – 3 years): Aligns to Balfour Beatty's immediate pipeline of projects and contracts and their associated climate-related risks and opportunities.
- Medium term (3 – 10 years): Aligns to longer term projects with risks driven by government policy, infrastructure needs and market conditions.
- Long term (10 – 30 years): Focuses on factors that could impact Balfour Beatty's business plans and strategy.

Two risks and one opportunity were identified initially as having the greatest impact on the business in the short to medium term. The first, 'Increased severity of extreme weather events' was identified as having an impact in all regions where the business operates in the short to medium term.

The second risk, 'Transitioning materials, products and services, and technology to lower-carbon alternatives' was identified as having an impact in the short to medium term. For this risk the greatest impact is likely to be in the UK initially primarily due to a higher level of ownership of strategic plant assets and fleet.

One opportunity, 'Create and expand existing revenue streams from green infrastructure projects' was identified as having potential financial benefit for the business.

In assessing the potential risks and opportunities it is recognised that impacts and benefits to the Group will be proportional over time. Its diverse operating portfolio and geographical spread mean that the likelihood of any number of climate-related risks occurring at the same time is low and they are unlikely to impact the Group's short-term financial viability or ability to do business.

In addition, the nature of the business model at present provides partial protection from negative financial risk where contractual mechanisms are in place. This will continue to change in the medium term as customers develop and embed more stringent procurement evaluation criteria and commercial contractual clauses in line with the developing climate agenda. To monitor this the Group participates in relevant industry body working groups and technical advisory panels.

Risk event

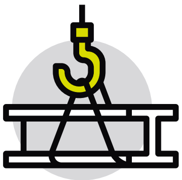
Increased severity of extreme weather events

What is the risk?
As global temperatures rise, an increase in severity and frequency of extreme weather events could impact operational activities across all geographies in which the business operates.

Potential impacts to the business
- Construction site or asset damage and challenging/unsafe working conditions for employees
- Project design life shortened due to materials or structures unable to withstand extreme climate impacts
- Reduced ability to deliver customer requirements and project commitments
- Lower production capacity and revenue due to unexpected disruption and/or delays in the transportation and delivery of goods
- Loss of value on partially completed projects in exposed areas
- Difficulty obtaining insurance in areas with ongoing extreme weather conditions

Potential adaptation and mitigation
- Close monitoring of weather forecasts to ensure employee safety and adequate preparation
- Comprehensive evaluation of the physical climate risk exposure such as risk assessments of asset and project locations near waterways or coasts
- Increase resilience of sites to extreme weather events by improving defences and implementing contingency plans
- Where feasible, relocate manufacturing sites to less exposed areas
- Review of insurance arrangements and monitor insurance market shifts

Timeframe: Short to medium term



Risk event

Transitioning materials, products and services, and technology, to lower-carbon alternatives

What is the risk?
The environmental performance of existing materials, products and services, and technologies is challenged by new or more ambitious regulation and customer demands.

Potential impacts to the business
- More stringent regulation for materials, products and services with a lower emissions profile, and associated drop in demand for carbon intensive equivalents
- Pressure from customers to reduce emissions of materials as well as emissions associated with distribution, and construction activities
- Construction methods and material options increasingly incorporate lower-carbon alternatives resulting in increased costs
- Increased research, innovation and implementation costs increase risks associated with bringing new technologies to market resulting in increased skills development and training required to deploy low-emission technology alternatives
- Lifecycle of existing assets may be reduced resulting in early impairment and retirement or write-off of plant, equipment and fleet assets. Investment in newer replacement assets earlier than planned

Potential adaptation and mitigation
- Assess the viability of construction projects that utilise low-carbon emission materials and technologies
- Enable capability by providing training for low-carbon design optioneering and use of new technologies
- Material price sensitivity assessments and contingency plans for procurement
- Develop capacity to satisfy customer preferences and improve collaboration with value chain members
- Diversify product, material and technology portfolios; source materials more widely, engage with suppliers, and explore circular economy options

Timeframe: Short to medium term

Opportunity event

Expanding existing revenue streams from green infrastructure projects into new green infrastructure assets and built environment markets

What is the opportunity?
As the regions in which Balfour Beatty operate decarbonise, there will be increased demand for low-carbon infrastructure, transport systems, renewables, and energy efficient buildings.

Potential impact to the business
- Development and delivery of new low-carbon construction design methods, systems and tools to support the sector and wider society to transition to a lower-carbon economy
- Creation of a broad range of skills and capabilities required to deliver low-carbon or green infrastructure projects
- Increased revenue from green infrastructure projects will have an added benefit on ESG performance scores
- Reduction in environmental impact on the environment

Potential adaptation and realisation
- Enhanced collaboration and dialogue with sector value chain members
- Promote research and development in green infrastructure technologies
- Strategic partnering with project owners who value and understand new green infrastructure
- Market research

Timeframe: Short to medium term

Strategy continued

A significant proportion of risks identified are an indirect consequence of how Balfour Beatty's complex supply chain operates. The more successful the supply chain is at addressing direct climate risks, the greater the reduction in impact for Balfour Beatty. Collaborating with supply chain partners on this issue, as well as clients and industry peers, is a priority.

Scenario analysis: Resilience of Strategy

The Group has commenced scenario analysis of two scenarios, a low emissions scenario (RCP2.6)[2] i.e., up to 2°C warming scenario and a high emissions scenario (RCP8.5)[3], i.e. more than 4°C warming scenario.

Under the 2°C scenario, it is assumed that the physical risks of climate change do not manifest themselves in a way that is significantly different to today and the most significant risk is predominantly the costs associated with transition risks. Meanwhile the 4°C scenario assumes that the physical risks associated with climate-change do occur, resulting in the Group being less impacted by transition risks and more impacted by business interruptions through physical risks materialising on its project sites.

These scenarios are being modelled out to 2030, 2040 and 2050 assuming the Group's business activities are unchanged from today.

Each risk scenario is being assessed pre-mitigation. While macro level financial trends are being explored against the opportunity identified, more detailed scenario analysis and financial modelling will be undertaken on risks and opportunities in 2022.

Details of the planned analysis for the scenarios using the most consistent and usable datasets for this exercise are outlined in the graphic below. The preparation of expanded datasets allowing for greater insight on financial impacts and outcomes is already underway.

SCENARIO BUILDING

Low emissions scenario: 2°C warming	Analysis in progress
In this scenario the business is exposed to significant transition risks, including more stringent reporting regulation and short-notice legislative changes with requirements to adopt new or alternative materials and technologies that deliver low-carbon whole-life infrastructure assets and buildings. It includes associated supply chain impacts and potential cost increases.	› Sample of data from Plant and Fleet business to assess the impact of the Group's response to transition risk on its existing capital and leased assets in the UK › Analysis assesses the impact of reduced asset lifecycle, earlier than planned replacement capital outlay and associated carbon emissions costs › Scenario considers two responses. Early action, in which the Group is proactive and incorporates the Group's existing asset upgrade roadmap and late action, which assumes the Group is reactive to changes in the legal and regulatory environment
High emission scenario: 4°C warming	**Analysis in progress**
In this scenario the business is exposed to significant physical risks, both acute and chronic, including exposure to flooding, strong winds and increased forest/wildfires resulting in damage to assets, prolonged project delivery timescales and more onerous whole-of-life obligations on buildings and assets to ensure materials can withstand temperature extremes.	› Sample of key projects across the UK and US to scenario test potential impacts and associated costs resulting from damage, delay or prolongation › Analysis will include financial impact of business interruption experienced on project sites assuming activities are unchanged from today

Analysis shows that without mitigation, these scenarios present financial risks to Balfour Beatty, however based on the Group's high level scenario analysis performed to date, risk management process and current regulations in place, these are not yet considered to be material to the Group. More extensive financial modelling and assessment will be carried out during 2022 and beyond.

2 Representative Concentration Pathway 2.6 is a pathway where greenhouse gas emissions are strongly reduced, resulting in a best estimate global average temperature rise of 1.6°C by 2100 compared to the preindustrial period https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-guidance---representative-concentration-pathways.pdf

3 Representative Concentration Pathway 8.5 is a pathway where greenhouse gas emissions continue to grow unmitigated, leading to a best estimate global average temperature rise of 4.3°C by 2100 compared to the preindustrial period https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-guidance---representative-concentration-pathways.pdf

FIGURE 1.1 SCOPE OF TCFD WORKSTREAM CONDUCTED IN 2021

Established master climate risk and opportunity register
- Captures Physical and Transition risks split across 2°C and 4°C scenarios
- Informed by data, analysis, interpretation, and forecasts

Facilitated climate risk and opportunity workshops
- Representation sought from all SBUs, split by geographical location
- Review and discussion of master risks and opportunities relevant to respective business and operations
- Prioritisation and ranking of relative risks and opportunities

Analysis and review of prioritised climate risks and opportunities
- Consolidation of workshop output and qualitative analysis of prioritised risks and opportunities
- Ranking of risks and opportunities over the short, medium and longer-term
- Scenario analysis has started

Risk management

Climate change is identified as a risk on the Group risk register. This risk is monitored by ExCom as part of the half year and full year reviews of the Group's risk profile (see page 104 for further information). A mapping exercise is conducted and regularly reviewed to identify where climate change may be a cause or have an impact on other Group risks.

The methodology applied to identify and assess the impact of climate change on Balfour Beatty's business model aligns with the existing Enterprise Risk Management (ERM) framework and Risk Management process as outlined on pages 100 to 102.

The process maintains a consistent approach to the identification and management of climate-related risks and opportunities in line with all other risks identified across the business. SBUs assess climate-related risks relevant to their businesses as part of regular strategic risk register reviews during half year and full year reporting periods.

The process for managing climate-related risks is aligned to the existing risk process which considers how to respond to risk events. Current management plans are largely focused on exploring and understanding the full impacts of risks to develop appropriate mitigation and control strategies which are incorporated as part of sustainability action plans. Figure 1.2 outlines how consideration of climate-related risk is incorporated into Balfour Beatty's ERM framework.

Balfour Beatty's ERM system, IRIS (see page 102) captures risk data at each level outlined in the ERM framework and has Climate Change as a specific risk category.

Metrics and targets

Full details of climate-related metrics and targets performance disclosures including Scope 1, 2 and 3 can be found in the Sustainability section, pages 66 to 80.

FIGURE 1.2 INTEGRATION OF CLIMATE-RELATED RISK INTO ERM FRAMEWORK

GROUP RISK

Group
- Climate-related and sustainability risks identified in Group risk register
- Mapping of climate-related risk as a potential driver to existing Group risks
- Incorporation of climate-related risk into half year and full year risk and internal control reporting

BUSINESS RISK

Business
- Capture of climate-related risk on BU and SBU strategic risk registers
- Stand-alone enabling function sustainability risk register (inc. climate-related risks)
- Grouping of climate-related categorised risks in ERM system issued to sustainability function

GATED BUSINESS LIFECYCLE RISK

Project
- Grouping of project short-term climate-related categorised risks in ERM system issued to sustainability function and used to inform BU and SBU risk profiles
- The IRIS Risk Library prompts capture of core and common short-term climate-related risks at both project and business level

SEE OUR FULL RISK FRAMEWORK
In our Risk management section
p102

Governance

Promoting the long-term, sustainable success of the Company

IN THIS SECTION

Group Chair's introduction

CHARLES ALLEN, LORD ALLEN OF KENSINGTON, CBE
Non-executive, Group Chair

Dear Shareholder
On behalf of the Board, I am pleased to present my first Balfour Beatty Corporate Governance report.

It is an exciting time to join Balfour Beatty. As a key lever of economic growth, the construction and infrastructure industry is central to a sustainable recovery in the Group's chosen markets. In addition, new low carbon infrastructure will play a leading role in stimulating growth, from the ten-point Green Industrial Revolution launched by the UK Prime Minister, to President Biden's proposed Clean Energy Plan, governments are investing to ensure economies come back stronger from the pandemic in a more sustainable manner. The Company's corporate governance processes will be critical to the Group in successfully capitalising on the opportunities ahead.

Having joined the Board at a time when the COVID-19 pandemic continued to impact on the Group and society, I have seen the effective leadership of the Board and also how the Company's corporate governance processes have supported its consideration of stakeholder needs and experiences as part of its decision-making process.

Being new to Balfour Beatty it has been good for me to experience the Group's culture and values first-hand. I have had the opportunity to meet a large number of colleagues across many project sites and have seen our values being put in to practice.

I have also met with a number of the Company's shareholders who are supportive of the Company's continued ability to deliver against the Company's strategic objectives as well as deliver attractive returns.

Main priorities during the year:

Succession and diversity
The Board is committed to ensuring that it is diverse and regularly reviews its composition to ensure it retains a balance of skills, experience, independence and knowledge, which enables it to discharge its duties and responsibilities effectively.

In 2021, the Board commenced the search for a female non-executive Director, which is now complete. Louise Hardy will join the Board as a non-executive Director and member of the Safety and Sustainability Committee on 1 April 2022. More information can be found on page 141.

In February 2022, following the review of the composition of the Nomination Committee and following feedback from a small number of shareholders, it was decided that the Group Chief Executive would step down as a member of the Nomination Committee, which is in line with best practice. The Group Chief Executive will continue to attend meetings of the Nomination Committee unless there is potential conflict of interest.

> "The Group's governance processes will be critical to the Group in successfully capitalising on the opportunities ahead."

Engaging with stakeholders

The Board and I continue to recognise the responsibility that we have to the Group's full range of stakeholders and this forms an integral part of the Board's discussions and decision-making, more information can be found on page 129.

Board effectiveness

In line with the 2018 Code's requirement to undertake an externally facilitated Board evaluation at three-year intervals, the Board engaged Egon Zehnder to undertake an effectiveness review of the Board and its Committees. Details of the review process and findings can be found on page 138.

Overall, the results confirmed that the Board and its Committees continue to function effectively and in accordance with their respective terms of reference.

Charles Allen, Lord Allen of Kensington, CBE
Non-executive, Group Chair
10 March 2022

Compliance with the UK Corporate Governance Code

The Company is subject to the Financial Reporting Council's 2018 UK Corporate Governance Code, which can be found at: www.frc.org.uk. This report, together with the reports from the Audit and Risk, Nomination, Remuneration and Safety and Sustainability Committees, provides details of how the Company has applied the principles of the Code (pages 139 to 166).

> "I have had the opportunity to meet a large number of colleagues across many project sites and have seen our values being put in to practice."

LEFT
Charles Allen pictured with the Hinkley Connection project team during his site visit.

BOARD OVERVIEW

BOARD MEMBERS BY GENDER

- Male 6
- Female 2

BALANCE OF THE BOARD

- Non-executive 6
- Executive 2

NON-EXECUTIVE DIRECTORS' TENURE

- 0-3 years 1
- 3-6 years 3
- 6-9 years 2

BOARD & COMMITTEE MEETING ATTENDANCE AT SCHEDULED MEETINGS DURING THE YEAR

KEY ● Attended Board ● Attended Committee

DIRECTOR	B BOARD	A AUDIT AND RISK	N NOMINATION	R REMUNERATION	S SAFETY AND SUSTAINABILITY
Charles Allen*	●●●●●●		●		
Philip Aiken**	●●●●		●	●●●	●●
Leo Quinn	●●●●●●●●		●●		●●●
Philip Harrison	●●●●●●●●				
Stephen Billingham	●●●●●●●●	●●●●	●●		
Anne Drinkwater	●●●●●●●●			●●●●	●●●
Stuart Doughty	●●●●●●●●	●●●†	●†		●●†
Barbara Moorhouse	●●●●●●●●	●●●●	●●	●●●●	
Michael Lucki	●●●●●●●●	●●●●		●●●●	

* Appointed 13 May 2021
** Resigned 31 July 2021
† Missed meeting due to unscheduled medical appointment

BOARD & COMMITTEE SCHEDULED MEETINGS DURING THE YEAR

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
	B	B		B		B	B	B		B	B
		A		A			A			A	
	N									N	
	R	R			R					R	
	S					S				S	

Leading with experience

The Directors hold the necessary skills and experience relevant to the sectors in which the Group operates, enabling the Board to effectively set the strategic direction and purpose of the Group.

N

CHARLES ALLEN
Non-executive Group Chair

Appointed
13 May 2021

Nationality
British

Independent
On appointment

Experience
Charles has 40 years of board-level experience including extensive corporate experience across a range of sectors, most notably in support services and media. His previous positions include chair of ISS A/S, executive chair of EMI Music, chief executive of ITV plc, chief executive of Compass Group, chief executive of Granada Group and chief advisor to the British Home Office.

Charles was awarded a CBE in 2002, was knighted in 2012 and was ennobled in 2013.

Key external appointments
Charles sits in the House of Lords and currently holds positions as Chairman of Global Media and Entertainment Ltd.

S

LEO QUINN
Group Chief Executive

Appointed
1 January 2015

Nationality
British

Independent
No

Experience
Leo has strong leadership expertise and has significant experience of successfully delivering transformation strategies for large multi-national companies. Leo is a civil engineer and began his career at Balfour Beatty. He was educated at Portsmouth University and Imperial College, London, where he completed his MSc in Management Science. Before being appointed as Group Chief Executive at Balfour Beatty, Leo spent five years as group chief executive of QinetiQ Group plc and, prior to that, five years as chief executive officer of De La Rue plc. Before this, he spent almost four years as chief operating officer of Invensys plc's production management business, headquartered in the US and 16 years with Honeywell Inc. in senior management roles across the UK, Europe, the Middle East and Africa, including global president of H&BC Enterprise Solutions. Leo was previously a non-executive director of Betfair Group plc and Tomkins plc. Leo was also a member of the Build Back Better Business Council in 2021.

Key external appointments
Leo is the founder of The 5% Club, a UK employer led initiative focused on reducing youth unemployment by creating momentum behind the recruitment of apprentices and graduates into the workforce. In 2021, Leo's contribution to business was recognised through his appointment as a visiting professor at the College of Business and Social Science at Aston University.

PHILIP HARRISON
Chief Financial Officer

Appointed
1 June 2015

Nationality
British

Independent
No

Experience
Philip has considerable financial expertise and extensive experience of working in large multi-national manufacturing and services businesses. Philip was appointed as Chief Financial Officer in June 2015, having previously served as group finance director at Hogg Robinson Group plc, and as group finance director at VT Group plc. Prior to that, he was VP finance at Hewlett-Packard (Europe, Middle East and Africa regions) and was a member of the EMEA board.

Philip's earlier career included senior international finance roles at Compaq, Rank Xerox and Texas Instruments. Philip is a fellow of the Chartered Institute of Management Accountants.

Key external appointments
Philip does not hold any external appointments.

A N

DR STEPHEN BILLINGHAM CBE
Senior Independent
Non-executive Director

Appointed
1 June 2015

Nationality
British

Independent
Yes

Experience
Stephen has significant recent and relevant financial experience and has worked in the construction, infrastructure and support services industries for over 30 years. Stephen was the chief financial officer of British Energy Group plc and the chief financial officer of WS Atkins plc. He was also executive chairman at Punch Taverns plc. He played instrumental roles in the financial and operational transformation of all companies. He was also non-executive chairman of Anglian Water Group. Stephen spent 11 years with Balfour Beatty, when it was named BICC plc, in corporate finance and other roles. He is a fellow of the Association of Corporate Treasurers. He was awarded a CBE by the Queen in 2019 for services to Government owned, public and regulated businesses and awarded an honorary doctorate from Aston University in 2016.

Key external appointments
Stephen is currently non-executive chairman of Urenco Ltd. He chaired the Urenco Ltd Audit Committee from 2009 to 2015.

COMMITTEES KEY

- Committee Chair
- A Audit and Risk Committee
- N Nomination Committee
- R Remuneration Committee
- S Safety and Sustainability Committee

Governance

R S

ANNE DRINKWATER
Non-executive Director

Appointed
1 December 2018

Nationality
British

Independent
Yes

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

Key external appointments
Anne is a non-executive director of Equinor ASA where she is a member of the Audit Committee and chair of the Safety, Sustainability and Ethics Committee.

S A N

STUART DOUGHTY CMG
Non-executive Director

Appointed
8 April 2015

Nationality
British

Independent
Yes

Experience
Stuart has over 50 years experience in the civil engineering, construction and infrastructure sectors. Stuart was chief executive of Costain Group plc between 2001 and 2005. This followed executive positions in Welsh multi-utility Hyder plc, Alfred McAlpine plc and Tarmac Construction, where he represented the company on the Channel Tunnel board, following 21 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, and as chairman of Alstec Ltd, Somero plc and Beck and Pollitzer Limited. He is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and the Institute of Highway Engineers. Stuart was honoured by the Queen with a CMG in 2004 and received an honorary doctorate from Aston University in 2018.

Key external appointments
Stuart is a non-executive director representing AustralianSuper (the largest pension fund in Australia) on the Board of King's Cross Development Partnership LLP.

A N R

BARBARA MOORHOUSE
Non-executive Director

Appointed
1 June 2017

Nationality
British

Independent
Yes

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

Key external appointments
Barbara is independent chair of Agility Trains East and Agility Trains West. Barbara is also chair of the Rail Safety Standards Board, a position she will step down from in May 2022. Barbara is senior independent non-executive director and chair of the Remuneration Committee of Aptitude Software Group plc. Barbara is also senior independent non-executive director and chair of the audit committee of Medica Group plc.

A R

MICHAEL LUCKI
Non-executive Director

Appointed
1 July 2017

Nationality:
American

Independent:
Yes

Experience:
Michael has over 40 years of business and leadership experience in the US and internationally in the engineering and construction sector. He has held a number of leadership and finance roles, including that of chief financial officer, executive vice president and board member at CH2M HILL. He was formerly an audit partner at Ernst & Young LLP and as its global industry leader for infrastructure, construction and engineering practices. He has recently acted as a strategic adviser to companies and private equity firms in the engineering and construction industry.

Key external appointments:
Michael is board member and chair of the Audit and Risk Committee of Pankow Management Services. Michael is also board member and Chair of the Compensation Committees of Psomas Corporation and HMC Architects. Michael is a member of the Board of Governors of The California State University, an advisory board member of Anchor QEA, LLC and a board member of Walker Consultants.

Board activities

The Board met sufficiently frequently throughout the year to fully discharge its duties. There were eight scheduled meetings in the year. Details of attendance at the scheduled meetings can be found on page 123.

Additional ad hoc Board and Committee meetings took place throughout the year. Sub-committees were also established, meeting on an ad hoc basis to manage matters arising outside the formal schedule of meetings.

The Group Chair sets agendas, with support from the Company Secretary, and ensures sufficient time is allocated to promote effective debate and to support sound decision-making.

The Company Secretary supports the Group Chair in annual agenda planning, ensuring that matters are scheduled for the appropriate meetings based on the business cycle and an even distribution of matters throughout the year.

A schedule of Board activities can be found opposite and further detail on key actions is below.

US Department of Justice investigation

In December 2021, the company announced that its US subsidiary Balfour Beatty Communities, LLC (BBC) reached a resolution with the US Department of Justice, which resolved the US Department of Justice's criminal and civil investigations into specific performance incentive fees improperly claimed by BBC between 2013 and 2019 related to maintenance work at certain US military housing installations.

A sub-committee of the Board was put in place to work with the Company's advisers and senior management to manage the discussions with the Department of Justice. The sub-committee also reported to the Board at ad hoc Board meetings which were arranged in order to brief the Board on the progress of the Department of Justice investigation.

COVID-19

During 2021, the COVID-19 pandemic continued to have an impact on the world of work, which has changed, and continues to change. The pandemic has continued to be at the forefront of the Board's agenda, shaping its conversations around risk, internal control, resourcing and strategy where it has focused on the importance of health, safety and wellbeing. Balfour Beatty is evolving to meet the needs of its employees and creating a place where they can have flexibility and choice when it aligns to their business roles.

Strategy

The Board held a UK-focused strategy session in July and a US-focused strategy session in September. During these sessions, various senior leaders from each area of the business presented on the following matters:

- recent operational and financial performance, including risk and safety;
- key strategic issues and actions;
- market overview and future pipeline of opportunities; and
- stakeholder engagement.

Speak Up

The Group operates a confidential and anonymous Speak Up service, which enables colleagues to report any concerns related to unethical conduct in any area of the business. The Audit and Risk Committee receives biannual reports from the Compliance function which include updates on the operation of the Speak Up platform and details of cases raised and instances where a proportionate and independent investigation has been conducted. Biannual updates also include detail on progress against any follow-up actions. Further detail on the Speak Up service can be found on page 63.

Capital allocation

The Board understands the importance of delivering attractive total cash returns to shareholders. The Group is committed to maintaining an appropriate balance between investment in the business, maintaining a strong capital position and cash returns to shareholders. In March 2021, the Board announced a new capital allocation framework which comprises:

- continued investment in organic growth opportunities in Infrastructure Investments which meet the Group's return hurdles;
- active realisation of Investments assets with disposals timed to optimise value for shareholders;
- a strong but efficient balance sheet which provides the financial platform to make long-term business decisions, in response to both opportunities and periods of market dislocation;
- commitment to paying a sustainable ordinary dividend, targeted at a pay-out ratio of 40% of underlying profit after tax (excluding gain on disposal of Investments assets). The Board expects dividends to grow over time with underlying profit; and
- additional cash returns via share buybacks (or other mechanisms depending on market conditions) broadly based on surplus cash delivered from Investments disposals as well as surplus operating cash flows.

HOW THE BOARD SPENT ITS TIME DURING 2021

INDICATION OF TIME SPENT IN BOARD MEETINGS

- Strategy, performance and operations
- Committee matters
- Governance and other matters

INDICATION OF RELATIVE TIME SPENT ON BOARD AND COMMITTEE MEETINGS

- Board
- Remuneration Committee
- Nomination Committee
- Audit and Risk Committee
- Safety and Sustainability Committee

BOARD ACTIVITIES IN 2021

	LINK TO VALUES See pages 12 to 13 for more information	LINK TO PRINCIPAL RISKS See pages 105 to 112 for more information
PERFORMANCE		
• Reviewed routine reports from the executive Directors on performance • Reviewed Group strategy and approved the Group's budget • Approved the Company's annual report and accounts, financial results, trading updates and ancillary documents relating to the Annual General Meeting, including the Notice of Meeting • Reviewed the capital allocation policy • Approved certain significant contracts and bid submissions where thresholds relating to value or complexity were reached (as set out in the matters reserved for the Board) • Received 'deep-dive' presentations and reports on significant matters, key contracts and projects • Received updates on the investigation into the US military housing business (further details on page 126) • Reviewed reports from the Group's brokers	LEAN EXPERT	1 2 3 4 7 8 9 13
HEALTH, SAFETY, ENVIRONMENT & SUSTAINABILITY		
• Received verbal updates from the Safety and Sustainability Committee following each Committee meeting • Received routine Group health, safety, environment and sustainability reports at each Board meeting where a Safety and Sustainability Committee meeting was not scheduled in the same cycle of meetings	LEAN SAFE SUSTAINABLE	1 2 3 4 10 11
AUDIT AND RISK		
• Received verbal updates from the Audit and Risk Committee following each Committee meeting • Received reports on financial and accounting issues and contract and commercial issues • Approved the going concern statement and assessment of viability, the Directors' valuation of the Investments portfolio and principal and emerging risks as disclosed in the annual report and accounts • Approved recommendations from the Audit and Risk Committee relating to the fee and appointment of the external auditor • Received reports from the external auditor in respect of full and half year results • Received regular reports on meetings of the Group Tender and Investment Committee and its significant projects pipeline • Received general updates on meetings of the Finance and General Purposes Committee	LEAN TRUSTED	2 3 8 11
CULTURE		
• Monitored the Company's purpose, vision, values and behaviours • Monitored engagement with key stakeholder groups • Received reports from Directors on engagement activity with the Group's workforce undertaken in accordance with the Stakeholder Voice initiative (further details can be found on page 129) • Received biannual updates on business integrity including reports on Speak Up, the Group's whistleblowing service • Received updates from the Ability and Multi-cultural affinity networks and individuals who have participated in the Reverse Mentoring programme • Approved the Group's 2021 Modern Slavery Statement	TRUSTED SAFE	5 6 7 10 11 13
PEOPLE		
• Received verbal updates from the Remuneration Committee following each Committee meeting • Received an annual update on pensions • Supported workforce diversity and inclusion	EXPERT TRUSTED SUSTAINABLE	6 10 12
GOVERNANCE		
• Internally evaluated the performance of the Board, its main Committees and individual Directors • Reviewed conflicts of interest of Directors • Reviewed the formal matters reserved for the Board and terms of reference for each of the main Board Committees • Convened sub-committees of the Board to deal with specific matters	TRUSTED	6 11

Promoting a positive culture

The Board is responsible for instilling throughout the Group a culture of integrity and openness that values diversity and is responsive to the views of its shareholders and wider stakeholders. This is achieved through the establishment of the Company's strategy, values, behaviours and purpose. Further detail on the cultural framework can be found on page 2.

Culture is monitored and assessed by the Board to ensure alignment with Group strategy and is reinforced through its decision-making.

Positive health, safety, environment and sustainability performance are key indicators of an underlying culture reflective of the Company's values. Details of the Safety and Sustainability Committee's oversight of HSES performance can be found on pages 142 to 143.

Feedback gathered from members of the Board on their engagement with stakeholder groups gives the Board and the Directors, collectively and individually, a better understanding of the points of view of stakeholders which ensures that decisions taken are more rounded and based on actual, rather than perceived, stakeholder views.

The actions taken throughout the year gave the Board a first-hand experience of culture within the business to gauge the extent to which the Company's values are embedded and to experience real time examples of its behaviours in action. Having monitored culture through regular site visits, individual Directors were able to report back to the Board and management where they witnessed positive or negative examples of values and behaviours.

Supporting structures

The Balfour Beatty Code of Conduct helps aid the understanding and embodiment of behaviours that align employees with the culture as set by the Board. The Code of Conduct is accessible on both the Company's internet and intranet and is circulated to employees upon joining the Group. Employees are also required to undertake e-training modules, as part of their induction programme, on the Code of Conduct and other topics including anti-bribery, conflicts of interest and whistleblowing. Regular refresher training is carried out by all employees on a two-year cycle, and new e-Learning modules are developed.

The Board's role in setting the purpose and long-term strategy of the Group is key in supporting a healthy culture. The Employee Voice initiative helps the Board to understand the views of the workforce which are taken into consideration when reviewing and setting the Company's strategy, further details of which can be found on pages 81 to 86.

OUR CULTURAL FRAMEWORK

Our purpose
For more information see pages 2 and 12

Building New Futures

Our strategy
For more information see pages 2 and 12

Build to Last

Our values
For more information see page 12

LEAN | EXPERT | TRUSTED | SAFE | SUSTAINABLE

Our behaviours
For more information see page 87

TALK POSITIVELY | COLLABORATE RELENTLESSLY | ENCOURAGE CONSTANTLY | MAKE A DIFFERENCE | VALUE EVERYONE

HOW THE BOARD MONITORED CULTURE IN 2021

ACTION TAKEN	LINK TO CULTURE
Undertook visits to sites and employee events	Provided direct insights into workforce working environments, their behaviours and practices, their attitudes and approaches to other stakeholders, and the practical application of policies and standards
Provided verbal feedback on visits to sites and employee events to the rest of the Board	Sharing experiences of visits and discussing these as a Board assisted in creating a broader exposure for each Director than would otherwise be possible due to the range and scale of the Group's operations across different sectors and geographies
Reviewed whistleblowing statistics, details of cases raised through the Speak Up service and related independent investigations	Provided a perspective on the nature of employee concerns and trends in the behaviours of the workforce generally
Updated on a broad range of business integrity matters including approaches to combatting modern slavery	Provided the Board with a broad understanding of practices and behaviours and how these align with the purpose, values, vision and strategy of the Group
Reviewed statistics and trends of lost time injury rates	Enabled Directors to assess the effectiveness of safety practices and behaviours
Reviewed metrics on safety observations reported by employees	Allowed further insight into safety behaviours by evidencing the extent of individual responsibility taken by employees with regard to proactively reporting safety concerns
Reviewed details of the outcomes of internal audits judged to be less than satisfactory (undertaken by the Audit and Risk Committee with details available to all Board members)	Supplied the Board with a direct view of areas of practice, policy and behaviours that were not at the desired standard and provided details of the corrective action being taken
Reviewed and approved the Group's Modern Slavery Statement	Provided oversight of steps taken to prevent modern slavery and human trafficking within the Group and its supply chain

Stakeholder engagement

The Board takes responsibility for considering stakeholder needs and interests in its decision-making.

The Board shapes the framework within which stakeholder relationships are developed and maintained, and the purpose of stakeholder engagement in relation to decision making and strategy.

The Board itself has a robust programme of stakeholder engagement, aimed at identifying and understanding the interests of the Group's customers, workforce, supply chain and strategic partners, communities, governments and investors so that the interests of these key stakeholders can be taken into consideration when decisions need to be taken. The Board however cannot, on its own, ensure meaningful reflection of all stakeholder views across the Group. In addition to the Board's programme of stakeholder engagement, there is also a network of mature executive and business-led stakeholder relationships across the Group which complements actions taken by the Board. Where appropriate, feedback is reported to the Board to support the timely recognition of emerging stakeholder issues.

There are many different ways in which the Group engages with its key stakeholders, as set out on pages 129 to 131. Specific Board engagement with the Group's workforce and shareholders is set out below.

Workforce

The Board believes that the Group's workforce is central to the business and its long-term success. The Board prioritises engagement with the breadth of the employee population through its Stakeholder Voice initiative. Stakeholder Voice is supported by reports on key performance indicators, including an 'engagement index' figure (as measured by employee surveys), voluntary attrition rates, safety observations and participation rates for the My Contribution, Balfour Beatty's employee-led change programme, where employees are encouraged to propose and develop innovative ideas to drive improvements in the Group's operations.

In addition to the Stakeholder Voice initiative, non-executive Directors are kept abreast of engagement opportunities throughout the year, for example through training workshops, talent activities, site visits, town halls, contract award meetings and more. Care is taken to ensure each non-executive Director has a broad exposure across the workforce and areas of the business.

Non-executive Directors are encouraged to carry out site visits and are provided with a form to be completed, which helps provide a template for discussions and engagement activities. Topics that Directors are asked to report back on include:

- health, safety, environment and sustainability;
- leadership;
- engagement and morale;
- resources and tools for the job;
- understanding of Group strategy, values and behaviours;
- diversity and inclusion;
- future, change and innovation; and
- director remuneration.

In June 2021, Charles Allen, Group Chair, and Stuart Doughty, non-executive Director, visited the ElecLink project in Folkestone, UK. The ElecLink project comprises 65km of power cable being installed between France and England, 32km of which were pulled through the Channel Tunnel to provide enhancement to both countries' energy capacity and security and to help both countries meet their current supply demands. During the visit Charles and Stuart commented particularly on the sophistication and complexity of the temporary works required to pull such a length of heavy duty cable and indeed install it in the confined space within the tunnel. They met both the client's team and more than 50 members of the Balfour Beatty team and were most complimentary about the commitment and professionalism of all those involved, reinforcing their view of the capability of the Group in terms of innovation and the strength of the leadership in ensuring such a successful outcome from a most complex project. Charles and Stuart also commented on management's adherence to Group policies with regards to social inclusion, gender balance and ethnicity.

Workforce continued

All site visits undertaken by Directors are reported back to the full Board at each meeting, allowing for further discussion and the identification of any gaps in the engagement programme. Due to COVID-19, fewer site visits were undertaken in the year. However, Board members carried out site visits when lockdown rules permitted them to do so.

During lockdown, a significant number of employees were required to work from home. The Board was updated on engagement activities that were undertaken during this time.

Investors

Investors play a valuable role in the corporate governance of the Company. The Board is committed to maintaining an open dialogue with its investors, which is achieved through a programme of structured engagement. A selection of investor events that took place in the year can be found within the investor calendar on the facing page. A similar programme is anticipated to be followed in 2022.

Institutional investors

One-to-one meetings between the Group Chair, Group Chief Executive, Chief Financial Officer and individual institutional investors continued throughout 2021. The executive Directors conducted analyst presentations following financial results announcements.

Each Committee Chair seeks regular engagement with investors on matters related to their area of responsibility and reports back to the full Board in order to keep them cognisant of all shareholder views. The Senior Independent Director is also available to shareholders. In addition, management engages with proxy advisory firms to support them in their reporting to their members.

The Head of Investor Relations reports to the Board biannually and provides summaries of analyst research briefings and share price movements on an ad hoc basis.

Retail investors

Full year and half year results presentation materials, including transcripts, are made available on the Company's website so that retail investors receive the same information as institutional investors. Retail investors are also encouraged to raise any questions they may have concerning the Company through the Company Secretary who will arrange for an appropriate response to be provided.

Annual General Meeting (AGM)

The AGM would normally provide an opportunity for investors to engage in person with the Board. As a consequence of the COVID-19 pandemic, investor attendance at the 2021 AGM was discouraged. A dedicated email address was set up and used by shareholders, giving them the opportunity to exercise their right to ask questions and engage with the Company and the Board on matters relating to the AGM.

Corporate website

The Company's website: www.balfourbeatty.com has a section dedicated to investors where a range of valuable information can be found, including:

- published annual reports and results announcements;
- a financial calendar of events;
- detail on the Company's corporate governance arrangements;
- Board and Executive Committee profiles;
- the Group's enhanced sustainability strategy; and
- regulatory announcements.

Investors are consulted on an ongoing basis to ensure that the Group has a full and clear understanding of their requirements.

In July 2021, Charles Allen, Group Chair, visited the student accommodation project for the University of Sussex, UK where Balfour Beatty will design, build, finance and operate the project under a 50 year contract. During the site visit, Charles met with more than 40 colleagues and witnessed very visible health and safety practices. Charles experienced a strong leadership team and a positive relationship with the customer. There was a strong display of an understanding of Balfour Beatty's strategy, values and behaviours and Charles observed good co-operation between the Investment and Construction teams.

CALENDAR OF VIRTUAL SHAREHOLDER EVENTS

2021

MARCH 2021

- Full year results presentation
- Virtual London roadshow
- Virtual US roadshow
- JP Morgan Pan European Small/Mid-Cap CEO Conference

APRIL 2021

- Annual Report and Accounts published

MAY 2021

- UK Shareholders' Association Meeting
- UBS Pan European Small and Mid-Cap Conference
- Annual General Meeting

JUNE 2021

- Peel Hunt BISS Conference
- Numis targeted investor meetings

JULY 2021

- Numis CEO fireside chat

AUGUST 2021

- Half year results presentation
- Virtual UK roadshow

SEPTEMBER 2021

- Virtual UK roadshow
- Virtual US roadshow

OCTOBER 2021

- Peel Hunt Investor Conference
- New Chair meetings with shareholders

NOVEMBER 2021

- New Chair meetings with shareholders
- Liberum CEO fireside chat
- Investec Best Ideas Conference

DECEMBER 2021

- Bank of America Materials and Infrastructure Conference
- Berenberg European Conference
- Trading update

A robust governance framework

The primary role of the Board is to lead the Balfour Beatty Group in a way that ensures its long-term success.

The Board is the principal decision-making body of the Company with authority for specific matters being delegated to Committees of the Board. Responsibility for the day-to-day operation of the Group is formally delegated by the Board to the Group Chief Executive who manages the running of the business through the Executive Committee. The members of the Executive Committee each have responsibility for particular functions, with authority being further delegated to appropriate individuals throughout the Group based on their role and seniority.

The framework set out below provides a high-level summary of matters within scope at each level of the Group's governance framework and illustrates the flow of authority as it is delegated throughout the Group.

BOARD OF DIRECTORS

- Establishes the Company's strategic direction, purpose and values
- Assesses culture and promotes the long-term success of the Company
- Approves the Company's financial statements, dividends and budget
- Ensures maintenance of a framework of prudent and effective controls
- Ensures effective engagement with stakeholders including employees
- Approves matters relating to the composition of the Board and Committees

N NOMINATION COMMITTEE

- Oversees the process for appointment and induction of new Directors
- Makes recommendations regarding Directors' independence in light of the Code independence criteria

R REMUNERATION COMMITTEE

- Reviews the remuneration policy for Directors and Executive Committee members
- Approves the remuneration of Directors and Executive Committee members
- Oversees the implementation of the remuneration policy

A AUDIT AND RISK COMMITTEE

- Reviews the form, content and process for preparing financial statements
- Reviews principal risks and internal controls, and the risk management framework
- Monitors the effectiveness of the internal audit function and external auditor

S SAFETY AND SUSTAINABILITY COMMITTEE

- Reviews strategies, policies and performance in relation to health, safety and the environment
- Reviews the environmental impact and sustainability of operations
- Reviews in detail incidents where significant harm has occurred

EXECUTIVE COMMITTEE

- The Group Chief Executive works through the Executive Committee, members of which are responsible for particular business units and enabling functions including overseeing the implementation of Group strategy, and matters relating to health and safety, sustainability, employee matters (including succession and remuneration), legal and governance, technology and innovation, and communications and investor relations
- Responsibility for the day-to-day running of each of the strategic business units and enabling functions is delegated to individual members of the Executive Committee

T GROUP TENDER AND INVESTMENT COMMITTEE

- Responsible for the content, maintenance and operation of the Gated Business Lifecycle which forms the core process for evaluating and monitoring the governance of operational projects

F FINANCE AND GENERAL PURPOSES COMMITTEE

- Approves borrowings, banking arrangements, management of interest rate and foreign exchange rate exposures, contract financing, bonding and leasing matters and guarantees

CONSTRUCTION SERVICES

- Operates across infrastructure and buildings markets in the UK, the US and in joint venture in Hong Kong.

SUPPORT SERVICES

- Operates principally in the UK, designing, upgrading, managing and maintaining critical national infrastructure.

INFRASTRUCTURE INVESTMENTS

- Develops and finances both public and private infrastructure projects in the UK and the US.

ENABLING FUNCTIONS

- Bring together our shared services including Legal, Finance, IT and Procurement, Communications, HR and HSES. Together, they support delivery of business objectives whilst improving efficiencies and standardising our approach, systems and processes.

This section sets out the roles, and effective division of responsibilities between the Group Chair, Group Chief Executive and non-executive Directors, and outlines the support the Directors receive to assist them in meeting their responsibilities under the UK Corporate Governance Code and discharging their duties, both individually and collectively.

Leadership

GROUP CHAIR

- Leads the Board and demonstrates objective judgement
- Encourages high standards of corporate governance
- Sets the Board agenda and drives Board effectiveness
- Promotes a culture of constructive debate and openness
- Ensures that Directors receive accurate, timely and clear information
- Engages with stakeholders, including shareholders

GROUP CHIEF EXECUTIVE

- Responsible for the day-to-day management of the Group and the Group's performance
- Leads the Group
- Enables planning and execution of the Company's strategy, objectives and values set by the Board
- Drives the cultural tone of the Group

Oversight

NON-EXECUTIVE DIRECTORS

- Oversee the Company's strategy and provide strategic guidance to management
- Monitor Group performance against objectives
- Review management proposals
- Provide effective challenge to management
- Serve on Board Committees which are responsible for specified governance roles

SENIOR INDEPENDENT DIRECTOR

- Sounding board for the Group Chair
- An intermediary for the Group Chief Executive, non-executive Directors and shareholders as required
- Leads review of the Group Chair's performance
- Chairs the Nomination Committee when the Group Chair's succession is considered
- Available to meet with shareholders

NON-EXECUTIVE DIRECTOR MEETINGS

The non-executive Directors, led by the Group Chair, without the executive Directors present, hold regular scheduled meetings prior to or following Board meetings.

The executive and non-executive Directors meet annually, led by the Senior Independent Director and without the Group Chair present, to discuss the Group Chair's performance.

Governance

COMPANY SECRETARY

The Board is supported by the Company Secretary who ensures that the Board is able to function effectively and efficiently. The Company Secretary is available to all Directors and maintains dialogue with each of them on an individual basis.

In addition to making all logistical arrangements for meetings, the Company Secretary is responsible for advising the Board on all governance matters, managing the policies and processes related to the Board and ensuring that the Directors receive information in a timely manner.

Role of the Board

The role of the Board is to be effective and entrepreneurial and to promote the long-term sustainable success of the Company, whilst having regard to the interests of stakeholders and ensuring high standards of business conduct. The division of responsibilities across the Board is clear, with each Director having a defined role with individual duties. A distinction is made between the leadership of the Board, which is the Group Chair's responsibility, and the leadership of the Company's business, which is the Group Chief Executive's role. The counterbalance of responsibilities at Board level is set out above and demonstrates that no one individual has unfettered powers of decision-making.

Time commitment of Directors

The Board recognises the importance of individual members having sufficient time to discharge their duties effectively. On an annual basis, each Director declares their external appointments and commitments to the Board as part of the conflicts of interest declaration. The Directors' significant commitments are set out in their biographies on pages 124 to 125. Neither of the executive Directors hold any non-executive board positions at a FTSE 100 company.

Corporate governance framework

The Company's governance framework operates to support the delivery of its strategy by ensuring that business is conducted within a framework of robust principles and procedures and in an orderly way.

The Company has a premium listing on the London Stock Exchange and is therefore subject to The UK Corporate Governance Code. A copy of the Code can be found on the FRC's website at: www.frc.org.uk.

The Company's compliance with the Code is set out in the Directors' report on page 167.

The Board

The Board establishes the strategic direction of the Group and assesses the basis upon which the Company generates and preserves value over the long-term. The Board sets the culture for the business which sets the tone as to how the Company will achieve its strategic goals and purpose – further details on the Board's oversight of the Company's culture can be found on page 128. The Board ensures that its decision-making is long term in its nature and takes into account the desirability for maintaining high standards of business conduct and the need to act fairly between members.

The Board determines the Group's key policies and reviews management and financial performance. The Group's governance framework is designed to facilitate a combination of effective, resilient and prudent management of the business.

One of the primary responsibilities of the Board is to ensure that the Company preserves value over the long term in a sustainable manner, taking into consideration both value derived for the Company's stakeholders and the Company's contribution to wider society. In setting, reviewing and ensuring the implementation of the Group's Build to Last strategy, the Board ensures that these objectives are met while taking into account risks and opportunities facing the Group.

Primary Board responsibilities include:

- Group strategy and ensuring resources are in place to meet objectives;
- setting Group performance objectives and monitoring performance;
- significant corporate activities;
- approval of the annual Group budget;
- risk management and internal control; and
- Board, Executive Committee and Company Secretary appointments and succession;
- approval of the annual accounts and financial reports to shareholders;
- setting of dividend policy;
- approval of significant bids and contracts;
- review of the pipeline of significant projects;
- engagement with shareholders, employees and wider stakeholders;
- review and monitoring of culture and its alignment with Group purpose, values and strategy; and
- control of the Company's share capital structure.

Board and Committee meetings

In order to discharge its responsibilities, the Board held eight scheduled meetings during 2021, plus a number of ad hoc Board meetings in order to deal with specific matters which arose outside the formal schedule of meetings. Details of attendance by Board members at scheduled meetings, can be found on page 123.

The Group Chair sets a structured agenda for each meeting in consultation with the Group Chief Executive and Company Secretary. Capacity is maintained on the agenda for each meeting to allow for the timely consideration of matters as they arise during the year. The Group Chair seeks a consensus at Board meetings, but, if necessary, decisions are taken by majority. If any Director has concerns on any issues that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2021.

The key activities of the Board in 2021 are detailed on page 127. These activities are discussed under the value pillars of Lean, Expert, Trusted, Safe and Sustainable and these underpin the Board's decision-making process.

During the year, the Board devoted considerable attention to managing with the impact of COVID-19 and internal control and compliance matters. Regular deep-dive presentations form part of the annual meeting cycle focusing on particular business areas or major projects of strategic importance to the Group.

The Board has a formal schedule of matters reserved for its decision-making and has delegated certain responsibilities to the Board Committees, each with separate terms of reference. There are four main Board Committees (Audit and Risk, Nomination, Remuneration and Safety and Sustainability). The principal activities of each committee during the year are set out in the Committee reports on pages 139, 142, 144 and 150.

The Group Chair encourages all Directors to attend all Committee meetings unless conflicted e.g. where an individual's performance or remuneration is being considered. Additional attendees are invited to attend Board and Committee meetings at the discretion of the relevant chair.

As part of the internal controls framework, the Board has delegated responsibility for overseeing the implementation of Group strategy and policies set by the Board to the Executive Committee. The Executive Committee is chaired by the Group Chief Executive and comprises the Chief Financial Officer and ten senior Group executives.

Primary Executive Committee responsibilities include:

- developing Group strategy for approval by the Board;
- ensuring Group, regional and functional strategies and resources are effective and aligned;
- monitoring Group operating performance;
- managing the enabling functions;
- overseeing the management and development of Group talent;
- monitoring communication to Group employees and external stakeholders; and
- matters relating to health and safety, sustainability and employees.

Risk and internal control

Risk management

The Board is responsible for undertaking a robust assessment of the principal risks facing the Group, as described on pages 105 to 112 of the Strategic Report, and ensuring that appropriate mitigating actions are in place to manage them. This includes those risks that would threaten the Group's business model, future performance, solvency and liquidity

The Group's approach to risk management as more fully described on pages 100 to 105 ensures that, on an ongoing basis, the most significant risks to the Group's objectives are identified, assessed and managed.

The Business Management System (BMS), which forms the basis of the Group's control framework, contains all policies, procedures and controls and is regularly updated to reflect the output of risk and assurance activity to ensure that there is continuous improvement to the control environment.

Internal control

The Board is responsible for the Group's systems of risk management and internal control and is required to regularly review their effectiveness. The Audit and Risk Committee has undertaken this review in accordance with the requirements of the

Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, published by the FRC, throughout the year and up to the date of this annual report. Further details can be found on pages 144 to 149 of the Audit and Risk Committee Report.

The Group uses the enterprise risk management (ERM) framework across the business to ensure consistency in application of systems and controls and that exposure to significant risks is managed appropriately. The Board recognises that such a system can only manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group also has an independent internal audit function which undertakes a programme of risk-based audits across all operations throughout the year. All audit reports are shared with the relevant business owners who are accountable for implementing appropriate measures to address any risks or control weaknesses. The results of all internal audit activity are also shared with the Group Chief Executive, Chief Financial Officer, the external auditor and scrutinised by the Audit and Risk Committee on a regular basis, further details of which can be found on pages 144 to 149 of the Audit and Risk Committee Report.

RISK MANAGEMENT: RESPONSIBILITIES AND ACTIONS

RESPONSIBILITIES	ACTIONS UNDERTAKEN
BOARD	
› Establishment of a framework of prudent and effective controls to enable risk to be assessed and managed › Determine Group appetite for and attitude to risk in pursuit of its strategic objectives	› Reviews the Group's risk landscape, profile, principal risks and required responses › Reviews the effectiveness of the Group's whistleblowing helpline and other channels for raising concerns about Code of Conduct breaches
AUDIT AND RISK COMMITTEE	
› Review significant accounting judgements › Review the effectiveness of Group internal controls, including systems to identify assess, manage and monitor risks › Review and assess the internal audit workplan	› Receives regular reports on internal and external audit and other assurance activities › Reviews the effectiveness of Group risk management and internal control systems
SAFETY AND SUSTAINABILITY COMMITTEE	
› Review main risks in relation to safety	› Receives regular reports on risks in relation to safety
GROUP TENDER AND INVESTMENT COMMITTEE	
› Review and approve tenders and investments, triggered by certain financial thresholds or other risk factors	› Critically appraises significant tender and investment/divestment proposals, with a specific focus on risk
GROUP MANAGEMENT	
› Strategic leadership › Review and implementation of the Group risk management policy › Ensure appropriate actions are taken to manage strategic risks and other key risks	› Strategic plan and annual budget process › Produces and monitors Group Risk Register › Reviews risk management and assurance activities and processes › Monthly/quarterly finance and performance reviews
STRATEGIC BUSINESS UNIT MANAGEMENT	
› Maintain an effective system of risk management and internal control within its businesses › Ensure that business units' responsibilities are discharged	› Reviews key risks and mitigation plans › Reviews and challenges business units' internal control environment › Reviews results of internal control testing › Escalates key risks to Group management and the Board
ENABLING FUNCTION MANAGEMENT	
› Maintain an effective system of risk management and internal control within its enabling functions	› Maintains and regularly reviews enabling function risk registers › Reviews mitigation plans › Plans, executes and reports on internal control testing › Escalates key risks to Group management and the Board
BUSINESS UNIT MANAGEMENT	
› Maintain an effective system of risk management and internal control within its business units and projects	› Maintains and regularly reviews project, functional and strategic risk registers › Reviews mitigation plans › Plans, executes and reports on internal control testing › Escalates key risks to strategic business unit management

Board composition

Processes and procedures are in place to ensure that there is an appropriate balance of skills, experience and independence on the Board to enable it to discharge its duties.

The Board currently consists of eight members, comprising the non-executive Group Chair, two executive Directors, the senior independent non-executive Director and four further independent non-executive Directors. Biographies of the Board members are set out on pages 124 and 125. The Board considers that it is an appropriate size and the Directors have an appropriate balance of skills and experience to manage the requirements of the business.

Conflicts of interest and independence

Each Director has a duty to disclose any actual of potential conflict of interest for consideration and approval, if appropriate, by the Board. Directors are requested to declare any conflicts at the start of all Board and Committee meetings. In addition, the Nomination Committee annually reviews the Conflicts of Interest Register and seeks confirmation from each Director of any changes or updates to their positions. There is also a formal process in place for the approval of all new external appointments of Directors. The above processes inform the assessment of a non-executive Director's independence.

Following these processes, the Nomination Committee and the Board confirmed the continuing independence and objective judgement of each non-executive Director and the overall independence of the Board in line with the recommendations of the Code, including Stephen Billingham who is a member of the Company's pension scheme resulting from his employment with the Group over 20 years ago. Stephen Billingham is also chairman of Urenco.

> "The Board has an appropriate balance of skills, experience and independence to enable it to discharge its duties."

KEY SKILLS AND EXPERIENCE OF DIRECTORS

SKILL	NUMBER OF DIRECTORS							
CEO	●	●	●	●	◐	○	○	○
Government relationships	●	●	●	●	◐	○	○	○
Finance and Audit	●	●	●	●	◐	◐	◐	◐
Health & Safety	●	●	●	●	◐	◐	◐	◐
ESG	●	●	◐	◐	◐	◐	○	○
Remuneration and People	●	●	●	●	●	○	○	○
Hong Kong experience	●	●	○	○	○	○	○	○
US experience	●	●	●	●	●	○	○	○
UK experience	●	●	●	●	●	●	●	◐
Construction sector experience	●	●	●	●	●	◐	◐	○
Heavy CAPEX	●	●	●	●	●	●	◐	○
Major contracting	●	●	●	●	●	●	●	◐

● Experienced ◐ Some experience ○ No experience

Board succession

Board and Executive Committee succession plans, which are based on merit and are assessed against objective criteria with the promotion of diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, are reviewed annually by the Nomination Committee. During the year, succession planning and the review of Board composition saw the appointment of Charles Allen following Philip Aiken stepping down from the Board after six years of service. Further information is set out in the Nomination Committee report on pages 139 to 141.

Director re-appointment

All non-executive Directors undertake a fixed term of three years subject to annual re-election by shareholders. The fixed term can be extended, and consistent with best practice, would not go beyond nine years unless exceptional circumstances were deemed to exist.

Set out below is the current length of tenure for the Group Chair and each of the non-executive Directors as at 31 December 2021.

Training and development

Non-executive Directors receive a full programme of briefings annually across all areas of the Company's business from the executive Directors, members of the Executive Committee, senior executives and representatives of external professional bodies.

Sessions in 2021 included an update on TCFD (the Task Force on Climate-Related Financial Disclosures), public procurement rules in the US and the UK and the Pension Schemes Act 2021.

Any Director can request further information to support the fulfilment of their individual duties or collective Board role and, throughout the year, the Group Chair maintains dialogue with individual Directors to identify any specific training needs. Where appropriate, such training is delivered by the topic being included at a Board meeting so that all Directors can benefit. Alternatively, training is delivered by way of formal presentations, individual meetings and site visits in order to learn more about a particular initiative or project.

Information and support

During the year, the Company Secretary advised the Board on matters related to governance, ensuring Board procedures were followed and relevant statutory and regulatory requirements were complied with. The Company Secretary has responsibility for facilitating the timely distribution of information between the Board and its Committees and the executive and non-executive Directors.

The Directors have direct access for advice to the Company Secretary who is able to arrange, at the Company's expense, for the Directors to receive independent professional advice where appropriate.

Board evaluation

In line with best practice, the performance and effectiveness of the Board, its Committees and individual Directors is assessed annually through a formal performance evaluation process. In 2021, the Board and Committee evaluation was externally facilitated by Egon Zehnder.

Process

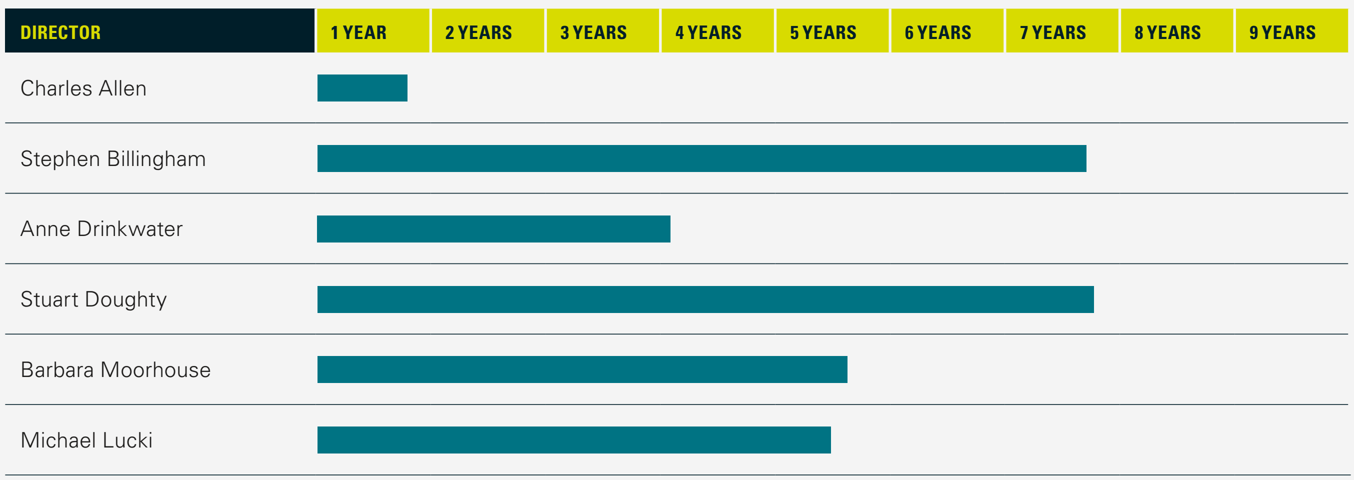
Egon Zehnder commenced the evaluation by meeting the Group Chair to understand the context, strategy and purpose of the Board following which they designed a questionnaire to support the review, which was completed by all Directors. The questionnaire covered:

- Board logistics;
- Board operations;
- Board Committees;
- Board dynamics;
- Board vision and role; and
- Board composition, evaluation and succession.

Egon Zehnder obtained additional qualitative insights through observing the November Board meeting and private meetings with the Directors individually.

Egon Zehnder analysed the completed questionnaires and the insights and held a preliminary discussion with the Group Chair to discuss their initial findings. Egon Zehnder presented their final findings and recommendations and facilitated discussion at the December Board meeting.

TENURE AS AT 31 DECEMBER 2021 FOR NON-EXECUTIVE DIRECTORS



BOARD EVALUATION PROCESS

YEAR 1 – INTERNAL ASSESSMENT

- Evaluation co-ordinated internally by Group Chair, Committee Chairs and Company Secretary
- Separate questionnaires prepared on a range of issues related to the Board and Board Committees
- One to one meetings held between Group Chair and each Director to review responses and for individual appraisal. Senior Independent Director leads the review of the Group Chair
- Group discussion at a Board meeting and actions agreed

YEAR 2 – INTERNAL ASSESSMENT

- Outcomes from previous evaluation and progress against each action reviewed
- Internal evaluation questionnaires prepared by Group Chair and Company Secretary, taking account of areas of concern in previous year
- One to one meetings held between Group Chair and each Director to review responses and for individual appraisal. Senior Independent Director leads the review of the Group Chair
- Group discussion at a Board meeting and actions agreed

2021

YEAR 3 – EXTERNAL ASSESSMENT

- Independent external evaluation firm appointed
- Evaluator works with Group Chair to refine scope of evaluation in light of previous internal evaluations
- Evaluation conducted by use of interviews with Directors and key regular attendees at Board/Committee meetings and review of agendas/papers
- Report on evaluation discussed with Group Chair and tabled for discussion at full Board meeting
- Outcomes and actions agreed

Findings

The principal finding of the review was that the Board feels that it is well-functioning and resilient with a sense of harmony. Specific strengths that were identified include:

- the Board is well-balanced;
- the Board operates with a style of open, honest discussion and constructive challenge;
- meetings are productive and well run; and
- Committees are well defined, well led and have a clear purpose.

Areas for consideration included:

- the need for an enhanced focus on talent and risk management;
- the need for a longer-term view on diversity and ESG matters;
- improved balance in meetings between presentation and debate; and
- greater engagement with the business and employees.

Action plan

Following the discussion at the December Board meeting, the Group Chair, with support from the Company Secretary, put in place an action plan to address the agreed recommendations. The action plan included a list of distinct actions to be taken and the person responsible for carrying out the different actions. The action plan was presented at the February 2022 Board meeting and endorsed by the Board.

The key actions identified are:

- the Group Chair, Group Chief Executive and Company Secretary are responsible for reiterating guidance for all presenters to ensure enhanced discussion, healthy challenge and debate;
- the Company Secretary is responsible for ensuring there is sufficient time for the Board to systematically review lessons learnt;
- non-executive Directors will be provided with more opportunities to meet together between Board meetings; and
- following the relaxation of COVID-19 restrictions, non-executive Directors are to increase their employee engagement activities.

Individual Directors

The evaluation concluded that each Director continues to have sufficient time, knowledge and commitment to effectively contribute to the long-term sustainable success of the business.

Nomination Committee

CHARLES ALLEN, LORD OF KENSINGTON, CBE
Chair of the Nomination Committee

MEMBERSHIP

- Charles Allen (from May 2021 and Chair of the Committee from July 2021)
- Stephen Billingham
- Stuart Doughty
- Barbara Moorhouse
- Philip Aiken (Chair of the Committee until July 2021)
- Leo Quinn (until 9 February 2022)

KEY ACTIONS FROM 2021

- Completed search for new Group Chair and oversaw his induction
- Commenced search for a female non-executive Director
- Reviewed the senior talent and succession plans
- Led the process to respond to the significant vote against the re-election of Philip Aiken at the 2021 AGM
- Appointed Egon Zehnder to facilitate the Board evaluation process
- Reviewed Board balance and composition

PRIORITIES FOR 2022

- Support the on-boarding of Louise Hardy who will join the Board as a non-executive Director on 1 April 2022
- Evaluation of the Board and its main Committees
- In the event of vacancies arising on the Board, the selection of new Directors
- Review the senior talent and succession plans
- Review Board balance and composition

ALLOCATION OF TIME

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

- Make recommendations as to the appointment, reappointment, retirement or continuation of any Director
- Propose and oversee induction plans for new Board appointments
- Make recommendations regarding Directors' independence
- Monitor the structure, size, composition and balance of the Board and Committees
- Monitor Board succession and review succession plans at Executive Committee level

Report of the Nomination Committee

I am pleased to present my first report of the Nomination Committee, setting out the key activities undertaken during 2021.

One of the key focuses in the year was identifying a successor to Philip Aiken as Chair of the Board. There was a formal and rigorous process which is detailed on page 140. Following completion of the process I joined the Board as a non-executive Director on 13 May 2021 and became Group Chair and Nomination Committee Chair on 20 July 2021.

During the year, another important action was to commence the search for a new female non-executive Director. Following the successful conclusion of this search, I am please to let you know that Louise Hardy will join the Board as a non-executive Director and member of the Safety and Sustainability Committee on 1 April 2022 at which time, the Board will have met the Hampton-Alexander targets. Louise has over 30 years of business and leadership experience in the construction and infrastructure sector. She has held senior executive roles in client, contractor, strategic supplier and consultant organisations across projects in multiple countries.

Through its succession planning activities, the Committee continues to keep the composition of the Board under constant review looking at both skills and diversity.

Charles Allen
Chair of the Nomination Committee
10 March 2022

Governance

Chairman appointment

Following Philip Aiken notifying his intention to step down from the Board, the Nomination Committee confirmed in the 2020 Annual Report that a search had been initiated, with the support of Egon Zehnder, to identify a suitable candidate who would succeed Philip Aiken as Group Chair. The Senior Independent Director led the process and Philip Aiken abstained from involvement in the process to ensure the objectivity of considerations.

The Nomination Committee set up a sub-committee consisting of any two committee members (excluding the Group Chair) to allow for actions and decisions to be taken as necessary, on behalf of the Committee, allowing for pace to be maintained.

The process commenced with a detailed candidate specification, which set out key responsibilities, experience and qualities required.

Egon Zehnder then identified a candidate longlist which was mapped against the role profile and the Board skills matrix. The candidates with the strongest fit were reviewed by the sub-committee and progressed to the next stage.

Egon Zehnder had discussions with the candidates to confirm time capacity, interest in the role and potential conflicts, following which Egon Zehnder created a shortlist of candidates to meet Committee members and the executive Directors.

Following the interviews, the Committee confirmed that Charles Allen possessed the desired experience and capabilities. The Board approved the recommendation that Charles Allen was independent on appointment and that he be appointed non-executive Director from 13 May 2021 and Group Chair on 20 July 2021.

Committee composition

The Committee consists of two independent non-executive Directors, the Senior Independent Director, and the independent non-executive Group Chair. In February 2022, following a review of the Committee's composition and based on feedback from a small number of shareholders, it was decided that the Group Chief Executive would step down as a member of the Committee. He will however be invited by the Committee to attend meetings, as appropriate, to support the Committee's activities, except where a conflict arises.

Board composition and succession

The composition of the Board is informed by the Committee's succession planning activities, supported by assessment of the required Board skills, experience and diversity in line with strategy.

The non-executive Directors come from broad industry and professional backgrounds, with varied experience aligned to the needs of the business. Further detail on the backgrounds and experience of the Directors can be found on pages 124 and 125.

The Board considers the length of service of the members of the Board as a whole and the need for a refresh of its membership progressively over time.

Succession planning and the review of Board composition resulted in the appointment of Charles Allen, Lord Allen of Kensington, CBE, as a non-executive Director on 13 May 2021 and Group Chair on 20 July 2021. In addition, the Committee considered the requirement to improve the diversity of the Board, following which Egon Zehnder was engaged to support a search for a new female non-executive Director. Following the successful conclusion of that search, Louise Hardy will join the Board as a non-executive Director and member of the Safety and Sustainability Committee on 1 April 2022.

Time commitment

The expected time commitment of each of the Group Chair and non-executive Directors is agreed and set out in a Letter of Appointment. Prior to appointment, the existing external commitments on an individual's time are assessed to confirm their capacity to take on the role. Additional external appointments can only be accepted following approval of the Board.

Evaluation of the Committee

During the year, an evaluation of the effectiveness of the Committee was carried out by Egon Zehnder. Further details can be found on pages 137 and 138.

Re-election of Directors

All non-executive Directors undertake a fixed term of three years, subject to annual re-election by shareholders at the AGM. The fixed term can be extended, and consistent with best practice, would not go beyond nine years, unless exceptional circumstances were deemed to exist. The Committee unanimously recommends the election and re-election of each of the Directors at the 2022 AGM. In making this recommendation, the Committee carried out an assessment of each Director, including their performance, contribution to the long-term sustainable success of the Company and capacity to discharge their responsibilities effectively, given their external time commitments and responsibilities.

Diversity and inclusion

The Committee acknowledges the Hampton-Alexander Review, which set recommendations aimed at increasing the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 boards by 2020. The Committee further acknowledges the Parker Review directing that boards of FTSE 250 companies should have at least one director from an ethnic minority background by 2024. Diversity of backgrounds not only ensures a more proportionate representation of wider society but also places the Group in a stronger position to deliver for its stakeholders. The Board is committed to ensuring that it remains diverse and it has a diversity and inclusion policy to support this. Following the successful conclusion of a search for a new non-executive Director, Louise Hardy will join the Board on 1 April 2022, following which three out of the Company's nine Directors (33%) will be female. Details of the gender breakdown across the Group can be found in the People section on page 86.

The Board acknowledges the Parker Review and aims to address this through future succession planning.

Director appointment

When making a new appointment, the Committee identifies and articulates objectives and criteria based on its Board composition reviews. The Committee is responsible for engaging an executive search consultant and reviewing shortlists of candidates and attending interviews. The candidate's existing appointments and associated time commitments and actual or potential conflicts of interest are also assessed. The Committee will agree a recommendation for appointment to the Board, taking account of matters such as gender, social and ethnic backgrounds and cognitive and personal strengths. See page 140 for details relating to the appointment of Charles Allen as Group Chair.

Director induction

Following appointment, all Directors receive a comprehensive and tailored induction programme. Induction programmes are designed by the Company Secretary in conjunction with the Group Chair, Senior Independent Director and Group Chief Executive and include one-to-one meetings with the executive Directors, Executive Committee members and the Group General Counsel and Company Secretary. Meetings are set up with key members of senior management from a variety of departments and business units, with the content of meetings varying depending on the Director being inducted and their background and individual experience.

An induction programme would also include:

- documents provided via the electronic Board portal covering key information relating to the Group including financial performance, Board policies and procedures and governance matters. These documents are also available to all other Board members as a continuing point of reference; and
- visits to key operational sites, offering a chance to meet the workforce. Directors continue to make regular site visits throughout their tenure, in line with the Company's Employee Voice initiative, gaining valuable insight into operations and feedback from the workforce.

Safety and Sustainability Committee

STUART DOUGHTY CMG
Chair of the Safety and Sustainability Committee

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

- Reviewing strategies, policies, procedures and performance of the Group in relation to health, safety, environment and sustainability (HSES) matters
- Monitoring and updating the Group's control processes where appropriate
- Approving health and safety targets and key performance indicators, monitoring the Group's performance against them and taking corrective action where necessary
- Monitoring the Group's performance against main safety risk groups and strategies for mitigating such risks
- Reviewing Group environmental and social performance, including but not limited to carbon emissions, energy, resource efficiency and compliance

Report of the Safety and Sustainability Committee

I am pleased to present the Safety and Sustainability Committee report for 2021. Whilst maintaining one committee we have taken the decision to split each of our meetings into two distinct parts, one covering all aspects of safety and the other covering all aspects of environment and sustainability, to ensure appropriate focus on each.

During 2021, the Committee continued to focus on the impacts of the COVID-19 pandemic, with Group processes and procedures constantly reviewed to ensure they remain in line with UK Government and World Health Organisation best practice guidelines, keeping sites open safely where local rules allowed. Increased focus was also given to performance against the new sustainability strategy Building New Futures and continued strengthening of our capability to meet increasing demands, including activity around and in support of COP26 in November 2021.

Despite strong employee engagement, lagging indicators reflected an adverse trend back to pre-COVID levels attributable in part to fatigue and skill shortage, a trend which has echoed across the sector.

Tragically despite the imposition of stringent policies we suffered two fatalities during the year; one of these incidents occurred on the Advanced Manufacturing Centre project within Gammon, the Group's Hong Kong 50:50 joint venture, and the other occurred on The Penn First project in the US in which we were a 35% joint venture partner. The Committee continues to focus on ensuring such events are thoroughly investigated, that lessons learnt are taken onboard across the business and that the business continues to strive for Zero Harm across all Balfour Beatty's operations.

The Committee met three times in 2021 and its meetings were regularly attended by other members of the Board and the Group HSES Director. Further attendees attended at the discretion of the Committee, including the Group Head of Environment and Sustainability and other key individuals from the HSES executive, the Executive Committee and business unit managing directors who are also leaders of our Fatal Risk Working Groups.

Stuart Doughty
Chair of the Safety and Sustainability Committee
10 March 2022

MEMBERSHIP

- Stuart Doughty (Chair of the Committee)
- Anne Drinkwater
- Leo Quinn
- Philip Aiken (until July 2021)

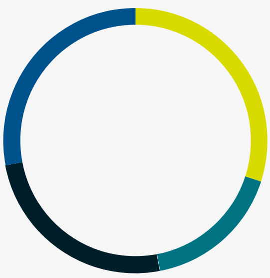
KEY ACTIONS FROM 2021

- Received reports on the implementation of Group initiatives
- Reviewed findings from serious incidents and fatalities and ensured learning was embedded across the Group
- Received an update on Fire Safety and Building Safety Bills
- Received an update on TCFD from an external adviser

PRIORITIES FOR 2022

- Monitoring progress towards sustainability targets
- Agreeing science-based carbon reduction target
- Focus on leadership and supervision best practice
- Continued focus on targeted risk elimination

ALLOCATION OF TIME



- Environment and sustainability updates
- Zero Harm updates
- Notable incidents and learnings
- Group performance updates

Main activities of the Committee during the year

COVID-19

The Committee received reports on the implementation of best practice procedures for both construction and office sites and noted the extensive risk assessments carried out to ensure that sites remain safe. Reports included updates to communications, controls, monitoring, Site Operating Procedures and 9 Guiding Principles.

Safety performance and Zero Harm

The Group HSES Director reported to the Committee during the year on Group performance against various health and safety metrics. The Committee saw an increase to pre-COVID lost time incident rates, mainly around slips, trips and falls and manual handling. Encouragingly safety observations increased by 43% during 2021, which is a strong indicator of employee engagement. Positive staff engagement results also supported the continued strong Zero Harm culture within the business.

Reports were received regarding progress on Group initiatives, including:

- The Group-wide safety stand down in September 2021 around back to basics and our Four Golden Rules, further details of which can be found on pages 58 to 62; and
- Health and wellbeing strategy – launched in January 2021, in particular progress against the new Health Maturity Matrix.

An update on the Fire Safety and Building Safety Bills was included in the February 2021 meeting. Other updates included new training on lifting and temporary works, strengthened requirements and innovation around tool tethering to reduce risks from dropped objects and a focus on selecting the right tool for the job. Further detail on Zero Harm can be found on pages 58 to 62.

Notable incidents and fatalities

Tragically, despite a continued focus on Zero Harm, two fatal incidents occurred during 2021. In the US a man working for our client's civil engineering inspection company suffered a fatal injury when a drilling rig tipped over during a lifting operation on the Penn First hospital joint venture. All drilling rigs are now supported with assist cranes and mandated exclusion zones have been extended. At Gammon's Advanced Manufacturing Centre (AMC) project a woman working for a subcontract cleaner fell through a service opening in a normally non-accessible plant area. Although edge protection and nets had been provided, alternative more permanent safeguarding measures have now been developed and deployed across the Group.

The Committee received reports on notable incidents and events that are deemed to have had a high potential of serious injury, including detail on learnings and actions arising, examples include but are not limited to roll-out of cabbed dumpers to increase operator safety, working with suppliers to extend tool tethering to reduce falling objects from height, and revising temporary works and lifting procedures and training.

Environment and sustainability

The Committee received regular updates throughout the year on the Company's performance with regards to sustainability and environmental factors, including briefing around new TCFD requirements.

During the year, the Committee monitored performance against the Building New Futures sustainability strategy targets and ambitions and progress towards setting a science-based target to reduce the Group's carbon emissions. The strategy demonstrates alignment with the Sustainable Development Goals set by the United Nations and allows for consistency across the business in light of the breadth of matters that operational and work winning teams have responsibility for.

The Committee noted progress against the Group's long- and short-term sustainability targets, including those around generation of social value (further detail on pages 69 to 71), carbon emissions, waste and the launch of a new sustainability e-learning training package and carbon literacy programme.

In the UK a major sustainability My Contribution engagement initiative was launched to encourage ideas and ownership at all levels within the business. Over 770 ideas were raised, with many supported to go forwards to delivery including carbon conscious training. COP26 was a further opportunity to showcase some of Balfour Beatty's innovations and engage the workforce (further detail on pages 69 to 71).

Governance

During the year, the Committee reviewed its terms of reference, which can be found on the Company's website at: www.balfourbeatty.com.

Evaluation of the Committee

During the year, an evaluation of the effectiveness of the Committee was carried out by Egon Zehnder. Further details can be found on pages 137 and 138.

Audit, Risk and Internal Control

STEPHEN BILLINGHAM CBE
Chair of the Audit and Risk Committee

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

- Reviewing the significant financial issues and judgements related to the Group's financial statements, including Investments portfolio valuations
- Ensuring management has relevant systems of risk management and internal control in place
- Monitoring the effectiveness of the internal audit function
- Overseeing the relationship with the external auditor, including annual approval of the external audit plan, review of audit opinions, setting of external auditor remuneration, and reporting the results of external audits to the Board
- Monitoring the effectiveness, objectivity and independence of the external auditor, including factors related to the provision of non-audit services
- Reviewing the Company's environmental, social and corporate governance reporting in line with the increasing focus in this area
- Monitoring the integrity of the Group's financial statements, including providing advice (where requested by the Board) on whether the annual report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy

Report of the Audit and Risk Committee

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2021. This report is intended to provide shareholders with an insight into key areas considered, together with how the Audit and Risk Committee has discharged its responsibilities and provided assurance on the integrity of the Annual Report and Accounts 2021.

The Audit and Risk Committee assists the Board in fulfilling its responsibilities related to Group financial statements, risk management and financial controls and the internal and external audit functions.

The Committee held four meetings during the year (further detail on attendance can be found on page 123). All non-executive Directors are encouraged to attend Committee meetings and meetings were also regularly attended by the Group Chair, Group Chief Executive, Chief Financial Officer, Group Risk and Audit Director, UK Head of Internal Audit, Group Financial Controller, Group General Counsel and Company Secretary and representatives of the external auditor, including the lead audit partner. There were further ad hoc attendees throughout the year who joined Committee meetings for specific agenda items.

During 2021, the Committee remained focused on monitoring the integrity of the Group's financial reporting.

Further detail on the activities of the Committee during the course of the year is set out on the following pages.

The Committee also continued its programme of annually recurring compliance matters.

During the year, the Committee reviewed its terms of reference, which can be found on the Company's website at: www.balfourbeatty.com.

Stephen Billingham
Chair of the Audit and Risk Committee

10 March 2022

MEMBERSHIP

- Stephen Billingham (Chair of the Committee)
- Stuart Doughty
- Michael Lucki
- Barbara Moorhouse

KEY ACTIONS FROM 2021

- Monitored the impact of the investigation into the US military housing business and considered the impact of the resolution reached with the US Department of Justice
- Considered lessons learnt from the fixed price London residential projects and related improvements implemented in the Gated Business Lifecycle
- Assessed the effectiveness of the Gated Business Lifecycle including the mitigation of project risk

PRIORITIES FOR 2022

- Continue to review and challenge management's judgements on significant accounting issues including key contract judgements
- Review progress of independent compliance monitor and assess any related findings in association with the control environment in the US military housing business
- Consider the scenario modelling carried out in relation to the impact of climate change and monitor the Group's progress against the FSB's TCFD requirements

ALLOCATION OF TIME

- Financial reporting
- Internal audit, risk management and internal control
- External auditor
- Governance and other matters

COMMITTEE ACTIVITIES DURING 2021

The Committee has a substantial agenda of items formulated to fully discharge its roles and responsibilities, whilst maintaining sufficient time for discussion of ad hoc items that arise throughout the year.

		MAR	MAY	AUG	NOV
Group financial statements	Received reports on financial and accounting, contract and commercial issues and litigation	●		●	
	Approved financial results press releases and the Annual Report and Accounts to be put to the Board	●		●	
	Approved the Group's viability and going concern statements	●		●	
	Reviewed Directors' valuation of the Investments portfolio	●		●	
	Approved Greenhouse Gas Emissions representation letter to PwC	●			
External auditor	Reviewed the external auditor's report on the Company's full year and half year financial statements	●		●	
	Reviewed the external auditor's assessment of its objectivity and independence including a review of non-audit services (and associated fees) provided by the external auditor	●			
	Reviewed management representation letters related to the Company's full year and half year financial statements	●		●	
	Reviewed the external auditor's half year review plan and audit strategy		●	●	●
	Approved the external auditor's fees			●	
Risk management and financial controls (including the internal audit function)	Conducted assessments of risk and internal control, including a robust assessment of principal and emerging risks	●		●	
Other matters	Received updates on US military housing investigation	●		●	
	Received updates on Group tax and insurance		●		
	Received updates on Group ethics and compliance			●	●
	Received an update on GTIC / Gated Business Lifecycle process			●	
	Received an update on lessons learnt on London residential projects				●
	Private meetings between the non-executive Directors, Group Risk and Audit Director and KPMG	●	●	●	●

Significant issues and other accounting judgements

In accordance with Code provision 26, the following sets out all significant issues reviewed by the Committee throughout the year, being those requiring management to exercise the highest level of judgement or estimation. The Committee assesses these judgements to determine if they are reasonable and appropriate.

REVENUE AND MARGIN RECOGNITION

Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports and met with management, the Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements.

GOING CONCERN AND VIABILITY STATEMENT

In order to satisfy itself that the Group has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's viability statement, cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the Annual Report and Accounts. More details on going concern and the viability statement are contained on pages 186 and 113 respectively.

NON-UNDERLYING ITEMS

The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.

PROVISIONS

The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.

RETIREMENT BENEFITS

The key judgement relates to the assumptions underlying the valuation of retirement benefits. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.

DEFERRED TAX ASSETS

The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.

DIRECTORS' VALUATION OF THE INVESTMENTS PORTFOLIO

The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Committee composition

The Committee is chaired by Stephen Billingham, who the Board has determined as having the recent and relevant financial experience required by the UK Corporate Governance Code.

The Committee Chair is supported by the other Committee members in delivering the Committee's governance responsibilities. Committee members possess a range of experience relevant to the sector within which the Company operates, particularly in relation to financial management and risk. The Committee members' full biographical details can be found on pages 124 and 125.

All meetings were attended by the Company Secretary or their nominee.

Evaluation of the Committee

During the year, an evaluation of the effectiveness of the Committee was carried out by Egon Zehnder. Further details can be found on pages 137 and 138.

Financial reporting

A key responsibility of the Committee is to monitor and oversee the integrity of the Group's published financial statements. This responsibility is discharged in part through the review and evaluation of the Company's full year and half year financial statements.

The Committee has full access to management, in order to ask questions and gain further insights where necessary, and receives reports from members of the Finance team and the external auditor.

The Committee assessed whether the annual financial statements provided a 'fair, balanced and understandable' view of the Company's position, performance, business model and strategy, as well as:

- assessing whether the accounting policies applied, and judgements (including key contract judgements), estimates and assumptions made, by management are reasonable and appropriate based on information available (further details are on pages 187 to 192); and
- assessing whether the Company has complied with relevant financial reporting standards and other regulatory requirements, including the Code and European Securities and Markets Authority Guidelines on Alternative Performance Measures.

EXTERNAL AUDITOR ROTATION AND REAPPOINTMENT

2001 – 2014	2015 – 2016	2023	2026
Deloitte incumbent external auditor	Audit tender process conducted; KPMG appointed as external auditor at 2016 AGM	Current lead audit partner due for rotation	Next scheduled audit tender process, per Company policy

Going concern and viability statement

The Committee was presented with management's assessment of the Company's viability over a three-year period to 31 December 2024, and its going concern basis for the period of at least 12 months from the date of approval of the financial statements as part of its wider responsibility for assessing the Group's principal and other risks (see pages 104 to 112).

The Committee assessed these analyses and assumptions, taking into account cash flows, current levels of debt and the availability of future finance if required. The viability and going concern assessments, including the severe but plausible downside scenarios modelled, were discussed and the Committee concluded that the assessments were appropriate. The Committee also considered the impact of climate change on the Group's viability following the introduction of the FSB's Task Force on Climate-related Financial Disclosures (TCFD). The Committee subsequently approved the viability statement and the going concern disclosures for inclusion in the Annual Report and Accounts 2021.

The viability statement and the going concern disclosure can be found on pages 113 and 186 respectively.

Exit from fixed price London residential projects

During the year, as a result of performance issues at a small number of private sector property projects in central London, the Group announced that it will no longer bid for fixed price residential property projects in that area. Following this, the Committee was presented with an assessment from management which sought to identify failures in key governance controls operating in the work winning and delivery phases which may have contributed to the performance issues within these projects. This was assessed against the backdrop of the Group's Gated Business Lifecycle (GBL). The report identified improvement areas and an action plan to address these shortcomings. The Committee will receive progress reports during 2022.

US military housing

Given the significance of this issue, the Committee continued to receive updates and reports from the Group Financial Controller, Group Risk and Audit Director and Group General Counsel and Company Secretary on the status and impact of the allegations, publicised in June 2019, related to the handling of certain work orders for US military bases managed by the Group's subsidiary, Balfour Beatty Communities (BBC). Reports to the Committee included detail on impairment and sensitivity testing, internal audit investigations and the status of the investigation by the US Department of Justice (DoJ). In addition, the Committee sought reassurance that measures were being taken to ensure that this issue was not repeated and gained reassurance that particular control and contractual arrangements were isolated to the military housing business.

Balfour Beatty made a provision in its 2020 year end results for an estimate of the historical incentive fees to be repaid but which its ongoing investigations had been unable to fully verify at that time.

In December 2021, BBC reached a resolution with the DoJ which resolved the DoJ's criminal and civil investigations into specific performance incentive fees improperly claimed by BBC between 2013 and 2019 related to maintenance work at certain US military housing installations. Under the terms of the resolution, BBC pleaded guilty to one count of fraud and agreed to the appointment of an independent compliance monitor for a three-year period. The resolution brings the investigation to a close, with BBC paying a total resolution amount of US$65 million in January 2022.

In the year ended 31 December 2021, the Group has provided for the cost of the settlement in full, net of the provision already held in the previous year. Due to the size and the nature of the cost of settlement, the Group has treated this as a non-underlying item in the year.

Financial Reporting Council

The Company's Annual Report and Accounts 2020 were subject to a limited scope thematic review of the Group's streamlined energy and carbon reporting (SECR) disclosures. The FRC did not raise any queries, however noted one area where improvements can be made to existing disclosures. The Group has included this disclosure improvement in its Annual Report and Accounts 2021.

The Company remains committed to keeping abreast of good practice and changing reporting requirements and will continue to develop its reporting and disclosures.

The FRC's review provides no assurance that the report and accounts are correct in all material respects. The FRC's role is not to verify information provided, but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

External auditor

Rotation and reappointment

The Company's external auditor is KPMG LLP. KPMG's appointment was approved by shareholders at the 2016 AGM, following an audit tender process in 2015. KPMG replaced Deloitte, the incumbent for the preceding 14 years.

Pursuant to the provisions of the Revised Ethical Standard 2019 (as summarised below), the Company has adopted a policy that no external auditor, appointed following the implementation of the Revised Ethical Standard 2019, can remain in post for longer than 20 years. The Company has adopted a policy that the Committee will lead an audit tender process every ten years and that this will apply to the current incumbent, KPMG. Consequently, the next external audit tender is anticipated to take place following the completion of KPMG's audit for the year ended 31 December 2025.

The Committee considers that the external auditor relationship is appropriate and productive and the Committee is satisfied with KPMG's effectiveness. The Committee considers annually the need to conduct an earlier formal tender process, where this may be required for audit quality or independence reasons. Provided the results of the annual external audit review are satisfactory, KPMG is recommended for reappointment at the AGM on an annual basis. There are no contractual obligations in place that restrict the Group's choice of statutory auditor.

Paul Sawdon completed his fourth year as lead audit partner for the year ended 31 December 2021. The external auditor is required to rotate the lead partner every five years – such changes are planned carefully to ensure business continuity, whilst avoiding the introduction of undue risk or inefficiencies. Therefore, KPMG are due to rotate their lead partner following the conclusion of the audit for the year ended 31 December 2022.

The key aspects of the Revised Ethical Standard 2019 include the following:

- Audit firms should have a maximum tenure of ten years, although the UK Government proposes to allow an extension of:
  - up to an additional ten years where a public tender is carried out after ten years; or
  - by up to an additional 14 years where more than one audit firm is appointed to carry out the audit.
- Audit firms are prohibited from providing certain non-audit services.
- Where permitted non-audit services are provided by a group's auditor, they will be subject to a fees cap.
- Restrictions within any contract limiting a group's choice of auditor are prohibited.

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

Independence

A formal review of the external auditor's independence is conducted by the Committee annually. The most recent review took place in March 2022, when the Committee considered a letter submitted by KPMG which sets out:

- any relationships that bear on their objectivity and independence and the safeguards implemented to address any consequent threats to independence; and
- considerations related to the provision of non-audit services, including a comparison for the prior year (further detail below).

Following review of this letter, the Committee satisfied itself that KPMG remained sufficiently independent in accordance with the relevant professional ethical standards.

The Audit and Risk Committee's role in ensuring the financial statements taken as a whole are fair, balanced and understandable

As part of the Committee's assessment as to whether the annual financial statements provide a 'fair, balanced and understandable' view, the Committee has oversight of and reviews the effectiveness of the following processes implemented by management:

- comprehensive guidance issued to all contributors;
- verification of the factual content of the financial statements;
- review of the disclosures made by the contributors to each section; and
- comprehensive reviews by senior management to ensure consistency and overall balance.

In addition to the above, the Committee also undertakes a review to determine if the entire financial statements are representative of the Group's performance in the year and challenges management on the overall balance of the report prior to recommending approval of the financial statements to the Board.

Non-audit work

The Company maintains a policy governing the provision of non-audit services to the Group, which sets out certain services that KPMG are prohibited from providing to the Group as well as detailing characteristics that would make a service potentially prohibited. In addition to this, the policy sets out a requirement for the Chief Financial Officer to approve non-prohibited services where the fee is below £50,000, and for the Chair of the Audit and Risk Committee to approve non-prohibited services where the fee exceeds £50,000. This is in addition to KPMG's internal policy that prohibits it from providing any non-audit service, other than one closely related to an audit, to any FTSE 350 company (including Balfour Beatty plc).

These provisions help to safeguard the external auditor's objectivity and independence and ensure that no assignment be given to KPMG that may result in:

- audits of its own work;
- making management decisions on behalf of the Group;
- acting as advocate for the Group; and
- a mutuality of interest with the Group being created.

In accordance with the policy for the provision of non-audit services, the aggregated spend on non-audit services with the external auditor must not exceed 60% of the Group audit fee, unless exceptional circumstances exist, with a three-year rolling average not exceeding 70% of the Group audit fee (in line with the Financial Reporting Council's ethical standards).

During 2021, there were fees of £0.5 million (2020: £0.5 million) paid to the external auditor for non-audit services. 2021 non-audit services provided by KPMG primarily related to the review of the Group's half-year results.

Audit fees for 2021 were £3.5 million (2020: £3.1 million). Further details are included in Note 6.2 on page 198.

72% of non-audit related work provided by international accounting firms in 2021 was carried out by firms other than KPMG.

External auditor

Effectiveness

The Committee assess the effectiveness of the external auditor and the appropriateness of the audit plan on an annual basis, in addition to the level of the external auditor's professional scepticism. From this review, recommendations for improvement are identified and communicated to the external auditor where necessary. Committee members meet privately with the external auditor and management throughout the year in order to gain feedback to support these assessments.

Risk management and internal control

The Board assumes ultimate responsibility for the effective management of risk and internal control across the Group. However, the Committee helps the Board in monitoring the Group's internal financial controls, and internal control and risk management systems, and monitoring and reviewing the work of the internal audit function.

Internal audit

The internal audit and risk function plays an integral role in the Company's governance structure, providing independent assurance and advice to help the Group achieve its strategic priorities. The half yearly internal audit plans were approved by the Committee in May 2021 and November 2021 when it also assessed the adequacy of the budget and resources. The audit plan is based on risk, strategic priorities and consideration of the strength of the control environment. Progress against the plan is monitored at each meeting. The Committee reviews the results of the internal audit reports during each meeting which are graded. Management is responsible for ensuring that issues raised by internal audit are addressed within the agreed timetable and their timely completion is reviewed by the Committee. Where internal or external circumstances give rise to an increased level of risk, the audit plan is modified accordingly during the year.

The effectiveness of internal audit is assessed by the Committee by evaluating internal audit reports and at meetings with the Chair of the Committee without management present. It also reviewed statistics on key staff numbers, qualifications and experience which the Committee considered to be satisfactory. Accordingly, the Committee is satisfied that the quality, experience and expertise of the internal audit function is appropriate for the business.

Internal control and risk

Details of the Group's internal controls and risk management framework are more fully set out on pages 100 to 119 in the Strategic Report and pages 134 to 135 in the Governance Report. The Group's principal risks are set on pages 108 to 112. The Committee has evaluated the effectiveness of the internal control systems operated within the Group pursuant to the FRC's guidance on internal control. The evaluation covered all material controls. These included financial, operational and compliance controls. They encompassed a review of the management confirmation reports submitted by all senior management, controls reports, reports on fraud perpetrated against the Group, the Group's approach to anti-bribery and corruption and whistleblowing, and reports from both the internal and external auditors. The review did not identify any significant weaknesses in the system of internal control and risk management.

Whistleblowing and fraud

During 2021, the Committee on behalf of the Board considered the confidential reporting and whistleblowing procedures the Company has in place and is satisfied with these procedures. The Committee also reviews any instances of fraud perpetrated against the Group and the action taken by management to prevent recurrences.

Remuneration Committee

ANNE DRINKWATER
Chair of the Remuneration Committee

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The terms of reference of the Remuneration Committee are available in full on the Company's website at: www.balfourbeatty.com/investors/governance/board-committees.

The Committee's terms of reference were reviewed during the year to ensure compliance with the Code.

"We believe that implementation of the Remuneration Policy will continue to deliver a robust link between strategy, reward and performance, supporting Balfour Beatty's drive to deliver profitable managed growth and sustainable cash generation."

Report of the Remuneration Committee

As Chair of the Remuneration Committee I am pleased to present our Directors' remuneration report for the year ended 31 December 2021. At the AGM in 2020, the Remuneration Policy was approved by over 93% of shareholders, and a summary of the policy and how it will be implemented for the year ending 31 December 2022 is included in the Remuneration At A Glance section on page 153. The remainder of the report sets out the Annual Report on Remuneration detailing how the Remuneration Policy was applied over the year ended 31 December 2021.

As the Company and the country emerges from the effects of the pandemic, Balfour Beatty has continued to deliver a strong financial recovery with results returning to 2019 pre-pandemic levels. Our continued focus has been to ensure we take a balanced approach to remuneration reflecting the huge range of challenges that continue for individuals, businesses and governments. The deliberations of the Committee are made against the backdrop of continued progress against the Build to Last strategy, the markets in which the Group operates, the wider general economy and developing corporate governance and shareholder views.

Strategic and business context

As set out in this Annual Report, the Group has responded strongly following the challenges of COVID-19, capturing emerging opportunities whilst protecting financial strength and continuing to deliver for all stakeholders:

- The business performed strongly in 2021 with profit and cash performance back to 2019 pre-pandemic levels
- The Group continued to win work on projects at the right terms and conditions across its portfolio
- Delivered the share buyback programme of £150m and announced the next phase of the multi year programme for 2022 of £150m
- Successfully implemented smart working guidelines to enable employees to return to the workplace in a flexible and safe way. Employee engagement scores have further increased to 76% (from 75% in 2020 and 66% in 2019).

Reward for 2021

The Annual Incentive Plan (AIP) outcomes for the executive Directors reflected the following (with further detail provided on pages 158 to 160):

- Stretching financial targets were set at the start of the year in a time of continued uncertainty. Both the maximum profit target and cash target were exceeded, reflecting strong financial results with the delivery of

MEMBERSHIP

- Anne Drinkwater (Chair of the Committee)
- Philip Aiken (until 20 July 2021)
- Michael Lucki
- Barbara Moorhouse

KEY ACTIONS FROM 2021

The Committee's time in 2021 was focused on overseeing the implementation of the Remuneration Policy. Key actions included:

- Ensured the Remuneration Policy was implemented in alignment with business strategy and culture
- Reviewed wider workforce demographics and remuneration to ensure alignment with culture and as broader context for remuneration policy
- Reviewed and monitored remuneration practice across the Group's operations
- Monitored remuneration market practices including linkages to sustainability and Economic, Social & Governance (ESG) measures.

PRIORITIES FOR 2022

- Conduct a full review of Remuneration Policy to ensure it remains effective and aligned to the Group's strategic objectives. This will include ongoing shareholder consultation in advance of the 2023 AGM policy vote
- As part of the review, the Committee will consider ongoing developments in external corporate governance and best practice including the effective use of ESG measures within incentive arrangements
- Ensure the implementation of the Remuneration Policy maintains alignment with culture and business strategy
- Continue to monitor remuneration practice across the Group's operations

ALLOCATION OF TIME

- Remuneration policy
- Remuneration of Directors and Executive Committee members
- Governance and other matters

pre-pandemic performance levels backed by a strong order book providing clear short and medium term visibility

- Representative of the strong performance and leadership of the Company shown by Leo Quinn and Philip Harrison, the element of the bonus related to their strategic business and personal objectives was met in full
- Leo Quinn has continued to show industry leadership through his active participation on the UK Prime Minister's Build Back Better Business Council representing both Balfour Beatty and the construction sector. He has continued to oversee the return of employees back to a safe working environment and an increase in employee engagement scores
- Philip Harrison reached an agreement in October 2021 for the conversion of the £375m revolving credit facility to a sustainability linked loan that supports the Group's sustainability strategy. In addition, the final phase of the Oracle R12 business unit system upgrade was completed with power utility services going live.

The formulaic assessment of the Annual Incentive Plan indicated a maximum pay-out based on the performance described above. In line with good practice, this outcome was reviewed, specifically in the context of alignment with shareholder interests. The broader review took into account strong performance in 2021. The Committee also considered the financial resolution resulting from the US Department of Justice's investigation into Balfour Beatty Communities (see page 5) and two tragic fatalities during the year (see page 5). Reflecting on these matters, and in discussion with the executive Directors, it was agreed to reduce the bonus outcomes by 15%. The Committee has therefore exercised discretion to reduce the 2021 Annual Incentive Plan outcome for the executive Directors to 85% of maximum. In line with the Policy, 50% of this amount will be deferred into shares for three years.

The performance conditions relating to the 2019 PSP awards measured performance over the three years ended 31 December 2021. TSR performance over the period fell below median. However, the maximum operating cash flow target was met and the EPS targets were partially achieved and as a result, 60.3% of these awards will vest. In assessing the appropriateness of this outcome, the Committee considered the performance of management in steering the Company's recovery to pre-pandemic financial performance including a continued strong cash position, reinstatement of the dividend and delivery of the initial share buyback programme.

On 1 July 2021, in line with the normal salary review date, the Committee awarded a 3% increase to the Chief Financial Officer and 1.5% to the Group Chief Executive. The Group Chief Executive declined the increase to his base salary which remains unchanged since his appointment in 2015. The next base salary review date is 1 July 2022.

Charles Allen was appointed to the Board on 13 May 2021 as a non-executive Director with a fee of £64,000 per annum. From taking over as Chairman on 20 July 2021, his fee was set at £290,000 per annum.

Remuneration for 2022

For 2022, executive Directors will continue to receive a contractual pension cash allowance equivalent to 20% of base salary. As confirmed in the Remuneration Policy, the pension provision for incumbent executive Directors will align to the level of the wider workforce, currently 7% of base salary, with effect from the end of December 2022, in line with shareholder guidance.

No changes are proposed to the structure of the performance measures to be used in the Annual Incentive Plan for 2022. It will continue to be based primarily on challenging profit (40%), cash (35%) and strategic/personal objectives (25%). For 2022, the Committee is reviewing the most effective way to incorporate objectives with a clear and transparent link to the Company's sustainability strategy. The executive Directors will be able to earn a maximum bonus of 150% of base salary. Details of the performance targets will be disclosed on a retrospective basis.

As in previous years, the long-term incentive awards will be based on a mix of adjusted earnings per share (one-third), cash (one-third) and relative total shareholder return (one-third) targets. The Committee is satisfied that the balance of measures remain appropriate and support the long-term business strategy. The awards will be subject to stretching performance targets which reflect the current environment. The Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary.

Wider workforce remuneration

In addition to the executive Directors, the Committee reviewed both the level and structure of remuneration for the members of the Executive Committee, with a focus on alignment with strategy and culture. The Committee receives regular updates on pay and benefits for the wider workforce and takes these into account when reviewing executive and senior management remuneration.

Wider workforce remuneration
continued

Results of employee engagement surveys are also reviewed to monitor how the Company's policies and practices support culture and strategy. The UK Gender Pay Gap Report was discussed, including the steps Balfour Beatty is taking to narrow its gender pay gap through the Diversity and Inclusion action plans in the UK and US.

The Group Chief Executive to average employee pay ratio increased for 2021 in comparison to 2020 reflecting the increase in the single figure of remuneration for the Group Chief Executive, partly as a result of the voluntary reduction in salary agreed in 2020 in response to the impact of the COVID-19 pandemic.

Remuneration Policy review

The current Remuneration Policy was approved by shareholders at the 2020 AGM. In advance of the 2023 AGM policy vote, the Committee will be conducting a full review to ensure that the policy remains effective and aligned to the Group's strategic objectives. As part of the review, the Committee will consider continuing developments in corporate governance and best practice. The Committee will also be reviewing the appropriateness and operation of the performance measures for the AIP and PSP.

Shareholder consultation is an ongoing process and the Committee recognises the improved 97% 'vote for' the Annual Report on Remuneration (from 83% in 2020). Past consultation informed the Remuneration Policy put to shareholders for approval at the 2020 AGM and we intend to consult shareholders during 2022 as part of our review prior to putting forward the Remuneration Policy for approval at the 2023 AGM. Feedback from shareholders around the 2021 AGM helped inform the Committee's decision making during the year.

Conclusion

We believe that implementation of the Remuneration Policy will continue to deliver a robust link between strategy, reward and performance, supporting Balfour Beatty's drive to deliver profitable managed growth and sustainable cash generation. The Company's remuneration policies have been, and will continue to be, implemented rigorously, aligned with the Group's strategic goals and culture. We hope you will support the Remuneration report at the 2022 AGM.

Anne Drinkwater
Chair of the Remuneration Committee
10 March 2022

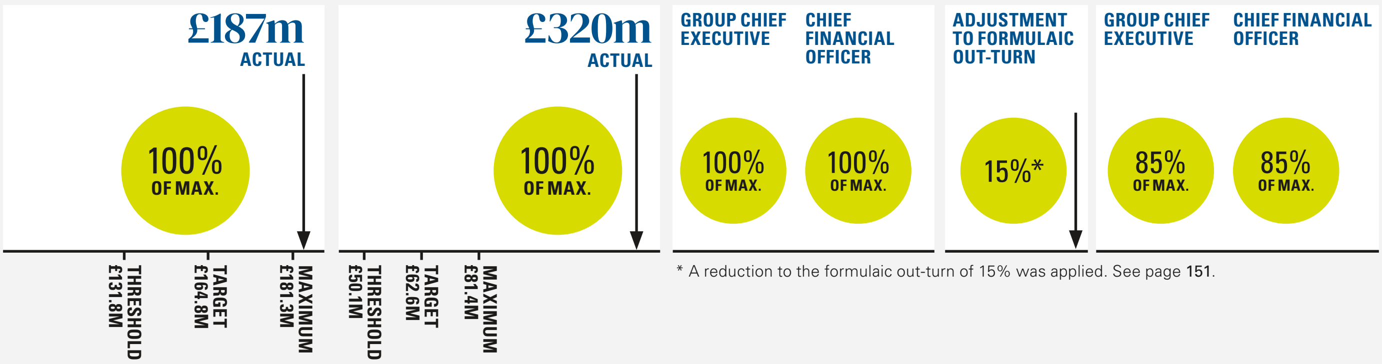
Remuneration at a glance

Ahead of the Annual Report on Remuneration, we have summarised below the key remuneration outcomes for 2021, the key elements of the Company's remuneration policy approved at the AGM held on 25 June 2020 and how we intend to implement it in 2022 in line with the changes set out in the Remuneration Committee Chair's annual statement on pages 150 to 152.

Our full Remuneration Policy can be found on the Balfour Beatty website at: www.balfourbeatty.com.

AIP metrics and outcomes

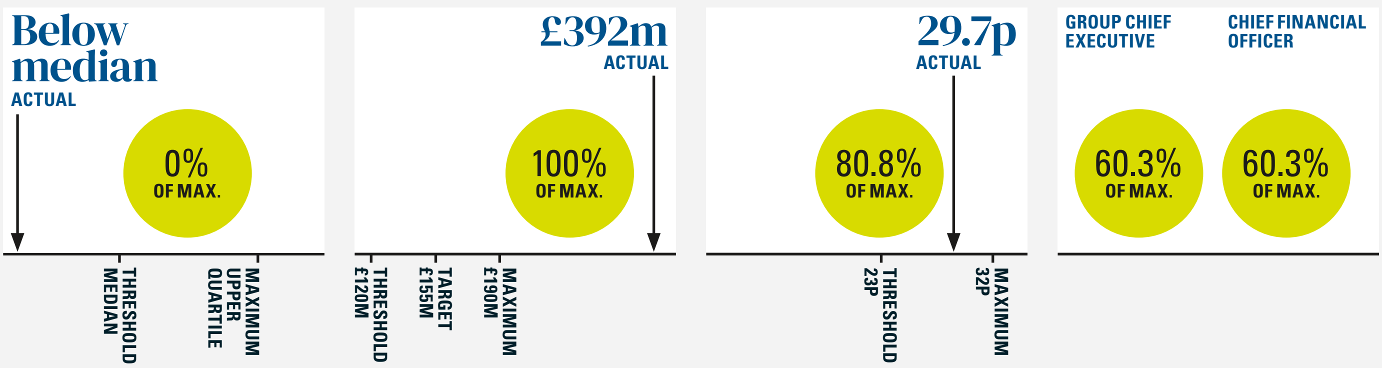
PROFIT BEFORE TAX AND NON-UNDERLYING ITEMS | **GROUP TOTAL CASH FLOW[1]** | **STRATEGIC BUSINESS AND PERSONAL OBJECTIVES** | **AIP OUT-TURN**



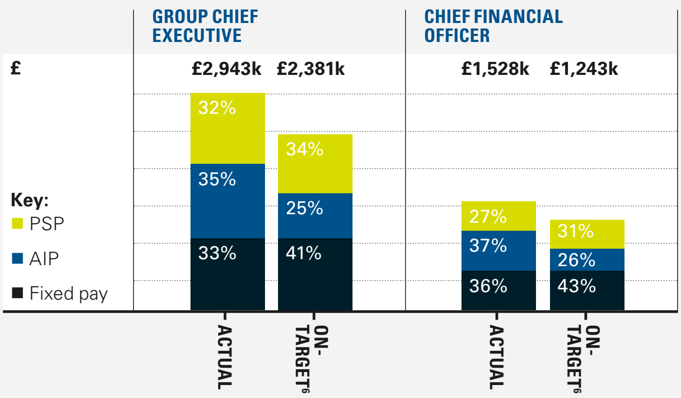
* A reduction to the formulaic out-turn of 15% was applied. See page 151.

PSP metrics and outcomes

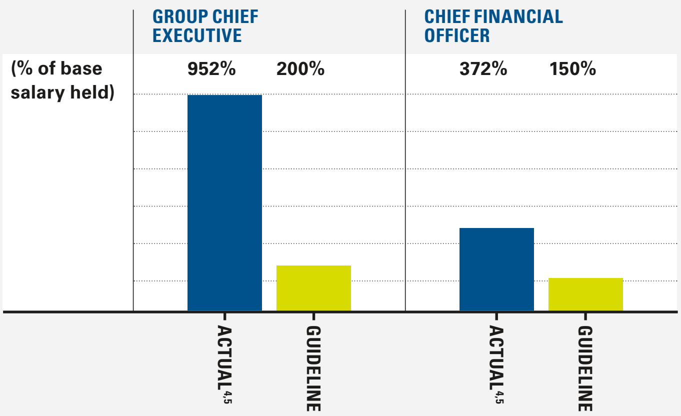
TOTAL SHAREHOLDER RETURN | **OPERATING CASH FLOW (OCF) TARGETS[2]** | **EARNINGS PER SHARE[3]** | **PSP OUT-TURN**



EXECUTIVE DIRECTOR REMUNERATION SCENARIOS



EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES



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

1 Group total cash flow of £209m is the movement between opening and closing total net cash/debt adjusted for £151m share buyback and reduced by the £40m benefit from UK VAT domestic reverse charge.
2 Operating cash flow of £392m is defined in the Measuring our financial performance section.
3 Underlying basic earnings per share from continuing operations.
4 Calculations shown include shares beneficially owned at 31 December 2021 plus unvested shares, which are not subject to a further performance condition, on a net of tax basis.
5 Actual holdings are shown on IA basis.
6 Group Chief Executive's and Chief Financial Officer's remuneration scenarios are calculated on base salaries at 1 January 2021 of £800k and £435k respectively.

Summary of policy and implementation in 2022

	Remuneration policy	Our approach for 2022
BASE SALARY	To provide a competitive salary relative to comparable companies in terms of size and complexity.	As disclosed in the 2020 Remuneration report, the Committee awarded a 2.5% increase to the Group Chief Executive (in line with the wider workforce) and a 5.8% increase to the Chief Financial Officer (recognising his increasing role over the last five years). Whilst these increases would usually have been effective from 1 July 2020, the executive Directors and the Committee delayed the effective date of implementation to 1 January 2021. The Group Chief Executive declined the increase to his base salary. On 1 July 2021, in line with the normal salary review date, the Committee awarded a 3% increase to the Chief Financial Officer and a 1.5% increase to the Group Chief Executive. The Group Chief Executive declined the increase to his base salary which remains unchanged since appointment. The next base salary review date is 1 July 2022.

	Date of appointment	Salary on appointment £	1 January 2021 £	1 July 2021 £	% increase
Leo Quinn	Jan 2015	800,000	800,000	800,000	0%
Philip Harrison	Jun 2015	400,000	435,000	448,000	3%

	Remuneration policy	Our approach for 2022
PENSION AND BENEFITS	Executive Directors can elect for Balfour Beatty to contribute to a defined contribution pension or receive a cash equivalent. Benefits are provided that are appropriate to the role and which take into account typical practice.	The executive Directors receive a pension cash allowance equivalent to 20% of base salary. As disclosed in the 2019 Remuneration report, the pension provision for incumbent executive Directors will align to the level of the wider workforce, currently 7% of base salary, from the end of December 2022.
ANNUAL INCENTIVE PLAN (AIP)	Bonuses are subject to the achievement of stretching key performance measures without encouraging excessive risk. Performance measures are aligned to the Company's strategy and reflect the changing needs of the business. A minimum of 70% is based on financial measures. A proportion of any bonus earned is deferred into shares to facilitate share ownership, aid retention and provide further alignment with shareholders.	For 2022, the AIP for the executive Directors will be a maximum bonus of 150% of base salary, based on the achievement of three performance measures: › profit before tax (40%); › cash (35%); and › strategic business and personal objectives (25%). The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in Balfour Beatty shares. While the Committee has chosen not to disclose in advance the performance targets for 2022 as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in the Remuneration report for 2022.
LONG-TERM INCENTIVE	Incentivise and reward delivery of long-term performance linked to the Company's strategy and further facilitate share ownership and alignment with shareholders. Vesting, subject to performance, on the third anniversary of the grant followed by a two-year holding period, with a minimum of 30% based on relative total shareholder return and the balance based on other financial targets.	For 2022, the Group Chief Executive will be granted a Performance Share Plan (PSP) award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary. The PSP awards to be granted in 2022 will be based on the achievement of three performance measures: › relative TSR (33.3%) – the Company's TSR measured against a comparator group. There is no vesting for ranking below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher; › EPS (33.3%) – the Group's EPS over the three-year performance period (underlying basic earnings per share from continuing operations); and › cash (33.3%) – cash remains critical as a long-term performance measure. The performance measures are aligned to long-term business strategy and appropriately stretching reflecting the current environment.

	Remuneration policy	Our approach for 2022
SHAREHOLDING GUIDELINES	Shareholding guidelines apply to executive Directors to align their long-term interests with those of shareholders. The Group Chief Executive and Chief Financial Officer must accumulate a shareholding to the value of 200% and 150% of base salary respectively (200% of base salary for all new executive Directors). New executive Directors will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure, for two years post cessation of employment.	200% of base salary for the Group Chief Executive and 150% of base salary for the Chief Financial Officer. The post vesting holding condition applying to PSP awards requires the vested shares (net of tax) to be held until the fifth anniversary of grant and will continue to apply post cessation of employment.
NON-EXECUTIVE DIRECTORS	Fees are set at a level to attract and retain high quality and experienced non-executive Directors.	The Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. As disclosed in the 2020 Remuneration report, non-executive Directors' fees were increased at the annual review on 1 July 2020 in line with the general workforce. Whilst these increases would usually have been effective from 1 July 2020, the Group Chair and non-executive Directors delayed the effective date to 1 January 2021. At the annual review on 1 July 2021, non-executive Directors' fees were increased in line with the wider workforce. Charles Allen was appointed to the Board on 13 May 2021 as a non-executive Director with a fee of £64,000. From taking over as Group Chair on 20 July 2021, his fee was set at £290,000. The current fees are set out below. The next review date is 1 July 2022.

	1 July 2019 £	1 January 2021 £	1 July 2021 £	% increase
Group Chair[1]	277,000	284,000	290,000	2.1%
Base fee	62,500	64,000	65,000	1.6%
Senior Independent Director fee	10,000	10,000	10,000	0%
Committee Chair fee	15,000	15,000	15,000	0%

1 Group Chair fee shown at 1 July 2021 is for Charles Allen who was appointed Group Chair on 20 July 2021.

Alignment with provision 40 of the Corporate Governance Code

Code requirements	Our approach
SIMPLICITY & CLARITY Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The remuneration framework is made up of three key elements: fixed pay (including base salary, pension and benefits), annual bonus (AIP) and a separate long-term incentive (PSP). The framework is simple to understand for both participants and shareholders and the incentive elements are aligned to the strategic priorities for the business.
RISK Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Identified risks have been mitigated as follows: › Variable remuneration targets are set at levels which reward high performance but which do not encourage inappropriate business risk. › Deferral of part of any bonus earned under the AIP into shares and the holding period applied to any PSP award ensure variable remuneration is linked to sustainable performance and discourages short-term behaviours. › All AIP and PSP awards to executive Directors include provisions for malus and clawback. › The Committee has the discretion to vary formulaic outcomes for incentive vesting should outcomes not reflect the underlying performance of the Company.
PREDICTABILITY The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Our remuneration policy in the 2019 Directors' remuneration report set out the potential remuneration in future periods under several performance scenarios for the Group Chief Executive and the Chief Financial Officer in respect of awards to be made in 2020. The Committee is comfortable that the discretions available to it are sufficient.
PROPORTIONALITY The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	A significant proportion of an executive Director's reward is linked to performance through the incentive framework, with a clear line of sight between performance and the delivery of long-term shareholder value. Performance measures and the underlying targets are reviewed regularly by the Committee to ensure that they are directly aligned to the Group's strategic priorities, and targets are calibrated to reward for strong performance over the performance period. Executive Directors are required to build material shareholdings in the Company and are subject to a post cessation shareholding requirements on PSP awards which will ensure that their interests are aligned to the Group's long-term performance.
ALIGNMENT TO CULTURE Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The Committee is focused on ensuring a healthy culture exists across the entire business; a refreshed Cultural Framework was launched in 2020 and the Committee believes that the executive Directors are rewarded on both what they deliver and how that is delivered.

Annual report on remuneration

This part of the Remuneration report sets out how the Remuneration Policy was implemented over the year ended 31 December 2021. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The following sections have been audited by KPMG: Remuneration received by Directors for the year ended 31 December 2021 including related notes (page 157); Outstanding share awards (page 161), PSP awards granted during the year (page 162); Payments to past Directors and payments for loss of office (page 162); and Statement of Directors' shareholdings and share interests (page 162).

Remuneration received by Directors for the year ended 31 December 2021

The table below sets out the Directors' remuneration for the year ended 31 December 2021 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2020.

		Fixed pay				Variable pay					
	Year	Base salary and fees[1,2] £	Taxable benefits[3,4] £	Pension cash allowance £	Sub total £	Annual incentive cash[5] £	Annual incentive deferred shares[5] £	Long-term incentives[6,7] £	Sub total £	Other £	Total[7] £
Executive Directors											
Philip Harrison	**2021**	**441,500**	**14,585**	**88,300**	**544,385**	**285,600**	**285,600**	**412,026**	**983,226**	**–**	**1,527,611**
	2020	397,300	14,533	80,560	492,393	181,868	181,868	260,198	623,934	–	1,116,327
Leo Quinn	**2021**	**800,000**	**21,169**	**160,000**	**981,169**	**510,000**	**510,000**	**941,774**	**1,961,774**	**–**	**2,942,943**
	2020	773,333	21,066	154,667	949,066	355,500	355,500	594,740	1,305,740	–	2,254,806
Non-executive Directors											
Charles Allen[9,11]	**2021**	**142,454**	**135**	**–**	**142,589**	**–**	**–**	**–**	**–**	**–**	**142,589**
	2020	–	–	–	–	–	–	–	–	–	–
Philip Aiken[10]	**2021**	**165,667**	**–**	**–**	**165,667**	**–**	**–**	**–**	**–**	**–**	**165,667**
	2020	267,767	–	–	267,767	–	–	–	–	–	267,767
Stephen Billingham	**2021**	**79,500**	**134**	**–**	**79,634**	**–**	**–**	**–**	**–**	**–**	**79,634**
	2020	74,917	232	–	75,149	–	–	–	–	–	75,149
Stuart Doughty	**2021**	**79,500**	**1,570**	**–**	**81,070**	**–**	**–**	**–**	**–**	**–**	**81,070**
	2020	74,917	886	–	75,803	–	–	–	–	–	75,803
Anne Drinkwater[8]	**2021**	**79,000**	**668**	**–**	**79,668**	**–**	**–**	**–**	**–**	**–**	**79,668**
	2020	75,417	5,000	–	80,417	–	–	–	–	–	80,417
Michael Lucki	**2021**	**64,500**	**–**	**–**	**64,500**	**–**	**–**	**–**	**–**	**–**	**64,500**
	2020	60,417	10,246	–	70,663	–	–	–	–	–	70,663
Barbara Moorhouse	**2021**	**64,500**	**1,113**	**–**	**65,613**	**–**	**–**	**–**	**–**	**–**	**65,613**
	2020	60,417	1,173	–	61,590	–	–	–	–	–	61,590

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors. In response to the COVID pandemic, the Executive Directors and non-executive Directors took a voluntary 20% reduction in salary/base fees in April and May 2020.

2 In practice, the base salary paid to Leo Quinn was reduced due to his participation in the Company's Share Incentive Plan. The salary reduction in 2020 and 2021 was £1,800 and £300 respectively.

3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for himself and his spouse and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for himself only and received a car allowance of £14,000 per annum.

4 The non-executive Directors received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column. Anne Drinkwater and Michael Lucki were eligible for an allowance for travel in November 2021 which will be paid in 2022. The taxable benefits in 2020 for Michael Lucki include two payments of £2,500 each relating to allowances for travel in December 2018 and May 2019 respectively.

5 AIP 2021: further details of these awards are set out on pages 158 to 160. For 2020, details of the AIP awards were set out in the 2020 Remuneration report.

6 For 2021, this relates to the 2019 PSP award for which the performance period ended in 2021, with the valuation of vesting shares calculated on a three-month average share price to 31 December 2021 of 253.6p. This compares to the 259.8p average middle market price for the three dealing dates before the PSP award date which was used for calculating the number of shares granted, so there is no benefit relating to share price appreciation since award. Further details of the 2019 PSP awards are set out on pages 160 to 161. For 2020, this relates to the 2018 PSP award for which the performance period ended in 2020, details of which were set out in the 2020 Remuneration report. For 2020, the valuation of the vesting shares for the 2018 PSP has been adjusted from the valuation included in the 2020 Remuneration report to reflect the actual valuation on the 29 March 2021 vesting date, based on a share price of 301.2p. Under the rules of the PSP, participants may receive an award of shares in lieu of the value of dividends paid over the vesting period on vested shares. For the 2018 PSP award this was 7,306 shares for Leo Quinn and 3,195 shares for Philip Harrison with a valuation of £22,006 and £9,623 respectively calculated on the closing share price on the 29 March 2021 vesting date. The value of vesting shares for 2018 PSP when compared to the value of the same number of shares at grant date shows a value appreciation of £61,276 for Leo Quinn and £26,809 for Philip Harrison.

7 Total figures and long-term incentives figures for 2020 have been adjusted from the figures included in the 2020 Remuneration report to reflect the actual valuation on the 29 March 2021 vesting date of shares vesting under the 2018 PSP.

8 The 20% temporary reduction in April and May 2020 was applied to the base fee only for Anne Drinkwater but not the Committee Chair fee. This was corrected through a deduction made in March 2021.

9 Charles Allen was appointed to the Board on 13 May 2021 and took over as Group Chair on 20 July 2021.

10 Phillip Aiken stepped down as Group Chair on 20 July 2021 and remained as a non-executive Director until 31 July 2021.

11 In addition, Charles Allen is eligible for a contribution to his reasonable business expenses.

AIP awards for the year ended 31 December 2021

For 2021, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

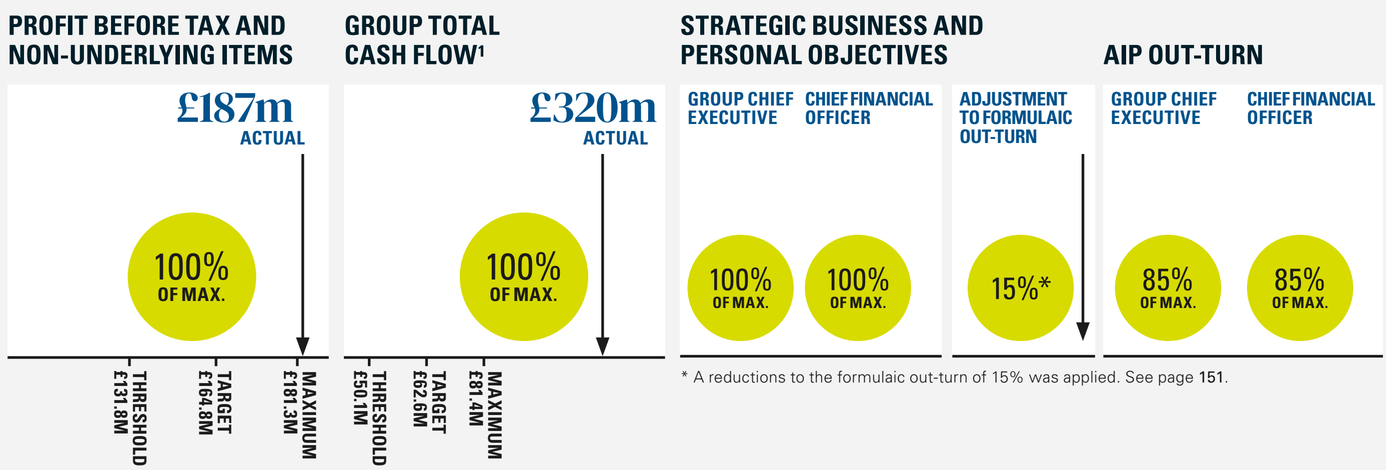
- profit before tax (40%);
- cash (35%); and
- strategic business and personal objectives (25%).

The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares. For the profit before tax element, 20% of the award would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above. For the Group total cash flow element, 20% of that element would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above.

AIP metrics and outcomes

The formulaic assessment of the Annual Incentive Plan indicated a maximum pay-out based on the performance described above. In line with good practice, this outcome was reviewed, specifically in the context of alignment with shareholder interests. The broader review took into account strong performance in 2021. The Committee also considered the financial resolution resulting from the US Department of Justice's investigation into Balfour Beatty Communities (see page 5) and two tragic fatalities during the year (see page 5). Reflecting on these matters, and in discussion with the executive Directors, it was agreed to reduce the bonus outcomes by 15%. The Committee has therefore exercised discretion to reduce the 2021 Annual Incentive Plan outcome for the executive Directors to 85% of maximum. In line with the Policy, 50% of this amount will be deferred into shares for three years.

Performance against the 2021 AIP strategic business and personal objectives as it relates to the executive Directors was:



* A reductions to the formulaic out-turn of 15% was applied. See page 151.

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

1 Group total cash flow of £209m is the movement between opening and closing total net cash/debt adjusted for £151m share buyback and reduced by the £40m benefit from UK VAT domestic reverse charge.

		Group Chief Executive	
Summary of key strategic objectives, including:	Examples of achievement	Weight %	Out-turn %
Lean: Deliver Phase 2 of Build to Last for 2021, including: › Hold overhead cost flat across the Group at 2019 level › Buy back £150m of shares supported by the delivery of net cash in excess of £650m at year end.	Achieved in full, including: › Overheads lower in 2021 than 2019 › Delivered share buyback programme	45	45
Expert: › Continue to improve employee engagement over 2019 actual score and not less than the 2020 score › Work with government and actively participate on the UK Prime Minister's Build Back Better Business Council › Position the business positively to be successful on key work winning programmes.	Very strong performance, achieved in full: › The Group employee engagement score increased to 76% in 2021 (from 66% in 2019 and 75% in 2020) › Group Chief Executive actively participated in various Build Back Better Business Council meetings representing Balfour Beatty and the construction sector › Active involvement with key clients to promote the Group and position it successfully in key infrastructure markets including nuclear and transportation.	45	45

AIP metrics and outcomes continued

Summary of key strategic objectives, including:	Examples of achievement	Group Chief Executive Weight %	Group Chief Executive Out-turn %
Trusted: › Successfully manage the employee population back to a safe working environment › Publish an acceptable smart working policy.	Successfully delivered in full: › Provided strong leadership with a comprehensive communications programme to support the return to the workplace in a safe and effective way maintaining an emphasis on health and a balance around productivity and flexibility for employees › Smart working guidelines were successfully launched in May 2021 and a full roll-out programme was implemented.	5	5
Safe & Sustainable: Continue to demonstrate safety leadership across the organisation › Group safety statistics to be within +/- 10% of 2019 performance › Publish & launch sustainability strategy for the organisation with targets for 2030 and 2040.	Provided strong safety leadership across the Group including robust weekly reviews of key incidents across the business; exceeded the target number of safety tours. The 2021 safety statistics show general improvement, including: › AFR 3: 0.09 (improved versus 0.10 in 2019) › AFR 7: 0.07 (equal to 2019) › Observations: 296,737 (improved versus 212,181 in 2019) › LTIR: 0.14 (equal to 2019) › Successfully launched new Group sustainability strategy, Building New Futures, including comprehensive targets.	5	5
Total		**100**	**100**

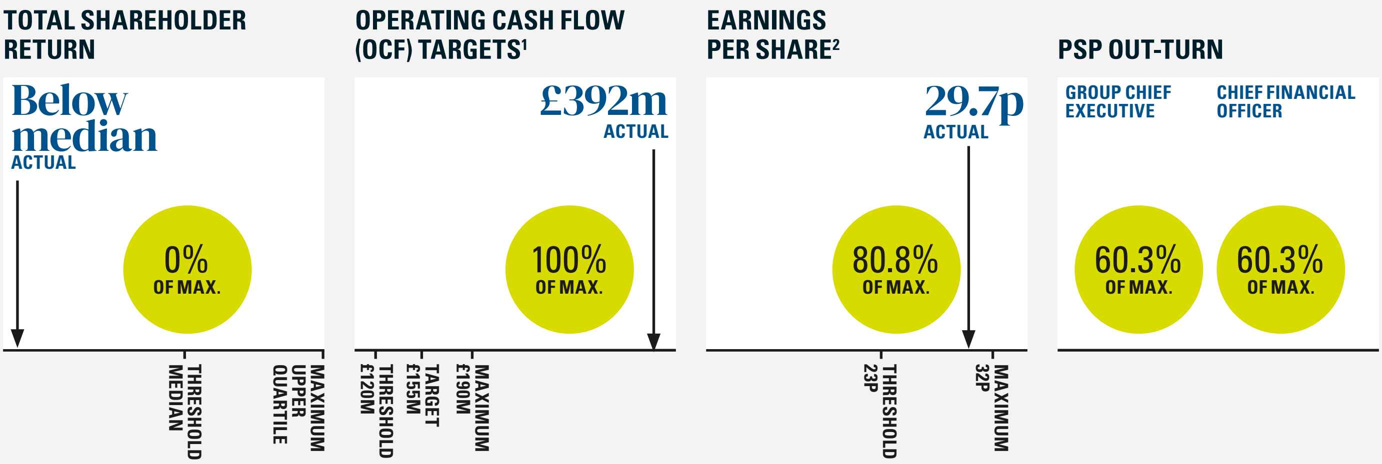
Summary of key strategic objectives, including:	Examples of achievement	Chief Financial Officer Weight %	Chief Financial Officer Out-turn %
Lean: › Upgrade power utility services onto latest financial system by Q4 2021 › Hold overhead cost flat across the Group at 2019 level.	Achieved in full: › Final phase of Oracle R12 business unit upgrade completed with Go Live for power utility services in October 2021 › Overhead reduced by £35m in 2021 versus 2019 level.	40	40
Expert: › Improve cash liquidity management, extend and replace revolving credit facility with a new ESG loan facility that supports the Group's sustainability strategy › Deliver £100m higher average net cash in 2021 versus 2020 (min £527m range to £625m max) › Year-on-year improvement in UK Prompt Payment Code performance on invoices paid within 60 days.	Achieved in full: › Agreement reached in October 2021 for conversion of £375m revolving credit facility to largest sustainability linked loan in UK construction to date, extending maturity to October 2024 › Delivery of average net cash of £671m for 2021, an increase of £144m over 2020 › Percentage of invoices paid within 60 days increased to 93% (H2 2021) from 91% (H2 2020).	40	40
Trusted: › Upgrade Group consolidation toolset › Implement UK VAT domestic reverse charge legislation.	› Toolset completed in August 2021 › UK VAT changes completed in March 2021.	17	17
Safe: › Continue to support and role model improvement in safety culture and performance. › Group safety statistics to be within +/- 10% of 2019 performance.	Demonstrated personal leadership and commitment. The 2021 safety statistics show general improvement: › AFR 3: 0.09 (improved versus 0.10 in 2019) › AFR 7: 0.07 (equal to 2019) › Observations: 296,737 (improved versus 212,181 in 2019) › LTIR: 0.14 (equal to 2019).	3	3
Total		**100**	**100**

Vesting of PSP awards for the year under review

The PSP awards granted on 28 March 2019 were based on a performance period for the three years ended 31 December 2021. The performance conditions applying to one-third of each award were comparative total shareholder return measured versus the companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), operating cash flow and earnings per share. 25% of each of the total shareholder return and earnings per share parts of the award would vest for threshold performance increasing to 100% of each part of the award vesting for maximum performance or above. For the operating cash flow part, 25% of that part would vest for threshold performance, increasing to 50% vesting of that part at target performance and then to 100% of that part at maximum performance or above.

In assessing the appropriateness of the formulaic outcomes of the performance targets, the Remuneration Committee considered the underlying performance of the Group over the three-year period and, on balance, the Committee considered the vesting outcome appropriately reflected the Group's underlying performance.

Details of the PSP awards vesting for the year under review are therefore as follows:



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

1 Operating cash flow of £392m is defined in the Measuring our financial performance section.

2 Underlying basic earnings per share from continuing operations.

PSP metrics and outcomes

Metric	Performance condition	Measure	Threshold	Target	Maximum	Actual	Vesting %
Total shareholder return	TSR against the 114 remaining companies ranked 51–200 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	57.5 or above	–	29.3 or above	82 (below median)	0%
Cash		Operating cash flow (OCF)	£120m	£155m	£190m	£392m	100%
Earnings per share		Underlying basic earnings per share from continuing operations	23p	–	32p	29.7p	80.8%
	Total vesting						60.3%

Name of Director	Type of award	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares[1]
Philip Harrison	2019 conditional	29 March 2022	269,438	162,471	106,967	£412,026
Leo Quinn	2019 conditional	29 March 2022	615,858	371,362	244,496	£941,774

1 Valuation of vesting shares calculated on a three-month average share price to 31 December 2021 of 253.6p. This compares to the 259.8p average middle market price for the three dealing dates before the PSP award date which was used for calculating the number of shares granted, so there is no benefit relating to share price appreciation since award.

Outstanding share awards

				Maximum number of shares subject to award				
Name of Director	Share award	Date granted	At 1 January 2021	**Awarded during the year**	**Vested during the year**	**Lapsed during the year**	**At 31 December 2021**	Exercisable and/or vesting from
Philip Harrison								
	PSP[1,5,6]	27 March 2018	259,163	**–**	**86,387**	**172,776**	**–**	27 March 2021
	PSP[2,5,6]	28 March 2019	269,438	**–**	**–**	**–**	**269,438**	28 March 2022
	PSP[3,5,6]	11 June 2020	274,104	**–**	**–**	**–**	**274,104**	11 June 2023
	PSP[4,5,6,7]	19 March 2021	–	**257,005**	**–**	**–**	**257,005**	19 March 2024
	DBP[8,10,11]	3 April 2018	110,736	**–**	**110,736**	**–**	**–**	3 April 2021
	DBP[8,9,11,13]	1 April 2019	81,555	**1,396**	**–**	**–**	**82,951**	1 April 2022
	DBP[8,9,11,13]	31 March 2020	136,768	**2,341**	**–**	**–**	**139,109**	31 March 2023
	DBP[8,9,11,12,13]	31 March 2021	–	**61,495**	**–**	**–**	**61,495**	31 March 2024
Leo Quinn								
	PSP[1,5,6]	27 March 2018	592,373	**–**	**197,457**	**394,916**	**–**	27 March 2021
	PSP[2,5,6]	28 March 2019	615,858	**–**	**–**	**–**	**615,858**	28 March 2022
	PSP[3,5,6]	11 June 2020	609,756	**–**	**–**	**–**	**609,756**	11 June 2023
	PSP[4,5,6,7]	19 March 2021	–	**540,175**	**–**	**–**	**540,175**	19 March 2024
	DBP[8,10,11]	3 April 2018	223,779	**–**	**223,779**	**–**	**–**	3 April 2021
	DBP[8,9,11,13]	1 April 2019	163,112	**2,792**	**–**	**–**	**165,904**	1 April 2022
	DBP[8,9,11,13]	31 March 2020	266,214	**4,558**	**–**	**–**	**270,772**	31 March 2023
	DBP[8,9,11,12,13]	31 March 2021	–	**120,208**	**–**	**–**	**120,208**	31 March 2024

1 2018 PSP award: This award vested in part on 29 March 2021. Details of the Company's performance against the performance conditions were set out in the 2020 Remuneration report. Philip Harrison and Leo Quinn also received 3,195 and 7,306 shares respectively in lieu of the dividends which would have been payable on the shares which vested. The closing middle market price of ordinary shares on the vesting date was 301.2p.
2 2019 PSP award: Further details of this award are set out on pages 160 to 161.
3 2020 PSP award: This award is subject to three performance targets over a three-year performance period commencing 1 January 2020. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. No portion of the cash part (33.3%) will vest unless the 2022 year end operating cash flow (OCF) is greater than £135 million. 25% to 50% will vest for OCF between £135 million and £169 million, rising to full vesting for OCF of £203 million or more. For the EPS part (33.3%), no vesting unless 2022 EPS is 22p, 25% vesting of this part at 22p, rising to full vesting at 33p or more.
4 2021 PSP award: Details are set out on page 162.
5 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 270.167p for the 2018 award, 259.8p for the 2019 award, 202.3p for the award granted on 23 March 2020, 262.4p for the award granted on 11 June 2020 and 296.2p for the 2021 award. The closing middle market price of ordinary shares on the date of the awards was 273.0p, 257.1p, 197.3p, 259.0p and 298.0p respectively.
6 All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
7 A maximum of 3,007,343 conditional shares were awarded for all participants in the PSP in 2021, which are exercisable on 19 March 2024.
8 All DBP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
9 The DBP awards made on 1 April 2019, 31 March 2020 and 31 March 2021 will vest on 1 April 2022, 31 March 2023 and 31 March 2024 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
10 The DBP awards made on 3 April 2018 vested on 6 April 2021. The closing middle market price of ordinary shares in the Company on the vesting date was 303.2p.
11 The shares subject to the DBP awards made on 3 April 2018, 1 April 2019, 31 March 2020 and 31 March 2021 were purchased at average prices of 269.7p, 259.7p, 216.9p and 300.8p respectively.
12 On 31 March 2021, for all participants in the DBP, a maximum of 419,895 conditional shares were awarded which will normally be released on 31 March 2024.
13 On 7 July 2021 and 6 December 2021 a further 9,293 conditional shares and 23,882 conditional shares were granted in lieu of entitlements to the final 2020 and interim 2021 dividend respectively for all participants in the DBP. These shares were allocated at prices of 311.0p and 245.0p respectively.
14 The closing market price of the Company's ordinary shares on 31 December 2021 was 262.0p. During the year, the highest and lowest closing market prices were 322.8p and 233.8p respectively.

PSP awards granted during the year

On 19 March 2021, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Philip Harrison	Conditional	175% of salary of £435,000	296.2p	257,005	£761,250	25%	31 December 2023	19 March 2024
Leo Quinn	Conditional	200% of salary of £800,000	296.2p	540,175	£1,600,000	25%	31 December 2023	19 March 2024

Awards will vest to executives after three years, subject to the achievement of three independently measured performance conditions as set out below:

Metric	Performance condition	Threshold	Target	Maximum
One-third relative TSR	Relative TSR against a comparator group of companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts); straight-line vesting between points	Median (25% vests)	–	Upper quartile (100% vests)
One-third cash	Group's Operating Cash Flow from continuing operations; straight-line vesting between points	£104m (25% vests)	£149m (50% vests)	£167m (100% vests)
One-third EPS	Group's EPS; straight-line vesting between points	18.5p (25% vests)	–	27.7p (100% vests)

For these PSP awards, a post-vesting holding period will apply requiring the shares (net of tax) to be retained for two years.

Payments to past Directors and payments for loss of office

There were no payments to past executive Directors or payments for loss of office were made during 2021.

Statement of Directors' shareholdings and share interests

The interests of the Directors and connected persons (including, amongst others, members of the Director's immediate family) in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below:

Directors	Beneficially owned at 1 January 2021[1,2]	Beneficially owned at 31 December 2021[2,3,4]	Outstanding PSP awards	Outstanding DBP awards
Philip Harrison	379,927	485,948	800,547	283,555
Leo Quinn	2,385,558	2,612,590	1,765,789	556,884
Charles Allen	–	–		
Philip Aiken	15,000	15,000		
Stephen Billingham	44,186	44,248		
Stuart Doughty	4,550	4,550		
Anne Drinkwater	4,500	4,500		
Michael Lucki	–	–		
Barbara Moorhouse	4,000	4,000		

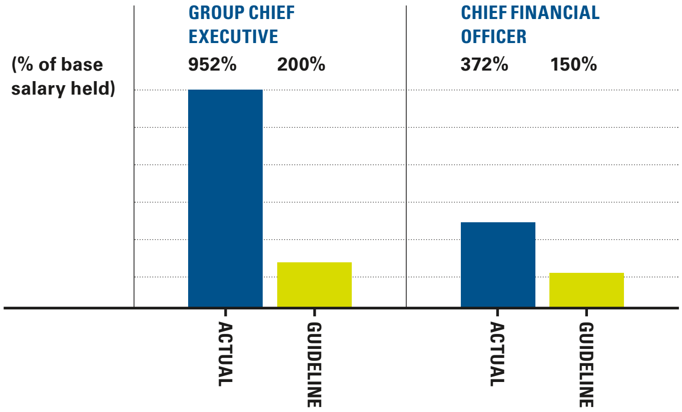
1 Or date of appointment, if later.
2 Includes any shares held in the Company's all-employee Share Incentive Plan.
3 Or date of stepping down from the Board, if earlier.
4 As at 9 March 2022, the latest practicable date prior to the date of this report, there had been no changes to the above.
5 The closing market price of the Company's ordinary shares as at 31 December 2021, 262.0p, was used to calculate the value of shares beneficially owned.

Executive Directors' shareholding guidelines

The Group Chief Executive and Chief Financial Officer are required under the Company's shareholding guidelines to hold shares in the Company worth 200% and 150% of base salary respectively and must retain no fewer than 50% of the shares, net of taxes, vesting under their outstanding DBP and PSP awards until the required shareholding is met.

In line with the Investors Association (IA) guidelines, the calculations shown in the chart include shares beneficially owned at 31 December 2021 plus unvested shares, which are not subject to a further performance condition (outstanding DBP awards), on a net of tax basis. Both executive Directors' share interests met the Company's shareholding guidelines at 31 December 2021.

EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES

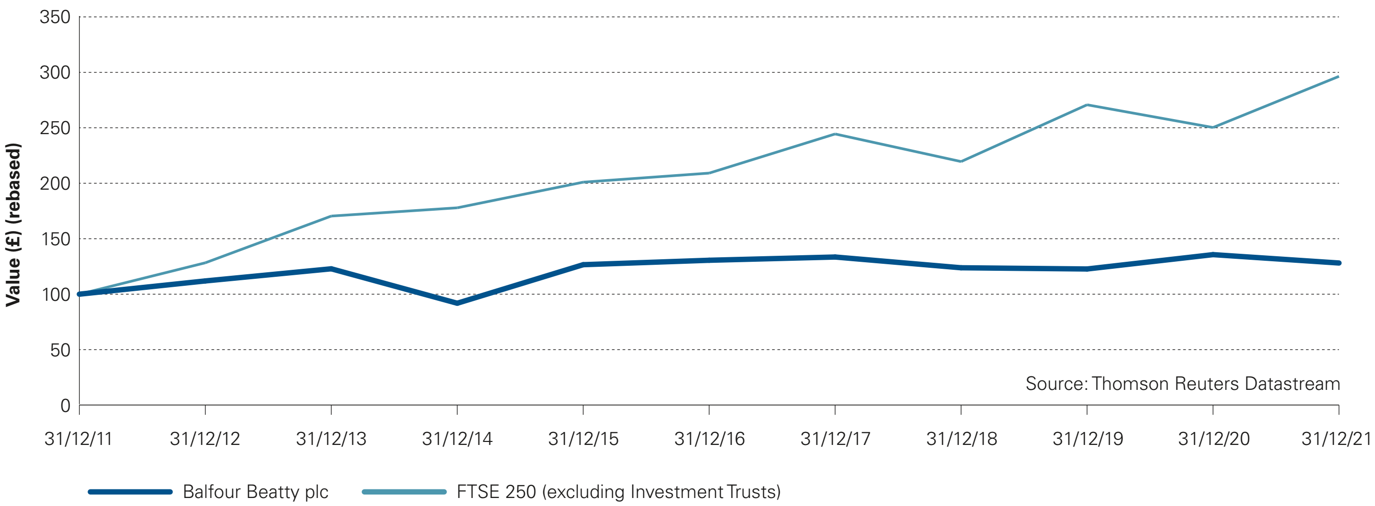


Governance

Performance graph

As in previous reports, the Remuneration Committee has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index and have been calculated using 30-day average values.

Total shareholder return (TSR)



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last 10 financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ended 31 December									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
Total remuneration[1,3,4]	£1,189,287	£961,350	£797,568	£1,442,070	£1,445,250	£4,124,104	£2,982,121	£3,066,624	£2,254,806	**£2,942,943**
AIP (%)[2]	40.2%	21.0%	0%	47.0%	47.5%	97.0%	69.06%	96.25%	59.25%	**85%**
PSP (%)	0%	0%	0%	0%	0%	88.6%	64.17%	60.92%	33.33%	**60.3%**

1 The figures for 2012 relate to Ian Tyler, who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures from 2015 onwards relate to Leo Quinn.

2 Andrew McNaughton did not qualify for any 2014 AIP.

3 Total remuneration for 2020 has been adjusted from the total figure included in the 2020 Remuneration report to reflect the actual valuation on the 29 March 2021 vesting date of shares vesting under the PSP 2018.

4 The figures for 2017 and 2018 exclude the vesting of awards made under the recruitment terms for the Group Chief Executive. Full details of these were included in the 2018 Remuneration report.

Percentage change in Directors' remuneration compared with all UK employees

The table below shows the percentage change in the remuneration of the Directors undertaking the roles of Group Chief Executive, Chief Financial Officer and the non-executive Directors between the financial years, compared with the percentage increase for the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator. Charles Allen was not a Director until 13 May 2021 and is therefore not shown in the table. Philip Aiken stepped down from the Board on 31 July 2021 and his percentage change between 2020 and 2021 is shown in the table on an annualised basis.

	% change between 2020 and 2021				% change between 2019 and 2020			
	Base salary	Benefits	Annual bonus	Total remuneration	Base salary	Benefits	Annual bonus	Total remuneration
Leo Quinn, Group Chief Executive	3%	3%	43%	21%	(3)%	(3)%	(38)%	(22)%
Philip Harrison, Chief Financial Officer	11%	8%	57%	30%	(2)%	1%	(39)%	(22)%
Philip Aiken, Group Chair	0%	0%	–	0%	(3)%	0%	–	(3)%
Stephen Billingham, Senior Independent Director	6%	(42)%	–	6%	(1)%	(29)%	–	(1)%
Stuart Doughty, non-executive Director	6%	77%	–	7%	(1)%	(52)%	–	(2)%
Anne Drinkwater, non-executive Director	5%	(87)%	–	(1)%	6%	(12)%	–	5%
Michael Lucki, non-executive Director	7%	(100)%	–	(9)%	(3)%	(39)%	–	(10)%
Barbara Moorhouse, non-executive Director	7%	(5)%	–	7%	(3)%	34%	–	(2)%
All UK employees	(2)%	5%	122%	0%	0%	3%	(44)%	0%

Note: In response to the COVID-19 pandemic, the executive Directors and non-executive Directors took a voluntary 20% reduction in salary/fees in April and May 2020.

Pay ratio of Group Chief Executive to average employee

The Regulations require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

The table below shows the relevant data for Balfour Beatty's UK employees for 2021, together with the 2020 and 2019 data, calculated using Option A as set out in the legislation.

		25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Year	Method of calculation adopted	(Group Chief Executive: UK employees)	(Group Chief Executive: UK employees)	(Group Chief Executive: UK employees)
2021	Option A	84:1	57:1	40:1
2020	Option A	64:1	45:1	32:1
2019	Option A	92:1	65:1	45:1

Pay ratio of Group Chief Executive to average employee continued

Pay details for the Group Chief Executive and individuals whose 2021 remuneration is at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

	Group Chief Executive	25th percentile	Median	75th percentile
Salary	£800,000	£27,125	£37,278	£52,500
Total pay and benefits	£2,942,943	£35,055	£51,459	£73,186

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to the full-time equivalent annualised remuneration (comprising salary, benefits, pension, annual bonus and long-term incentives) of all UK-based employees of the Group as at 31 December 2021 (i.e. 'Option A' under the Regulations). The Committee selected this calculation methodology as it was felt to produce the most statistically accurate result.

The Committee considers that the median pay ratio for 2021 that is disclosed in the above table is consistent with the pay, reward and progression policies for Balfour Beatty's UK employees taken as a whole. It reflects the fact that a greater proportion of executive Director pay is linked to annual performance through a higher annual incentive plan opportunity (a percentage of which is subject to deferral into shares) and a long-term incentive plan. The increases in the pay ratios for 2021 when compared to 2020 reflect the higher out-turn for both the AIP and PSP in 2021 when compared to 2020.

Relative importance of spend on pay, dividends and underlying pre-tax profit

The following table shows the Company's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit:

	2020	**2021**	% change
Staff costs (£m)[1]	1,181	**1,187**	1%
Dividends (£m)	–	**29**	–
Underlying pre-tax profit (£m)	36	**187**	419%

1 Staff costs include base salary, benefits and bonuses for all Group employees (excluding joint ventures and associates).

Directors' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2021. The executive Directors were in receipt of a cash allowance in lieu of pension equivalent to 20% of base salary as disclosed in the Directors' remuneration table on page 157.

The pension contribution level for executive Directors contrasts to the wider UK workforce who currently typically receive pension contributions of up to 7% of salary.

External appointments of executive Directors

No executive Director held external appointments in 2021.

Service contracts

Executive Directors' contracts are on a rolling 12 month basis and are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the Director.

The current non-executive Directors, including the Chairman, do not have a service contract and their appointments, whilst for a term of three years, may be terminated with three months' notice (six months' notice for the Group Chair) by either party. All non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to annual approval by shareholders.

Name	Commencement date	Unexpired term remaining
Leo Quinn, Group Chief Executive	1 January 2015	Terminable on 12 months' notice
Philip Harrison, Chief Financial Officer	1 June 2015	Terminable on 12 months' notice
Charles Allen, Group Chair	13 May 2021	Fixed term expiring on 12 May 2024 (subject to renewal) and terminable on six months' notice
Stephen Billingham, non-executive Director & Senior Independent Director	1 June 2015	Fixed term expiring on 31 May 2024 (subject to renewal) and terminable on three months' notice
Stuart Doughty, non-executive Director	8 April 2015	Fixed term expiring on 7 April 2024 (subject to renewal) and terminable on three months' notice
Anne Drinkwater, non-executive Director	1 December 2018	Fixed term expiring on 30 November 2024(subject to renewal) and terminable on three months' notice
Michael Lucki, non-executive Director	1 July 2017	Fixed term expiring on 30 June 2023 (subject to renewal) and terminable on three months' notice
Barbara Moorhouse, non-executive Director	1 June 2017	Fixed term expiring on 31 May 2023 (subject to renewal) and terminable on three months' notice

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code. No member of the Committee has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. During the year under review, the members of the Committee were as follows:

- Anne Drinkwater (Committee Chair);
- Philip Aiken (until 20 July 2021);
- Michael Lucki; and
- Barbara Moorhouse.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR Director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed; and
- Deloitte LLP.

At regular intervals the Committee reviews the appropriateness and independence of the advice received from remuneration consultants. As the result of a competitive tender process in 2020, Deloitte LLP was appointed as independent remuneration consultants to the Committee. Deloitte LLP is a member of the Remuneration Consultants Group and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration consulting in the UK.

During the year, the Committee's remuneration consultants provided a range of advice to the Committee, including:

- analysis of market practice and corporate governance update;
- provision of benchmark data for senior management and non-executive director remuneration;
- assistance with the drafting of the remuneration report; and
- calculation of vesting levels under the TSR element of the PSP awards.

During 2021, Deloitte LLP received fees amounting to £62,150 excluding VAT (£11,500 excluding VAT in 2020) in respect of advice given to the Committee (Deloitte also provided tax and legal services to the Group and assurance services to two joint ventures). Other than as disclosed above, Deloitte LLP has no connection with the Company or individual Directors. The Committee is satisfied the advice provided by Deloitte LLP is independent.

Terms of reference

During the period, the Committee has agreed a number of changes to be made to its terms of reference, as part of the annual review. Full terms of reference can be found in the Investors section of the Company's website at: www.balfourbeatty.com/investors/governance/board-committees/.

Statement of shareholder voting at the AGM

At the AGM on 13 May 2021, the resolution to approve the Annual Report on Remuneration received the following votes from shareholders:

	Total number of votes	% of votes cast
For	491,532,925	96.91%
Against	15,686,233	3.09%
Total votes cast	507,219,158	100%
Abstentions	33,978,068	

The resolution to approve the Remuneration policy was approved at the AGM on 25 June 2020 and received the following votes from shareholders:

	Total number of votes	% of votes cast
For	471,417,406	93.57%
Against	32,405,719	6.43%
Total votes cast	503,823,125	100%
Abstentions	30,178,361	

By order of the Board

Anne Drinkwater
Chair of the Remuneration Committee
10 March 2022

Directors' Report

The Directors of Balfour Beatty plc present their report, together with the audited financial statements for the year ended 31 December 2021. For the purpose of the Financial Reporting Council's Disclosure Guidance and Transparency Rule (DTR) 4.1.8R, the Directors' report is also the Management report for the year ended 31 December 2021.

As permitted by Section 414 C(11) of the Companies Act 2006, some matters required to be included in the Directors' report have instead been included in the Strategic report. These disclosures are incorporated by reference in the Directors' report. The Strategic report can be found on pages 1 to 119.

Corporate governance

The Governance section on pages 120 to 169, forms part of this Directors' report.

The Company complied with the UK Corporate Governance Code with the exception of provision 38, which the Company complied with in part. In compliance with provision 38 of the Code, only the basic salary of executive Directors is pensionable. As set out in the Directors' Remuneration Policy, pension contributions (or salary supplement in lieu) for new executive Directors will, in compliance with the Code, be aligned with the majority of the wider UK workforce and, from the end of December 2022, the pension contributions (or salary supplement in lieu) paid to the incumbent executive Directors will be aligned with the wider workforce.

Directors and their interests

The Directors who were Directors at 31 December 2021 were Charles Allen (from 13 May 2021), Leo Quinn, Philip Harrison, Stephen Billingham, Anne Drinkwater, Stuart Doughty, Barbara Moorhouse and Michael Lucki. In addition, Philip Aiken served as a Director until he stepped down from the Board on 31 July 2021. Further details and individual biographies for current Directors are set out on pages 124 and 125.

The interests of the Directors and their connected persons in the Company's shares, (as notifiable to the Company under Article 19 of the Market Abuse Regulation) are set out on page 162. In the period between 31 December 2021 and the date of this report there has been no change in the interests of Directors or their connected persons.

At no time during 2021 did any of the Directors have a material interest in any contract with the Company or any of its subsidiaries.

Directors' indemnities and insurance

The Group maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its directors.

Qualifying third-party indemnity provisions were in force during 2021 and as at the date of this report for the benefit of certain employees who are directors of a subsidiary company.

Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the year ended 31 December 2021 for the benefit of the trustee directors of the Balfour Beatty Pension Fund.

Articles of Association

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

Share capital

Details of the share capital of the Company as at 31 December 2021, including the rights attaching to the shares, are set out in Note 31 on page 226. No ordinary shares were issued during 2021.

The powers of the Directors to issue or buy back the Company's shares are determined by the Companies Act 2006 and the Articles of Association. The Directors are authorised to issue and allot shares and to buy back shares subject to annual shareholder approval at the AGM. Such authorities were granted by shareholders at the 2021 AGM and it will be proposed at the 2022 AGM that the Directors be granted new authorities to issue, allot and buy back shares.

Under the authority provided at the 2020 AGM the Company commenced a share buyback programme on 5 January 2021. Further authority for share buybacks was provided at the 2021 AGM. During the year ended 31 December 20201, the Company purchased 50,334,350 ordinary shares for a total consideration of £149,819,822.35 and these shares are held in treasury with no voting or dividend rights. As at the date of this report, the Company had not purchased any further shares and these shares continue to be held in treasury by the Company.

Throughout the year, the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report. There are no specific restrictions on the size of a shareholding which is governed by the Articles of Association and the prevailing law. Other than in respect of shares that vest under the Company's share schemes and are subject to a two year holding period, there are no specific restrictions on transfer of shares which are both governed by the Articles of Association and the prevailing law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

No person has special rights of control over the Company's share capital and all issued shares are fully paid. Shares held by the Balfour Beatty Employee Share Ownership Trust rank pari passu with the ordinary shares in issue and have no special rights.

Major shareholders' interests

Notifications provided to the Company by major shareholders in accordance with the DTR are published via a Regulatory Information Service and on the Company's website.

The Company has been notified of the following interests in voting rights in its shares as at 31 December 2021 and as at the date of this report. Please note that percentages provided are as at the date of notification.

	Percentage of voting rights (%) as at 31 December 2021	Percentage of voting rights (%) as at 10 March 2022
Greater Manchester Pension Fund	3.99	3.99
Janus Henderson Group plc	5.00	5.00
M&G Investment Management	6.22	6.22
Schroders plc	5.07	5.07

Voting rights and rights of acceptance of any offer relating to the shares held in this trust rest with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust. Dividends are waived by the trustees in relation to the shares held in trust.

Details of shares held by the Balfour Beatty Share Ownership Trust in relation to the Company's share schemes can be found in Note 32.3 on page 228.

Dividends

An interim dividend of 3.0 pence (2020: nil) was paid on 6 December 2021. A final dividend of 6.0 pence per ordinary share has been recommended by the Board for shareholder approval at the 2022 AGM, giving total dividends per ordinary share of 9.0 pence for 2021 (2020: 1.5 pence). The Directors will continue to offer a Dividend Reinvestment Plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service.

Branches

As the Group is an international business, there are activities operated through branches in certain jurisdictions.

Auditor

KPMG LLP has indicated its willingness to continue as auditor to the Company and a resolution for its reappointment will be proposed at the 2022 AGM.

Company Secretary

Tracey Wood is Company Secretary and was Company Secretary throughout the year ended 31 December 2021.

Innovation, future development and research and development

Information concerning innovation, future development and research and development is set out on pages 32 to 39, and forms part of the Directors' report disclosures.

Sustainability

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 66 to 80.

Policies

The Group's Code of Conduct and published policies on: health and safety; sustainability; sustainable procurement; social value; environment; supply chain media, PR and marketing; quality; and information security, remain in place and can be accessed on the Company's website www.balfourbeatty.com.

Greenhouse gas emissions

Details of Balfour Beatty's greenhouse gas emissions and the actions which the Group is taking to reduce them are set out on pages 70 to 75 and form part of the Directors' report disclosures.

Employment

The Balfour Beatty Group operates across a number of geographies and end markets. Balfour Beatty provides a Human Resources framework for promoting diversity, ethical behaviour and learning and development as well as continuing to fulfil its commitments in relation to regulation and corporate governance.

The Group provides fair and flexible employment policies and practices that respond to the different needs of its people. Information concerning employee diversity is set out on pages 84 and 85 and forms part of the Directors' report disclosures. Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible and is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential, consistent with all other employees. The Company operates an all employee share incentive plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders. Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants.

Information concerning financial and economic factors affecting the performance of the Group and the Company's share price is available to all employees via the Company's intranet site.

Further information on how Directors have engaged with employees and how they have had regard to employee interests can be found on pages 129-131.

Diversity

Details on the Company's Board diversity policy can be found in the Nomination Committee Report on page 141.

Details of the Group's approach to diversity and inclusion can be found on pages 85 and 86.

Disclosures required under Listing Rule 9.8.4

There are no disclosures required to be made under UK Listing Rule 9.8.4. Details of long-term incentive plans can be found in the Summary of policy and implementation in 2022 on pages 154 and 155.

Events after the reporting date

There were no material post balance sheet events arising after 31 December 2021.

Political donations

At the AGM held in May 2021, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2022 AGM.

In the US, no corporate political contributions were made by business units during the year (2020: nil). Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's Code of Conduct.

Capitalised interest

Details of the Group's capitalised interest can be found in Note 15 on page 204.

Financial instruments

The Group's financial risk management objectives and policies (including its hedging policy) and its exposure to the following risks – liquidity, foreign currency, interest rate, price and credit – are detailed in Note 40 on pages 234 to 238.

Going concern and viability

The Group's going concern statement is detailed in Note 1 of the consolidated financial statements on page 186.

The long-term Viability Statement is set out on page 113.

Change of control provisions

The Group's bank facility and surety agreements contain provisions that, where the parties are unable to agree the implications of any change of control, on notice being given to the Group the lenders and sureties may exercise their discretion to require prepayment of any loans or outstanding bonds and cancel all commitments under the agreement concerned.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty on a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

The Group's US private placement arrangements require the Company, promptly upon becoming aware that a change of control of the Company has occurred (and in any event within ten business days), to give written notice of such fact to all noteholders and make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest.

Some other commercial agreements, entered into in the normal course of business, include change of control provisions. The Group's share and incentive plans include usual provisions relating to change of control. There are no agreements providing for compensation for the Directors or employees on a change of control.

Annual General Meeting

All resolutions continue to be put to a poll rather than a show of hands. Each substantially separate issue is proposed via a separate resolution and proxy forms provide for shareholders to vote for, vote against or withhold their vote on each resolution.

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

The 2022 AGM will be held at The Curve, Axis Business Park, Hurricane Way, Langley, SL3 8AG, United Kingdom on Thursday 12 May 2022 commencing at 11am.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with UK-adopted International Financial Report Standards (IFRS) and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration report and Corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statements of Directors as to disclosure of information to the Company's auditor

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Tracey Wood
Group General Counsel
and Company Secretary
10 March 2022

Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU
Registered in England and Wales, registered number 395826

1 Our opinion is unmodified

We have audited the financial statements of Balfour Beatty plc ("the Company") for the year ended 31 December 2021 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group and Company Balance Sheets, Group Statement of Cash Flows, and the related notes, including the accounting policies in Note 2.

In our opinion:

» the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;

» the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

» the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and

» the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the Company's shareholders on 19 May 2016. The period of total uninterrupted engagement is for the six financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	Our response

Contract accounting Construction Services revenue £5,920 million (2020: £5,966 million), contract assets £132 million (2020: £172 million), contract liabilities £565 million (2020: £418 million), contract provisions £149 million (2020: £165 million) **Risk vs 2020: ↔**

Refer to pages 144-149 (Audit and Risk Committee report), Note 2.4 (Principal accounting policies – Revenue recognition) and Note 2.27(a) (Judgements and key sources of estimation uncertainty – Revenue and margin recognition)

Subjective estimates
For the majority of its contracts, the Construction Services segment recognises revenue over time and measures the progress based on the input method by considering the proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total forecast costs of the contract at completion.

The recognition of revenue and profit within the Construction Services segment therefore relies on estimates in relation to the forecast total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and amounts are re-estimated, until the outcome of the contract is known.

The revenue on contracts within the Construction Services segment may also include variations and claims, which fall under either the variable consideration or contract modification requirements of IFRS 15 Revenue from Contracts with Customers. These are recognised on a contract-by-contract basis when evidence supports that the contract modification is enforceable or when variable consideration is highly probable that a significant reversal in the amount of revenue recognised will not occur.

The effect of these matters is that, as part of our risk assessment, we determined that contract revenue and other related contract balances have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Group financial statements as a whole, and possibly many times that amount. Therefore, auditor judgement is required to assess whether the Directors' estimates for total forecast costs and variable consideration falls within an acceptable range. The financial statements (Note 2.27(a)) disclose the nature and extent of the estimates and judgements made by the Group.

We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balances is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the project review papers from the Group to support the estimates made and challenged the judgements underlying those papers with operational, legal, commercial and financial management.

Our procedures included:

- **Historical comparisons:** assessing the Group's ability to accurately forecast end of life contract margins by comparing the previous estimates of total forecast costs and variable consideration to final agreed outcomes;
- **Customer correspondence scrutiny:** analysing correspondence with customers around variations and claims to challenge the estimates of claims and variations made by the Group;
- **Legal correspondence scrutiny:** analysing correspondence with lawyers, and other legal opinions including arbitration results or other legal advice obtained by the Group, around variations and claims;
- **Test of detail:** analysing the end of job forecasts on contracts selected and challenging the estimates within the forecasts by considering the amounts already procured, the amounts still to be procured, the site and time related cost forecasts against programme and run rates, and any contingency held;
- **Test of detail:** inspecting selected contracts for key clauses; identifying relevant contractual mechanisms such as pain/gain shares, liquidated damages and success fees and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements;
- **Site visits:** for certain higher risk or larger value contracts, attending in person site visits or holding video conferencing calls with sites, inspecting the physical progress on site for individual projects and identifying areas of complexity through observation and discussion with site personnel;
- **KPMG specialists:** for certain higher risk or larger contracts, utilising KPMG Project specialists to identify the risks and opportunities associated with the contract and develop a range of possible contract out-turns and challenge the appropriateness of revenue recognised and provisions held in relation to these contracts; and
- **Assessing transparency:** considering the adequacy of the Group's disclosures included in Note 2.27(a) around the estimates and judgements involved in respect of these items.

Our findings:
We consider the amount of Construction Services revenue, contract assets, contract liabilities and contract provisions recognised and related disclosures to be acceptable. (2020: acceptable).

The risk	Our response
Recoverability of the parent Company's investment in subsidiaries Investment in subsidiaries £1,726 million (2020: £1,720 million) Refer to Note 20.2 (Investments)	**Risk vs 2020: ↔**
Low risk, high value The carrying amount of the parent Company's investment in subsidiaries represents 49% of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit. Our risk principally relates to the parent Company's investment in Balfour Beatty Investment Holdings Limited (BBIHL), where a value in use model has been used to support the investment's carrying amount.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: › **Our sector experience:** considering the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy, current order book, and wider macro environment conditions of BBIHL; › **Benchmarking assumptions:** challenging the assumptions used by the Company in the calculation of BBIHL's discount rates, including comparisons with external data sources; › **Sensitivity analysis:** performing our own sensitivity analysis over BBIHL's value in use, including a reasonably possible reduction in assumed growth rates and operating margins to identify areas on which to focus our procedures, including the consideration of the possible impacts of future economic uncertainty; and › **Tests of detail:** Comparing the carrying amount of 100% of investments (2020: 100%) with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount. **Our results:** We found the Company's conclusion that there is no impairment of its investment to be acceptable (2020: acceptable).

In the prior year, we reported a key audit matter in respect of the accounting for the US Military Housing investigation. We continue to perform procedures over this matter, however following the resolution with the US Department of Justice in December 2021 the estimation uncertainty surrounding the potential financial outcomes and the accounting for the matter has significantly reduced. We have therefore removed this key audit matter in our report this year. In addition, in the prior year, we reported a key audit matter in respect of going concern principally as a result of the uncertainties with regards to COVID-19. As a result of the Group's recovery in 2021 and the Group's cash position we have removed going concern as a key audit matter.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £20.0 million (2020: £10.0 million), determined with reference to a benchmark of Group revenue, of £7,185 million, of which it represents 0.28% (2020: benchmark of Group profit before tax averaged over three years, normalised to exclude non-underlying items in the year as disclosed in Note 10, with the exception of the charge relating to the amortisation of acquired intangible assets, of £133m, of which it represented 7.5%).

During the year, we have reconsidered the most appropriate benchmark on which to set materiality and this has resulted in a change to the benchmark and the materiality amount. We consider total revenue to be the most appropriate benchmark due to the focus on revenue by investors and the differing nature of the investments business (an asset-based business) compared to the contracting businesses (profit orientated entities). Whilst the contracting businesses are focused on profit measures, there has been significant volatility in recent years which has impacted the Group's profit before tax without any reduction in the scale of the contracting businesses. In setting our materiality, we have also given consideration to the Group's profit before tax normalised for a range of factors including contract write downs.

Materiality for the parent Company financial statements as a whole was set at £18.0 million (2020: £9.0 million), determined with reference to a benchmark of Company total assets of £3,496 million (2020: £3,584 million), of which it represents 0.5% (2020: 0.3%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the Group and parent Company was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £15.0 million (2020: £7.5 million) for the Group and £13.5 million (2020: £6.75 million) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £1.0 million (2020: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

3 Our application of materiality and an overview of the scope of our audit continued

Scoping and coverage

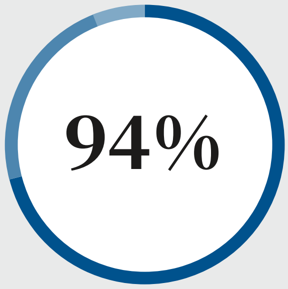
Of the Group's 14 (2020: 14) reporting components, we subjected 6 (2020: 6) to full scope audits for Group reporting purposes and 4 (2020: 6) to specified risk-focused audit procedures. The components for which we performed specified risk-focused procedures were not individually financially significant enough to require a full scope audit for Group reporting purposes but did present specific individual risks that needed to be addressed. For two components, the specified audit procedures were performed over revenue and other contract accounting related balances, including, contracts asset and liabilities and any contract provisions. For two components, the specified audit procedures were performed over expenses and cash.

The components within the scope of our work accounted for 98% (2020: 99%) of Group revenue, 94% (2020: 99%) of Group profit before tax and 97% (2020: 98%) of Group total assets as illustrated below.

GROUP REVENUE

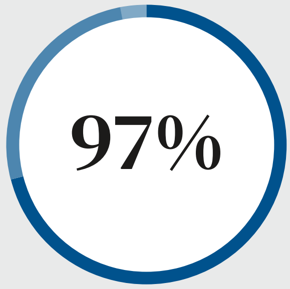
- Full scope audit 88% (2020: 89%)
- Specified risk-focused procedures 10% (2020: 10%)
- Out of scope 2% (2020: 1%)

GROUP PROFIT BEFORE TAX



- Full scope audit 71% (2020: 70%)
- Specified risk-focused procedures 23% (2020: 29%)
- Out of scope 6% (2020: 1%)

GROUP TOTAL ASSETS



- Full scope audit 71% (2020: 71%)
- Specified risk-focused procedures 26% (2020: 27%)
- Out of scope 3% (2020: 1%)

The Group audit team instructed components, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team set the component materialities, which ranged from £1.6 million to £10.0 million (2020: £0.2 million to £8.0 million), having regard to the mix of size and profile of the Group across the components. The work on 7 of the 10 in scope operational components (2020: 9 of the 12 components) was performed by the component auditors and the rest, including the audit of the parent Company was performed by the Group audit team.

The Group audit team visited two overseas (2020: nil due to COVID-19 restrictions) components. Due to ongoing COVID-19 restrictions the Group audit team was prevented from visiting the one component in Hong Kong. Instead, senior members of the Group audit team used video conferencing to oversee the component auditor's work, held discussions with component management and attended virtual site visits of contracts.

Video and telephone conference meetings were also held with all component auditors regularly, including those that were not physically visited. At these meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The scope of the audit work performed was predominantly substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The impact of climate change on our audit

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements.

The Group has set out in its Strategic Report its ambition to go beyond net zero Carbon by 2040 and as part of this have stated their commitment to meeting a target validated by the Science-Based Target Initiative by 2030 and the united nations Race to Zero Campaign, both of which cover Scope 1, Scope 2 and Scope 3 greenhouse gas emissions (GHGs).

Whilst the Group has set these targets, it does not believe that there is a material impact on the financial reporting judgements and estimates and as a result the valuations of the Group's assets and liabilities have not been significantly impacted by these risks as at 31 December 2021.

As a part of our audit, we have performed a risk assessment, including enquiries of management to understand how the impact of commitments made by the Group in respect of climate change, as well as the physical or transition risks of climate change, may affect the financial statements and our audit. We also held discussions with our own climate change professionals to challenge our risk assessment. There was no impact of this on our key audit matters.

Whilst the Group is still undertaking work to quantify and assess the potential impact of climate change in the business, based on the procedures we performed in inspecting and challenging the Group's plans for transitioning to net zero Scope 1 and Scope 2 GHGs, we did not identify any significant risk in this period of climate change having a material impact on the Group's critical accounting estimates. For contract accounting, as well as contract provisions, this is due to a range of factors including the shorter term nature of this estimate (the majority of contracts will substantially complete within three years of the Balance Sheet date) and contract mechanisms in place which limit risk (e.g. either where risk remains with the customer or is passed to the supply chain). For other estimates this is due to a range of factors including the use of market based estimates, and the nature of the estimate (retirement benefit obligations, retirement benefit assets, financial assets measured through OCI, employee and other provisions).

We have read the disclosure of climate related information in the front half of the annual report and considered consistency with the financial statements and our audit knowledge. We have not been engaged to provide assurance over the accuracy of the climate risk disclosures in the Annual Report.

4 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements. ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period was a deterioration in contract profitability due to economic conditions, unforeseen operational challenges or commercial disputes, or a combination of these, leading to a sustained medium-term decline in profits, delays to planned disposals of PPP financial assets and delays to the start date of contracts leading to a reduction in revenue.

We also considered less predictable but realistic second order impacts, such as a unique one off event including the financial consequences of a major health and safety breach.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

» Critically assessing assumptions in the base case and downside scenarios, particularly in relation to profit and its impact on forecast liquidity and covenant compliance, by comparing to historical trends (including the 2020 financial performance), overlaying knowledge of the entity's plans based on approved budgets, as well as our knowledge of the entity and the sector in which it operates.

» Considering whether the going concern disclosure in Note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, and related sensitivities.

Our conclusions based on this work:

» we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

» we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;

» we have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Company's use of that basis for the going concern period, and we found the going concern disclosure in Note 1 to be acceptable; and

» the related statement under the Listing Rules set out on page 99 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

» Enquiring of Directors, the Audit and Risk Committee, internal audit and compliance officers and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

» Reading Board and all relevant Committee minutes.

» Considering remuneration incentive schemes (primarily the annual incentive plan) and performance targets for management and Directors, including underlying profit from operations targets for management remuneration.

» Using analytical procedures to identify any unusual or unexpected relationships.

» Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and the Company.

We communicated identified fraud risk factors throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to component audit teams of relevant fraud risks identified at the Group level and requests to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement to the Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue earned from construction services is recorded in the wrong period and the risk that Group and component management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the estimation of forecast costs and the recognition of variable consideration.

Further detail in respect of revenue recognition, including the estimation of forecast costs and variable consideration, is set out in the Contract Accounting key audit matter disclosure in section 2 of this report.

However, on this audit we do not believe there is a fraud risk related to revenue recognition in the Support Services segment due to the size of its revenue and judgements relative to the Group, nor in the Infrastructure Investments segment based on the contractual nature of the segment's revenue with no significant judgement or estimation required in recognising revenue.

5 Fraud and breaches of laws and regulations – ability to detect continued

Identifying and responding to risks of material misstatement due to fraud continued

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on specific risk-based criteria and comparing the identified entries to supporting documentation. These included those posted with unusual account pairings; and
- Assessing significant accounting estimates for bias.

We assessed the disclosures in the Strategic Report and Note 10 related to the outcome of the US Department of Justice's (DoJ) military housing investigation. We assessed the penalties that resulted from the resolution between Balfour Beatty Communities and the DoJ in December 2021 and related disclosures against our understanding from reviewing the resolution agreements and inquiring with internal and external counsel. We also used our forensic specialists to help us assess the agreements and implications on our audit including whether it gave rise to any additional fraud risks.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditor teams to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation), distributable profits legislation, pension legislation, and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, anti-fraud law and environmental law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit and Risk Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 113 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the emerging and principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 113 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit and Risk Committee, including the significant issues that they considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 169, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

10 March 2022

GROUP INCOME STATEMENT

For the year ended 31 December 2021

	Notes	2021 Underlying items[1] £m	2021 Non-underlying items (Note 10) £m	2021 Total £m	2020 Underlying items[1] £m	2020 Non-underlying items (Note 10) £m	2020 Total £m
Revenue including share of joint ventures and associates		**8,280**	**(17)**	**8,263**	8,587	6	8,593
Share of revenue of joint ventures and associates	19.2	**(1,078)**	**–**	**(1,078)**	(1,269)	(4)	(1,273)
Group revenue	4	**7,202**	**(17)**	**7,185**	7,318	2	7,320
Cost of sales		**(6,862)**	**(42)**	**(6,904)**	(7,079)	(2)	(7,081)
Gross profit		**340**	**(59)**	**281**	239	–	239
Gain on disposals of interests in investments	34.2/34.3	**26**	**–**	**26**	–	–	–
Amortisation of acquired intangible assets	15	**–**	**(5)**	**(5)**	–	(6)	(6)
Other net operating (expenses)/income		**(226)**	**(36)**	**(262)**	(226)	18	(208)
Group operating profit/(loss)		**140**	**(100)**	**40**	13	12	25
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**48**	**–**	**48**	38	–	38
Gain on disposals of interests in investments	34.2/34.3	**9**	**–**	**9**	–	–	–
Share of results of joint ventures and associates	19.2	**57**	**–**	**57**	38	–	38
Profit/(loss) from operations	6	**197**	**(100)**	**97**	51	12	63
Investment income	8	**39**	**–**	**39**	38	–	38
Finance costs	9	**(49)**	**–**	**(49)**	(53)	–	(53)
Profit/(loss) before taxation		**187**	**(100)**	**87**	36	12	48
Taxation	11	**7**	**45**	**52**	(11)	(7)	(18)
Profit/(loss) for the year		**194**	**(55)**	**139**	25	5	30
Attributable to							
Equity holders		**195**	**(55)**	**140**	25	5	30
Non-controlling interests		**(1)**	**–**	**(1)**	–	–	–
Profit/(loss) for the year		**194**	**(55)**	**139**	25	5	30

1 Before non-underlying items (Notes 2.10 and 10).

	Notes	2021 Pence	2020 Pence
Earnings per ordinary share			
– basic	12	**21.3**	4.4
– diluted	12	**21.1**	4.4
Dividends per ordinary share proposed for the year	13	**9.0**	1.5

Commentary on the Group income statement*

Total profit before taxation for 2021 was £87m (2020: £48m), which is inclusive of a non-underlying loss before tax of £100m (2020: £12m profit). The total profit after tax was £139m (2020: £30m).

Background

The Group income statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the Group statement of comprehensive income. The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The income statement shows the revenue and results of continuing operations. There were no discontinued operations in either year.

Revenue

Revenue from operations including non-underlying items and the Group's share of joint ventures and associates decreased by 4% to £8,263m from £8,593m in 2020 primarily due to exchange rate movements in the year.

Share of results of joint ventures and associates

Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

The Group's underlying profit generated from its share of joint ventures and associates increased from the prior year in part due to the Group's decision to recommence disposals of its Infrastructure Investments assets. The Group disposed of two assets (Riverchase Landing and Zephyr Ridge) within its share of joint ventures and associates amounting to an underlying gain of £9m. Refer to Note 34.2.

Underlying profit from operations

Underlying profit from operations increased to £197m from £51m in 2020, representing a significant improvement from the previous year as the Group rebounded from the COVID-19 pandemic. Whilst UK Construction improved year on year it still posted a £2m loss (2020: £26m) following write-downs on three projects in central London during the year. US Construction broadly doubled its profit to £51m (2020: £26m) returning to pre-pandemic levels whilst the Gammon joint venture continued its strong performance with £30m of profit (2020: £29m) included in the Group's share of results of joint ventures and associates.

Non-underlying items

During the year, the Group repaid the grant income of £19m received in 2020 in respect of the UK Government's Job Retention Scheme. The income from the grant in 2020 and the repayment in 2021 have been presented within non-underlying items to avoid distorting the underlying performance of the Group. Refer to Note 10.2.1.

In December 2021, the Group reached a resolution with the US Department of Justice (DoJ) following the completion of its investigations into specific performance incentive fees improperly claimed by Balfour Beatty Communities (BBC) between 2013 and 2019 related to maintenance work at certain US military housing installations. As part of the resolution, the Group has agreed to pay a settlement totalling US$65.4m. These costs, amounting to £41m, have been recorded within non-underlying, net of provisions already held in the previous year.

During the year, the Group recognised a provision of £42m in relation to rectification works to be carried out on a development in London. The provision has been calculated in line with a methodology based on an independent expert's assessment of the rectification and includes an estimate of costs associated with any potential consequential disruption to the development as a result of these rectification works. The provision does not include any potential recoveries from third parties.

Other non-underlying items include the amortisation of acquired intangible assets of £5m (2020: £6m) and provision/accrual releases relating to previous disposals amounting to £7m.

Within non-underlying tax, there was a £18m (2020: £4m) tax credit relating to the impact of the tax rate change on deferred tax assets previously recognised through non-underlying. In addition, There was a £11m recognition (2020: £10m derecognition) of deferred tax assets in the UK. the remainder of the tax credit related to the tax effect of the recognition of the items explained above.

Net finance costs

Net finance costs of £10m in the year represents a decrease from £15m in 2020. The decrease is primarily driven by a saving of £8m of preference share costs as the Group fully redeemed them on 1 July 2020 and a fair value gain on an investment asset of £9m in the year. These decreases were partially offset by reductions of £3m in interest receivable on PPP financial assets and £2m subordinated debt interest receivable and an increase in credit loss impairments related to the Group's investments in joint ventures and associates of £3m. Refer to Notes 8 and 9.

Taxation

The Group's underlying profit before tax from subsidiaries of £130m (2020: £2m loss) resulted in an underlying tax credit of £7m (2020: £11m). This comprises a £36m charge on underlying profits, a £26m credit relating to the recognition of additional UK tax losses and a £17m credit due to the impact of the change in UK corporation tax rate.

Earnings per share

Basic earnings per share were 21.3p (2020: 4.4p). Underlying basic earnings per share were 29.7p (2020: 3.7p).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 96 to 99.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 Group £m	2021 Share of joint ventures and associates £m	2021 Total £m	2020 Group £m	2020 Share of joint ventures and associates £m	2020 Total £m
Profit/(loss) for the year		**82**	**57**	**139**	(8)	38	30
Other comprehensive income/(loss) for the year							
Items which will not subsequently be reclassified to the income statement							
Actuarial gains/(losses) on retirement benefit assets/liabilities	32.1	**98**	**7**	**105**	(62)	–	(62)
Tax on above	32.1	**(22)**	**(1)**	**(23)**	5	–	5
		76	**6**	**82**	(57)	–	(57)
Items which will subsequently be reclassified to the income statement							
Currency translation differences	32.1	**2**	**(1)**	**1**	(11)	(4)	(15)
Fair value revaluations – PPP financial assets	32.1	**(3)**	**(6)**	**(9)**	5	8	13
– cash flow hedges	32.1	**8**	**(6)**	**2**	(4)	1	(3)
– investments in mutual funds measured at fair value through OCI	32.1	**3**	**–**	**3**	2	–	2
Recycling of revaluation reserves to the income statement on disposal^	34.3	**(3)**	**(7)**	**(10)**	–	–	–
Tax on above	32.1	**(2)**	**(2)**	**(4)**	–	(2)	(2)
		5	**(22)**	**(17)**	(8)	3	(5)
Total other comprehensive income/(loss) for the year		**81**	**(16)**	**65**	(65)	3	(62)
Total comprehensive income/(loss) for the year	32.1	**163**	**41**	**204**	(73)	41	(32)
Attributable to							
Equity holders				**205**			(32)
Non-controlling interests				**(1)**			–
Total comprehensive income/(loss) for the year	32.1			**204**			(32)

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

Commentary on Group statement of comprehensive income*

Total comprehensive income for 2021 was £204m comprising a total profit after tax of £139m and other comprehensive income after tax of £65m.

Background

The Group statement of comprehensive income is presented on a total Group basis. Other comprehensive income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement.

Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit assets/liabilities are increases or decreases in the present value of the pension balances because of:

» differences between the previous actuarial assumptions and what has actually occurred; or

» changes in actuarial assumptions used to value the obligations.

Actuarial gains for the Group including joint ventures and associates totalled £105m in 2021 compared to losses of £62m in 2020. Refer to Note 30.

Items which will subsequently be reclassified to the income statement

Currency translation differences

The Group operates in a number of countries with different local currencies. Currency translation differences arise on translation of the balance sheet and results from the local functional currency into the Group's presentational currency, sterling.

Fair value revaluations – PPP financial assets

Assets constructed by PPP concession companies are classified principally as financial assets measured at fair value through OCI. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related fair value movements recognised in OCI. During the year, gilt rates have increased resulting in fair value losses including joint ventures and associates of £9m being taken through OCI (2020: gains of £13m).

Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements. The fair value of derivatives changes in response to prevailing market conditions. During the year, LIBOR movements resulted in fair value gains on the interest rate swaps within the Group's subsidiaries of £8m (2020: losses of £4m) and fair value losses on the interest rate swaps of £6m (2020: gains of £1m) within the Group's joint ventures being recognised in OCI.

Recycling of revaluation reserves to the income statement on disposal

Fair value gains and losses and currency translation differences recognised in OCI are transferred to the income statement upon disposal of the asset. On disposal of infrastructure concession assets, £10m of profit (including joint ventures and associates) was recycled to the income statement from OCI and included in the gain on disposal (2020: £nil).

There is no associated tax on the amounts recycled to the income statement.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 96 to 99.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves (Note 19.6) £m	Other reserves (Note 32.1) £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2020		345	65	22	46	142	748	9	1,377
Total comprehensive (loss)/income for the year	32.1	–	–	–	41	(9)	(64)	–	(32)
Joint ventures' and associates' dividends	19.1	–	–	–	(50)	–	50	–	–
Reserve transfers relating to joint ventures and associates	19.6	–	–	–	28	–	(28)	–	–
Redemption of preference shares	31.2	–	111	–	–	(17)	(94)	–	–
At 31 December 2020		345	176	22	65	116	612	9	1,345
Total comprehensive income/(loss) for the year	32.1	**–**	**–**	**–**	**41**	**5**	**159**	**(1)**	**204**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**–**	**(29)**	**–**	**(29)**
Joint ventures' and associates' dividends	19.1	**–**	**–**	**–**	**(68)**	**–**	**68**	**–**	**–**
Non-controlling interests' dividends		**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Purchase of treasury shares	31.1	**–**	**–**	**–**	**–**	**–**	**(151)**	**–**	**(151)**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**2**	**6**	**–**	**8**
Reserve transfers relating to joint ventures and associates	19.6	**–**	**–**	**–**	**34**	**–**	**(34)**	**–**	**–**
At 31 December 2021		**345**	**176**	**22**	**72**	**123**	**631**	**7**	**1,376**

Commentary on Group statement of changes in equity*

Total equity of £1,376m at 31 December 2021 increased primarily due to movements in the Group statement of comprehensive income, partially offset by the share buybacks.

Background
The Group statement of changes in equity includes the total comprehensive income/(loss) attributable to equity holders of the Company and non-controlling interests and also discloses transactions which have been recognised directly in equity and not through the income statement.

Dividends
The Board is recommending a final dividend of 6.0p. The interim dividend was 3.0p per share, therefore the total dividend for the year is 9.0p per share (2020: 1.5p).

Joint ventures' and associates' dividends
Dividends of £68m (2020: £50m) were received in the year from joint ventures and associates (JVA), resulting in a transfer of this amount between JVA reserves and Group retained profits.

Purchase of treasury shares
On 7 October 2021, the Company completed the share buyback programme which commenced on 5 January 2021. 50.3m shares were purchased for a total consideration of £150m. These shares are currently held in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m, has utilised £151m of the Company's distributable reserves.

Reserves
Other reserves comprise: hedging reserves £(5)m (2020: £(32)m); PPP financial assets revaluation reserve £4m (2020: £30m); currency translation reserve £100m (2020: £98m); and other reserves £24m (2020: £20m).

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves (Note 32.2) £m	Retained profits £m	Total £m
At 1 January 2020		345	65	22	113	809	1,354
Total comprehensive income for the year	32.2	–	–	–	–	62	62
Redemption of preference shares	31.2	–	111	–	(17)	(94)	–
Movements relating to share-based payments		–	–	–	6	(6)	–
At 31 December 2020		345	176	22	102	771	1,416
Total comprehensive income for the year	32.2	**–**	**–**	**–**	**–**	**83**	**83**
Ordinary dividends	13	**–**	**–**	**–**	**–**	**(29)**	**(29)**
Purchase of treasury shares	31.1	**–**	**–**	**–**	**–**	**(151)**	**(151)**
Movements relating to share-based payments		**–**	**–**	**–**	**5**	**2**	**7**
At 31 December 2021		**345**	**176**	**22**	**107**	**676**	**1,326**

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 96 to 99.

Financial statements

BALANCE SHEETS

At 31 December 2021

	Notes	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Non-current assets					
Intangible assets – goodwill	14	**817**	811	**–**	–
– other	15	**296**	312	**–**	–
Property, plant and equipment	16	**98**	93	**–**	–
Right-of-use assets	17	**125**	121	**–**	–
Investment properties	18	**29**	30	**–**	–
Investments in joint ventures and associates	19	**503**	554	**–**	–
Investments	20	**35**	26	**1,726**	1,720
PPP financial assets	21	**30**	155	**–**	–
Trade and other receivables	24	**249**	250	**2**	3
Retirement benefit assets	30	**321**	215	**–**	–
Deferred tax assets	29	**120**	80	**–**	–
		2,623	2,647	**1,728**	1,723
Current assets					
Inventories	22	**104**	114	**–**	–
Contract assets	23	**214**	288	**–**	–
Trade and other receivables	24	**865**	838	**1,422**	1,601
Cash and cash equivalents – infrastructure investments	27	**17**	22	**–**	–
– other	27	**1,016**	770	**345**	258
Current tax receivable		**7**	6	**1**	2
		2,223	2,038	**1,768**	1,861
Total assets		**4,846**	4,685	**3,496**	3,584
Current liabilities					
Contract liabilities	23	**(669)**	(524)	**–**	–
Trade and other payables	25	**(1,458)**	(1,403)	**(1,958)**	(1,976)
Provisions	26	**(174)**	(200)	**–**	–
Borrowings – non-recourse loans	27	**(5)**	(6)	**–**	–
– other	27	**(34)**	–	**(17)**	–
Lease liabilities	28	**(44)**	(47)	**–**	–
Current tax payable		**(14)**	(14)	**–**	–
Derivative financial instruments	40	**(1)**	(4)	**–**	–
		(2,399)	(2,198)	**(1,975)**	(1,976)
Non-current liabilities					
Contract liabilities	23	**(9)**	(2)	**–**	–
Trade and other payables	25	**(117)**	(128)	**(3)**	(3)
Provisions	26	**(205)**	(150)	**–**	–
Borrowings – non-recourse loans	27	**(255)**	(333)	**–**	–
– other	27	**(192)**	(189)	**(192)**	(189)
Lease liabilities	28	**(85)**	(78)	**–**	–
Retirement benefit liabilities	30	**(90)**	(126)	**–**	–
Deferred tax liabilities	29	**(115)**	(104)	**–**	–
Derivative financial instruments	40	**(3)**	(32)	**–**	–
		(1,071)	(1,142)	**(195)**	(192)
Total liabilities		**(3,470)**	(3,340)	**(2,170)**	(2,168)
Net assets		**1,376**	1,345	**1,326**	1,416
Equity					
Called-up share capital	31	**345**	345	**345**	345
Share premium account	32	**176**	176	**176**	176
Special reserve	32	**22**	22	**22**	22
Share of joint ventures' and associates' reserves	32	**72**	65	**–**	–
Other reserves	32	**123**	116	**107**	102
Retained profits	32	**631**	612	**676**	771
Equity attributable to equity holders of the Parent		**1,369**	1,336	**1,326**	1,416
Non-controlling interests	32	**7**	9	**–**	–
Total equity		**1,376**	1,345	**1,326**	1,416

On behalf of the Board

Leo Quinn
Director

Philip Harrison
Director

10 March 2022

Commentary on the Group Balance Sheet*

Total assets of £4.8bn were 3% higher than last year and total liabilities of £3.5bn increased by 4%. Net assets increased by 2% to £1.4bn primarily driven by an increase in profits for the year and other comprehensive income of £65m partially offset by the share buybacks.

Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2021 in accordance with IAS 1 Presentation of Financial Statements and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2021 increased to £817m (2020: £811m), solely due to foreign currency movements.

Investments in joint ventures and associates

Investments in joint ventures and associates have decreased by £51m to £503m. The decrease was primarily driven by dividends in the year of £68m and the disposal of the Group's interests in BC Children's and BC Women's Hospitals and Aberdeen Western Peripheral Route, both disposals contributing to a decrease of £38m in the Group's investment in joint ventures and associates. These decreases were partially offset by profits in the year of £57m.

Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 185.

Borrowings

Borrowings excluding non-recourse loans

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity to support Balfour Beatty in its activities.

In October 2021, the Group agreed to the conversion of its facility to a sustainability linked loan, extending the maturity to October 2024. Refer to Note 33.3 for further information. This facility was undrawn at 31 December 2021.

Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain infrastructure concession projects.

At 31 December 2021, the Group's share of these non-recourse net borrowings amounted to £1,471m (2020: £1,762m), comprising £1,228m (2020: £1,445m) in relation to joint ventures and associates as disclosed in Note 19.2 and £243m (2020: £317m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 27.

Retirement benefit assets and liabilities

The Group's balance sheet includes net retirement benefit assets of £231m (2020: £89m) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. The increase in pension surplus in the year is primarily due to actuarial gains on assets of £87m and ongoing deficit funding of £39m.

Any surplus of deficit contributions would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the schemes have been settled.

Other

In addition to the liabilities on the balance sheet, in the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities, commonly referred to as bonds. These bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. They are customary or mandatory in many of the markets in which the Group operates. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from the Company. As at 31 December 2021, contract bonds in issue by financial institutions covered £3.8bn (2020: £4.0bn) of the contract commitments of the Group.

Equity commitments

During 2021, the Group invested £19m (2020: £46m) in a combination of equity and shareholder loans to Infrastructure Investments' project companies and at the end of the year had committed to provide a further £89m from 2022 onwards, inclusive of £59m expected for projects at preferred bidder stage. £15m of this is expected to be invested in 2022, as disclosed in Note 41(f).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 96 to 99.

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Cash from operations	33.1	**354**	276
Income taxes paid		**(1)**	(2)
Net cash from operating activities		**353**	274
Cash flows from investing activities			
Dividends received from:			
– joint ventures and associates – infrastructure investments	19.5	**30**	20
– joint ventures and associates – other	19.5	**38**	30
Interest received – infrastructure investments – joint ventures	19.5	**8**	15
Interest received – infrastructure investments – subsidiaries		**2**	3
Acquisition of businesses, net of cash and cash equivalents acquired	34.1	**(3)**	(3)
Purchases of:			
– intangible assets – infrastructure investments	15	**(1)**	(32)
– intangible assets – other	15	**(1)**	(1)
– property, plant and equipment	16	**(35)**	(33)
Investments in and long-term loans to joint ventures and associates	19.5	**(15)**	(25)
Return of equity from joint ventures and associates	19.5	**4**	–
PPP financial assets cash expenditure	21	**(3)**	(2)
PPP financial assets cash receipts	21	**10**	15
Disposals of:			
– investments in joint ventures – infrastructure investments	19.5	**50**	1
– investments in joint ventures – other	19.5	**1**	1
– subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments	34.2.7	**16**	–
– property, plant and equipment – other		**10**	12
– investment property		**–**	3
– other investments	20	**5**	3
Net cash from investing activities		**116**	7
Cash flows used in financing activities			
Purchase of ordinary shares	32.3	**–**	(8)
Purchase of treasury shares	31.1	**(151)**	–
Proceeds from new loans relating to infrastructure investments assets	33.3	**8**	6
Repayments of:			
– loans – infrastructure investments	33.3	**(6)**	(4)
– loans – other	33.3	**–**	(36)
Redemption of preference shares	31.2	**–**	(112)
Repayment of lease liabilities	28	**(53)**	(58)
Ordinary dividends paid	13	**(29)**	–
Other dividends paid – non-controlling interest		**(1)**	–
Interest paid – infrastructure investments		**(11)**	(12)
Interest paid – other		**(23)**	(23)
Preference dividends paid		**–**	(6)
Net cash used in financing activities		**(266)**	(253)
Net increase in cash and cash equivalents		**203**	28
Effects of exchange rate changes		**4**	(14)
Cash and cash equivalents at beginning of year		**792**	778
Cash and cash equivalents at end of year	33.2	**999**	792

Commentary on the Group statement of cash flows*

Cash and cash equivalents increased during the year to £999m. The Group generated cash from operating activities in the year of £353m compared to £274m in the prior year.

Background
The Group statement of cash flows shows the cash flows from operating, investing and financing activities during the year.

Working capital
Working capital includes: inventories; contract assets and liabilities; trade and other receivables; trade and other payables; and provisions. Where the net working capital balance is in an asset position, i.e. the inventories and receivables balances are greater than the payables and provisions, this is referred to as unfavourable/positive working capital. Where this is not the case, this is referred to as favourable/negative working capital.

Cash used in operations
Cash inflow from operations of £354m (2020: £276m) comprised a profit from operations of £97m (2020: £63m) and a working capital inflow of £281m (2020: £167m) and includes the following significant adjustment items: share of results of joint ventures and associates £57m (2020: £38m); depreciation charges £79m (2020: £82m); gain on disposal of investments of £26m (2020: £nil) and pension payments including deficit funding of £42m (2020: £18m).

Working capital movements
The movement of the individual working capital balances on the balance sheet will not be reflective of the underlying movement of working capital due to the balance sheet being affected by foreign currency movements and disposals.

Working capital movements are disclosed in Note 33.1.

In 2021, the Group's working capital position resulted in an inflow of £281m (2020: £167m). The strong performance was underpinned by around £110m of advance payments from major projects in UK Construction and around £30m of mobilisation payments at highways projects in US Construction.

Collections from the gas and water business following exit from this sector also led to net contract inflows of around £30m. Trade and other payables increased £43m following the introduction of the UK VAT domestic reverse charge for the construction sector and the cost of settlement relating to the DoJ resolution, which was paid in January 2022, partially offset by the timing of trade creditor payments. The increase in provisions of £28m includes the non-underlying item related to the rectification works to be carried out on a development in London.

Cash flows from investing activities
The Group received dividends of £68m (2020: £50m) from joint ventures and associates during the year.

The Group recommenced its programme for the disposal of infrastructure investment assets and has made six disposals in the year (2020: nil). The Group disposed of its interests in two joint ventures, BC Children's and BC Women's Hospitals and Aberdeen Western Peripheral Route, receiving proceeds of £20m and £29m respectively. The Group also disposed of interests in two subsidiaries, Woodland View Hospital and North West Fire and Rescue, for proceeds net of cash disposed of £16m. Finally, the Group also disposed of two assets within its investment in joint ventures and associates, Riverchase Landing and Zephyr Ridge, for proceeds amounting to £3m and £9m respectively which are included within dividends received and return of equity from joint ventures and associates.

The Group continued to invest in its joint ventures and associates, contributing £15m in the year to assets within these investments (2020: £25m).

Cash flows from financing activities
On 7 October 2021 the Company completed the share buyback programme which commenced on 5 January 2021 resulting in 50.3m shares purchased for a total consideration of £151m, including associated fees and stamp duty amounting to £1m.

The Group has a balance of US$259m of US private placement notes for repayment, with the next tranche of US$209m being due in March 2023 and the final tranche of US$50m being due in March 2025.

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity to support Balfour Beatty in its activities.

In October 2021, the Group agreed to the conversion of the revolving credit facility (RCF) to a sustainability linked loan, extending the maturity to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score. This facility was undrawn at 31 December 2021.

Interest payments amounted to £34m (2020: £35m) during the year, of which £11m (2020: £12m) related to infrastructure investments, £10m (2020: £11m) related to the US private placement, £6m (2020: £6m) related to the interest paid on lease liabilities and £7m (2020: £6m) related to other finance charges.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 96 to 99.

1 Basis of accounting

Going concern

The Directors 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.

The key financial risk factors for the Group remain largely unchanged although the risk of COVID-19 on the Group's profitability reduced during the year. The Group's principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 105 to 112.

The Group's US private placement and committed bank facility 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 2021, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

The Directors have carried out an assessment on the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts based on the Group's Three-Year Plan which continue to reflect the estimated impact of COVID-19 on each of the Group's operations. The Directors have also considered the strength of the Group's order book which amounted to £16.1bn at 31 December 2021 and will provide a pipeline of secured work over the going concern assessment period. These base case projections indicate that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the going concern assessment period.

US$259m of the Group's US private placement notes remain outstanding, with the next tranche of US$209m being due in March 2023 and the final tranche of US$50m being due in March 2025. The Group does not have any other debt apart from these US private placement notes and non-recourse borrowings ring-fenced within certain infrastructure investment companies.

The Group's £375m committed bank facility, which was undrawn throughout the year ended 31 December 2021, remains fully available to the Group until October 2024.

The Directors have stress-tested the Group's base case projections of both cash and profit against key sensitivities which could materialise as a result of adverse changes in the economic environment including COVID-19 and a deterioration in commercial or operational conditions. The Group has sensitised its projections against severe but plausible downside scenarios which include:

- elimination of a portion of unsecured work assumed within the Group's base case projections and a delay of three months for any awarded but not yet contracted work;
- a deterioration of contract judgements and restriction of a portion of the Group's margins; and
- delay in the disposal of Investments assets by 12 months.

In the severe but plausible downside scenarios modelled, the Directors have assumed that the second tranche of the US private placement notes will be paid in full and will not be replaced by another form of debt. The Group continues to retain sufficient headroom on liquidity throughout the going concern period. Through these downside scenarios, the Group is still expected to be in a net cash position and to remain within its banking covenants through the going concern assessment period.

Based on the above and having made appropriate enquiries, 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.

Consideration of climate change

In preparing the financial statements, the Directors have considered the impact of climate change, particularly in the context of the risks identified in the TCFD disclosure on pages 114 to 119 this year. There has been no material impact identified on the financial reporting judgements and estimates. In particular, the Directors considered the impact of climate change in respect of the following areas:

- contract judgements made on the Group's Construction Services and Support Services contracts;
- going concern and viability of the Group over the next three years;
- cash flow forecasts used in the impairment assessments of non-current assets including goodwill and infrastructure investments assets;
- carrying value and useful economic lives of property, plant and equipment; and
- the valuation of assets held within the Group's pension schemes.

Whilst there is currently no medium-term impact expected from climate change, the Directors are aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

Basis of preparation

The annual financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (the Act) and in accordance with UK-adopted International Financial Reporting Standards (IFRS). The Group has adopted these standards for accounting periods beginning on 1 January 2021.

The financial statements have been prepared under the historical cost convention, except as described under Note 2.26. The functional and presentational currency of the Company and the presentational currency of the Group is sterling.

The separate financial statements of the Company are presented as required by the Act. The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS) 100 issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2021 the Company reported under FRS 101 as issued by the Financial Reporting Council.

Except as noted below, the Company's accounting policies are consistent with those described in the Group's consolidated financial statements. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, related party transactions and comparative information. Where required, equivalent disclosures are given in the consolidated financial statements.

In addition to the application of FRS 101, the Company has taken advantage of Section 408 of the Act and consequently its statement of comprehensive income (including the profit and loss account) is not presented as part of these financial statements.

2 Principal accounting policies

2.1 Accounting standards

Adoption of new and revised standards

The following accounting standards, interpretations and amendments have been adopted by the Group in the year ended 31 December 2021:

- Amendments to the following standards:
  - IFRS 4 Insurance Contracts – Deferral of IFRS 9
  - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

These amended standards did not have a material effect on the Group.

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the UK or were not yet effective in the UK at 31 December 2021:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
  - IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
  - IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
  - IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
  - IAS 16 Property, Plant and Equipment
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
  - IFRS 3 Business Combinations
  - IFRS 16 Leases: COVID-19 Related Rent Concessions
  - IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information
- Amendments to Annual Improvements 2018–2020

The Directors do not expect the standards above to have a material effect and have chosen not to adopt any of the above standards and interpretations earlier than required.

2.2 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are consolidated from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling equity holders is stated at the non-controlling equity holders' proportion of the fair value of the assets and liabilities recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less direct costs of the transaction; and (ii) the previous carrying amount of the assets (including goodwill) less liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained earnings).

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its individual assets and obligations for its individual liabilities.

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control or joint control.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return. Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Joint operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

2 Principal accounting policies continued

2.3 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Significant exchange rates used in the preparation of these financial statements are shown in Note 3.

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date. Currency translation differences arising are transferred to the Group's foreign currency translation reserve and are recognised in the income statement on disposal of the underlying investment.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward foreign exchange contracts. Refer to Note 2.26(b) for details of the Group's accounting policies in respect of such derivative financial instruments.

2.4 Revenue recognition

The Group recognises revenue when it transfers control over a product or service to its customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Where consideration is not specified within the contract and is therefore subject to variability, the Group estimates the amount of consideration to be received from its customer. The consideration recognised is the amount which is highly probable not to result in a significant reversal in future periods.

Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

The Group's activities are wide ranging, and as such, depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Group will account for revenue over time and at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

Revenue is recognised as follows:

» revenue from construction and services activities is recognised over time and the Group uses the input method to measure progress of delivery;

» revenue from manufacturing activities is recognised at a point in time when title has passed to the customer; and

» dividend income in the Parent Company is recognised when the equity holders' right to receive payment is established.

2.5 Construction and services contracts

When the outcome of individual contracts can be estimated reliably, contract revenue is recognised by reference to the measure of progress at the reporting date using the input method. Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract.

Estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. The estimated final out-turns on contracts are continuously reviewed, and in certain limited cases, recoveries from insurers are assessed, and adjustments made where necessary.

No margin is recognised until the outcome of the contract can be estimated with reasonable certainty. Provision is made for all known or expected losses on individual contracts once such losses are foreseen.

Revenue in respect of variations to contracts and incentive payments is recognised when there is an enforceable right to payment and it is highly probable it will be agreed by the customer. Variable consideration is assessed on a contract by contract basis according to the facts, circumstances and terms of each project and only recognised to the extent that it is highly probable not to significantly reverse in the future. Revenue in respect of claims is recognised only if it is highly probable not to reverse in future periods. Profit for the year includes the benefit of claims settled in the year to the extent not previously recognised on contracts completed in previous years.

2.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision maker and therefore the segmental disclosures provided in Note 5 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into three reportable segments which reflect the nature of the services provided by the Group. A description of each reportable segment is provided in Note 5. Further information on the business activities of each reportable segment is set out on pages 193 to 194.

Operating segments are aggregated on the basis of the nature of the services provided and the manner in which returns are earned by the Group. Further information on the nature of services provided within each segment is included in Note 4.

Working capital is the balance sheet measure reported to the chief operating decision maker. The profitability measure used to assess the performance of the Group is underlying profit from operations.

Segment results represent the contribution of the different segments after the allocation of attributable corporate overheads. Transactions between segments are conducted at arm's-length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable. Non-recourse net borrowings are directly attributable to Infrastructure Investments and therefore not included within Corporate activities.

Major customers are defined as customers contributing more than 10% of the Group's external revenue.

2.7 Pre-contract bid costs and recoveries

Pre-contract costs are expensed as incurred until preferred bidder status is awarded at which point further costs are capitalised as there is a high probability that the Group would be able to recover these costs. Amounts subsequently recovered in respect of pre-contract costs that have been written off before preferred bidder status was awarded are recognised in full in the income statement when they are received in cash.

2.8 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

2.9 Investment income and finance costs

Interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2 Principal accounting policies continued

2.9 Investment income and finance costs continued

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method. Finance costs also include interest cost on the discount unwind of lease liabilities and impairment of loans to joint ventures and associates and accrued interest thereon.

2.10 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be presented separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will not affect the absolute amount of the results for the period and the trend of results. The Group's underlying results exclude non-underlying items.

Non-underlying items include:

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions;
- costs of major restructuring and reorganisation of existing businesses;
- costs of integrating newly acquired businesses;
- acquisition and similar costs related to business combinations such as transaction costs;
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets); and
- impairment of goodwill.

These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group. Refer to Note 10.

2.11 Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also accounted for within equity. Current tax is based on the profit for the year.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

We are closely monitoring the Organisation for Economic Co-operation and Development's two pillar solution to address the tax challenges arising from the digitalisation of the economy, which are expected to be enacted in 2022 with application from 1 January 2023. The accounting implications under IAS 12 will be determined when the relevant legislation is available.

2.12 Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and other businesses, joint ventures and associates and represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written off or discount arising on acquisition credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation charges in respect of software and Infrastructure Investments intangibles are included in underlying items.

c) Research and development

Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure associated with bringing the asset to its operating location and condition.

2.14 Investment properties

The Group classifies land and buildings which it holds to generate capital appreciation and/or to earn rental income as investment properties. The Group has chosen to state its investment properties at cost less accumulated depreciation and impairment losses. The Group depreciates its investment properties over 25 years. Land is not depreciated.

2.15 Leasing

As a lessee, the Group assesses whether a contract is, or contains, a lease at the inception of a contract. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess if a lease exists, the Group assesses whether: (i) the contract involves the use of an identified asset; (ii) the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the lease term; and (iii) the Group has the right to direct the use of the asset. In order to determine if the contract involves the use of an identified asset, the Group exercises judgement to assess if the supplier has a substantive substitution right over the asset. An asset is not identified if it has been determined that the supplier has substantive substitution rights.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated over the lease term. The lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group has elected to apply the practical expedient which allows the Group to use a single discount rate for a portfolio of leases with similar characteristics.

2 Principal accounting policies continued

2.15 Leasing continued

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of less than 12 months and leases of low value assets. Instead, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.16 Impairment of assets

Assets that have an indefinite useful life (such as goodwill arising on acquisitions) are reviewed at least annually for impairment. Other intangible assets, property, plant and equipment and right-of-use assets are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

2.17 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments in mutual funds are measured at fair value. Gains and losses arising from changes in the fair value of these investments are recognised in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Investments that are held until they reach maturity are measured at amortised cost.

Investments in subsidiaries are recognised and held at cost and subsequently tested for impairment on an annual basis. Where an impairment is identified, a provision for impairment is recorded against the carrying value of the investment.

2.18 Government grants

Government grants are recognised when there is a reasonable assurance that the Group will be able to comply with the conditions attached to the grant and that the grant will be received. Grants are recognised in the income statement on a systematic basis as a deduction from the related category of cost in the periods in which the expenses are recognised.

2.19 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost includes an appropriate proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.20 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts and expected credit losses.

2.21 Trade payables

Trade payables are not interest bearing and are stated at cost.

2.22 Provisions

Provisions for insurance liabilities retained in the Group's captive insurance arrangements, legal claims, defects and warranties, environmental restoration, onerous leases, and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability.

Provisions are recognised when: (i) the Group has a present legal or constructive obligation as a result of a past event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount of the obligation can be estimated reliably.

2.23 Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Premiums payable on settlement or redemption and direct issue costs are included in the carrying amount of the instrument and are charged to the income statement on an accruals basis using the effective interest method together with the interest payable.

2.24 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution retirement and other long-term employee benefit schemes, the largest of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit pension schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligations, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the scheme assets. Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

2.25 Share-based payments

Employee services received in exchange for the grant of equity-settled and cash-settled awards are charged to the income statement on a straight-line basis over the vesting period, based on the fair values of the awards at the date of grant.

The credits in respect of the amounts charged are included within separate reserves in equity until such time as the awards are exercised, when the shares are transferred or cash payments made to employees.

2.26 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Classification of financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2 Principal accounting policies continued

2.26 Financial instruments continued

b) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 40.

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently re-measured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (OCI). Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded in the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the balance sheet are recognised in the income statement as they arise.

c) PPP concession companies

Assets constructed by PPP concession companies are classified principally as financial assets measured at fair value through OCI.

In the construction phase, income is recognised by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, income is recognised by allocating a proportion of total cash receivable over the life of the project to service costs by means of a deemed rate of return on those costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method, giving rise to interest income.

Due to the nature of the contractual arrangements, the projected cash flows can be estimated with a high degree of certainty.

In the construction phase, the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in OCI. Amounts originally recognised in OCI are transferred to the income statement upon disposal of the asset.

2.27 Judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may differ from these judgements, estimates and assumptions.

The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group as at 31 December 2021 are discussed below.

a) Revenue and margin recognition (judgement and estimate)

The Group's revenue recognition and margin recognition policies, which are set out in Notes 2.4 and 2.5, are central to how the Group values the work it has carried out in each financial year.

These policies require forecasts to be made of the outcomes of long-term construction services and support services contracts, which require both estimates and judgements to be made of both cost and income recognition on each contract. On the cost side, estimates of forecasts are made on the final out-turn of each contract in addition to potential costs to be incurred for any maintenance and defects liabilities. On the income side, estimates and judgements are made on variations to consideration which typically include variations due to changes in scope of work, recoveries of claim income from customers, and potential liquidated damages that may be levied by customers. Judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. The Group continues to regularly assess these judgements and estimates including considerations of the ongoing impact of the COVID-19 pandemic.

As at 31 December 2021, the Group's contract assets, contract liabilities and contract provisions amounted to £214m, £678m and £321m respectively as set out in Notes 23 and 26. The Group has considered the nature of the estimates involved in deriving these balances and concluded that it is possible, on the basis of existing knowledge, that outcomes within the next financial year may be different from the Group's assumptions applied as at 31 December 2021 and could require a material adjustment to the carrying amounts of these assets and liabilities in the next financial year. However, due to the level of uncertainty, combination of cost and income variables and timing across a large portfolio of contracts (in excess of 1,000) at different stages of their contract life, it is impracticable to provide a quantitative analysis of the aggregated judgements that are applied at a portfolio level.

Within this portfolio, there are a limited number of long-term contracts where the Group has incorporated significant judgements over contractual entitlements relating to recoveries of claim income from customers and liquidated damages levied by the customer. These recoveries have been recognised at the amount that is considered highly probable not to significantly reverse. However, there are a host of factors affecting potential outcomes in respect of these entitlements which could result in a range of reasonably possible outcomes on these contracts in the following financial year, ranging from a gain of £65m to a loss of £(31)m. The Directors have assessed the range of reasonably possible outcomes on these limited number of contracts based on facts and circumstances that were present and known at the balance sheet date. As with any contract applying long-term contract accounting, these contracts are also affected by a variety of uncertainties that depend on future events, and so often need to be revised as contracts progress.

2 Principal accounting policies continued

2.27 Judgements and key sources of estimation uncertainty continued

b) Taxation (estimate)
Deferred tax liabilities are generally provided for in full and deferred tax assets are only recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences and unused carried forward losses can be utilised based on existing tax laws. Determining the extent to which tax losses are recognised requires an estimation of the Group's expectations as to the level of future taxable profits taking into account the cash flow forecasts based on the Group's Board approved budgets, the Group's long-term financial and strategic plans and anticipated future tax adjusting items. In making this assessment, consideration is given to the Group's historical financial performance, duration of existing customer contracts, business plans, Board approved operating plans and expected future economic outlook as set out in the strategic report as well as the risks associated with future regulatory change.

At 31 December 2021, a £100m increase/decrease in forecast future UK taxable profits would lead to a £13m increase/£13m decrease in deferred tax assets and an equivalent credit/debit in the income statement.

c) Non-underlying items (judgement)
Non-underlying items are items of financial performance which the Group believes should be presented separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying items or non-underlying items requires judgement. A total non-underlying loss after tax of £55m was charged (2020: £5m credited) to the income statement for the year ended 31 December 2021. Refer to Note 10.

d) Financial assets measured at fair value through OCI (judgement and estimate)
At 31 December 2021, £1,325m (2020: £1,718m) of PPP financial assets constructed by the Group's subsidiary, joint venture and associate companies were classified as financial assets measured at fair value through OCI. Judgement is required in determining the appropriate classification of these assets and hence the accounting treatment required. In the operational phase the fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates is used from 1.8% to 7.2% (2020: 1.2% to 7.9%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. These represent key sources of estimation uncertainty. Refer to Note 40.

A £9m loss was taken to other comprehensive income in 2021 (2020: £13m gain) and a cumulative fair value gain of £ 305m had arisen on these financial assets as a result of market-related movements in the fair value of these financial assets at 31 December 2021 (2020: £314m gain).

e) Provisions (judgement and estimate)
Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The range of potential outcomes on contract provisions as a result of uncertain future events could result in a materially positive or negative swing to profitability and cash flow.

The Group has considered the nature of these estimates and concluded that it is possible, on the basis of existing knowledge, that outcomes within the next financial year may be different from the Group's assumptions and judgements applied as at 31 December 2021 and could require a material adjustment to the carrying amounts of assets and liabilities in the next financial year. As disclosed in Note 26, the majority of the Group's provision balance relates to contract provisions, which include loss provisions, defect and warranty provisions, where estimates are made around forecast costs and judgements are made on timing and whether it is probable there will be an outflow of future economic benefit. Contract loss provisions may also include estimates around variable consideration as disclosed in note 2.27(a). However, due to the level of uncertainty, combination of variables and timing across a large portfolio of complex contracts at different stages of their contract life, it is impracticable to provide a quantitative analysis of the aggregated judgements that are applied at a portfolio level.

To the extent that the sensitivities disclosed in Note 2.27(a) affect a loss-making contract, this will have an impact on the Group's provisions in the next financial year.

f) Retirement benefit obligations (judgement and estimate)
Details of the Group's defined benefit pension schemes are set out in Note 30, including tables showing the sensitivity of the pension scheme obligations and assets to different actuarial assumptions.

At 31 December 2021, the net retirement benefit assets recognised on the Group's balance sheet were £231m (2020: £89m). The effects of changes in the actuarial assumptions underlying the schemes' obligations and discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2021, the Group recognised net actuarial gains of £105m (2020: £62m losses) in OCI, including its share of the actuarial gains and losses arising in joint ventures and associates.

Judgement is applied when assessing the recognition of the pension surplus. Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

3 Exchange rates

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

Average rates

£1 buys	2021	2020	Change
US$	**1.37**	1.29	6.2%
HK$	**10.69**	10.02	6.7%

Closing rates

£1 buys	2021	2020	Change
US$	**1.35**	1.37	(1.5)%
HK$	**10.52**	10.58	(0.6)%

4 Revenue

4.1 Nature of services provided

4.1.1 Construction Services

The Group's Construction Services segment encompasses activities in relation to the physical construction of assets provided to public and private customers. Revenue generated in this segment is measured over time as control passes to the customer as the asset is constructed. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's end of job forecast (the input method). Payment terms are based on a schedule of value that is set out in the contract and fairly reflect the timing and performance of service delivery. Contracts with customers are typically accounted for as one performance obligation (PO).

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction services, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit-out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However for certain types of contracts, services relating to fit-out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small-scale infrastructure works 24 to 60 months for large-scale complex construction	The Group provides construction services for three main types of infrastructure assets: highways, railways and other large-scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK, US and Hong Kong. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway construction services include design and managing the construction of railway systems delivering major multi-disciplinary projects, track work, electrification and power supply. The Group serves both public and private railways including high-speed passenger railways, freight and mixed traffic routes, dense commuter networks, metros and light rail. Other infrastructure assets include construction, design and build services on large-scale complex assets predominantly servicing the waste, water and energy sectors. Contracts entered into relating to these infrastructure assets can take the form of fixed-price, cost-plus or target-cost contracts with shared pain/gain mechanisms. Contract lengths vary according to the size and complexity of the asset build and can range from a few months for small-scale infrastructure works to four to five years for large-scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses the maintenance element as a separate PO and revenue from this PO is recognised in the Support Services segment. Refer to Note 4.1.2.

4.1.2 Support Services

The Group's work in this segment supports existing assets through maintaining, upgrading and managing services across utilities and infrastructure assets. Revenue generated in this segment is measured over time as control passes to the customer as and when services are provided. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's end of job forecast (the input method). Payments are structured as milestone payments set out in the respective contracts.

Types of assets	Nature, timing of satisfaction of performance obligations and significant payment terms
Utilities	Within the Group's services contracts, the Group provides support services to various types of utility assets. For contracts servicing power transmission and distribution assets, the Group constructs and maintains electricity networks, including replacement or new build of overhead lines, underground cabling, cable tunnels and offshore wind farm maintenance. Contracts entered into are normally fixed-price and contract lengths can vary from 12 to 36 months, and up to 20 years for offshore wind farm maintenance contracts. Each contract is normally assessed to contain one PO. However, where a contract contains both a construction phase and a maintenance phase, these are assessed to contain two separate POs. For contracts servicing utility assets, the Group provides services such as renewal, upgrade and expansion of underground main pipelines for assets within the gas network. Within the water network, services include clean and waste water mains renewal and repair, metering and treatment facilities. Contracts are typically delivered through framework agreements which are normally granted on a regulatory cycle period of five years for water contracts and eight years for gas contracts. Individual instructions delivered under the framework agreements can vary in size and duration but usually last between one to six weeks for smaller projects or up to one to two years for major projects. Each instruction is accounted for as a separate PO. Payments are normally set according to a schedule of rates or are cost reimbursable and may include a pain/gain element.
Infrastructure	The Group provides maintenance, asset and network management and design services in respect of highways, railways and other publicly available assets. The customer in this area of the Group is mainly government bodies. Types of contract include a fixed schedule of rates, fixed-price, target-cost arrangements and cost-plus. Contract terms range from 1 to 25 years. Where contracts include a lifecycle element, this is accounted for as a separate PO and recognised when the work is delivered.

4 Revenue continued

4.1 Nature of services provided continued

4.1.3 Infrastructure Investments

The Group invests directly in a variety of assets, predominantly consisting of infrastructure assets where there are opportunities to manage the asset upon completion of construction. The Group also invests in real estate type assets, in particular private residential and student accommodation assets. Revenue generated in this segment is from the provision of construction, maintenance and management services and also from the recognition of rental income. The Group's strategy is to hold these assets until optimal values are achieved through disposal of mature assets.

Types of services	Nature, timing of satisfaction of performance obligations and significant payment terms
Service concessions	The Group operates a UK and North America portfolio of service concession assets comprising of assets in the roads, healthcare, student accommodation, biomass and waste and offshore transmission sectors. The Group accounts for these assets under IFRIC 12 Service Concession Arrangements. Where the Group constructs and maintains these assets, the two services are deemed to be separate performance obligations and accounted for separately. If the maintenance phase includes a lifecycle element, this is considered to be a separate PO. Contract terms can be up to 40 years. The Group recognises revenue over time using the input method. Consideration is paid through a fixed unitary payment charge spread over the life of the contract. **Revenue from this service is presented across Buildings, Infrastructure or Utilities in Note 4.2.**
Management services	The Group provides real estate management services such as property development and asset management services. Contract terms can be up to 50 years. The Group recognises revenue over time as and when service is delivered to the customer. **Revenue from this service is presented within Buildings in Note 4.2.**
Housing development	The Group also develops housing units on land that is owned by the Group. Revenue is recognised on the sale of individual units at the point in time when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. **Revenue from this service is presented within Buildings in Note 4.2.**

4.2 Disaggregation of revenue

The Group presents a disaggregation of its underlying revenue according to the primary geographical markets in which the Group operates as well as the types of assets serviced by the Group. The nature of the various services provided by the Group is explained in Note 4.1. This disaggregation of underlying revenue is also presented according to the Group's reportable segments as described in Note 5.

For the year ended 31 December 2021

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	2,589	3,341	816	6,746
	Group revenue	2,589	3,324	7	5,920
Support Services	Revenue including share of joint ventures and associates	1,039	–	27	1,066
	Group revenue	1,039	–	7	1,046
Infrastructure Investments	Revenue including share of joint ventures and associates	165	295	8	468
	Group revenue	55	181	–	236
Total revenue	**Revenue including share of joint ventures and associates**	**3,793**	**3,636**	**851**	**8,280**
	Group revenue	**3,683**	**3,505**	**14**	**7,202**

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	3,725	2,380	630	11	6,746
	Group revenue	3,391	1,907	611	11	5,920
Support Services	Revenue including share of joint ventures and associates	–	578	469	19	1,066
	Group revenue	–	578	449	19	1,046
Infrastructure Investments	Revenue including share of joint ventures and associates	319+	132	15	2	468
	Group revenue	232+	3	–	1	236
Total revenue	**Revenue including share of joint ventures and associates**	**4,044**	**3,090**	**1,114**	**32**	**8,280**
	Group revenue	**3,623**	**2,488**	**1,060**	**31**	**7,202**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	6,745	1,064	436	8,245
At a point in time	1	2	32	35
Revenue including share of joint ventures and associates	**6,746**	**1,066**	**468**	**8,280**
Over time	5,919	1,044	204	7,167
At a point in time	1	2	32	35
Group revenue	**5,920**	**1,046**	**236**	**7,202**

+ Includes rental income of £38m including share of joint ventures and associates or £12m excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the year ended 31 December 2020

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	2,165	3,789	1,010	6,964
	Group revenue	2,165	3,776	25	5,966
Support Services	Revenue including share of joint ventures and associates	1,034	–	33	1,067
	Group revenue	1,034	–	3	1,037
Infrastructure Investments	Revenue including share of joint ventures and associates	178	366	12	556
	Group revenue	76	236	3	315
Total revenue	**Revenue including share of joint ventures and associates**	3,377	4,155	1,055	8,587
	Group revenue	3,275	4,012	31	7,318

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	4,138	2,190	613	23	6,964
	Group revenue	3,603	1,733	607	23	5,966
Support Services	Revenue including share of joint ventures and associates	–	492	565	10	1,067
	Group revenue	–	492	535	10	1,037
Infrastructure Investments	Revenue including share of joint ventures and associates	367+	172	14	3	556
	Group revenue	311+	2	–	2	315
Total revenue	**Revenue including share of joint ventures and associates**	4,505	2,854	1,192	36	8,587
	Group revenue	3,914	2,227	1,142	35	7,318

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	6,958	1,065	535	8,558
At a point in time	6	2	21	29
Revenue including share of joint ventures and associates	6,964	1,067	556	8,587
Over time	5,960	1,035	294	7,289
At a point in time	6	2	21	29
Group revenue	5,966	1,037	315	7,318

\+ Includes rental income of £28m including share of joint ventures and associates or £9m excluding share of joint ventures and associates.

4.3 Transaction price allocated to the remaining performance obligations (excluding joint ventures and associates)

	2022 £m	2023 £m	2024 onwards £m	Total £m
Construction Services	4,687	2,670	3,254	10,611
Support Services	675	414	1,323	2,412
Infrastructure Investments	121	96	1,447	1,664
Total transaction price allocated to remaining performance obligations	**5,483**	**3,180**	**6,024**	**14,687**

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earned by the Group for distinct goods and services which the Group has promised to deliver to its customers. These include promises which are partially satisfied at the period end or those which are unsatisfied but which the Group has committed to providing. In deriving this transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future.

The transaction price above does not include any estimated revenue to be earned on framework contracts for which a firm order or instruction has not been received from the customer.

5 Segment analysis

Reportable segments of the Group:

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

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

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

5.1 Total Group

Income statement – performance by activity	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Revenue including share of joint ventures and associates[1]	**6,746**	**1,066**	**468**	**–**	**8,280**
Share of revenue of joint ventures and associates[1]	**(826)**	**(20)**	**(232)**	**–**	**(1,078)**
Group revenue[1]	**5,920**	**1,046**	**236**	**–**	**7,202**
Group operating profit/(loss)[1]	**47**	**101**	**25**	**(33)**	**140**
Share of results of joint ventures and associates[1]	**32**	**1**	**24**	**–**	**57**
Profit/(loss) from operations[1]	**79**	**102**	**49**	**(33)**	**197**
Non-underlying items:					
– amortisation of acquired intangible assets	**–**	**–**	**(5)**	**–**	**(5)**
– settlement charge following resolution with DoJ	**–**	**–**	**(41)**	**–**	**(41)**
– provision recognised for rectification works to be carried out on a development in London	**(42)**	**–**	**–**	**–**	**(42)**
– other net operating expenses	**(7)**	**(5)**	**–**	**–**	**(12)**
	(49)	**(5)**	**(46)**	**–**	**(100)**
Profit/(loss) from operations	**30**	**97**	**3**	**(33)**	**97**
Investment income					**39**
Finance costs					**(49)**
Profit before taxation					**87**

1 Before non-underlying items (Notes 2.10 and 10).

Income statement – performance by activity	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Revenue including share of joint ventures and associates[1]	6,964	1,067	556	–	8,587
Share of revenue of joint ventures and associates[1]	(998)	(30)	(241)	–	(1,269)
Group revenue[1]	5,966	1,037	315	–	7,318
Group operating profit/(loss)[1]	–	45	–	(32)	13
Share of results of joint ventures and associates[1]	29	1	8	–	38
Profit/(loss) from operations[1]	29	46	8	(32)	51
Non-underlying items:					
– amortisation of acquired intangible assets	(1)	–	(5)	–	(6)
– other net operating expenses	13	4	–	1	18
	12	4	(5)	1	12
Profit/(loss) from operations	41	50	3	(31)	63
Investment income					38
Finance costs					(53)
Profit before taxation					48

1 Before non-underlying items (Notes 2.10 and 10).

Assets and liabilities by activity	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Contract assets	**132**	**60**	**22**	**–**	**214**
Contract liabilities – current	**(565)**	**(102)**	**(2)**	**–**	**(669)**
Inventories	**49**	**27**	**28**	**–**	**104**
Trade and other receivables – current	**706**	**109**	**31**	**19**	**865**
Trade and other payables – current	**(1,172)**	**(190)**	**(87)**	**(9)**	**(1,458)**
Provisions – current	**(149)**	**(4)**	**(7)**	**(14)**	**(174)**
Working capital*	**(999)**	**(100)**	**(15)**	**(4)**	**(1,118)**
Total assets	**2,158**	**497**	**997**	**1,194**	**4,846**
Total liabilities	**(2,237)**	**(390)**	**(399)**	**(444)**	**(3,470)**
Net assets	**(79)**	**107**	**598**	**750**	**1,376**

* Includes non-operating items and current working capital.

5 Segment analysis continued

5.1 Total Group continued

Assets and liabilities by activity	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Contract assets	172	91	25	–	288
Contract liabilities – current	(418)	(105)	(1)	–	(524)
Inventories	51	34	29	–	114
Trade and other receivables – current	683	114	35	6	838
Trade and other payables – current	(1,120)	(216)	(38)	(29)	(1,403)
Provisions – current	(165)	(7)	(15)	(13)	(200)
Working capital*	(797)	(89)	35	(36)	(887)
Total assets	2,107	493	1,169	916	4,685
Total liabilities	(2,035)	(405)	(463)	(437)	(3,340)
Net assets	72	88	706	479	1,345

* Includes non-operating items and current working capital.

Other information	**Construction Services 2021 £m**	**Support Services 2021 £m**	**Infrastructure Investments 2021 £m**	**Corporate activities 2021 £m**	**Total 2021 £m**
Capital expenditure on property, plant and equipment (Note 16)	**21**	**12**	**–**	**2**	**35**
Capital expenditure on intangible assets (Note 15)	**–**	**–**	**1**	**1**	**2**
Depreciation (Note 16, Note 17 and Note 18)	**30**	**37**	**2**	**10**	**79**
Gain on disposals of interests in investments (Note 34.2)	**–**	**–**	**26**	**–**	**26**
Gain on disposals of interests in investments within joint ventures and associates (Note 34.2)	**–**	**–**	**9**	**–**	**9**

Other information	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Capital expenditure on property, plant and equipment (Note 16)	15	12	–	6	33
Capital expenditure on intangible assets (Note 15)	–	–	33	–	33
Depreciation (Note 16, Note 17 and Note 18)	36	33	1	12	82

Performance by geographic destination	**United Kingdom 2021 £m**	**United States 2021 £m**	**Rest of world 2021 £m**	**Total 2021 £m**
Revenue including share of joint ventures and associates[1]	**3,793**	**3,636**	**851**	**8,280**
Share of revenue of joint ventures and associates[1]	**(110)**	**(131)**	**(837)**	**(1,078)**
Group revenue[1]	**3,683**	**3,505**	**14**	**7,202**

1 Before non-underlying items (Notes 2.10 and 10).

Performance by geographic destination	United Kingdom 2020 £m	United States 2020 £m	Rest of world 2020 £m	Total 2020 £m
Revenue including share of joint ventures and associates[1]	3,377	4,155	1,055	8,587
Share of revenue of joint ventures and associates[1]	(102)	(143)	(1,024)	(1,269)
Group revenue[1]	3,275	4,012	31	7,318

1 Before non-underlying items (Notes 2.10 and 10).

Major customers

Included in Group revenue are revenues of £1,288m (2020: £1,577m) from the US Government and £2,374m (2020: £1,267m) from the UK Government, which are the Group's two largest customers, through multiple central and regional bodies. These revenues are included in the results across all three reported segments.

5 Segment analysis continued

5.2 Infrastructure Investments

	Group 2021 £m	Share of joint ventures and associates (Note 19.2)+ 2021 £m	Total 2021 £m	Group 2020 £m	Share of joint ventures and associates (Note 19.2)+ 2020 £m	Total 2020 £m
Underlying profit from operations[1]						
UK^	**6**	**1**	**7**	2	(6)	(4)
North America	**15**	**14**	**29**	12	14	26
Gain on disposals of interests in investments (Note 19)	**26**	**9**	**35**	–	–	–
	47	**24**	**71**	14	8	22
Bidding costs and overheads	**(22)**	**–**	**(22)**	(14)	–	(14)
	25	**24**	**49**	–	8	8
Net assets/(liabilities)						
UK^	**370**	**220**	**590**	458	264	722
North America	**61**	**190**	**251**	107	194	301
	431	**410**	**841**	565	458	1,023
Non-recourse borrowings net of associated cash and cash equivalents (Note 27)	**(243)**	**–**	**(243)**	(317)	–	(317)
Total Infrastructure Investments net assets	**188**	**410**	**598**	248	458	706

\+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Ireland.
1 Before non-underlying items (Notes 2.10 and 10).

6 Profit/(loss) from operations

6.1 Profit/(loss) from operations is stated after charging/(crediting)

	2021 £m	2020 £m
Depreciation of property, plant and equipment	**24**	24
Depreciation of right-of-use assets	**54**	56
Depreciation of investment properties	**1**	2
Amortisation of other intangible assets	**18**	17
Amortisation of contract fulfilment assets	**12**	9
Net charge/(credit) of trade receivables impairment provision	**(9)**	9
Impairment of property, plant and equipment	**2**	–
Impairment of other intangible assets	**–**	1
Profit on disposal of property, plant and equipment	**(4)**	(7)
Government grant income&	**(4)**	(27)
Cost of inventory recognised as an expense	**178**	98
Auditor's remuneration	**4**	4

& The Group recorded its share of the joint venture's income in the year of £nil relating to the employment support scheme in Hong Kong (2020: £17m).

6.2 Analysis of auditor's remuneration

	2021 £m	2020 £m
Services as auditor to the Company	**0.6**	0.6
Services as auditor to Group subsidiaries	**2.9**	2.5
Total audit fees	**3.5**	3.1
Audit-related assurance fees	**0.5**	0.5
Other assurance fees	**–**	–
Total non-audit fees	**0.5**	0.5
Total fees in relation to audit and other services	**4.0**	3.6

7 Employee costs

7.1 Group

Employee costs during the year	2021 £m	2020 £m
Wages and salaries	**1,187**	1,181
Redundancy costs	**10**	10
Social security costs	**87**	94
Pension costs (Note 30)	**60**	57
Non-underlying GMP equalisation costs (Note 10.2.6)	**–**	3
Share-based payments (Note 35)	**12**	13
	1,356	1,358

Average number of Group employees	2021 Number	2020 Number
Construction Services	**12,857**	12,795
Support Services	**3,564**	4,525
Infrastructure Investments	**1,614**	1,658
Corporate	**122**	135
	18,157	19,113

Detailed disclosures of items of remuneration, including those accruing under the Company's equity-settled share-based payment arrangements can be found within the Remuneration report on pages 150 to 166.

7.2 Company

The Company did not have any employees and did not incur any employee costs in the year (2020: £nil). Balfour Beatty Group Employment Ltd, which was established in February 2013, remains the employing entity for the Balfour Beatty Group's UK employees.

8 Investment income

	2021 £m	2020 £m
Subordinated debt interest receivable	**23**	25
Interest receivable on PPP financial assets (Note 21)	**5**	8
Fair value gain on investment asset	**9**	–
Other interest receivable and similar income	**1**	2
Net finance income on pension scheme assets and obligations (Note 30.2)	**1**	3
	39	38

9 Finance costs

		2021 £m	2020 £m
Non-recourse borrowings	– bank loans and overdrafts	**11**	11
US private placement	– finance cost	**10**	10
Interest on lease liabilities (Note 28)		**6**	6
Other interest payable	– committed facilities	**2**	2
	– letter of credit fees	**2**	2
	– other finance charges	**4**	3
Impairment of joint ventures and associates	– loans	**4**	11
	– accrued interest	**10**	–
Preference shares	– finance cost	**–**	6
	– accretion	**–**	2
		49	53

The impairment of loans to joint ventures and associates of £4m (2020: £11m) and accrued interest of £10m (2020: £nil) relate to expected credit loss assessments performed. All of these impairments (2020: £10m) relate to subordinated debt and accrued interest receivable from joint ventures and associates held within the Infrastructure Investments segment.

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10 Non-underlying items

		2021 £m	2020 £m
Items (charged against)/credited to profit			
10.1	Amortisation of acquired intangible assets	**(5)**	(6)
10.2	Other non-underlying items:		
	– grant income (repaid)/received in relation to UK Job Retention Scheme	**(19)**	19
	– settlement charge following resolution with DoJ	**(41)**	–
	– provision recognised for rectification works to be carried out on a development in London	**(42)**	–
	– release of indemnity provisions relating to sale of Heery International Inc.	**6**	–
	– release of accrual relating to sale of Parsons Brinckerhoff	**1**	–
	– loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	(3)
	– release of provision held for blacklisting claims	**–**	2
	Total other non-underlying items	**(95)**	18
(Charged against)/credited to profit before taxation		**(100)**	12
10.3	Tax credit/(charge):		
	– recognition/(derecognition) of deferred tax assets in the UK	**11**	(10)
	– tax on grant income repaid/received in relation to UK Job Retention Scheme	**4**	(4)
	– tax on DoJ settlement charge	**4**	–
	– tax on rectification works provision	**8**	–
	– impact of tax rate change on deferred tax assets previously recognised through non-underlying	**18**	4
	– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	**–**	1
	– tax on other items above	**–**	2
	Total tax credit/(charge)	**45**	(7)
(Charged against)/credited to profit for the year		**(55)**	5

10.1 The amortisation of acquired intangible assets comprises: customer contracts £4m (2020: £5m); and customer relationships £1m (2020: £1m).

The charge was recognised in the following segments: Construction Services £nil (2020: £1m); and Infrastructure Investments £5m (2020: £5m).

10.2.1 In 2020, the Group recognised grant income of £19m in respect of the UK Government's Job Retention Scheme (JRS). This was a one-off temporary scheme which the Group decided to voluntarily refund after the balance sheet date. This income was presented within non-underlying items to avoid distorting the underlying performance of the Group. The Group subsequently repaid this income in the first half of 2021 and, in line with the treatment adopted at 31 December 2020, the Group has presented its voluntary refund of the grant income within non-underlying items.

The amounts were recognised in the following segments: Construction Services £13m; Support Services £5m; and Corporate £1m.

10.2.2 In December 2021, the Group through its subsidiary Balfour Beatty Communities (BBC), reached a resolution with the US Department of Justice (DoJ) following the completion of its investigation into specific performance incentive fees improperly claimed by BBC between 2013 and 2019 related to maintenance work at certain US military housing installations. As part of the resolution, BBC has agreed to pay a settlement totalling US$65.4m. These costs have been recorded within non-underlying, net of provisions already held in the previous year. The Group has presented this within non-underlying due to the size and nature of this charge.

This charge has been recognised in the Infrastructure Investments segment.

10.2.3 In 2021, the Group recognised a provision of £42m in relation to rectification works to be carried out on a development in London which was constructed by the Group between 2013 and 2016. The rectification work will include the replacement of stone panels affixed to the façade of the development to meet performance requirements. The provision has been calculated in line with a methodology based on an independent expert's assessment of the rectification and includes an estimate of costs associated with any potential consequential disruption to the development as a result of these rectification works. The provision does not include potential recoveries from third parties. The Group has presented this within non-underlying due to the size of the defect provision.

This charge has been recognised in the Construction Services segment.

10.2.4 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc (Heery). As part of the gain on disposal recorded, the Group recognised indemnity provisions relating to several projects which were indemnified by the Group as part of the sale. This estimate was subject to final ongoing negotiations with various clients. Following completion of these projects, reassessment of this provision was conducted resulting in a £6m release.

The credit has been recognised in the Construction Services segment.

10.2.5 The Group established an accrual in relation to separation costs incurred as part of the Group's sale of Parsons Brinckerhoff in October 2014. In 2021, the Group released £1m of this accrual following completion of works relating to this sale.

This credit has been recognised in Corporate activities.

10.2.6 In 2020, the Group recognised additional retirement benefit liabilities of £3m in relation to Guaranteed Minimum Pension (GMP) equalisation following a further ruling which was published in November 2020. The judgment indicated that members who exercised their statutory right to transfer their benefits will be able to have a top-up payment made from their former scheme to the scheme to which they transferred their benefits. This followed the judgment on the Lloyds Banking Group High Court Hearing which was published on 26 October 2018, following which the Group recognised £28m of additional retirement benefit obligations within non-underlying items.

The charge was recognised in the following segments: Construction Services £2m; and Support Services £1m.

10.2.7 In 2020, the Group recognised a provision release of £2m relating to the resolution of disputes associated with blacklisting claims.

The credit of £2m was recognised in the Construction Services segment.

10 Non-underlying items continued

10.3.1 In previous periods, significant actuarial gains in the Group's main pension scheme, Balfour Beatty Pension Fund (BBPF), led to the recognition of deferred tax liabilities. This in turn led to the recognition of additional UK deferred tax assets in respect of tax losses which the Group recognised as non-underlying due to the size and nature of the credit. In 2021, actuarial gains in the BBPF resulted in the recognition of UK deferred tax assets in respect of tax losses. Applying the same methodology used in previous periods, the Group recognised the associated £13m tax credit as a non-underlying item along with a £2m tax charge arising from certain of the actuarial losses in the Railway Pension Scheme (RPS). In 2020 actuarial losses in the BBPF resulted in a £9m tax charge in non-underlying items resulting from the derecognition of UK deferred tax assets in respect to tax losses along with a £1m tax charge arising from certain of the actuarial losses in the RPS.

10.3.2 As explained in Note 10.2.1, a non-underlying charge of £19m was recognised in 2021 in relation to grant income repaid under the UK Government's JRS. This expense gave rise to a tax credit of £4m (2020: £4m charge).

10.3.3 As explained in Note 10.2.2, a non-underlying charge of £41m was recognised in 2021 in relation to the resolution with the DoJ. This expense gave rise to a tax credit of £4m.

10.3.4 As explained in Note 10.2.3, a non-underlying charge of £42m was recognised in 2021 in relation to the rectification works to be carried out on a development in London. This expense gave rise to a tax credit of £8m.

10.3.5 There is an additional deferred tax credit of £18m to revalue previous deferred tax assets recognised through non-underlying items due to a corporation tax rate change enacted in the UK during 2021 (2020: £4m).

10.3.6 The remaining non-underlying items (charged against)/credited to the Group's operating profit gave rise to a tax credit of £nil (mainly on amortisation of acquired intangible assets £1m credit and the release of indemnity provisions relating to the sale of Heery International Inc. £1m charge) (2020: £2m, mainly on amortisation of acquired intangible assets).

11 Income taxes

11.1 Income tax (credit)/charge

	Underlying items[1] 2021 £m	Non-underlying items (Note 10) 2021 £m	Total 2021 £m	Total 2020 £m
Total UK tax	**(26)**	**(41)**	**(67)**	18
Total non-UK tax	**19**	**(4)**	**15**	–
Total tax (credit)/charge[x]	**(7)**	**(45)**	**(52)**	18
UK current tax				
– current tax	**8**	**(8)**	**–**	–
– adjustments in respect of previous periods	**(1)**	**(4)**	**(5)**	(1)
	7	**(12)**	**(5)**	(1)
Non-UK current tax				
– current tax	**7**	**(1)**	**6**	3
– adjustments in respect of previous periods	**(1)**	**–**	**(1)**	(2)
	6	**(1)**	**5**	1
Total current tax	**13**	**(13)**	**–**	–
UK deferred tax				
– origination and reversal of temporary differences	**(16)**	**(11)**	**(27)**	31
– UK corporation tax rate change	**(17)**	**(18)**	**(35)**	(14)
– adjustments in respect of previous periods	**–**	**–**	**–**	2
	(33)	**(29)**	**(62)**	19
Non-UK deferred tax				
– origination and reversal of temporary differences	**13**	**(3)**	**10**	3
– adjustments in respect of previous periods	**–**	**–**	**–**	(4)
	13	**(3)**	**10**	(1)
Total deferred tax	**(20)**	**(32)**	**(52)**	18
Total tax (credit)/charge[x]	**(7)**	**(45)**	**(52)**	18

x Excluding joint ventures and associates.
1 Before non-underlying items (Notes 2.10 and 10).

The Group has recognised a £45m tax credit (2020: £7m charge) within non-underlying items in the year. Refer to Notes 10.3.1 to 10.3.6.

The Group tax (credit)/charge excludes amounts for joint ventures and associates (refer to Note 19.2), except where tax is levied at the Group level.

The Group's underlying tax credit for 2021 includes a recognition of deferred tax assets for some of the Group's previously unrecognised UK tax losses due to re-profiling of future UK profits. Refer to Note 11.2.

In addition to the Group tax (credit)/charge, tax of £27m is charged (2020: £3m credited) directly to other comprehensive income, comprising: a tax charge of £24m for subsidiaries (2020: £5m credit); and a tax charge in respect of joint ventures and associates of £3m (2020: £2m charge). Refer to Note 32.1.

11 Income taxes continued

11.2 Income tax reconciliation

	2021 £m	2020 £m
Profit before taxation including share of results from joint ventures and associates	87	48
Less: share of results of joint ventures and associates	(57)	(38)
Profit before taxation	30	10
Add/(less): non-underlying items charged/(credited) excluding share of joint ventures and associates	100	(12)
Underlying profit/(loss) before taxation for subsidiaries[1]	130	(2)
Tax on profit/(loss) before taxation at standard UK corporation tax rate of 19% (2020: 19%)	25	–
Adjusted for the effects of:		
Expenses not deductible for tax purposes and other permanent items	4	3
Benefit of tax incentives	(2)	–
Tax levied at Group level on share of joint ventures' and associates' profits[#]	5	3
Preference share dividends not deductible	–	1
Recognition of losses not previously recognised[*]	(26)	–
Derecognition of losses previously recognised[**]	–	16
Effect of tax rates in non-UK jurisdictions	6	2
UK corporation tax rate change	(17)	(10)
Adjustments in respect of previous periods	(2)	(4)
Total tax (credit)/charge on underlying profit/(loss)	(7)	11
Add: tax (credit)/charge in non-underlying items (Note 10.3)	(45)	7
Total tax (credit)/charge on profit from operations	(52)	18

\# These are mainly in connection with US and Canadian joint ventures and associates where tax is levied at the Group level rather than within the share of joint ventures and associates.
* Additional UK tax losses of £197m were recognised in 2021, of which £60m were recognised in non-underlying items.
** UK tax losses of £132m were derecognised in 2020, of which £51m were derecognised in non-underlying items.
1 Before non-underlying items (Notes 2.10 and 10).

12 Earnings per ordinary share

Earnings

	Basic 2021 £m	Diluted 2021 £m	Basic 2020 £m	Diluted 2020 £m
Earnings	140	140	30	30
Amortisation of acquired intangible assets – net of tax credit of £1m (2020: £2m)	4	4	4	4
Other non-underlying items – net of tax credit of £44m (2020: £9m charge)	51	51	(9)	(9)
Underlying earnings	195	195	25	25

	Basic 2021 m	Diluted 2021 m	Basic 2020 m	Diluted 2020 m
Weighted average number of ordinary shares	657	664	687	690

Earnings per share

	Basic 2021 Pence	Diluted 2021 Pence	Basic 2020 Pence	Diluted 2020 Pence
Earnings per ordinary share	21.3	21.1	4.4	4.4
Amortisation of acquired intangible assets net of tax	0.6	0.6	0.5	0.5
Other non-underlying items net of tax	7.8	7.7	(1.2)	(1.2)
Underlying earnings per ordinary share	29.7	29.4	3.7	3.7

13 Dividends on ordinary shares

	Per share 2021 Pence	Amount 2021 £m	Per share 2020 Pence	Amount 2020 £m
Proposed dividends for the year				
Interim – current year	3.0	19	–	–
Final – current year	6.0	38	1.5	10
	9.0	57	1.5	10
Recognised dividends for the year				
Final – prior year		10		–
Interim – current year		19		–
		29		–

Subject to approval at the Annual General Meeting on 12 May 2022, the final 2021 dividend will be paid on 6 July 2022 to holders on the register on 27 May 2022 by direct credit or, where no mandate has been given, by cheque posted by 6 July 2022. The ordinary shares will be quoted ex-dividend on 26 May 2022. The last date for DRIP (Dividend Reinvestment Plan) elections will be 15 June 2022.

14 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2020	1,048	(220)	828
Currency translation differences	(12)	(5)	(17)
At 31 December 2021	1,036	(225)	811
Currency translation differences	**(1)**	**7**	**6**
At 31 December 2021	**1,035**	**(218)**	**817**

Carrying amounts of goodwill by segment

	2021			2020		
	United Kingdom £m	**United States £m**	**Total £m**	United Kingdom £m	United States £m	Total £m
Construction Services	**260**	**435**	**695**	260	429	689
Support Services	**73**	**–**	**73**	73	–	73
Infrastructure Investments	**–**	**49**	**49**	–	49	49
Group	**333**	**484**	**817**	333	478	811

Carrying amounts of goodwill by cash-generating unit

	2021		2020	
	£m	**Pre-tax discount rate %**	£m	Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**9.2**	248	10.3
Balfour Beatty Construction Group Inc	**414**	**9.3**	408	11.4
Rail UK	**68**	**9.3**	68	10.4
Balfour Beatty Investments US	**49**	**9.4**	49	11.1
Other	**38**	**10.2**	38	11.2
Group total	**817**		811	

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected future revenues and margins of each CGU, giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three-Year Plan, which covers the period from 2022 to 2024. 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. However, due to the long-term nature and the degree of predictability of some contracts within Balfour Beatty Investments US, the forecast period used in the derivation of this CGU's value-in-use extends beyond the Group's three-year cash flow forecast period. The EBIT multiple is calculated using the Gordon Growth Model and is a factor of the discount rate and growth rate for each CGU. The nominal terminal value is discounted to present value.

	2021			2020		
	Inflation rate %	**Real growth rate %**	**Nominal long-term growth rate applied %**	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	**2.3**	**0.5**	**2.8**	2.3	0.5	2.8
Balfour Beatty Construction Group Inc	**2.0**	**0.8**	**2.8**	1.9	0.6	2.5
Rail UK	**2.3**	**0.5**	**2.8**	2.3	0.5	2.8
Balfour Beatty Investments US	**2.0**	**0.8**	**2.8**	2.0	–	2.0
Other	**2.2**	**0.6**	**2.8**	2.2	0.5	2.7

Sensitivities

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

A reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs.

15 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Infrastructure Investments intangibles £m	Software and other £m	Total £m
Cost						
At 1 January 2020	223	50	3	203	132	611
Currency translation differences	(7)	(2)	–	–	–	(9)
Additions	–	–	–	32	1	33
Removal of fully amortised intangible asset	–	–	–	–	(1)	(1)
At 31 December 2020	216	48	3	235	132	634
Currency translation differences	**2**	**1**	**–**	**–**	**–**	**3**
Additions	**–**	**–**	**–**	**1**	**1**	**2**
Removal of fully amortised intangible asset	**–**	**–**	**–**	**–**	**(6)**	**(6)**
At 31 December 2021	**218**	**49**	**3**	**236**	**127**	**633**
Accumulated amortisation						
At 1 January 2020	(158)	(40)	(3)	(2)	(108)	(311)
Currency translation differences	5	1	–	–	–	6
Charge for the year	(5)	(1)	–	(2)	(9)	(17)
Impairment charge	–	–	–	–	(1)	(1)
Removal of fully amortised intangible asset	–	–	–	–	1	1
At 31 December 2020	(158)	(40)	(3)	(4)	(117)	(322)
Currency translation differences	**(2)**	**(1)**	**–**	**–**	**–**	**(3)**
Charge for the year	**(4)**	**(1)**	**–**	**(4)**	**(9)**	**(18)**
Removal of fully amortised intangible asset	**–**	**–**	**–**	**–**	**6**	**6**
At 31 December 2021	**(164)**	**(42)**	**(3)**	**(8)**	**(120)**	**(337)**
Carrying amount						
At 31 December 2021	**54**	**7**	**–**	**228**	**7**	**296**
At 31 December 2020	58	8	–	231	15	312

The Group recognises certain assets held as part of service concession arrangements as Infrastructure Investments intangible assets where the Group bears demand risk under IFRIC 12 Service Concession Arrangements. In 2021, the Group completed its IFRIC 12 assets, at the University of Sussex, incurring a spend of £1m (2020: £32m) in the year (including interest capitalised of £nil (2020: £3m)). The Infrastructure Investments intangible assets are amortised on a straight-line basis over the life of the projects, which is 50 years.

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to 10 years for customer relationships, three to seven years for software, and up to five years for brand names, except for customer contracts and relationships relating to Balfour Beatty Investments North America which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships of up to 50 years.

Other intangible assets are amortised over periods up to 10 years.

16 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation				
At 1 January 2020	73	263	2	338
Currency translation differences	(1)	(3)	–	(4)
Transfers	1	(1)	–	–
Additions	3	26	4	33
Removal of fully depreciated assets/assets scrapped	(1)	(6)	–	(7)
Disposals	(10)	(18)	–	(28)
At 31 December 2020	65	261	6	332
Currency translation differences	**–**	**2**	**–**	**2**
Additions	**2**	**31**	**2**	**35**
Removal of fully depreciated assets/assets scrapped	**–**	**(4)**	**–**	**(4)**
Disposals	**(2)**	**(38)**	**–**	**(40)**
At 31 December 2021	**65**	**252**	**8**	**325**
Accumulated depreciation				
At 1 January 2020	(44)	(203)	–	(247)
Currency translation differences	1	2	–	3
Charge for the year	(8)	(16)	–	(24)
Removal of fully depreciated assets/assets scrapped	1	6	–	7
Disposals	5	17	–	22
At 31 December 2020	(45)	(194)	–	(239)
Charge for the year	**(5)**	**(19)**	**–**	**(24)**
Impairment charge	**(1)**	**(1)**	**–**	**(2)**
Removal of fully depreciated assets/assets scrapped	**–**	**4**	**–**	**4**
Disposals	**2**	**32**	**–**	**34**
At 31 December 2021	**(49)**	**(178)**	**–**	**(227)**
Carrying amount				
At 31 December 2021	**16**	**74**	**8**	**98**
At 31 December 2020	20	67	6	93

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated on a straight-line basis over their expected useful lives. Buildings are depreciated at 2.5% per annum and plant and equipment is depreciated at 4% to 33% per annum.

17 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
Cost or valuation				
At 1 January 2020	75	25	54	154
Currency translation differences	–	(1)	–	(1)
Additions	22	19	30	71
Removal of fully depreciated assets/assets scrapped	(7)	(1)	(4)	(12)
Disposals	(11)	(2)	(2)	(15)
At 31 December 2020	79	40	78	197
Additions	**16**	**18**	**27**	**61**
Removal of fully depreciated assets/assets scrapped	**(3)**	**(12)**	**(7)**	**(22)**
Disposals	**(6)**	**(2)**	**(6)**	**(14)**
At 31 December 2021	**86**	**44**	**92**	**222**
Accumulated depreciation				
At 1 January 2020	(16)	(7)	(18)	(41)
Charge for the year	(20)	(14)	(22)	(56)
Removal of fully depreciated assets/assets scrapped	7	1	4	12
Disposals	5	2	2	9
At 31 December 2020	(24)	(18)	(34)	(76)
Charge for the year	**(17)**	**(14)**	**(23)**	**(54)**
Removal of fully depreciated assets/assets scrapped	**3**	**12**	**7**	**22**
Disposals	**4**	**1**	**6**	**11**
At 31 December 2021	**(34)**	**(19)**	**(44)**	**(97)**
Carrying amount				
At 31 December 2021	**52**	**25**	**48**	**125**
At 31 December 2020	55	22	44	121

18 Investment properties

	Cost £m	Accumulated depreciation £m	Carrying amount £m
At 1 January 2020	35	(3)	32
Depreciation charge for the year	–	(2)	(2)
At 31 December 2020	35	(5)	30
Depreciation charge for the year	**–**	**(1)**	**(1)**
At 31 December 2021	**35**	**(6)**	**29**

Investment properties are held by the Group to generate rental income and capital appreciation. The Group has chosen to account for its investment property assets under the cost method. The Group has non-recourse project specific financing amounting to £26m (2020: £26m), which is secured through a floating charge over the property.

Once a property is ready for use, the Group ceases capitalisation of interest cost and commences depreciation on the property, on a straight-line basis over 25 years.

The fair value of the Group's investment properties at 31 December 2021 approximates the carrying value. The Group generated £3m (2020: £3m) of rental income from its investment properties.

19 Investments in joint ventures and associates

19.1 Movements

	Net assets £m	Loans^ £m	Total £m
At 1 January 2020	351	199	550
Currency translation differences	(5)	–	(5)
Income recognised	38	–	38
Fair value revaluation of PPP financial assets (Note 32.1)	8	–	8
Fair value revaluation of cash flow hedges (Note 32.1)	1	–	1
Tax on items taken directly to equity (Note 32.1)	(2)	–	(2)
Dividends	(50)	–	(50)
Additions	29	–	29
Loans advanced	–	1	1
Loans repaid	–	(5)	(5)
Movement relating to loss of control of joint venture	16	(16)	–
Reclassification between net assets and loans	10	(10)	–
Impairment of loans to joint ventures and associates (Note 9)	–	(11)	(11)
At 31 December 2020	396	158	554
Currency translation differences	**(1)**	**–**	**(1)**
Income recognised	**57**	**–**	**57**
Fair value revaluation of PPP financial assets (Note 32.1)	**(6)**	**–**	**(6)**
Fair value revaluation of cash flow hedges (Note 32.1)	**(6)**	**–**	**(6)**
Actuarial movements on retirement benefit assets/liabilities (Note 32.1)	**7**	**–**	**7**
Tax on items taken directly to equity (Note 32.1)	**(3)**	**–**	**(3)**
Dividends	**(68)**	**–**	**(68)**
Additions	**18**	**–**	**18**
Disposal of interest in BC Children's and BC Women's Hospitals (Note 34.2.1)	**(17)**	**–**	**(17)**
Disposal of interest in Aberdeen Western Peripheral Route (Note 34.2.4)	**(3)**	**(18)**	**(21)**
Return of equity	**(4)**	**–**	**(4)**
Loans repaid	**–**	**(3)**	**(3)**
Reclassification between net assets and loans	**26**	**(26)**	**–**
Impairment of loans to joint ventures and associates (Note 9)	**–**	**(4)**	**(4)**
At 31 December 2021	**396**	**107**	**503**

^ Loans include subordinated debt receivable from joint ventures and associates within the Infrastructure Investment segment.

The principal joint ventures and associates are shown in Note 41.

The amount of the Group's share of borrowings of joint ventures and associates which was supported by the Group and the Company was £nil (2020: £nil).

The non-recourse borrowings of joint venture and associate entities relating to infrastructure concessions projects are repayable over periods extending up to 2048. The non-recourse borrowings arise under facilities taken out by project-specific joint venture and associate concession companies. The borrowings of each concession company are secured by a combination of fixed and floating charges over that concession company's interests in its project's assets and revenues and the shares in the concession company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

As disclosed in Note 41(f), the Group has committed to provide its share of further equity funding of joint ventures and associates in Infrastructure Investments' projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction is complete. As is customary in such projects, banking covenants restrict the payment of dividends and other distributions.

19 Investments in joint ventures and associates continued

19.2 Share of results and net assets of joint ventures and associates

Income statement	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments UK^ 2021 £m	Infrastructure Investments North America 2021 £m	Infrastructure Investments Total 2021 £m	Total 2021 £m
Revenue[1]	826	20	113	119	232	1,078
Operating profit excluding gain on disposals of interests in investments	37	1	–	19	19	57
Gain on disposals of interests in investments	–	–	–	9	9	9
Operating profit[1]	37	1	–	28	28	66
Investment income	1	–	76	12	88	89
Finance costs	(1)	–	(73)	(17)	(90)	(91)
Profit before taxation[1]	37	1	3	23	26	64
Taxation	(5)	–	(2)	–	(2)	(7)
Profit after taxation	32	1	1	23	24	57
Balance sheet						
Non-current assets						
Intangible assets – goodwill	30	–	–	–	–	30
– Infrastructure Investments intangible	–	–	41	–	41	41
– other	–	–	13	–	13	13
Property, plant and equipment	31	–	–	–	–	31
Investment properties	–	–	–	265	265	265
Investments in joint ventures and associates	3	–	–	–	–	3
Money market funds	–	–	–	81	81	81
PPP financial assets	–	–	1,123	172	1,295	1,295
Military housing projects	–	–	–	106	106	106
Other non-current assets	70	–	15	7	22	92
Current assets						
Cash and cash equivalents	308	–	143	24	167	475
Other current assets	223	–	56	2	58	281
Total assets	665	–	1,391	657	2,048	2,713
Current liabilities						
Borrowings – non-recourse	(51)	–	(36)	–	(36)	(87)
Other current liabilities	(467)	–	(120)	(10)	(130)	(597)
Non-current liabilities						
Borrowings – non-recourse	–	–	(909)	(450)	(1,359)	(1,359)
Other non-current liabilities	(54)	–	(213)	(7)	(220)	(274)
Total liabilities	(572)	–	(1,278)	(467)	(1,745)	(2,317)
Net assets	93	–	113	190	303	396
Loans to joint ventures and associates	–	–	107	–	107	107
Total investment in joint ventures and associates	93	–	220	190	410	503

^ Including Ireland.
1 Before non-underlying items (Note 2.10).

The Group's investment in military housing joint ventures' and associates' projects is recognised at its remaining equity investment plus the value of the Group's accrued returns from the underlying projects. The military housing joint ventures and associates have total non-recourse net borrowings of £2,126m (2020: £2,178m). Note 41(e) details the Group's military housing projects.

On certain Infrastructure Investments concessions where net fair value revaluations of PPP financial assets and cash flow hedges resulted in the Group's carrying value of these investments being negative, the Group has not recognised losses beyond the carrying value of its investments. This is because the Group has not committed to provide any further funding to these investments and the borrowings within these concessions are non-recourse to the Group. At 31 December 2021, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £nil (2020: £9m).

19 Investments in joint ventures and associates continued

19.2 Share of results and net assets of joint ventures and associates continued

Income statement	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments UK^ 2020 £m	Infrastructure Investments North America 2020 £m	Infrastructure Investments Total 2020 £m	Total 2020 £m
Revenue[1]	998	30	103	138	241	1,269
Operating profit/(loss)[1]	29	1	(6)	18	12	42
Investment income	3	–	80	15	95	98
Finance costs	(1)	–	(80)	(19)	(99)	(100)
Profit/(loss) before taxation[1]	31	1	(6)	14	8	40
Taxation	(2)	–	–	–	–	(2)
Profit/(loss) after taxation	29	1	(6)	14	8	38
Balance sheet						
Non-current assets						
Intangible assets – goodwill	29	–	–	–	–	29
– Infrastructure Investments intangible	–	–	42	–	42	42
– other	–	–	14	–	14	14
Property, plant and equipment	30	–	17	–	17	47
Investment properties	–	–	–	210	210	210
Investments in joint ventures and associates	2	–	–	–	–	2
Money market funds	–	–	–	94	94	94
PPP financial assets	–	–	1,359	204	1,563	1,563
Military housing projects	–	–	–	104	104	104
Other non-current assets	76	–	16	3	19	95
Current assets						
Cash and cash equivalents	334	–	152	24	176	510
Other current assets	221	–	69	36	105	326
Total assets	692	–	1,669	675	2,344	3,036
Current liabilities						
Borrowings – non-recourse	(60)	–	(43)	–	(43)	(103)
Other current liabilities	(464)	–	(130)	(18)	(148)	(612)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,122)	(456)	(1,578)	(1,578)
Other non-current liabilities	(72)	–	(268)	(7)	(275)	(347)
Total liabilities	(596)	–	(1,563)	(481)	(2,044)	(2,640)
Net assets	96	–	106	194	300	396
Loans to joint ventures and associates	–	–	158	–	158	158
Total investment in joint ventures and associates	96	–	264	194	458	554

^ Including Ireland.
1 Before non-underlying items (Note 2.10).

19.3 Aggregate information of joint ventures and associates

	Joint ventures 2021 £m	**Associates 2021 £m**	**Total 2021 £m**
The Group's share of profit from operations	**48**	**9**	**57**
Aggregate carrying amount of the Group's interest	**390**	**113**	**503**

	Joint ventures 2020 £m	Associates 2020 £m	Total 2020 £m
The Group's share of profit from operations	27	11	38
Aggregate carrying amount of the Group's interest	449	105	554

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19 Investments in joint ventures and associates continued

19.4 Details of material joint ventures

	Gammon China Ltd		Connect Plus (M25) Ltd	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Proportion of the Group's ownership interest in the joint venture	**50%**	50%	**15%**	15%
Income statement				
Revenue	**1,618**	1,970	**146**	144
Underlying operating profit	**72**	57	**12**	8
Investment income	**2**	6	**137**	140
Finance costs	**(2)**	(3)	**(104)**	(110)
Income tax charge	**(13)**	(4)	**(16)**	(8)
Profit	**59**	56	**29**	30
Total other comprehensive income/(loss)	**13**	2	**(85)**	(83)
Total comprehensive income/(loss) (100%)	**72**	58	**(56)**	(53)
Group's share of total comprehensive income/(loss)	**36**	29	**(8)**	(8)
Dividends received by the Group during the year	**32**	29	**5**	4
Balance sheet				
Non-current assets	**210**	217	**2,047**	2,052
Current assets				
Cash and cash equivalents	**594**	640	**140**	144
Other current assets	**416**	413	**60**	43
	1,010	1,053	**200**	187
Current liabilities				
Trade and other payables	**(699)**	(671)	**(57)**	(25)
Provisions	**(50)**	(61)	**–**	–
Borrowings – non-recourse	**(103)**	(121)	**(19)**	(34)
Other current liabilities	**(142)**	(156)	**(1)**	(2)
	(994)	(1,009)	**(77)**	(61)
Non-current liabilities				
Trade and other payables	**(55)**	(64)	**–**	–
Provisions	**(25)**	(32)	**–**	–
Borrowings – non-recourse	**–**	–	**(1,193)**	(1,205)
Other non-current liabilities (including shareholder loans)	**(29)**	(48)	**(506)**	(413)
	(109)	(144)	**(1,699)**	(1,618)
Net assets (100%)	**117**	117	**471**	560
Reconciliation of the above summarised financial information to the carrying amount of the interest in the above joint ventures recognised in the consolidated financial statements:				
Net assets of joint venture (100%)	**117**	117	**471**	560
Group's share of net assets	**59**	59	**71**	84
Add: Group's interest in shareholder loans	**–**	–	**27**	28
Goodwill	**30**	29	**–**	–
Carrying amount of the Group's interest in the joint venture	**89**	88	**98**	112

19 Investments in joint ventures and associates continued

19.5 Cash flow from/(to) joint ventures and associates

	Infrastructure Investments				Infrastructure Investments			
Cash flows from investing activities	**UK^ 2021 £m**	**North America 2021 £m**	**Other 2021 £m**	**Total 2021 £m**	UK^ 2020 £m	North America 2020 £m	Other 2020 £m	Total 2020 £m
Dividends from joint ventures and associates	**5**	**25**	**38**	**68+**	4	16	30	50
Subordinated debt interest received	**8**	**–**	**–**	**8**	15	–	–	15
Investments in and loans to joint ventures and associates	**2**	**(17)**	**–**	**(15)**	(3)	(22)	–	(25)
Equity	**(1)**	**(17)**	**–**	**(18)**	(7)	(22)	–	(29)
Subordinated debt invested	**–**	**–**	**–**	**–**	(1)	–	–	(1)
Subordinated debt repaid	**3**	**–**	**–**	**3**	5	–	–	5
Return of equity from joint ventures and associates	**–**	**4**	**–**	**4+**	–	–	–	–
Disposal of investments in joint ventures	**30**	**20**	**1**	**51**	1	–	1	2
Net cash flow from/(to) joint ventures and associates	**45**	**32**	**39**	**116**	17	(6)	31	42

^ Including Ireland.
\+ In 2021, dividends and return of equity from joint ventures and associates included £8m and £4m respectively of proceeds generated from the disposal of Riverchase Landing and Zephyr Ridge.

19.6 Share of reserves of joint ventures and associates

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total (Note 32.1) £m
At 1 January 2020	(37)	(58)	98	43	46
Currency translation differences	–	–	–	(4)	(4)
Income recognised	38	–	–	–	38
Fair value revaluation of PPP financial assets	–	–	8	–	8
Fair value revaluation of cash flow hedges	–	1	–	–	1
Tax on items taken directly to equity	–	2	(4)	–	(2)
Dividends	(50)	–	–	–	(50)
Reserve transfers relating to joint ventures and associates	28	–	–	–	28
At 31 December 2020	(21)	(55)	102	39	65
Currency translation differences	**–**	**–**	**–**	**(1)**	**(1)**
Income recognised	**57**	**–**	**–**	**–**	**57**
Fair value revaluation of PPP financial assets	**–**	**–**	**(6)**	**–**	**(6)**
Fair value revaluation of cash flow hedges	**–**	**(6)**	**–**	**–**	**(6)**
Actuarial movements on retirement benefit assets/liabilities	**7**	**–**	**–**	**–**	**7**
Tax on items taken directly to equity	**(1)**	**6**	**(8)**	**–**	**(3)**
Dividends	**(68)**	**–**	**–**	**–**	**(68)**
Reserve transfers relating to joint ventures and associates	**34**	**–**	**–**	**–**	**34**
Recycling of revaluation reserves to the income statement on disposal	**–**	**1**	**(8)**	**–**	**(7)**
At 31 December 2021	**8**	**(54)**	**80**	**38**	**72**

20 Investments

20.1 Group

	Corporate bonds £m	Investments in mutual funds £m	Other £m	Total £m
At 1 January 2020	5	22	–	27
Fair value gains	–	2	–	2
Benefits paid	–	(3)	–	(3)
At 31 December 2020	5	21	–	26
Currency translation differences	**–**	**1**	**–**	**1**
Fair value gains	**–**	**3**	**9**	**12**
Interest accrued	**–**	**1**	**–**	**1**
Maturities	**(3)**	**–**	**–**	**(3)**
Benefits paid	**–**	**(2)**	**–**	**(2)**
At 31 December 2021	**2**	**24**	**9**	**35**

The corporate bonds are held by the Group's captive insurance company, Delphian Insurance Company Ltd, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 2.60% (2020: 3.62%) and weighted average life of 1.3 years (2020: 2.4 years). The fair value of the bonds is £2m (2020: £5m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2021 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The investments in mutual funds comprise holdings in a number of funds, based on employees' investment elections, in respect of the deferred compensation obligations of the Group as disclosed in Note 30.2. The fair value of these investments is £24m (2020: £21m), determined by the market price of the funds at the reporting date.

Other investments relate to the Group's interest in two Limited Partnerships (LPs) incorporated in Bermuda. The principal activity of the two LPs is to receive carry interest from a fund. Carry interest refers to a performance fee payable once the performance of the fund exceeds agreed hurdles. During the year, the Group recognised a fair value gain in relation to its carry interest of £9m (2020: £nil). The fund has a maturity date of 2023 with an option to extend by two years. All gains will be realised by the final maturity date.

20.2 Company

	2021 £m	2020 £m
Investment in subsidiaries	**1,752**	1,746
Provisions	**(26)**	(26)
	1,726	1,720

The increase of investment in subsidiaries of £6m relates to new capital injected into the Company's existing subsidiaries. Including provisions recognised to date, the Directors have assessed the Company's investment in subsidiaries to be fully recoverable.

21 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
At 1 January 2020	27	128	155
Income recognised in the income statement:			
– interest income (Note 8)	2	6	8
Gains recognised in the statement of comprehensive income:			
– fair value movements	–	5	5
Other movements:			
– cash expenditure	2	–	2
– cash received	(5)	(10)	(15)
At 31 December 2020	26	129	155
Income recognised in the income statement:			
– interest income (Note 8)	**1**	**4**	**5**
Gains recognised in the statement of comprehensive income:			
– fair value movements	**(2)**	**(1)**	**(3)**
Other movements:			
– cash expenditure	**2**	**1**	**3**
– cash received	**(4)**	**(6)**	**(10)**
Disposal of Woodland View Hospital (Notes 34.2.4 and 34.2.7)	**–**	**(55)**	**(55)**
Disposal of North West Fire & Rescue (Notes 34.2.3 and 34.2.7)	**–**	**(65)**	**(65)**
At 31 December 2021	**23**	**7**	**30**

Assets constructed by PPP subsidiary concession companies are classified as financial assets measured at fair value through OCI and are denominated in sterling. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets.

There were no impairment provisions in 2021 or 2020.

22 Inventories

	2021 £m	2020 £m
Raw materials and consumables	**74**	84
Development and housing land and work in progress	**29**	29
Finished goods and goods for resale	**1**	1
	104	114

23 Contract balances

The timing of revenue recognition, billings and cash collection results in trade receivables (billed amounts), contract assets (unbilled amounts) and customer advances and deposits (contract liabilities) on the Group's balance sheet. For services in which revenue is earned over time, amounts are billed in accordance with contractual terms, either at periodic intervals or upon achievement of contractual milestones. The timing of revenue recognition is measured in accordance with the progress of delivery on a contract which could either be in advance or in arrears of billing, resulting in either a contract asset or a contract liability.

Contract assets	£m
At 1 January 2020	377
Currency translation differences	(2)
Transfers from contract assets recognised at the beginning of the year to receivables	(370)
Increase related to services provided in the year	274
Reclassified to contract provisions (Note 26)	16
Impairments on contract assets recognised at the beginning of the year	(7)
At 31 December 2020	288
Transfers from contract assets recognised at the beginning of the year to receivables	**(257)**
Increase related to services provided in the year	**200**
Reclassified from contract provisions (Note 26)	**(7)**
Impairments on contract assets recognised at the beginning of the year	**(10)**
At 31 December 2021	**214**

Contract liabilities	£m
At 1 January 2020	(471)
Currency translation differences	11
Revenue recognised against contract liabilities at the beginning of the year	419
Increase due to cash received, excluding amounts recognised as revenue during the year	(485)
At 31 December 2020	(526)
Currency translation differences	**(4)**
Revenue recognised against contract liabilities at the beginning of the year	**477**
Increase due to cash received, excluding amounts recognised as revenue during the year	**(625)**
At 31 December 2021	**(678)**

The amount of revenue recognised in the year from performance obligations satisfied (or partially satisfied) in previous periods amounted to £48m (2020: £4m).

24 Trade and other receivables

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Current				
Trade receivables	**518**	526	**–**	–
Less: provision for impairment of trade receivables	**(3)**	(12)	**–**	–
	515	514	**–**	–
Due from subsidiaries	**–**	–	**1,421**	1,600
Due from joint ventures and associates	**15**	16	**–**	–
Due from joint operation partners	**12**	17	**–**	–
Contract fulfilment assets	**12**	15	**–**	–
Contract retentions receivable	**215**	202	**–**	–
Accrued income	**13**	9	**–**	–
Prepayments	**42**	41	**–**	–
Due on disposals	**1**	2	**–**	–
Other receivables	**40**	22	**1**	1
	865	838	**1,422**	1,601
Non-current				
Due from joint ventures and associates	**73**	67	**1**	1
Contract fulfilment assets	**32**	13	**–**	–
Contract retentions receivable	**142**	165	**–**	–
Due on disposals	**–**	1	**–**	–
Other receivables	**2**	4	**1**	2
	249	250	**2**	3
Total trade and other receivables	**1,114**	1,088	**1,424**	1,604
Comprising				
Financial assets (Note 40)	**1,072**	1,047	**1,424**	1,604
Non-financial assets – prepayments	**42**	41	**–**	–
	1,114	1,088	**1,424**	1,604

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Directors believe no further credit risk provision is required in respect of trade receivables.

The Directors consider that the carrying values of current and non-current trade and other receivables approximate their fair values.

Maturity profile of impaired trade receivables and trade receivables past due but not impaired

	Impaired		Past due but not impaired	
	Group 2021 £m	Group 2020 £m	Group 2021 £m	Group 2020 £m
Up to three months	**–**	–	**20**	36
Three to six months	**–**	–	**19**	14
Six to nine months	**–**	–	**6**	4
Nine to 12 months	**–**	–	**3**	7
More than 12 months	**3**	12	**41**	29
	3	12	**89**	90

At 31 December 2021, trade receivables of £89m (2020: £90m) were past due but not impaired. These relate to a number of individual customers where there is no reason to believe that the receivable is not recoverable.

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

25 Trade and other payables

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Current				
Trade and other payables+	**748**	763	**–**	–
Accruals	**611**	576	**5**	7
VAT, payroll taxes and social security	**96**	61	**–**	–
Due to subsidiaries	**–**	–	**1,953**	1,969
Due on acquisitions	**3**	3	**–**	–
	1,458	1,403	**1,958**	1,976
Non-current				
Trade and other payables	**97**	104	**–**	–
Accruals	**10**	11	**–**	–
Due to joint ventures and associates	**10**	10	**3**	3
Due on acquisitions	**–**	3	**–**	–
	117	128	**3**	3
Total trade and other payables	**1,575**	1,531	**1,961**	1,979
Comprising				
Financial liabilities (Note 40)	**1,463**	1,456	**1,961**	1,979
Non-financial liabilities:				
– accruals not at amortised cost	**16**	14	**–**	–
– VAT, payroll taxes and social security	**96**	61	**–**	–
	1,575	1,531	**1,961**	1,979

+ Includes the cost of settlement relating to the DoJ resolution. This was settled in full in January 2022. Refer to Note 10.2.2.

Maturity profile of the Group's non-current financial liabilities at 31 December

	Trade and other payables 2021 £m	Accruals 2021 £m	Due to joint ventures and associates 2021 £m	Total 2021 £m
Due within one to two years	**46**	**5**	**–**	**51**
Due within two to five years	**51**	**5**	**4**	**60**
Due after more than five years	**–**	**–**	**6**	**6**
	97	**10**	**10**	**117**

	Trade and other payables 2020 £m	Accruals 2020 £m	Due to joint ventures and associates 2020 £m	Due on acquisitions 2020 £m	Total 2020 £m
Due within one to two years	63	4	–	3	70
Due within two to five years	41	7	3	–	51
Due after more than five years	–	–	7	–	7
	104	11	10	3	128

The Directors consider that the carrying values of current and non-current trade and other payables approximate their fair values. The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

26 Provisions

	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m
At 1 January 2020	224	48	23	295
Reclassified from/(to) accruals	(1)	–	1	–
Charged/(credited) to the income statement:				
– additional provisions	140	14	7	161
– unused amounts reversed	(40)	(7)	(3)	(50)
Utilised during the year	(60)	(9)	(3)	(72)
Reclassified from contract assets (Note 23)	16	–	–	16
At 31 December 2020	279	46	25	350
Currency translation differences	**(1)**	**–**	**–**	**(1)**
Reclassified from accruals	**3**	**–**	**–**	**3**
Charged/(credited) to the income statement:				
– additional provisions	**158**	**11**	**4**	**173**
– unused amounts reversed	**(35)**	**(8)**	**(4)**	**(47)**
Utilised during the year	**(76)**	**(13)**	**(3)**	**(92)**
Reclassified to contract assets (Note 23)	**(7)**	**–**	**–**	**(7)**
At 31 December 2021	**321**	**36**	**22**	**379**

	Contract provisions 2021 £m	**Employee provisions 2021 £m**	**Other provisions 2021 £m**	**Total 2021 £m**	Contract provisions 2020 £m	Employee provisions 2020 £m	Other provisions 2020 £m	Total 2020 £m
Due within one year	**160**	**7**	**7**	**174**	178	12	10	200
Due within one to two years	**76**	**12**	**7**	**95**	52	8	6	66
Due within two to five years	**64**	**8**	**4**	**76**	38	10	4	52
Due after more than five years	**21**	**9**	**4**	**34**	11	16	5	32
	321	**36**	**22**	**379**	279	46	25	350

Contract provisions include construction insurance liabilities, principally in the Group's self-insurance arrangements, loss provisions, and defect and warranty provisions on contracts, primarily construction contracts, that have reached practical completion. There is a latent defect period for which the provision is held, but where there are known identified issues then the provision may be required to cover rectification work over a more extended period.

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's self-insurance arrangements.

Other provisions principally comprise: motor and other insurance liabilities in the Group's self-insurance arrangements; legal claims and costs, where provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress; and environmental provisions.

The Group takes actuarial advice when establishing the level of provisions in the Group's self-insurance arrangements and certain other categories of provision.

Insurance-related provisions within these categories were £56m (2020: £59m) as follows: Contract provisions £34m (2020: £33m); Employee provisions £18m (2020: £22m); and Other, mainly motor, provisions £4m (2020: £4m).

27 Cash and cash equivalents and borrowings

27.1 Group

	Current 2021 £m	Non-current 2021 £m	Total 2021 £m	Current 2020 £m	Non-current 2020 £m	Total 2020 £m
Unsecured borrowings at amortised cost						
– Bank overdrafts	**(34)**	**–**	**(34)**	–	–	–
– US private placement (Note 27.2)	**–**	**(192)**	**(192)**	–	(189)	(189)
	(34)	**(192)**	**(226)**	–	(189)	(189)
Cash and deposits at amortised cost	**766**	**–**	**766**	591	–	591
Term deposits at amortised cost	**250**	**–**	**250**	179	–	179
Cash and cash equivalents (excluding infrastructure concessions)	**1,016**	**–**	**1,016**	770	–	770
	982	**(192)**	**790**	770	(189)	581
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2022 and 2072	**(5)**	**(255)**	**(260)**	(6)	(333)	(339)
Infrastructure concessions cash and cash equivalents	**17**	**–**	**17**	22	–	22
	12	**(255)**	**(243)**	16	(333)	(317)
Net cash/(borrowings)	**994**	**(447)**	**547**	786	(522)	264

Bank overdrafts have arisen due to timings of the Group's BACS payment in the UK. In line with the Group's accounting policy, payments are recorded against cash and cash equivalents when BACS payments are initiated, rather than when they are settled which is typically two working days later. In the intervening period between initiation and settlement, as part of the Group's cash management strategy, cash would be placed in overnight money market deposits and would later be released to be utilised against these BACS payments when settlement occurs. As there is no legal right of offset between funds held with different counterparties, the overdrafts arising as a result of the initiation of the BACS payment are shown within borrowings on the Group's balance sheet.

The loans relating to project finance arise under non-recourse facilities taken out by project-specific subsidiary companies. The loans of each company are secured by a combination of fixed and floating charges over that company's interests in its project's assets and revenues and the shares in the company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

Term deposits are held on a short-term basis and are readily accessible to the Group at any time with insignificant break costs.

Included in cash and cash equivalents is restricted cash of: £10m (2020: £7m) held by the Group's self-insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations; £249m (2020: £152m) held within construction project bank accounts; and £17m (2020: £22m) relating to the maintenance and other reserve accounts in the Infrastructure Investments subsidiaries.

Cash, deposits and term deposits include the Group's share of amounts held by joint operations of £261m (2020: £315m).

Maturity profile of the Group's borrowings at 31 December

	Non-recourse project finance 2021 £m	Other borrowings 2021 £m	Total 2021 £m	Non-recourse project finance 2020 £m	Other borrowings 2020 £m	Total 2020 £m
Due on demand or within one year	**(5)**	**(34)**	**(39)**	(6)	–	(6)
Due within one to two years	**(32)**	**(155)**	**(187)**	(9)	–	(9)
Due within two to five years	**(23)**	**(37)**	**(60)**	(56)	(189)	(245)
Due after more than five years	**(200)**	**–**	**(200)**	(268)	–	(268)
	(260)	**(226)**	**(486)**	(339)	(189)	(528)

The carrying values of the Group's borrowings are equal to the fair values at the reporting date. The fair values are determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

US$259m of the Group's US private placement notes remain outstanding, with the next tranche of US$209m being due in March 2023 and the final tranche of US$50m being due in March 2025.

Undrawn Group committed borrowing facilities at 31 December in respect of which all conditions precedent were satisfied

	Non-recourse project finance 2021 £m	Other borrowings 2021 £m	Total 2021 £m	Non-recourse project finance 2020 £m	Other borrowings 2020 £m	Total 2020 £m
Expiring in one year or less	**–**	**–**	**–**	–	–	–
Expiring in more than one year but not more than two years	**–**	**–**	**–**	–	–	–
Expiring in more than two years	**–**	**375**	**375**	–	375	375
	–	**375**	**375**	–	375	375

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity as required to support Balfour Beatty in its activities.

In October 2021, the Group agreed to the conversion of its revolving credit facility (RCF) to a sustainability linked loan, extending the maturity to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score. This facility was undrawn at 31 December 2021.

27 Cash and cash equivalents and borrowings continued

27.2 US private placement

In March 2013, the Group raised US$350m (£231m) of borrowings through a US private placement of a series of notes with an average coupon of 4.94% per annum and an average maturity of 9.3 years. On 7 March 2018, the Group repaid the first tranche of these notes amounting to US$45m (£32.5m). On 5 March 2020, the Group repaid the second tranche of these notes amounting to US$46m (£36m). At 31 December 2021, US$259m (£192m) remain with an average coupon of 5.2% and a remaining average maturity of 1.6 years.

27.3 Company

	Current 2021 £m	**Non-current 2021 £m**	**Total 2021 £m**	Current 2020 £m	Non-current 2020 £m	Total 2020 £m
Cash	**96**	**–**	**96**	80	–	80
Term deposits	**249**	**–**	**249**	178	–	178
Bank overdrafts	**(17)**	**–**	**(17)**	–	–	–
US private placement (Note 27.2)	**–**	**(192)**	**(192)**	–	(189)	(189)
Net cash/(borrowings)	**328**	**(192)**	**136**	258	(189)	69

28 Lease liabilities

28.1 Movements

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
At 1 January 2020	65	18	37	120
Additions	21	20	30	71
Payments made for lease liabilities+	(24)	(17)	(23)	(64)
Disposals	(7)	–	(1)	(8)
Interest on lease liabilities	3	1	2	6
At 31 December 2020	58	22	45	125
Additions	**16**	**18**	**27**	**61**
Payments made for lease liabilities+	**(20)**	**(15)**	**(24)**	**(59)**
Disposals	**(2)**	**(1)**	**(1)**	**(4)**
Interest on lease liabilities	**3**	**1**	**2**	**6**
At 31 December 2021	**55**	**25**	**49**	**129**

+ Payments made for lease liabilities include an interest element of £6m (2020: £6m).

28.2 Maturity analysis – contractual undiscounted cash flows

	Land and buildings 2021 £m	**Plant and equipment 2021 £m**	**Motor vehicles 2021 £m**	**Total 2021 £m**	Land and buildings 2020 £m	Plant and equipment 2020 £m	Motor vehicles 2020 £m	Total 2020 £m
Due within one year	**14**	**9**	**21**	**44**	17	11	19	47
Due within one to two years	**11**	**6**	**16**	**33**	10	5	14	29
Due within two to five years	**20**	**10**	**14**	**44**	22	5	14	41
Due after more than five years	**19**	**3**	**–**	**22**	21	2	–	23
Total undiscounted cash flows	**64**	**28**	**51**	**143**	70	23	47	140

28.3 Amounts recognised in the income statement

	2021 £m	2020 £m
Interest on lease liabilities	**6**	6
Expenses relating to short-term leases	**120**	73

29 Deferred tax

29.1 Group

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Net deferred tax position at 31 December

	Group 2021 £m	Group 2020 £m
Deferred tax assets	**120**	80
Deferred tax liabilities	**(115)**	(104)
	5	(24)

Movement for the year in the net deferred tax position

	Group £m
At 1 January 2020	(16)
Currency translation differences	3
(Charged)/credited to income statement	(18)
Credited to equity	5
Research and development tax credits	2
At 31 December 2020	(24)
Currency translation differences	**(1)**
Credited to income statement	**52**
Charged to equity	**(24)**
Research and development tax credits	**1**
Disposal of North West Fire & Rescue (Notes 34.2.3 and 34.2.7)	**1**
At 31 December 2021	**5**

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority.

Net deferred tax position

	Depreciation in excess of capital allowances £m	Retirement benefits £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Fair value adjustments £m	Derivatives £m	Other GAAP differences £m	Research and development credit £m	Total £m
At 1 January 2020	17	(34)	124	3	27	(75)	6	(86)	2	(16)
Currency translation differences	–	–	–	–	(2)	3	–	2	–	3
Credited/(charged) to income statement	2	(4)	(28)	–	15	(7)	–	4	–	(18)
Credited/(charged) to equity	–	5	–	1	–	(2)	1	–	–	5
Research and development tax credits	–	–	–	–	–	–	–	–	2	2
At 31 December 2020	19	(33)	96	4	40	(81)	7	(80)	4	(24)
Currency translation differences	**–**	**–**	**–**	**–**	**1**	**(1)**	**–**	**(1)**	**–**	**(1)**
Credited/(charged) to income statement	**16**	**(13)**	**54**	**1**	**9**	**(9)**	**–**	**(6)**	**–**	**52**
Charged to equity	**–**	**(23)**	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**(24)**
Research and development tax credits	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Disposal of North West Fire & Rescue (Notes 34.2.3 and 34.2.7)	**–**	**–**	**–**	**–**	**–**	**7**	**(6)**	**–**	**–**	**1**
At 31 December 2021	**35**	**(69)**	**150**	**5**	**50**	**(85)**	**1**	**(87)**	**5**	**5**

29 Deferred tax continued

29.1 Group continued

At the balance sheet date, the Group had unused trading tax losses of £1,207m (2020: £1,273m) available for offset against future profits, of which £846m (2020: £845m) arose in the UK, £29m (2020: £68m) in the US and £332m (2020: £359m) in other jurisdictions including mainly Germany.

A deferred tax asset has been recognised in respect of £615m (2020: £491m) of such losses, of which £588m (2020: £422m) have been recognised in the UK, £27m (2020: £66m) in the US, and £nil (2020: £3m) in other jurisdictions. No deferred tax asset has been recognised in respect of the remaining £592m (2020: £782m) due to unpredictability of future profit streams. Of the Group's tax losses, £10m (2020: £13m) that have arisen will expire within 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2022. Other losses will be carried forward indefinitely.

In addition to the losses referred to above, at 31 December 2021 the Group had UK capital losses available to carry forward of £1.4bn (2020: £1.4bn). No deferred tax assets have been recognised in respect of these losses as there are no capital profits forecast against which these losses can be utilised.

The Group also had temporary differences relating to retirement benefits on which a deferred tax asset has not been recognised of £22m (2020: £63m).

Deferred tax liabilities on fair value adjustments of £85m relate to temporary differences arising on goodwill and intangibles. Deferred tax liabilities on other GAAP differences of £87m relate to temporary differences on joint ventures.

At the reporting date, undistributed reserves of non-UK subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised were £513m (2020: £557m) in respect of subsidiaries and £40m (2020: £49m) in respect of joint ventures and associates. No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated.

29.2 Company

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority (2020: £nil).

	Deferred tax liabilities	Deferred tax assets	
	Preference shares £m	Share-based payments £m	Net deferred tax assets/ (liabilities) £m
At 1 January 2020	–	–	–
Credited/(charged) to income statement	–	–	–
At 31 December 2020	–	–	–
Credited/(charged) to income statement	–	–	–
At 31 December 2021	**–**	**–**	**–**

30 Retirement benefit assets and liabilities

30.1 Introduction

The Group, through trustees, operates a number of defined contribution and defined benefit pension schemes.

Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

Defined benefit schemes are schemes other than defined contribution schemes where the Group's obligation is to provide specified benefits on retirement.

IAS 19 Employee Benefits (IAS 19) prescribes the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on high-quality corporate bonds. The pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net finance income arising from the expected interest income on plan assets and interest cost on scheme obligations is included in investment income. Actuarial gains and losses are reported in the statement of comprehensive income. The IAS 19 accounting valuations are set out in Note 30.2.

A different calculation is used for the formal triennial funding valuations undertaken by the scheme trustees to determine the future Company contribution level necessary so that over time the scheme assets will meet the scheme obligations. The principal difference between the two methods is that under the funding basis the obligations are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on high-quality corporate bonds as required by IAS 19 for the financial statements. Details of the latest formal triennial funding valuations are set out in Note 30.3.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of, the Group.

Principal schemes

The Group's principal schemes are the Balfour Beatty Pension Fund (BBPF), which includes defined contribution and defined benefit sections, and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme (RPS). The defined benefit sections of both schemes are funded and closed to new members with the exception of employees where employment has transferred to the Group under certain agreed arrangements. Pension benefits are based on employees' pensionable service and their pensionable salary.

The schemes operate under trust law and are managed and administered by trustees on behalf of the members in accordance with the terms of the trust deed and rules and relevant legislation. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice. The trustees are responsible for establishing the investment strategy and ensuring that there are sufficient assets to meet the cost of current and future benefits.

These schemes expose the Group to investment and actuarial risks where additional contributions may be required if assets are not sufficient to pay future pension benefits:

» investment risk: equity returns are a key determinant of investment return but the investment portfolio is also subject to a range of other risks typical of the investments held, for example, credit risk on corporate bond holdings; and

» actuarial risk: the ultimate cost of providing pension benefits is affected by inflation rates and members' life expectancy. The net present value of the obligations is affected by the market yield on high-quality corporate bonds used to discount the obligations.

Changes in the principal actuarial assumptions based on market data, such as inflation and the discount rate, and experience, such as life expectancy, expose the Group to fluctuations in the net IAS 19 liability and the net finance cost.

Balfour Beatty Pension Fund

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

The Group operates a Scottish Limited Partnership (SLP) structure which holds the Group's 40% interest in the Birmingham Hospital PFI investment and the Group's 15% share of the Connect Plus (M25) asset. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in the Birmingham Hospital PFI investment and the Connect Plus (M25) asset for other investments from time to time.

Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension surplus presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. In 2021, the BBPF received distributions of £2m from the SLP (2020: £3m).

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2019. As a result, the Group had agreed to make deficit contributions totalling £64m from 2021 to 2023. During 2021, the trustees and the Group agreed that the remaining deficit contributions due under the schedule of contributions should be accelerated and that the Group should make additional deficit contributions of £2m per month from July 2022 until the completion of the 31 March 2022 valuation, or 30 September 2023, if earlier. Following the agreement between the trustees and the Group, the Group made deficit contributions of £33m in 2021 and is expected to make deficit contributions of £38m in 2022 and £18m in 2023.

If the earnings cover for shareholder returns falls below an agreed trigger level then the contributions set out above may need to be accelerated.

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

30 Retirement benefit assets and liabilities continued

30.1 Introduction continued

Railways Pension Scheme

The RPS is a shared cost scheme. The legal responsibility of the Group in the RPS is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing.

The assumed cost of providing future service benefits is split between the Group and the members in the ratio 60:40.

Because of a declining population of active members, it has become less likely that the Group's costs of meeting any deficits would be capped in line with its strict legal obligation of 60% as members might only be able to afford to fund a small proportion of the scheme deficit. It has therefore been assumed that the Group will be responsible for 100% of any deficit and the balance sheet assets and obligations disclosed, therefore, are equal to 100% of the total scheme assets and obligations.

The RPS invests in a range of pooled investment funds intended to generate a combination of capital growth and income and, as determined by the trustee, taking account of the characteristics of the obligations and the trustee's attitude to risk. The majority of the RPS's assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled growth fund. This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time. The remaining assets in the RPS are principally fixed and index-linked bonds.

The formal triennial funding valuation of the RPS as at 31 December 2019 was completed in December 2021, with the Group agreeing to continue to make fixed deficit contributions of £6m per annum which should reduce the deficit to zero by 2025. This agreement constitutes a MFR under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the RPS would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the RPS have been settled.

Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe, the majority of which are closed to new entrants, and deferred compensation schemes in North America, where an element of employees' compensation is deferred and invested in investments in mutual funds (as disclosed in Note 20.1) in a trust, the assets of which are for the ultimate benefit of the employees but are available to the Group's creditors in the event of insolvency.

The Group also participates in The Plumbing & Mechanical Services Industry Pension Scheme (Plumbers Scheme), which is an industry-wide non-associated multi-employer defined benefit scheme. As the Plumbers Scheme does not segregate assets and liabilities between the different participating employers, the Group's only obligation to the Plumbers Scheme is to pay the contributions requested by the scheme trustees as they fall due. In accordance with IAS 19, this obligation has been accounted for on a defined contribution basis and the relevant employer contributions have been charged to the income statement.

Membership of the principal schemes

	Balfour Beatty Pension Fund 2021			**Railways Pension Scheme 2021**			Balfour Beatty Pension Fund 2020			Railways Pension Scheme 2020		
	Number of members	**Defined benefit obligations £m**	**Average duration Years**	**Number of members**	**Defined benefit obligations £m**	**Average duration Years**	Number of members	Defined benefit obligations £m	Average duration Years	Number of members	Defined benefit obligations £m	Average duration Years
Defined benefit												
– active members	**1**	**2**	**16**	**103**	**53**	**20**	1	2	16	116	50	21
– deferred pensioners	**9,712**	**1,824**	**21**	**1,066**	**149**	**19**	10,130	1,841	22	1,118	146	20
– pensioners, widow(er)s and dependants	**17,225**	**1,892**	**11**	**1,841**	**235**	**13**	17,473	1,985	11	1,856	247	13
Defined contribution	**14,670**	**–**	**–**	**–**	**–**	**–**	14,383	–	–	–	–	–
Total	**41,608**	**3,718**	**16**	**3,010**	**437**	**16**	41,987	3,828	16	3,090	443	16

30.2 IAS 19 accounting valuations

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

	Balfour Beatty Pension Fund 2021 %	**Railways Pension Scheme 2021 %**	Balfour Beatty Pension Fund 2020 %	Railways Pension Scheme 2020 %
Discount rate	**1.90**	**1.90**	1.45	1.45
Inflation rate – RPI	**3.40**	**3.40**	2.90	2.90
– CPI	**2.80**	**3.00**	2.25	2.45
Future increases in pensionable salary	**2.80**	**3.00**	2.25	2.45
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**3.10**	**3.05**	2.75	2.55

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

In 2020, further calculations were carried out by the trustees in relation to the cost of GMP equalisation for the RPS scheme. As a result the Group revised its best estimate cost of equalisation from a loading on the liabilities of 0.5% in 2019 to 0.8% in 2020 (with the additional cost being recognised in the statement of comprehensive income). There were no further changes recognised on this in 2021.

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.

During 2021, the Continuous Mortality Investigation (CMI) released the 2020 core projections model which incorporated updated death experience up to 31 December 2020. However, given the uncertainty presented with COVID-19, the Group considered it appropriate for the BBPF to continue assuming improvements in line with the CMI 2019 model used for 2020.

The mortality assumption adopted for the RPS for 2021 is unchanged from 2020, with the Group continuing to set future improvements in line with the CMI 2019 core projection model.

In 2020, following independent advice from its actuaries, the Group made some technical changes to its sourcing of data from which to set the discount rate. In particular, as a result of changes in bond classification system at Bloomberg (the source for data on the bond universes), the Group has amended its approach to establishing the corporate bond universe underlying the corporate bond yield curve. This change resulted in an increase to the discount rate of 0.15% which led to an actuarial gain of £100m being recognised within the statement of comprehensive income.

During 2020 the Group identified certain inconsistencies with the membership data used by the BBPF's actuary in calculating the mortality experience/assumptions and resulting mortality multiplier in previous years. This was adjusted in the year ended 31 December 2020 through actuarial movements from changes in demographic assumptions included in the actuarial losses recognised in the Group's statement of comprehensive income. The Group considered it appropriate that the impact was recognised in 2020 due to the size of movements typically experienced relating to actuarial gains and losses, which is inherent with a scheme of this size and complexity, and the nature of the financial statement captions affected. This adjustment led to a corresponding deferred tax credit in 2020 which was also recognised in the Group's statement of comprehensive income and a deferred tax charge recognised in non-underlying items in the Group's income statement due to the derecognition of UK deferred tax assets in respect of tax losses as disclosed in Note 10.3.1.

BBPF life expectancies

	2021 Average life expectancy at 65 years of age		2020 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.6**	**23.3**	21.5	23.3
Members not yet in receipt of a pension (current age 50)	**22.5**	**24.3**	22.5	24.2

RPS life expectancies

	2021 Average life expectancy at 65 years of age		2020 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**20.6**	**22.6**	20.6	22.6
Members not yet in receipt of a pension (current age 50)	**21.6**	**23.6**	21.5	23.5

Amounts recognised in the income statement

The BBPF defined contribution employer contributions paid and charged to the income statement have been separately identified in the table below and the defined contribution section assets and liabilities amounting to £668m (2020: £573m) have been excluded from the tables on pages 224 to 225. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

	Balfour Beatty Pension Fund 2021 £m	**Railways Pension Scheme 2021 £m**	**Other schemes 2021 £m**	**Total 2021 £m**	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes 2020 £m	Total 2020 £m
Group								
Current service cost	**(2)**	**(2)**	**(1)**	**(5)**	(1)	(2)	(1)	(4)
Defined contribution charge	**(49)**	**–**	**(6)**	**(55)**	(47)	–	(6)	(53)
Included in employee costs (Note 7)	**(51)**	**(2)**	**(7)**	**(60)**	(48)	(2)	(7)	(57)
Past service cost as a result of GMP equalisation (Note 10.2.6)	**–**	**–**	**–**	**–**	(3)	–	–	(3)
Interest income	**57**	**5**	**–**	**62**	72	7	–	79
Interest cost	**(54)**	**(6)**	**(1)**	**(61)**	(67)	(8)	(1)	(76)
Net finance income/(cost) (Note 8)	**3**	**(1)**	**(1)**	**1**	5	(1)	(1)	3
Total charged to income statement	**(48)**	**(3)**	**(8)**	**(59)**	(46)	(3)	(8)	(57)

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

Amounts recognised in the statement of comprehensive income

	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Other schemes 2021 £m	Total 2021 £m	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes 2020 £m	Total 2020 £m
Actuarial movements on pension scheme obligations	17	(2)	(4)	11	(416)	(40)	2	(454)
Actuarial movements on pension scheme assets	53	34	–	87	370	22	–	392
Total actuarial movements recognised in the statement of comprehensive income (Note 32.1)	70	32	(4)	98	(46)	(18)	2	(62)
Cumulative actuarial movements recognised in the statement of comprehensive income	(45)	(53)	(29)	(127)	(115)	(85)	(25)	(225)

The actual return on plan assets was a gain of £149m (2020: £471m gain).

Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Other schemes† 2021 £m	Total 2021 £m	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes† 2020 £m	Total 2020 £m
Present value of obligations	(3,718)	(437)	(46)	(4,201)	(3,828)	(443)	(46)	(4,317)
Fair value of plan assets	4,039	393	–	4,432	4,043	363	–	4,406
Asset/(liabilities) in the balance sheet	321	(44)	(46)	231	215	(80)	(46)	89

† Investments in mutual funds of £24m (2020: £21m) are held to satisfy the Group's deferred compensation obligations (Note 20.1).

The defined benefit obligations comprise £46m (2020: £46m) arising from wholly unfunded plans and £4,155m (2020: £4,271m) arising from plans that are wholly or partly funded.

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Other schemes 2021 £m	Total 2021 £m	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes 2020 £m	Total 2020 £m
At 1 January	(3,828)	(443)	(46)	(4,317)	(3,503)	(406)	(50)	(3,959)
Currency translation differences	–	–	2	2	–	–	–	–
Current service cost	(2)	(2)	(1)	(5)	(1)	(2)	(1)	(4)
Past service cost as a result of GMP equalisation	–	–	–	–	(3)	–	–	(3)
Transfers	–	–	–	–	–	(3)	–	(3)
Interest cost	(54)	(6)	(1)	(61)	(67)	(8)	(1)	(76)
Actuarial movements from reassessing the difference between RPI and CPI	(7)	(3)	–	(10)	(30)	(18)	–	(48)
Other financial actuarial movements	23	1	(4)	20	(228)	(23)	2	(249)
Actuarial movements from changes in demographic assumptions	–	–	–	–	(162)	–	–	(162)
Experience gains	1	–	–	1	4	1	–	5
Total actuarial movements	17	(2)	(4)	11	(416)	(40)	2	(454)
Benefits paid	149	16	4	169	162	16	4	182
At 31 December	(3,718)	(437)	(46)	(4,201)	(3,828)	(443)	(46)	(4,317)

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Total 2021 £m	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Total 2020 £m
At 1 January	**4,043**	**363**	**4,406**	3,752	340	4,092
Interest income	**57**	**5**	**62**	72	7	79
Actuarial movements	**53**	**34**	**87**	370	22	392
Transfers	**–**	**–**	**–**	–	3	3
Contributions from employer						
– regular funding	**2**	**1**	**3**	2	1	3
– ongoing deficit funding	**33**	**6**	**39**	9	6	15
Benefits paid	**(149)**	**(16)**	**(165)**	(162)	(16)	(178)
At 31 December	**4,039**	**393**	**4,432**	4,043	363	4,406

Fair value of the assets held by the schemes at 31 December

	2021			2020		
	Balfour Beatty Pension Fund £m	Railways Pension Scheme† £m	Total £m	Balfour Beatty Pension Fund £m	Railways Pension Scheme† £m	Total £m
Return-seeking	**1,112**	**209**	**1,321**	1,033	193	1,226
– Developed nation equities	**383**	**–**	**383**	341	–	341
– Emerging market equities	**62**	**–**	**62**	68	–	68
– Hedge funds	**392**	**–**	**392**	350	–	350
– Return-seeking growth pooled funds	**–**	**209**	**209**	–	193	193
– Other return-seeking assets	**275**	**–**	**275**	274	–	274
Liability-matching bond-type assets	**2,280**	**184**	**2,464**	2,315	170	2,485
– Corporate bonds	**488**	**–**	**488**	483	–	483
– Fixed interest gilts^	**640**	**–**	**640**	478	–	478
– Index-linked gilts^	**1,103**	**–**	**1,103**	1,216	–	1,216
– Currency hedging	**2**	**–**	**2**	–	–	–
– Liability-matching pooled funds	**–**	**184**	**184**	–	170	170
– Interest and inflation rate swaps	**47**	**–**	**47**	138	–	138
Property	**183**	**–**	**183**	165	–	165
Secure income assets	**213**	**–**	**213**	176	–	176
Cash and other	**251**	**–**	**251**	354	–	354
Total	**4,039**	**393**	**4,432**	4,043	363	4,406

† The amounts represent 100% of the scheme's assets.

^ Of the assets above, £1,743m (2020: £1,694m) are assets that have quoted prices in active markets. The remaining assets that are neither quoted nor traded on an active market are stated at fair value estimates provided by the manager of the investment or fund.

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2022

	Balfour Beatty Pension Fund 2022 £m	Railways Pension Scheme 2022 £m	Total 2022 £m
Regular funding	**2**	**1**	**3**
Ongoing deficit funding+	**38**	**6**	**44**
Total contributions	**40**	**7**	**47**
Estimated BBPF running costs to be funded from ongoing deficit contributions*	**(4)**	**–**	**(4)**
Estimated total cash contributions	**36**	**7**	**43**

* The running costs of the BBPF are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

\+ The ongoing deficit funding contributions presented above for the BBPF in 2022 are expected to be less than the amounts in the funding agreement due to an agreement between the Trustee and the Company to accelerate the contributions due under the BBPF schedule of contributions such that all contributions due are expected to be paid by 30 June 2022.

Furthermore, it was agreed that the Company would pay further deficit contributions of £2m a year from July 2022 pending the agreement of the 31 March 2022 valuation.

Financial statements

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

The sensitivity analysis below has been determined based on reasonably possible changes in assumptions occurring at the end of the reporting period. In each case the relevant change in assumption occurs in isolation from potential changes in other assumptions. In practice more than one variable is likely to change at the same time. The sensitivities have been calculated using the projected unit credit method.

Sensitivity of the Group's retirement benefit obligations at 31 December 2021 to different actuarial assumptions

	Sensitivity to increase in assumption			Sensitivity to decrease in assumption		
Assumptions	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m
Discount rate	**0.5%**	**(7.4)%**	**(306)**	**(0.5)%**	**8.3%**	**346**
Market expectation of RPI inflation	**0.5%**	**5.1%**	**214**	**(0.5)%**	**(5.0)%**	**(206)**
Salary growth	**0.5%**	**<0.1%**	**1**	**(0.5)%**	**<(0.1)%**	**(1)**
Life expectancy	**1 year**	**4.8%**	**201**	**(1 year)**	**(4.8)%**	**(199)**

Sensitivity of the Group's retirement benefit assets at 31 December 2021 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.5%**	**(7.2)%**	**(321)**
Increase in market expectation of RPI inflation	**0.5%**	**4.8%**	**215**

The asset sensitivities only take into account the impact of the changes in market conditions on bond type assets. The value of the schemes' return-seeking assets is not directly correlated with movements in interest rates or RPI inflation.

Year end historical information for the Group's retirement defined benefit schemes

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Present value of obligations	**(4,201)**	(4,317)	(3,959)	(3,742)	(3,956)
Fair value of assets	**4,432**	4,406	4,092	3,796	3,988
Surplus	**231**	89	133	54	32
Experience adjustment for obligations	**1**	5	(53)	(4)	21
Experience adjustment for assets	**87**	392	329	(117)	148
Total deficit funding	**39**	15	30	27	25

30.3 Latest formal triennial funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal triennial funding valuation	31/03/2019	31/12/2019
Scheme deficit		
Market value of assets	4,136	354
Present value of obligations	(4,228)	(380)
Deficit in defined benefit scheme	(92)	(26)
Funding level	97.8%	93.2%

31 Share capital

31.1 Ordinary shares of 50p each

	Issued	
	Million	£m
At 31 December 2020 and 2021	**690**	**345**

All issued ordinary shares are fully paid. Ordinary shares carry no right to fixed income but each share carries the right to one vote at general meetings of the Company. No ordinary shares were issued during the current or prior year.

On 7 October 2021, the Company completed the share buyback programme, which commenced on 5 January 2021. The Company purchased 50.3m shares for a total consideration of £150m. These shares are currently held in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m, has utilised £151m of the Company's distributable profits.

31.2 Cumulative convertible redeemable preference shares of 1p each

On 1 July 2020, the Company redeemed its 112m preference shares in full for £112m and cancelled them. The redemption of these shares resulted in £1m, representing the nominal amount of 1p per preference share, being transferred to the capital redemption reserve (included within other reserves) and £111m being transferred to share premium. These movements were offset by the release of the £18m equity component of the redeemed preference shares and a transfer from retained earnings of £94m.

32 Movements in equity

32.1 Group

	Called-up share capital 2021 £m	Share premium account 2021 £m	Special reserve 2021 £m	Other reserves: Share of joint ventures' and associates' reserves (Note 19.6) 2021 £m	Other reserves: Hedging reserves 2021 £m	Other reserves: PPP financial assets 2021 £m	Other reserves: Currency translation reserve 2021 £m	Other reserves: Other 2021 £m	Retained profits 2021 £m	Non-controlling interests 2021 £m	Total 2021 £m
At 1 January 2021	**345**	**176**	**22**	**65**	**(32)**	**30**	**98**	**20**	**612**	**9**	**1,345**
Profit/(loss) for the year	**–**	**–**	**–**	**57**	**–**	**–**	**–**	**–**	**83**	**(1)**	**139**
Currency translation differences	**–**	**–**	**–**	**(1)**	**–**	**–**	**2**	**–**	**–**	**–**	**1**
Actuarial movements on retirement benefit assets/liabilities	**–**	**–**	**–**	**7**	**–**	**–**	**–**	**–**	**98**	**–**	**105**
Fair value revaluations											
– PPP financial assets	**–**	**–**	**–**	**(6)**	**–**	**(3)**	**–**	**–**	**–**	**–**	**(9)**
– cash flow hedges	**–**	**–**	**–**	**(6)**	**8**	**–**	**–**	**–**	**–**	**–**	**2**
– investments in mutual funds measured at fair value through OCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**–**	**–**	**3**
Recycling of revaluation reserves to the income statement on disposal@	**–**	**–**	**–**	**(7)**	**19**	**(22)**	**–**	**–**	**–**	**–**	**(10)**
Tax on items recognised in other comprehensive income	**–**	**–**	**–**	**(3)**	**–**	**(1)**	**–**	**(1)**	**(22)**	**–**	**(27)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**41**	**27**	**(26)**	**2**	**2**	**159**	**(1)**	**204**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(29)**	**–**	**(29)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(68)**	**–**	**–**	**–**	**–**	**68**	**–**	**–**
Non-controlling interests' dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Purchase of treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(151)**	**–**	**(151)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**6**	**–**	**8**
Reserve transfers relating to joint ventures and associates	**–**	**–**	**–**	**34**	**–**	**–**	**–**	**–**	**(34)**	**–**	**–**
At 31 December 2021	**345**	**176**	**22**	**72**	**(5)**	**4**	**100**	**24**	**631**	**7**	**1,376**

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

	Called-up share capital 2020 £m	Share premium account 2020 £m	Special reserve 2020 £m	Share of joint ventures' and associates' reserves (Note 19.6) 2020 £m	Other reserves: Equity component of preference shares 2020 £m	Other reserves: Hedging reserves 2020 £m	Other reserves: PPP financial assets 2020 £m	Other reserves: Currency translation reserve 2020 £m	Other reserves: Other 2020 £m	Retained profits 2020 £m	Non-controlling interests 2020 £m	Total 2020 £m
At 1 January 2020	345	65	22	46	18	(29)	27	109	17	748	9	1,377
Profit/(loss) for the year	–	–	–	38	–	–	–	–	–	(8)	–	30
Currency translation differences	–	–	–	(4)	–	–	–	(11)	–	–	–	(15)
Actuarial movements on retirement benefit assets/ liabilities	–	–	–	–	–	–	–	–	–	(62)	–	(62)
Fair value revaluations												
– PPP financial assets	–	–	–	8	–	–	5	–	–	–	–	13
– cash flow hedges	–	–	–	1	–	(4)	–	–	–	–	–	(3)
– investments in mutual funds measured at fair value through OCI	–	–	–	–	–	–	–	–	2	–	–	2
Tax on items recognised in other comprehensive income	–	–	–	(2)	–	1	(2)	–	–	6	–	3
Total comprehensive (loss)/income for the year	–	–	–	41	–	(3)	3	(11)	2	(64)	–	(32)
Joint ventures' and associates' dividends	–	–	–	(50)	–	–	–	–	–	50	–	–
Redemption of preference shares	–	111	–	–	(18)	–	–	–	1	(94)	–	–
Reserve transfers relating to joint ventures and associates	–	–	–	28	–	–	–	–	–	(28)	–	–
At 31 December 2020	345	176	22	65	–	(32)	30	98	20	612	9	1,345

32 Movements in equity continued

32.2 Company

	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves: Equity component of preference shares £m	Other reserves: Other £m	Retained profits £m	Total £m
At 1 January 2020	345	65	22	18	95	809	1,354
Profit for the year	–	–	–	–	–	67	67
Currency translation differences	–	–	–	–	–	(5)	(5)
Total comprehensive profit for the year	–	–	–	–	–	62	62
Redemption of preference shares	–	111	–	(18)	1	(94)	–
Movements relating to share-based payments	–	–	–	–	6	(6)	–
At 31 December 2020	345	176	22	–	102	771	1,416
Profit for the year	**–**	**–**	**–**	**–**	**–**	**80**	**80**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Total comprehensive profit for the year	**–**	**–**	**–**	**–**	**–**	**83**	**83**
Ordinary dividends	**–**	**–**	**–**	**–**	**–**	**(29)**	**(29)**
Purchase of treasury shares	**–**	**–**	**–**	**–**	**–**	**(151)**	**(151)**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**5**	**2**	**7**
At 31 December 2021	**345**	**176**	**22**	**–**	**107**	**676**	**1,326**

As permitted under Section 408 of the Companies Act 2006, the Company has elected not to present its statement of comprehensive income (including the profit and loss account) for the year. Balfour Beatty plc reported a profit for the financial year ended 31 December 2021 of £80m (2020: £67m profit).

During the year, £151m of the Company's distributable profits were utilised for the purchase of shares into treasury (2020: £nil). See Note 31.1.

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £nil occurred in 2021 (2020: £nil).

32.3 Balfour Beatty Employee Share Ownership Trust

The retained profits in the Group and the retained profits of the Company are stated net of investments in Balfour Beatty plc ordinary shares acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Performance Share Plan, the Executive Buyout Scheme, the Deferred Bonus Plan and the Restricted Share Plan. In 2021, nil (2020: 3.5m) shares were purchased at a cost of £nil (2020: £7.9m). The market value of the 1.2m (2020: 3.9m) shares held by the Trust at 31 December 2021 was £3.1m (2020: £10.5m). The carrying value of these shares is £3.0m (2020: £8.7m).

Following confirmation of the performance criteria at the end of the performance period in the case of the Performance Share Plan, and at the end of the vesting period in the case of the Deferred Bonus Plan and the Restricted Share Plan, the appropriate number of shares will be unconditionally transferred to participants. In 2021, 0.9m shares were transferred to participants in relation to the March 2018 awards under the Performance Share Plan (2020: 1.7m shares were transferred to participants in relation to the March 2017 awards under the Performance Share Plan), 0.8m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2020: 0.5m shares) and 1.0m shares were transferred to participants in relation to awards under the Restricted Share Plan (2020: 1.1m).

The Trustees have waived the rights to dividends on shares held by the trust. Participants in the schemes receive an award of shares to represent the dividends which would have been payable on the shares since the date of grant.

Other reserves in the Group and Company include £8.2m (2020: £7.2m) relating to unvested Performance Share Plan awards, £3.8m (2020: £4.1m) relating to unvested Restricted Share Plan awards and £2.5m (2020: £2.8m) relating to unvested Deferred Bonus Plan awards.

33 Notes to the statement of cash flows

33.1 Cash from/(used in) operations

	Notes	Underlying items[1] 2021 £m	Non-underlying items 2021 £m	2021 £m	2020 £m
Profit from operations		**197**	**(100)**	**97**	63
Share of results of joint ventures and associates	19	**(57)**	**–**	**(57)**	(38)
Depreciation of property, plant and equipment	16	**24**	**–**	**24**	24
Depreciation of right-of-use assets	17	**54**	**–**	**54**	56
Depreciation of investment properties	18	**1**	**–**	**1**	2
Amortisation of other intangible assets	15	**13**	**5**	**18**	17
Impairment of other intangible assets	15	**–**	**–**	**–**	1
Impairment of property, plant and equipment	16	**2**	**–**	**2**	–
Pension deficit payments, including regular funding	30.2	**(42)**	**–**	**(42)**	(18)
Movements relating to equity-settled share-based payments		**7**	**–**	**7**	8
Gain on disposal of interests in investments	34.2	**(26)**	**–**	**(26)**	–
Profit on disposal of property, plant and equipment		**(4)**	**–**	**(4)**	(7)
Loss on GMP equalisation		**–**	**–**	**–**	3
Other non-cash items		**(1)**	**–**	**(1)**	(2)
Operating cash flows before movements in working capital		**168**	**(95)**	**73**	109
Decrease in operating working capital				**281**	167
Inventories				**11**	(14)
Contract assets				**74**	87
Trade and other receivables				**(22)**	42
Contract liabilities				**147**	67
Trade and other payables				**43**	(69)
Provisions				**28**	54
Cash from operations				**354**	276

1 Before non-underlying items (Notes 2.10 and 10).

33.2 Cash and cash equivalents

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cash and deposits	**766**	591	**96**	80
Term deposits	**250**	179	**249**	178
Cash balances within infrastructure concessions	**17**	22	**–**	–
Bank overdrafts	**(34)**	–	**(17)**	–
	999	792	**328**	258

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of typically less than three months.

33.3 Analysis of movements in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Bank overdrafts £m	Total £m
At 1 January 2020	(337)	(231)	–	(568)
Currency translation differences	–	6	–	6
Proceeds of loans	(6)	–	–	(6)
Repayments of loans	4	36	–	40
At 31 December 2020	(339)	(189)	–	(528)
Currency translation differences	**–**	**(3)**	**–**	**(3)**
Proceeds of loans	**(8)**	**–**	**(34)**	**(42)**
Repayments of loans	**6**	**–**	**–**	**6**
Disposal of Woodland View Hospital (Notes 34.2.2 and 34.2.7)	**41**	**–**	**–**	**41**
Disposal of North West Fire & Rescue (Notes 34.2.3 and 34.2.7)	**40**	**–**	**–**	**40**
At 31 December 2021	**(260)**	**(192)**	**(34)**	**(486)**

US$259m of the Group's private placement notes remain outstanding, with the next tranche of US$209m being due in March 2023 and the final tranche of US$50m being due in March 2025.

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity as required to support Balfour Beatty in its activities.

In October 2021, the Group agreed to the conversion of its revolving credit facility (RCF) to a sustainability linked loan, extending the maturity to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score. This facility was undrawn at 31 December 2021.

34 Acquisitions and disposals

34.1 Current and prior year acquisitions

There were no material acquisitions in 2021.

Deferred consideration paid during 2021 in respect of acquisitions completed in earlier years was £3m (2020: £3m). This related to the Group's acquisition of Centex Construction in 2007.

34.2 Current year disposals

During the year, the Group disposed of several Infrastructure Investments assets as detailed below.

The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates.

Notes	Disposal date	Entity/asset	Structure of sale	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Underlying gain £m
34.2.1	2 June 2021	BC Children's and BC Women's Hospitals#	Equity interest sale	70%	20	(17)	4	7
34.2.2	6 July 2021	Woodland View Hospital+	Equity interest sale	100%	8	(5)	–	3
34.2.3	6 July 2021	North West Fire & Rescue+	Equity interest sale	100%	11	(9)	3	5
34.2.4	6 August 2021	Aberdeen Western Peripheral Route#	Equity interest sale	33.3%	29	(21)	3	11
34.2.5	26 October 2021	Riverchase Landing^	Asset sale	n/a	3	(1)	–	2
34.2.6	12 November 2021	Zephyr Ridge^	Asset sale	n/a	9	(2)	–	7
					80	**(55)**	**10**	**35**
	Add: Proceeds received in relation to deferred consideration on the sale of Consort Healthcare (Fife) Holdings Ltd				**1**			
	Disposal proceeds per the Directors' valuation				**81**			

Disposal of joint venture.
+ Disposal of subsidiary.
^ Disposal of asset within a joint venture entity.

34.2.1 On 2 June 2021, the Group disposed of its entire 70% interest in Affinity Partnerships (the BC Children's and BC Women's Hospitals concession located in Vancouver, Canada) for a cash consideration of £20m. The disposal resulted in a net gain of £7m being recognised in underlying operating profit, including a gain of £4m in respect of PPP financial asset reserves recycled to the income statement on disposal.

34.2.2 On 6 July 2021, the Group disposed of its entire 100% interest in Woodland View Project Co Ltd for a cash consideration of £8m. The disposal resulted in a net gain of £3m being recognised in underlying operating profit, including a gain of £8m in respect of PPP financial asset reserves and a loss of £8m in respect of hedging reserves recycled to the income statement on disposal. The disposal included cash disposed of £2m.

34.2.3 On 6 July 2021, the Group disposed of its entire 100% interest in Balfour Beatty Fire and Rescue NW Ltd for a cash consideration of £11m. The disposal resulted in a net gain of £5m being recognised in underlying operating profit, including a gain of £14m in respect of PPP financial asset reserves and a loss of £11m in respect of hedging reserves recycled to the income statement on disposal. The disposal included cash disposed of £1m.

34.2.4 On 6 August 2021, the Group disposed of its entire 33.3% interest in Aberdeen Roads Holdings Ltd (Aberdeen Western Peripheral Route) for a cash consideration of £29m. The disposal resulted in a net gain of £11m being recognised in underlying operating profit, including a gain of £4m in respect of PPP financial asset reserves and a loss of £1m in respect of hedging reserves recycled to the income statement on disposal.

34.2.5 On 26 October 2021, the Group disposed of its Riverchase Landing multi-family property asset located in Hoover, Alabama, for a total cash consideration of £3m. The asset disposal resulted in an underlying gain of £2m being recognised in the Group's share of joint ventures and associates.

34.2.6 On 12 November 2021, the Group disposed of its Zephyr Ridge multi-family property asset located in Zephyrhills, Florida, for a total cash consideration of £9m. The asset disposal resulted in an underlying gain of £7m being recognised in the Group's share of joint ventures and associates.

In addition to the disposals above, the Group received a further £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

The Group also received £1m of deferred consideration in relation to the disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. This deferred consideration was received as part of the earn-out agreement that was entered into with the buyer as part of the disposal and was included in the Group's assessment of the additional gain on disposal recognised in 2019.

34 Acquisitions and disposals continued

34.2 Current year disposals continued

34.2.7 Subsidiaries net assets disposed

Net assets disposed	Note	Woodland View Project Co Ltd £m	Balfour Beatty Fire and Rescue NW Ltd £m	Total £m
PPP financial assets	21	55	65	120
Borrowings – non-recourse	33.3	(41)	(40)	(81)
Deferred tax	29.1	–	(1)	(1)
Derivative financial instruments		(10)	(14)	(24)
Net working capital		(1)	(2)	(3)
Cash		2	1	3
		5	9	14
Cash consideration		(8)	(11)	(19)
Amounts recycled from reserves		–	(3)	(3)
Gain on disposal		(3)	(5)	(8)
Net cash flow effect				
Total consideration		8	11	19
Cash and cash equivalents disposed		(2)	(1)	(3)
Net cash consideration		6	10	16

34.3 Prior year disposals

There were no disposals made in 2020.

The Group received £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

The Group also received £1m of deferred consideration in relation to the disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. This deferred consideration was received as part of the earn-out agreement that was entered into with the buyer as part of the disposal and was included in the Group's assessment of the additional gain on disposal recognised in 2019.

35 Share-based payments

The Company operates three equity-settled share-based payment arrangements, namely the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP) and the Restricted Share Plan (RSP). The Group recognised total expenses relating to equity-settled share-based payment transactions of £7m (2020: £8m). Refer to the Remuneration report for details of the PSP and DBP schemes.

The Company also operates three cash-settled share-based payment arrangements, namely the Shadow PSP (SPSP), the Shadow RSP (SRSP) and the Shadow Deferred Bonus Plan (SDBP). These share-based payment arrangements mirror the conditions of the equity-settled PSP, RSP and DBP plans, the only difference being they are settled in cash. The Group recognised total expenses relating to cash-settled share-based payment transactions of £5m (2020: £5m).

Movements in share plans

Equity-settled share-based payment awards

2021 number of awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	**9,558,563**	**2,309,364**	**3,541,092**
Granted during the year	**3,007,343**	**419,895**	**1,552,832**
Awards in lieu of dividends	**–**	**33,175**	**57,799**
Forfeited during the year	**(2,331,778)**	**(34,789)**	**(369,349)**
Exercised during the year	**(900,787)**	**(748,260)**	**(1,034,709)**
Expired during the year	**–**	**–**	**–**
Outstanding at 31 December	**9,333,341**	**1,979,385**	**3,747,665**
Exercisable at 31 December	**–**	**–**	**–**
Weighted average remaining contractual life (years)	**1.2**	**1.2**	**1.5**
Weighted average share price at the date of exercise for awards exercised in the year	**301.0**	**298.6**	**291.6**

2020 number of awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	9,008,081	1,896,170	3,695,775
Granted during the year	3,972,249	1,041,528	1,136,761
Awards in lieu of dividends	–	–	–
Forfeited during the year	(1,740,854)	(124,022)	(199,044)
Exercised during the year	(1,680,913)	(504,312)	(1,092,400)
Expired during the year	–	–	–
Outstanding at 31 December	9,558,563	2,309,364	3,541,092
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.3	1.4	1.5
Weighted average share price at the date of exercise for awards exercised in the year	263.8	216.6	261.1

35 Share-based payments continued

Movements in share plans continued

Equity-settled share-based payment awards continued

The principal assumptions, including expected volatility determined from the historical weekly share price movements over the three-year period immediately preceding the award date, used by the consultants in the stochastic model for the 33.3% of the PSP awards granted in 2021 subject to market conditions, were:

Award date	Name of award	Number of awards	Closing share price on award date Pence	Expected volatility of shares %	Expected term of awards Years	Risk-free interest rate %	Calculated fair value of an award Pence
19 March 2021	PSP award	**3,007,343**	**298.0**	**32.51%**	**3.0**	**0.18**	**207.0**

For the 66.7% of the PSP awards granted in 2021 subject to non-market conditions and for the DBP and RSP awards granted in 2021, the fair value of the awards is the closing share price on the date of grant.

Cash-settled share-based payment awards

2021 number of awards	SPSP conditional awards	SDBP conditional awards	SRSP conditional awards
Outstanding at 1 January	**8,876,597**	**1,067,030**	**1,348,282**
Granted during the year	**2,195,668**	**307,707**	**426,377**
Awards in lieu of dividends	**–**	**15,171**	**16,861**
Forfeited during the year	**(1,724,113)**	**(52,950)**	**(20,373)**
Exercised during the year	**(809,289)**	**(81,143)**	**(290,590)**
Expired during the year	**–**	**–**	**–**
Outstanding at 31 December	**8,538,863**	**1,255,815**	**1,480,557**
Exercisable at 31 December	**–**	**–**	**–**
Weighted average remaining contractual life (years)	**1.1**	**1.2**	**1.4**
Weighted average share price at the date of exercise for awards exercised in the year	**301.5**	**298.0**	**320.2**

As at 31 December 2021, the Group's liability in respect of outstanding cash-settled share-based payment awards amounted to £13m (2020: £11m). This liability has been recorded within accruals.

2020 number of awards	SPSP conditional awards	SDBP conditional awards	SRSP conditional awards
Outstanding at 1 January	7,771,941	328,737	1,102,053
Granted during the year	3,989,675	831,076	544,000
Awards in lieu of dividends	–	–	–
Forfeited during the year	(1,603,849)	(92,783)	(297,771)
Exercised during the year	(1,281,170)	–	–
Expired during the year	–	–	–
Outstanding at 31 December	8,876,597	1,067,030	1,348,282
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.3	1.7	1.4
Weighted average share price at the date of exercise for awards exercised in the year	263.1	–	–

36 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £nil (2020: £3m) in the Group and £nil (2020: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt in Infrastructure Investments projects which have reached financial close. Refer to Note 41(f).

37 Contingent liabilities

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

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

38 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £325m (2020: £345m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 24 and 25 respectively.

Transactions with non-Group members

The Group also entered into transactions and had amounts outstanding with related parties which are not members of the Group as set out below. This company was a related party as it was controlled or jointly controlled by a non-executive Director of Balfour Beatty plc.

	2021 £m	2020 £m
Sale of goods and services		
Anglian Water Group Ltd+	–	5

\+ Anglian Water Group Ltd ceased to be a related party of the Group on 31 March 2020 following the retirement of Stephen Billingham as chairman from the board of Anglian Water. The sales of goods and services to Anglian Water Group Ltd represents the sales carried out in periods up until his retirement.

All transactions with this related party were conducted on normal commercial terms, equivalent to those conducted with external parties.

Compensation of key management personnel of the Company

	2021 £m	2020 £m
Short-term benefits	**3.000**	2.610
Share-based payments	**1.750**	1.278
	4.750	3.888

Key management personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors. The compensation included above is in respect of the period of the year during which the individuals were Directors. Further details of Directors' emoluments, post-employment benefits and interests are set out in the Remuneration report on pages 150 to 166.

39 Events after the reporting date

The Group has increased its 2022 share buyback programme from the intention of at least £100m, announced in December 2021, to £150m. The buyback will commence immediately and is expected to complete during 2022.

There were no other material post balance sheet events arising after the reporting date.

40 Financial instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The components of capital are as follows: equity attributable to equity holders of the Company comprising issued ordinary share capital, reserves and retained earnings as disclosed in Notes 31.1 and 32; US private placement as disclosed in Note 27; and cash and cash equivalents and borrowings as disclosed in Note 27.

The Group maintains or adjusts its capital structure through the payment of dividends to equity holders, issue of new shares and buyback of existing shares, and drawdown of new borrowings and repayment of existing borrowings. On 1 July 2020, the Company redeemed its convertible redeemable preference shares as disclosed in Note 31.2. The policy of the Group is to ensure an appropriate balance between cash, borrowings (other than the non-recourse borrowings of companies engaged in Infrastructure Investments projects), working capital and the value in the Infrastructure Investments investment portfolio.

The overall capital risk management strategy of the Group remains unchanged from 2020.

On 7 October 2021, the Company completed the share buyback programme, which commenced on 5 January 2021. The Company purchased 50.3m shares for a total consideration of £150m. These shares are currently held in treasury with no voting rights.

Categories of financial instruments

	Loans and receivables at amortised cost, cash and deposits 2021 £m	Financial liabilities at amortised cost 2021 £m	Financial assets at fair value through OCI 2021 £m	Financial assets at amortised cost 2021 £m	Financial assets at fair value through P&L £m	Derivatives 2021 £m	Loans and receivables at amortised cost, cash and deposits 2020 £m	Financial liabilities at amortised cost 2020 £m	Financial assets at fair value through OCI 2020 £m	Financial assets at amortised cost 2020 £m	Derivatives 2020 £m
Financial assets											
Fixed rate bonds and treasury stock	–	–	–	2	–	–	–	–	–	5	–
Mutual funds	–	–	24	–	–	–	–	–	21	–	–
Other investment assets	–	–	–	–	9	–	–	–	–	–	–
PPP financial assets	–	–	30	–	–	–	–	–	155	–	–
Cash and deposits	1,033	–	–	–	–	–	792	–	–	–	–
Trade and other receivables	1,072	–	–	–	–	–	1,047	–	–	–	–
Total	2,105	–	54	2	9	–	1,839	–	176	5	–
Financial liabilities											
Bank overdrafts	(34)	–	–	–	–	–	–	–	–	–	–
Trade and other payables	–	(1,463)	–	–	–	–	–	(1,456)	–	–	–
Unsecured borrowings	–	(192)	–	–	–	–	–	(189)	–	–	–
Infrastructure concessions non-recourse term loans	–	(260)	–	–	–	–	–	(339)	–	–	–
Derivatives	–	–	–	–	–	(4)	–	–	–	–	(36)
Total	(34)	(1,915)	–	–	–	(4)	–	(1,984)	–	–	(36)
Net	2,071	(1,915)	54	2	9	(4)	1,839	(1,984)	176	5	(36)
Current year comprehensive income/(loss) excluding share of joint ventures and associates	33	(29)	(17)	–	9	27	27	(36)	15	–	(4)

40 Financial instruments continued

Derivatives

	Financial liabilities			Financial liabilities		
	Current 2021 £m	Non-current 2021 £m	Total 2021 £m	Current 2020 £m	Non-current 2020 £m	Total 2020 £m
Interest rate swaps						
Designated as cash flow hedges	**(1)**	**(3)**	**(4)**	(4)	(32)	(36)
	(1)	**(3)**	**(4)**	(4)	(32)	(36)

Non-derivative financial liabilities gross maturity

The following table details the remaining contractual maturity for the Group's non-derivative financial liabilities. The table reflects the undiscounted contractual maturities of the financial liabilities including interest that will accrue on those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that are not included in the carrying value of the financial liability.

Maturity profile of the Group's non-derivative financial liabilities at 31 December

	Non-recourse project finance 2021 £m	Other borrowings 2021 £m	Other financial liabilities 2021 £m	Total non-derivative financial liabilities 2021 £m	Discount 2021 £m	Carrying value 2021 £m
Due on demand or within one year	**(6)**	**–**	**(1,354)**	**(1,360)**	**1**	**(1,359)**
Due within one to two years	**(33)**	**(155)**	**(44)**	**(232)**	**1**	**(231)**
Due within two to five years	**(24)**	**(37)**	**(59)**	**(120)**	**1**	**(119)**
Due after more than five years	**(393)**	**–**	**(6)**	**(399)**	**193**	**(206)**
	(456)	**(192)**	**(1,463)**	**(2,111)**	**196**	**(1,915)**
Discount	**196**	**–**	**–**	**196**		
Carrying value	**(260)**	**(192)**	**(1,463)**	**(1,915)**		

	Non-recourse project finance 2020 £m	Other borrowings 2020 £m	Other financial liabilities 2020 £m	Total non-derivative financial liabilities 2020 £m	Discount 2020 £m	Carrying value 2020 £m
Due on demand or within one year	(7)	–	(1,335)	(1,342)	1	(1,341)
Due within one to two years	(9)	–	(64)	(73)	–	(73)
Due within two to five years	(59)	(189)	(51)	(299)	2	(297)
Due after more than five years	(469)	–	(6)	(475)	202	(273)
	(544)	(189)	(1,456)	(2,189)	205	(1,984)
Discount	205	–	–	205		
Carrying value	(339)	(189)	(1,456)	(1,984)		

Derivative financial liabilities gross maturity

The following table details the Group's expected maturity for its derivative financial liabilities. The table reflects the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that are settled on a gross basis (foreign exchange contracts). When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves at the reporting date.

Maturity profile of the Group's derivative financial liabilities at 31 December

	Payable 2021 £m	Receivable 2021 £m	Net payable 2021 £m	Payable 2020 £m	Receivable 2020 £m	Net payable 2020 £m
Due on demand or within one year	**(26)**	**25**	**(1)**	(37)	33	(4)
Due within one to two years	**(2)**	**1**	**(1)**	(12)	8	(4)
Due within two to five years	**(6)**	**4**	**(2)**	(15)	4	(11)
Due after more than five years	**(1)**	**–**	**(1)**	(22)	–	(22)
Total	**(35)**	**30**	**(5)**	(86)	45	(41)

40 Financial instruments continued

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk; credit risk; and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company; and
- interest rate swaps to mitigate the cash flow variability in non-recourse project finance loans arising from variable interest rates on borrowings.

There has been no material change to the Group's exposure to market risks and there has been no change in how the Group manages those risks since 2020.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros and Hong Kong dollars. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Whenever a current or future foreign currency exposure is identified with sufficient reliability, Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer.

As at 31 December 2021, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £31m (2020: £45m) receivable and £31m (2020: £45m) payable with related cash flows expected to occur within three years (2020: five years). The foreign exchange gains or losses resulting from fair valuing these unhedged foreign exchange contracts will affect the income statement throughout the same periods.

The Group has not designated any forward exchange contracts as cash flow hedges in 2020 and 2021.

The Group's investments in foreign operations are exposed to foreign currency translation risks. The Group does not enter into forward foreign exchange or other derivative contracts to hedge foreign currency denominated net assets.

In March 2013, the Group raised US$350m through a US private placement which was designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements. On 7 March 2018, the Group repaid the first tranche of this loan amounting to US$45m. On 5 March 2020, the Group repaid the second tranche of this loan amounting to US$46m. The Group has reassessed the remaining US$259m hedge and has concluded that the hedge continues to be effective. Exchange movements in the year totalled £3m (2020: £6m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a £9m decrease (2020: £9m)/£10m increase (2020: £9m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

The hedging policy is reviewed periodically. At the reporting date there had been no change to the hedging policies since 2020.

(ii) Interest rate risk management

Interest rate risk arises in the Group's non-recourse project companies which borrow funds at both floating and fixed interest rates and hold financial assets measured at fair value through OCI. Floating rate borrowings expose the Group to cash flow interest rate risk. The Group's policy to manage this risk is to swap floating rate interest to fixed rate, using interest rate swap contracts.

In an interest rate swap, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The net effect of a movement in interest rates on income would be immaterial. The fair value of interest rate swaps is determined by discounting the future cash flows using the yield curve at the reporting date.

During 2021 and 2020, the Group's non-recourse project subsidiaries' borrowings at variable rates of interest were denominated in sterling.

The notional principal amounts of the subsidiaries' interest rate swaps outstanding at 31 December 2021 totalled £17m (2020: £101m) with maturities that match the maturity of the underlying borrowings of 10 years.

At 31 December 2021, the fixed interest rate was 5.1% (2020: 3.5% to 5.1%) and the principal floating rates are LIBOR plus a fixed margin. In 2022, the Group will replace LIBOR with SONIA plus a credit adjustment spread. No material impact is expected to arise from this transition.

A 50 basis point increase/decrease in the interest rate on floating rate borrowings for interest rate swaps would lead to a £1m increase (2020: £5m)/£1m decrease (2020: £6m) in amounts taken directly to other comprehensive income by the Group in relation to the Group's exposure to interest rates on the PPP financial assets and cash flow hedges of its Infrastructure Investments subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and other borrowings. The majority of the debt of the Group is held at fixed interest rates. A 50 basis point increase/decrease in the interest rate of each currency in which these financial instruments are held would lead to a £5m decrease (2020: £5m)/£5m increase (2020: £5m) in the Group's net finance cost.

40 Financial instruments continued

Financial risk factors continued

(a) Market risk continued

(iii) Price risk management
The Group's principal price risk exposure arises in its Infrastructure Investments concessions. At the commencement of the concession, an element of the unitary payment by the customer is indexed to offset the effect of inflation on the concession's costs. The Group is exposed to price risk to the extent that inflation differs from the index used.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and deposits, derivative financial instruments, loans provided to joint ventures and associates and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and deposits and derivative financial instruments, the Group has a policy of only using counterparties that are independently rated with a minimum long-term credit rating of BBB+ and at 31 December 2021 and 31 December 2020, this criterion was met. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board of Directors for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables, credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer. As such, the Group does not expect material credit losses to occur on balances owed to the Group by its public or regulated customers. This is in line with the Group's experience in the past of recovering balances owed by these customers.

The Group is exposed to credit risk on loans provided to joint ventures and associates and accrued interest on those loans, as the repayment of these amounts is contingent on the performance of the underlying concession or operation. In the Infrastructure Investments segment the concessions are typically financed by a combination of non-recourse external borrowings and subordinated loans provided by the joint venture partners. The Group assesses any expected credit losses on its loans provided to joint ventures and associates by comparing the carrying value of the relevant investment in joint venture or associate balance (which includes the loans provided and any accrued interest) to future cash flows expected to be received from the joint venture or associate, discounted where appropriate.

The maximum exposure to credit risk in respect of the above at the reporting date is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

There has been no material change to the Group's exposure to credit risks and there has been no change in how the Group manages those risks since 2020.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 27.1. The maturity profile of the Group's financial liabilities is set out on page 235.

There has been no material change to the Group's exposure to liquidity risks and there has been no change in how the Group manages those risks since 2020.

Fair value estimation

The Group holds certain financial instruments on the balance sheet at their fair values. The following hierarchy classifies each class of financial asset or liability in accordance with the valuation technique applied in determining its fair value.

There have been no transfers between these categories during 2021 or 2020.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds investments in mutual funds measured at fair value through OCI which are traded in active markets and valued at the closing market price at the reporting date.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date and taking into account own credit risk. Own credit risk for Infrastructure Investments' swaps is not material and is calculated using the following credit valuation adjustment (CVA) calculation: loss given default multiplied by exposure multiplied by probability of default.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts. Own credit risk for the other derivative liabilities is not material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party.

Level 3 – The fair value is based on unobservable inputs.

The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin by reference to the construction margin on non-PPP projects reflecting the construction risks retained by the construction contractor, and fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in other comprehensive income and other movements recognised in the income statement. Amounts originally recognised in other comprehensive income are transferred to the income statement upon disposal of the asset.

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £1m decrease (2020: £6m)/£1m increase (2020: £6m) in the fair value of the assets taken through equity. Refer to Note 21 for a reconciliation of the movement from the opening balance to the closing balance.

40 Financial instruments continued

Financial risk factors continued

(c) Liquidity risk continued

Fair value estimation continued

For PPP financial assets held in joint ventures and associates, a change in the discount rate by a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £40m decrease (2020: £53m)/£43m increase (2020: £56m) in the fair value of the assets taken through equity within the share of joint ventures' and associates' reserves.

	2021				2020			
Financial instruments at fair value	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments in mutual fund financial assets	**24**	**–**	**–**	**24**	21	–	–	21
PPP financial assets	**–**	**–**	**30**	**30**	–	–	155	155
Other investment assets	**–**	**–**	**9**	**9**	–	–	–	–
Total assets measured at fair value	**24**	**–**	**39**	**63**	21	–	155	176
Financial liabilities – infrastructure concessions interest rate swaps	**–**	**(4)**	**–**	**(4)**	–	(36)	–	(36)
Total liabilities measured at fair value	**–**	**(4)**	**–**	**(4)**	–	(36)	–	(36)

41 Principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries

	Country of incorporation or registration
Construction and support services	
Balfour Beatty Group Ltd	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Infrastructure Inc	US
Infrastructure Investments	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Campus Solutions LLC	US
Balfour Beatty Investments, LP	Canada
Balfour Beatty Communities, LP	Canada
Other	
Balfour Beatty Holdings Inc.	US

(b) Principal joint ventures and associates

	Country of incorporation or registration	Ownership interest %
Construction and support services		
Gammon China Ltd	Hong Kong	50.0
Infrastructure Investments (Note 41)		
Connect Plus (M25) Ltd		15.0

(c) Principal joint operations

The Group carries out a number of its larger contracts in joint arrangements with other contractors so as to share resources and risk. The principal joint projects in progress during the year are shown below.

	Country of incorporation or registration	Ownership interest %
M25 Maintenance		52.5
M4 Junction 3–12		60.0
HS2 – Area North		50.0
Central Rail Systems Alliance		80.0
Skanska/Balfour Beatty	US	50.0
Driscoll/Balfour Beatty	US	35.0
Greenline Extension	US	25.0
LAX Integrated Express Solutions	US	30.0
LBJ East	US	45.0

Notes

(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.

(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.

* Indicates held directly by Balfour Beatty plc.

A full list of the Group's related undertakings is included in Note 43.

41 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK

Roads

Balfour Beatty is a promoter, developer and investor in 12 road and street lighting projects to construct new roads, to upgrade and maintain existing roads and to replace and maintain street lighting. The principal contract is the project agreement with the governmental highway authority. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Connect M1-A1 Ltd	30km road	290	20%	JV	March 1996	30	1999
Connect A50 Ltd	57km road	42	25%	JV	May 1996	30	1998
Connect A30/A35 Ltd	102km road	127	20%	JV	July 1996	30	2000
Connect M77/GSO plc (ii)	25km road	167	85%	JV	May 2003	32	2005
Connect Roads Sunderland Ltd	Streetlighting	27	20%	JV	August 2003	25	2008
Connect Roads South Tyneside Ltd	Streetlighting	28	20%	JV	December 2005	25	2010
Connect Roads Derby Ltd	Streetlighting	36	100%	Subsidiary	April 2007	25	2012
Connect Plus (M25) Ltd	J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	1,309	15%	JV	May 2009	30	2012
Connect CNDR Ltd	Carlisle Northern Development Route	176	25%	JV	July 2009	30	2012
Connect Roads Coventry Ltd	Streetlighting	56	20%	JV	August 2010	25	2015
Connect Roads Cambridgeshire Ltd	Streetlighting	51	20%	JV	April 2011	25	2016
Connect Roads Northamptonshire Ltd	Streetlighting	64	20%	JV	August 2011	25	2016

Notes
(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Connect M77/GSO plc which is registered, and conducts their principal operations, in Scotland.
(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

Healthcare

Balfour Beatty is a promoter, developer and investor in two healthcare projects to build hospital accommodation and to provide certain non-medical facilities management services over the concession period. The principal contract for Birmingham is the project agreement between the concession company and the NHS Trust and for the Irish Primary Care Centres, the project agreement is with the Irish Government. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	JV	June 2006	40	2011
Healthcare Centres PPP Ltd	Primary health care centres	158	40%	JV	May 2016	26	2019

Note
(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Healthcare Centres PPP Ltd which is registered, and conducts its principal operations, in Ireland.

Student accommodation

Balfour Beatty is a promoter, developer and investor in four student accommodation projects. On Holyrood, Sussex and Aberystwyth, the principal agreement is between the concession company and the university and the assets transfer to the customer at the end of the concession. On Glasgow Residences the building is owned outright by Balfour Beatty and rooms will be let to individual students.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Holyrood Student Accommodation SPV Ltd	Edinburgh	82	20%	JV	July 2013	50	2016
Aberystwyth Student Accommodation Ltd	Aberystwyth	51	100%	Subsidiary	July 2013	35	2015
Glasgow Residences (Kennedy Street) SPV Ltd	Glasgow	40	100%	Subsidiary	April 2016	n/a	2017
East Slope Residencies Student Accommodation LLP	Sussex	218	80%	Subsidiary	March 2017	50	2020

Note
(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Holyrood Student Accommodation SPV Ltd and Glasgow Residences (Kennedy Street) SPV Ltd which are registered, and conduct their principal operations, in Scotland.

41 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK continued

Other concessions

Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex. UBB Waste (Gloucestershire) Ltd has a contract with the local authority to design, build and operate a sustainable waste treatment facility. Thanet involves the operation of transmission assets for the 300MW offshore wind farm project located off the Kent coast. Gwynt y Môr involves the operation of transmission assets for the 576MW offshore wind farm in the Irish Sea. Humber involves the operation of transmission assets for the 219MW offshore wind farm in the North Sea. Thanet, Gwynt y Môr and Humber operate and maintain the transmission assets under the terms of perpetual licences granted by Ofgem which contain the right to be paid a revenue stream over a 20-year period on an availability basis. Welland Bio Power involves the design, construction, financing, operation and maintenance of a 10.4MW waste wood gasifier located at Pebble Hall Farm, Thredingworth. The East Wick and Sweetwater development is a London Legacy Development Corporation project which will result in the creation of two communities, East Wick and Sweetwater, at the Queen Elizabeth Olympic Park in London. With the exception of the Welland Bio Power plant and the Eastwick and Sweetwater project, all assets transfer to the customer at the end of the relevant concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Pevensey Coastal Defence Ltd	Sea defences	3	25%	JV	July 2000	25	n/a
East Wick and Sweetwater Projects (Phase 1) Ltd	Property development	90	50%	JV	January 2019	3	2021
UBB Waste (Gloucestershire) Ltd	Waste processing plant	223	49.5%	Associate	January 2016	25	2019
Thanet OFTO Ltd	Offshore transmission	197	20%	JV	December 2014	20	n/a
Gwynt y Môr OFTO plc (ii)	Offshore transmission	256	60%	JV	February 2015	20	n/a
Welland Bio Power Ltd	Waste wood gasifier	17	29.2%	JV	March 2015	n/a	2018
Humber Gateway OFTO Ltd	Offshore transmission	187	20%	JV	September 2016	20	n/a

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

(e) Balfour Beatty Investments North America

Military housing

Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 55 US Government military bases which includes 55 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 43,000 housing units once development, construction and renovation are complete.

The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), seven projects with the United States Department of the Air Force (Air Force) and two projects with the United States Department of the Navy (Navy). In addition, there is one unaccompanied personnel housing (UPH) project with the Army at Fort Stewart.

Contractual arrangements The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. With respect to Army and Navy projects, the Government becomes a member or partner of the project entity (Project LLC); the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, however it contributes a commitment to provide a Government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC. On each project, the Project LLC enters into a ground lease with the Government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, could potentially extend for up to an additional 25 years. The 50-year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the Government.

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual minimum preferred return. On most existing projects, this annual minimum preferred return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Allocation of remaining operating cash flow Operating cash flow remaining after the annual minimum preferred return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the Government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service.

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the applicable military service.

Military concession company (i)	Projects	Total project funding US$m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson Family Housing LLC	Army base	176	November 2003	46	2004
– Fort Carson expansion		130	November 2006	43	2010
– Fort Carson GTA expansion		99	April 2010	39	2013
– Fort Carson GTA II expansion		68	June 2015	34	2018
Stewart Hunter Housing LLC	Two Army bases	374	November 2003	50	2012
Fort Hamilton Housing LLC	Army base	61	June 2004	50	2009
Fort Detrick/Walter Reed Army Medical Center Housing LLC	Two Army bases	112	July 2004	50	2008
Northeast Housing LLC	Seven Navy bases	496	November 2004	50	2010
Fort Eustis/Fort Story Housing LLC	Two Army bases	175	March 2005	50	2011
– Fort Eustis expansion		8	July 2010	45	2011
– Fort Eustis – Marseilles Village		26	March 2013	42	2015
Fort Bliss/White Sands Missile Range Housing LP	Two Army bases	427	July 2005	50	2011
– Fort Bliss expansion		46	December 2009	46	2011
– Fort Bliss GTA expansion phase I		156	July 2011	44	2014
– Fort Bliss GTA expansion phase II		146	November 2012	43	2016
Fort Gordon Housing LLC	Army base	109	May 2006	50	2012
Carlisle/Picatinny Family Housing LP	Two Army bases	84	July 2006	50	2011
– Carlisle Heritage Heights phase II		21	October 2012	44	2014
AETC Housing LP	Four Air Force bases	359	February 2007	50	2012
Southeast Housing LLC	11 Navy bases	558	November 2007	50	2013
Vandenberg Housing LP	Air Force base	155	November 2007	50	2012
Leonard Wood Family Communities LLC	Army base	231	Acquired June 2008	47	2014
AMC West Housing LP	Three Air Force bases	428	July 2008	50	2015
West Point Housing LLC	Army base	220	August 2008	50	2016
Fort Jackson Housing LLC	Army base	181	October 2008	50	2013
Lackland Family Housing LLC	Air Force base	105	Acquired December 2008	50	2013
Western Group Housing LP	Four Air Force bases	328	March 2012	50	2017
Northern Group Housing LLC	Six Air Force bases	427	August 2013	50	2019
ACC Group Housing LLC	Two Air Force bases	56	June 2014	50	2018
Military unaccompanied personnel housing					
Stewart Hunter Housing LLC		36	January 2008	50	2010

Note
(i) Registered in the US and the principal operations of each project are conducted in the US.

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts was evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects and accounts for these projects as investments in associates.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Aviation

Summary Balfour Beatty is a developer, operator and investor in an automated people mover at the Los Angeles airport. The people mover will be a 2.25-mile above ground airport transport system.

Contractual arrangements The principal contract is the project agreement between the concession partnership and the authority. All assets transfer to the authority at the end of the concession.

Concession partnership	Project	Total project funding US$m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
LAX Integrated Express Solutions LLC (i)	LINXS	2,613	27%	JV	June 2018	30	2024

Note
(i) Registered in the US and the principal operations of the project are conducted in the US.

Residential investments

Summary Balfour Beatty is a developer, operator and investor in 12 multifamily residential projects.

Contractual arrangements Balfour Beatty has formed joint ventures to acquire residential apartment buildings for 12 multifamily residential projects. For all residential projects, the joint ventures entered into agreements with Balfour Beatty Communities LLC to perform the operations and renovation work.

Residential investments (i)	Total project funding US$m	Shareholding	Method of accounting	Financial close	Renovation completion
Carolina Cove (Wilmington) Owner LLC (North Carolina)	48	50%	JV	December 2017	2022
Lexington (Ridgeland) Owner, LLC (Jackson, Mississippi)	27	50%	JV	August 2018	2025
Southwind (Memphis) Owner, LLC (Tennessee) (ii)	40	20%	JV	December 2018	2025
Waterchase (Largo) Owner, LLC (Florida)	36	50%	JV	April 2019	2025
Wolfchase (Bartlett) Owner, LLC (Tennessee)	48	50%	JV	June 2019	2025
Landings (Jacksonville) Owner, LLC (Florida)	48	50%	JV	August 2019	2025
Retreat at Schillinger (Mobile) Owner, LLC (Alabama)	33	50%	JV	December 2019	2026
Paces Brook (Columbia) Owner, LLC (South Carolina)	27	50%	JV	December 2019	2026
Chenal Pointe (Little Rock) Owner, LLC (Arkansas)	34	50%	JV	October 2020	2027
Moretti (Homewood) Owner, LLC (Alabama)	33	50%	JV	December 2020	2027
City Lake (Houston) Owner, LLC (Texas)	41	50%	JV	May 2021	2026
San Mateo (Kissimmee) Owner, LLC (Florida)	81	50%	JV	August 2021	2027

Notes
(i) Registered in the US and the principal operations of each project are conducted in the US.
(ii) Under the joint venture terms, Balfour Beatty maintains a 20% voting ownership interest in the entity and a 15% economic ownership in regard to distributions.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Student accommodation

Summary Balfour Beatty is also a developer and owner of six student accommodation projects.

Contractual arrangements The principal contracts in the student accommodation projects are the ground leases, development leases and operating agreements with the state universities setting out the obligations for the construction, operation and maintenance of the student accommodation including lifecycle replacement during the concession period.

Concession company (i)	Total project funding US$m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Northside Campus Partners LP (Texas Dallas)	54	10%	JV	March 2015	61	2016
Northside Campus Partners 2, LP (Texas Dallas)	67	10%	JV	February 2017	61	2018
Northside Campus Partners 3, LP (Texas Dallas) (ii)	36	70%	JV	June 2019	61	2020
Northside Campus Partners 4, LP (Texas Dallas) (ii)	70	65%	JV	December 2019	61	2021
Balfour Beatty-Walsh Housing LLC (Purdue) (ii)	88	67%	JV	January 2018	45	2019
Swiftsure Housing Partners, LLC (Vanderbilt)	153	23%	JV	April 2021	45	2023

Notes

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) Due to the shareholders'/partnership agreement between Balfour Beatty and the other shareholder/partner requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this undertaking, the Directors consider that the Group does not control this undertaking and it has been accounted for as a joint venture.

(f) Balfour Beatty Investments UK and North America

Total future committed equity and debt funding for Infrastructure Investments' project companies

Concessions	2022 £m	2023 £m	2024 £m	2025 onwards £m	Total £m
UK					
Student accommodation	–	–	26	26	52
Other concessions	7	–	–	–	7
	7	–	26	26	59
North America					
Aviation	–	–	20	–	20
Multifamily housing	2	–	–	–	2
Student accommodation	6	2	–	–	8
	8	2	20	–	30
	15	2	46	26	89
Projects at financial close	8	2	20	–	30
Projects at preferred bidder stage	7	–	26	26	59
Total	15	2	46	26	89

42 Audit exemptions taken for subsidiaries

The following subsidiaries are exempt from the requirements under the Companies Act 2006 relating to the audit of individual financial statements by virtue of Section 479A of the Act.

	Company registration number
Education Investments Holdings Ltd	6863458
Consort Healthcare Infrastructure Investments Ltd	6859623

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates and joint ventures, including the principal activity, the country of incorporation and the effective percentage of equity owned as at 31 December 2021 is disclosed below. Unless otherwise stated, all interests are in the ordinary share capital or shares of common stock in the entity and are held indirectly by the Company, and all entities operate principally in their country of incorporation. All subsidiaries had a reporting period ended 31 December 2021 and are wholly owned and consolidated into the Group's results, except where indicated.

Subsidiary undertakings incorporated in the United Kingdom

Entity	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX	
Aberystwyth Student Accommodation Ltd	Infrastructure Concession
Balfour Beatty Infrastructure Investments Ltd (i)	Investment Holding Company
Balfour Beatty Infrastructure Partners Member Ltd	Investment Holding Company
Balfour Beatty Infrastructure Projects Investments Ltd	Investment Holding Company
Balfour Beatty Investments Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty OFTO Holdings Ltd	Investment Holding Company
BBI Holdings Australia Ltd	Investment Holding Company
BBPF LLP (iii)	Investment Partnership
Connect Roads Derby Holdings Ltd	Investment Holding Company
Connect Roads Derby Ltd	Infrastructure Concession
Connect Roads Infrastructure Investments Ltd	Investment Holding Company
Consort Healthcare Infrastructure Investments Ltd	Investment Holding Company
East Slope Residencies Facilities Management Ltd	Infrastructure Concession
East Slope Residencies Holdings Ltd	Investment Holding Company
East Slope Residencies Partner Ltd	Infrastructure Concession
East Slope Residencies plc (ii)	Infrastructure Concession
East Slope Residencies Student Accommodation LLP (ii) (iii)	Infrastructure Concession
Education Investments Holdings Ltd	Investment Holding Company
Initial GP1 Ltd	Investment Holding Company
Manchester Residences (New Cross) Ltd	Infrastructure Concession
South Cambridgeshire Investments Holdings Ltd	Investment Holding Company
West Stratford Developments Ltd (iv)	Investment Holding Company
5 Churchill Place, Canary Wharf, London E14 5HU	
Avatar Ltd	Dormant
Balfour Beatty Build Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Building Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty CE Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd

Entity	Principal activity
Balfour Beatty Civils Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Const Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Northern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Services (HY) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Group Employment Ltd	Employer For UK Workforce
Balfour Beatty Group Ltd	Construction And Support Services
Balfour Beatty Homes Ltd	Agent of Manring Homes Ltd
Balfour Beatty International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Investment Holdings Ltd (i)	Investment Holding Company
Balfour Beatty Management Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Nominees Ltd	Nominee Company
Balfour Beatty Overseas Investments Ltd	Investment Holding Company
Balfour Beatty Overseas Ltd	Investment Holding Company
Balfour Beatty Property Ltd (i)	Agent of Balfour Beatty Plc
Balfour Beatty Rail Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Projects Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Technologies Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Track Systems Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Refurbishment Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Utility Solutions Ltd	Agent of Balfour Beatty Group Ltd
Balfour Kilpatrick Ltd	Dormant
BB Indonesia Ltd	Support Services
Balvac Ltd	Agent of Balfour Beatty Group Ltd
Bical Construction Ltd	Agent of Balfour Beatty Group Ltd
Bignell & Associates Ltd	Agent of Balfour Beatty Group Ltd
Birse Group Ltd	Investment Holding Company
Birse Metro Ltd	Dormant
Bnoms Ltd (i)	Nominee Company
BPH Equipment Ltd	Agent of Balfour Beatty Group Ltd
Cowlin Group Ltd	Dormant
Devonshire House Dormant Three Limited	Dormant
Guinea Investments Ltd	Investment Holding Company

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021 continued

Subsidiary undertakings incorporated in the United Kingdom

Entity	Principal activity
Haden Building Services Ltd	Dormant
Haden Young Ltd (i)	Dormant
Hall & Tawse Western Ltd	Dormant
Laser Rail Ltd	Agent of Balfour Beatty Group Ltd
Lounsdale Electric Ltd	Dormant
Manring Homes Ltd (i)	Property Investment
Multibuild (Construction & Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Office Projects (Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Omnicom Engineering Ltd	Dormant
Raynesway Construction Ltd	Agent of Balfour Beatty Group Ltd
Strata Construction Ltd	Dormant
Hereford Steel Works, Holmer Road, Hereford HR4 9SW	
Painter Brothers Ltd	Agent of Balfour Beatty Group Ltd
Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ	
Balfour Beatty Pension Trust Ltd (i)	Pension Fund Trustee
C/O Mc Griggors LLP, Arnott House, 12–16 Bridge Street, Belfast BT1 1LS, Northern Ireland	
Balfour Kilpatrick Northern Ireland Ltd	Dormant
The Curve Building, Axis Business Park, Hurricane Way, Langley, Berkshire SL3 8AG	
Balfour Beatty Ground Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Living Places Ltd	Agent of Balfour Beatty Group Ltd
Sunderland Streetlighting Ltd	Agent of Balfour Beatty Group Ltd
Testing and Analysis Ltd	Agent of Balfour Beatty Group Ltd
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ	
Balfour Beatty Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Scottish & Southern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Kilpatrick Limited	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Residuary Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
BBPFS LP (iii)	Investment Partnership
Glasgow Residences (Kennedy Street) Holdings Ltd	Investment Holding Company
Glasgow Residences (Kennedy Street) LLP (iii)	Infrastructure Concession
Glasgow Residences (Kennedy Street) SPV Ltd	Infrastructure Concession
Hall & Tawse Ltd	Dormant
Initial Founder Partner GP1 Ltd	Investment Holding Company
Midmill Business Park, Tumulus Way, Kintore, Aberdeenshire AB51 0TG	
Balfour Beatty Engineering Services (CL) Ltd	Agent of Balfour Beatty Group Ltd

Entity	Principal activity
Q14, Quorum Business Park, Benton Lane, Newcastle upon Tyne NE12 8B	
Balfour Beatty Rail Corporate Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty WorkSmart Ltd	Agent of Balfour Beatty Group Ltd
C/O Mazars, Tower Bridge House, St Katharine's Way, London E1W 1DD	
Balfour Beatty Power Construction Ltd	Dormant
Birse Construction Ltd	Investment Holding Company – In Liquidation
Birse Rail Limited	Dormant – In Liquidation
Dean & Dyball Workforce Ltd	Dormant – In Liquidation
Edgar Allen Engineering Ltd	Dormant – In Liquidation
Eastern Infrastructure Maintenance Company Ltd	Dormant – In Liquidation
Mansell Maintenance Limited	Dormant – In Liquidation
Mansell plc	Investment Holding Company – In Liquidation
West Service Road, Raynesway, Derby DE21 7BG	
Balfour Beatty Plant & Fleet Services Ltd	Agent of Balfour Beatty Group Ltd
C/O Mazars LLP, 100 Queen Street, Glasgow G1 3DN Scotland	
Balfour Beatty Engineering Services (LEL) Ltd	Dormant – In Liquidation
Lumina Building, 40 Ainslie Road, Hillington Park, Glasgow G52 4RU	
Shaw-Petrie Limited	Dormant
42-44 Clarendon Road, Watford, Hertfordshire WD17 1DR	
Barlow & Young, Limited	Dormant
Haden International Ltd	Dormant
Fourth Floor, 130 Wilton Road, London SW1V 1LQ	
00158345 Ltd	Dormant
01198171 Ltd	Dormant
BICC Dormant One Limited	Dormant
Devonshire House Dormant One Limited	Dormant
Third Floor Devonshire House, Mayfair Place, London W1X 5FH	
BICC Cables (Kenya) Ltd	Dormant
BICC Thermoheat Limited	Dormant

Notes
(i) Held directly by Balfour Beatty plc.
(ii) 80% owned.
(iii) Partnership interests held.
(iv) 31 March year end.

Financial statements

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021 continued

Subsidiary undertakings incorporated outside the United Kingdom

Entity	Principal activity
Australia	
Allens Corporate Services Pty Limited, Level 33, 101 Collins Street, Melbourne, Victoria, 3000	
Balfour Beatty Australian Limited Partnership [ii]	Holding company
Balfour Beatty Australia Pty Ltd	Construction and support services
Bahamas	
The Alexander Corporate Group Limited, One Millars Court, P.O. Box N-7117, Nassau	
Balfour Beatty Bahamas Ltd	Dormant
Canada	
Boren Ladner Gervais LLP, 22 Adelaide Centre East Tower Toronto ON M5H 4E3	
BB Group Canada Inc	Investment Holding Company
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5	
Balfour Beatty Communities GP, Inc	Infrastructure Investment
Balfour Beatty Communities, LP [ii]	Infrastructure Investment
Balfour Beatty Construction GP, Inc	Construction Services
Balfour Beatty Construction, LP [ii]	Construction Services
Balfour Beatty CWH Holdings Inc	Infrastructure Concession
Balfour Beatty Investments GP, Inc	Infrastructure Investment
Balfour Beatty Investments, LP [ii]	Infrastructure Investment
Balfour Beatty THP Holdings, Inc	Infrastructure Investment
BB CWH, LP [ii]	Infrastructure Investment
BB CWH GP, Inc	Infrastructure Investment
BB NIH, LP [ii]	Infrastructure Investment
BB NIH GP, Inc	Infrastructure Investment
Chile	
Avenida Vicuna MacKenna, 209 de 6843, La Florida, Santiago de Chile	
Balfour Beatty Chile S.A.	
Germany	
Garmischer Strasse 35, 81373 Munich	
Balfour Beatty Rail GmbH	Construction Services
BICC Holdings GmbH	Investment Holding Company
Schreck-Mieves GmbH	Dormant
Hong Kong	
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong	
Balfour Beatty Hong Kong Ltd	Construction and Support Services
India	
6th Floor, N-1 Balsa Block, Manyata Embassy Business Park, Nagavara, Rachenahalli Village, Bangalore – 560045, India	
Balfour Beatty Infrastructure India Pvt. Ltd	Engineering Design Consultancy

Entity	Principal activity
Ireland	
City Junction Business Park, Northern Cross, Malahide Road, Dublin 17	
Balfour Beatty Ireland Ltd	Support Services
Isle of Man	
Tower House, Loch Promenade, Douglas IM1 2LZ, Isle of Man	
Delphian Insurance Company Ltd [i]	Insurance Company
Jersey	
12 Castle Street, St. Helier, Jersey	
Balfour Beatty Employees Trustees Ltd [i]	Employee Trust
Malaysia	
12th Floor, Menara symphony, No 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor	
Balfour Beatty Rail Design International Sdn Bhd	Support Services
Netherlands	
Rapenburgerstraat 177/B, 1011 VM Amsterdam	
Balfour Beatty Netherlands B.V.	Investment Holding Company
Romania	
23 General Ernest Brosteanu Street, 1st District, 010527, Bucharest	
S.C. Balfour Beatty Rail S.R.L.	Dormant
Sri Lanka	
Phase 3 Investment Promotion Zone, Katunayake, Colombo, Western Province	
Balfour Beatty Ceylon (Private) Ltd	Support Services
Thailand	
9 Soi Santisuk, Sithisarn Road, Huay Kwang, Bangkok	
Asia Trade Development Co Ltd	Dormant
Balfour Beatty Construction (Thailand) Co Ltd	Dormant
Balfour Beatty Holdings (Thailand) Co Ltd	Dormant
Balfour Beatty Thai Ltd	Dormant
Linwood Co Ltd	Dormant
United States	
1011 Centre Road, Suite 310, Wilmington DE 19805	
Balfour Beatty Holdings Inc	Investment Holding Company
Balfour Beatty LLC	Investment Holding Company
300 Galleria Parkway, Suite 2050, Atlanta, GA 30339	
National Engineering & Contracting Company	Construction Services
Balfour Beatty Infrastructure, Inc	Construction Services
Corporation Service Company, 1127 Broadway Street NE, Suite 310, Salem OR 97301	
Balfour Beatty Rock Springs, LLC	Construction Services
Corporation Service Company, 1703 Laurel Street, Columbia, SC 29201	
National Casualty and Assurance, Inc	Insurance Company

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021 continued

Subsidiary undertakings incorporated outside the United Kingdom continued

Entity	Principal activity
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808	
Balfour Beatty Campus Solutions, LLC	Infrastructure Holding Company
Balfour Beatty Communities, LLC	Infrastructure Investment
Balfour Beatty Construction D.C., LLC	Construction Services
Balfour Beatty Construction, LLC	Construction Services
Balfour Beatty Equipment, LLC	Construction Services
Balfour Beatty Investments, Inc	Investment Company
Balfour Beatty Management Inc	Business Services
Balfour Beatty/Benham Military Communities LLC (v)	Infrastructure Investment
Balfour Beatty/PHELPS Military Communities LLC (iv)	Infrastructure Investment
Balfour Beatty Military Housing Development LLC	Infrastructure Investment
Balfour Beatty Military Housing Investments LLC	Investment Holding Company
Balfour Beatty Military Housing Management LLC	Infrastructure Investment
Balfour Beatty – Worthgroup, LLC	Construction Services
BBC AF Housing Construction LLC	Infrastructure Investment
BBC AF Management/Development LLC	Infrastructure Investment
BBC-Evergreen, LLC	Investment Company
BBC Independent Member I, Inc	Infrastructure Investment
BBC Independent Member II, Inc	Infrastructure Investment
BBC Military Housing – ACC Group, LLC	Infrastructure Investment
BBC Military Housing – AETC General Partner LLC (iii)	Infrastructure Investment
BBC Military Housing – AETC Limited Partner LLC (iii)	Infrastructure Investment
BBC Military Housing – AMC General Partner LLC	Infrastructure Investment
BBC Military Housing – AMC Limited Partner LLC	Infrastructure Investment
BBC Military Housing – Bliss/WSMR General Partner LLC	Infrastructure Investment
BBC Military Housing – Bliss/WSMR Limited Partner LLC	Infrastructure Investment
BBC Military Housing – Carlisle/Picatinny General Partner LLC	Infrastructure Investment
BBC Military Housing – Carlisle/Picatinny Limited Partner LLC	Infrastructure Investment
BBC Military Housing – FDWR LLC (v)	Infrastructure Investment
BBC Military Housing – Fort Carson LLC	Infrastructure Investment
BBC Military Housing – Fort Gordon LLC	Infrastructure Investment
BBC Military Housing – Fort Hamilton LLC	Infrastructure Investment
BBC Military Housing – Fort Jackson LLC	Infrastructure Investment
BBC Military Housing – Hampton Roads LLC	Infrastructure Investment
BBC Military Housing – Lackland LLC	Infrastructure Investment
BBC Military Housing – Leonard Wood LLC	Infrastructure Investment
BBC Military Housing – Navy Northeast LLC (v)	Infrastructure Investment
BBC Military Housing – Navy Southeast LLC	Infrastructure Investment
BBC Military Housing – Northern Group, LLC	Infrastructure Investment
BBC Military Housing – Stewart Hunter LLC	Infrastructure Investment
BBC Military Housing – Vandenberg General Partner LLC (v)	Infrastructure Investment
BBC Military Housing – Vandenberg Limited Partner LLC (v)	Infrastructure Investment
BBC Military Housing – West Point LLC	Infrastructure Investment
BBC Military Housing – Western General Partner, LLC	Infrastructure Investment
BBC Military Housing – Western Limited Partner, LLC	Infrastructure Investment
BBC Multifamily Holdings, LLC	Infrastructure Investment
BBCS – Northside Campus LLC	Infrastructure Investment
BBCS Development, LLC	Infrastructure Investment
BICC Cables Corporation	Business Services
Corporation Service Company, 300 Deschutes Way SW, Suite 304, Tumwater WA 98501	
Howard S. Wright Construction Co	Construction Services
HSW, Inc	Construction Services
CSC – Nevada, C/O CSC Services of Nevada, Inc., 502 East John Street Carson City, Nevada 89706	
Balfour Beatty-Golden Construction Company	Construction Services
Balfour Beatty Construction Company, Inc	Construction Services
Balfour Beatty Construction Group, Inc	Construction Services

Notes
(i) Held directly by Balfour Beatty plc.
(ii) Partnership interests held.
(iii) 80% interest held.
(iv) 89% interest held.
(v) 90% interest held.

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021 continued

Joint ventures incorporated in the United Kingdom

Entity	% held by the Group	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX		
BBDE Orbital Holdings, LLP (iii) (v)	37.5	Investment Holding Company
Connect A30/A35 Holdings Ltd (iv)	20	Investment Holding Company
Connect A30/A35 Ltd (iv)	20	Infrastructure Concession
Connect A50 Ltd (iv)	25	Infrastructure Concession
Connect CNDR Holdings Ltd (iv)	25	Investment Holding Company
Connect CNDR Immediate Ltd (iv)	25	Infrastructure Concession
Connect CNDR Ltd (iv)	25	Infrastructure Concession
Connect M1-A1 Holdings Ltd (i) (iv)	20	Investment Holding Company
Connect M1-A1 Ltd (iv)	20	Infrastructure Concession
Connect M77/GSO Holdings Ltd (ii) (iv)	85	Investment Holding Company
Connect M77/GSO plc (ii) (iv)	85	Infrastructure Concession
Connect Roads Cambridgeshire Holdings Ltd	20	Investment Holding Company
Connect Roads Cambridgeshire Intermediate Ltd	20	Infrastructure Concession
Connect Roads Cambridgeshire Ltd	20	Infrastructure Concession
Connect Roads Coventry Holdings Ltd	20	Investment Holding Company
Connect Roads Coventry Intermediate Ltd	20	Infrastructure Concession
Connect Roads Coventry Ltd	20	Infrastructure Concession
Connect Roads Ltd (iv)	25	Investment Holding Company
Connect Roads Northamptonshire Holdings Ltd	20	Investment Holding Company
Connect Roads Northamptonshire Intermediate Ltd	20	Infrastructure Concession
Connect Roads Northamptonshire Ltd	20	Infrastructure Concession
Connect Roads South Tyneside Holdings Ltd	20	Investment Holding Company
Connect Roads South Tyneside Ltd	20	Infrastructure Concession
Connect Roads Sunderland Holdings Ltd	20	Investment Holding Company
Connect Roads Sunderland Ltd	20	Infrastructure Concession
East Wick and Sweetwater Projects (Holdings) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 1) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 2) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 3) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 4) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 5) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 6) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 7) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Finance (Holdings) Ltd (iv)	50	Investment Holding Company
East Wick and Sweetwater Projects (Finance) Ltd (iv)	50	Infrastructure Concession
Gwynt y Mor OFTO Holdings Ltd (ii) (iv)	60	Investment Holding Company
Gwynt y Mor OFTO Intermediate Ltd (ii) (iv)	60	Infrastructure Concession
Gwynt y Mor OFTO plc (ii) (iv)	60	Infrastructure Concession
Humber Gateway OFTO Holdings Ltd (iv)	20	Investment Holding Company
Humber Gateway OFTO Intermediate Ltd (iv)	20	Infrastructure Concession
Humber Gateway OFTO Ltd (iv)	20	Infrastructure Concession
South Cambridgeshire Projects LLP (v)	50	Infrastructure Concession
Thanet OFTO Holdco Ltd (iv)	20	Investment Holding Company
Thanet OFTO Intermediate Ltd (iv)	20	Infrastructure Concession
Thanet OFTO Ltd (iv)	20	Infrastructure Concession
Blythe House, Blythe Park, Cresswell, Stoke on Trent, Staffordshire ST11 9RD		
Tyseley Bio Power Ltd	37.5	Investment Holding Company
Connect Plus House, St Albans Road, South Mimms, Hertfordshire EN6 3NP		
Connect Plus (M25) Holdings Ltd (iii) (iv)	15	Investment Holding Company
Connect Plus (M25) Intermediate Ltd (iii) (iv)	15	Infrastructure Concession
Connect Plus (M25) Issuer plc (iii) (iv)	15	Infrastructure Concession
Connect Plus (M25) Ltd (iii) (iv)	15	Infrastructure Concession
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ		
Holyrood Holdings Ltd	20	Investment Holding Company
Holyrood Student Accommodation Holdings Ltd	20	Infrastructure Concession
Holyrood Student Accommodation Intermediate Ltd	20	Infrastructure Concession
Holyrood Student Accommodation plc	20	Infrastructure Concession
Holyrood Student Accommodation SPV Ltd	20	Infrastructure Concession
Westminster House, Crompton Way, Segensworth West, Fareham, Hampshire PO15 5SS		
Pevensey Coastal Defence Ltd	25	Infrastructure Concession
C/O Pario Ltd, 18 Riversway Business Village, Navigation Way, Preston PR2 2YP		
Consort Healthcare (Birmingham) Funding plc	40	Infrastructure Concession
Consort Healthcare (Birmingham) Holdings Ltd	40	Investment Holding Company
Consort Healthcare (Birmingham) Intermediate Ltd	40	Infrastructure Concession
Consort Healthcare (Birmingham) Ltd	40	Infrastructure Concession

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021 continued

Joint ventures incorporated in the United Kingdom continued

Entity	% held by the Group	Principal activity
9 Amberside House Wood Lane, Paradise Industrial Estate, Hemel Hempstead, Hertfordshire, England HP2 4TP		
Pebblehall Bio Power Ltd	29.2	Investment Holding Company
Welland Bio Power Ltd	29.2	Infrastructure Concession

Notes

(i) Held directly by Balfour Beatty plc.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted as a joint venture.

(iii) The Group owned a 37.5% partnership interest in BBDE Orbital Holdings LLP at 31 December 2020. Connect Plus (M25) Holdings Ltd and its subsidiaries are 40% owned by BBDE Orbital Holdings LLP.

(iv) 31 March year end.

(v) Partnership interests held.

Joint ventures incorporated outside the United Kingdom

Entity	% held by the Group	Principal activity
Bermuda		
Conyers Dill & Pearman Limited, 2 Clarendon House, 2 Church Street, Hamilton HM 11		
CP Bay Carry A LP	20	Infrastructure Concession
CP Bay Carry B LP	20	Infrastructure Concession
British Virgin Islands		
Vistra Corporate Services Centre, Wickhams Cay II Road Town, Tortola VG1110		
Gammon Asia Ltd	50	Management Company
Gammon Construction Holdings Ltd	50	Investment Holding Company
Canada		
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5		
CWH Facilities Management, LP (iv)	50	Infrastructure Investment
CWH FM GP Inc	50	Infrastructure Investment
CWH Design – Build GP (iv)	50	Construction Services
Hong Kong		
Avenida da Praia Grande, nº429, 25º andar D, em Macau		
BBE&M (Macau) Ltd	50	Electrical and Mechanical Contracting
No. 457, Shatian Section, Ganggang Avenue, Shatian Town, Dongguan City, Guangdong Province		
Dongguan Pristine Metal Works Ltd	50	Manufacturing Services
25th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong		
Sanfield-Gammon Construction JV Company Ltd	25	Construction Services
22/F, Tower 1, The Quayside, 77 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong		
AsiaBuild Ltd	50	Dormant
Balfour Beatty E&M Ltd	50	Dormant
Digital G Ltd	50	Technology and Innovation
Entasis Ltd	50	General Contractor
Gammon Building Construction (Macau) Ltd	50	Building Construction
Gammon Building Construction Ltd	50	Building Construction
Gammon Capital Ltd	50	Dormant
Gammon Capital Management Ltd	50	Dormant
Gammon China Ltd	50	Investment Holding Company
Gammon Concrete Services Ltd	50	Dormant
Gammon Construction (China) Ltd	50	Building Construction
Gammon Construction (Vietnam) Holdings Ltd	50	Construction and Project Management
Gammon Construction Consultants (Shenzhen) Ltd	50	Support Services
Gammon Construction Ltd (iii)	50	Engineering and Construction
Gammon Construction Vietnam Co. Ltd	50	Management Services
Gammon E&M Ltd	50	Engineering Services
Gammon Engineering & Construction Company Ltd	50	Engineering and Construction
Gammon Engineering Ltd	50	Dormant
Gammon Finance Ltd	50	Finance and Investment
Gammon Interiors Ltd	50	Dormant
Gammon Management Services Ltd	50	Construction Management Services
Gammon Plant Ltd	50	Plant and Equipment Hire and Maintenance
Gold Tactics Investment Ltd	50	Dormant
Into G Ltd	50	Interior Fit-Out and Contracting
Lambeth Associates Ltd	50	Management and Consultancy Services
Pristine Metal Works Ltd	50	Investment Holding Company
Ireland		
25–28 North Wall Quay, Dublin 1, Dublin D01 H104, Ireland		
Balfour Beatty CLG Ltd	50	Support Services
C/O Pario SPV Management Limited, Suite 54, Morrison Chambers, 32 Nassau St, Dublin 2 D02 AP29		
Healthcare Centres PPP Holdings Ltd	40	Investment Holding Company
Healthcare Centres PPP Ltd	40	Infrastructure Concession
Malaysia		
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya		
Balfour Beatty Rail Sdn Bhd (ii)	70	Construction Services – In Liquidation
Unit B-9-7, Level 9, Capital 2, Oasis Square, No.2 Jalan PJU 1A/7A, Ara Damansara, 47301 Petaling Jaya, Selangor, Malaysia		
Gammon Sdn Bhd	50	Dormant
Pesaka Gammon Construction Sdn Bhd	15	Dormant
Philippines		
G/F Makati Stock Exchange, Ayala Avenue, Makati City, Metro Manila, Philippines		
Gammon Philippines, Inc.	20	General Construction
MG Construction Ventures Holdings, Inc.	16.65	Property Investment
Singapore		

Financial statements

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021 continued

Joint ventures incorporated outside the United Kingdom continued

Entity	% held by the Group	Principal activity
239 Alexandra Road, 159930		
Digital G (Singapore) Pte. Ltd	50	Equipment Services
Gammon Construction and Engineering Pte. Ltd	50	Construction Services
Gammon Construction Holdings (S) Pte. Ltd	50	Investment Holding Company
Gammon Investments Pte. Ltd	50	Investment Holding Company
Gammon Pte. Ltd	50	Engineering and Construction
Lambeth Associates Design & Consultancy Pte Ltd	50	Management and Consultancy Services
Thailand		
21st Floor, Times Square Building, 246 Sukhumvit Road, Klongtoey Sub-District, Klongtoey District, Bangkok 10110, Thailand		
Gammon Construction (Thailand) Ltd	24.5	Dormant
23rd Floor, Times Square Building, 246 Sukhumvit Road, Klongtoey Sub-District, Klongtoey District, Bangkok 10110, Thailand		
Gammon (Thailand) Ltd	24.5	Dormant
Thai Gammon Ltd	24.5	Dormant
United States		
Corporation Service Company 1201 Hays Street, Tallahassee FL 32301		
C-BB Management, LLC	50	Infrastructure Investment
C-BBC Development, LLC	50	Infrastructure Investment
Corporation Service Company, d/b/a CSC-Lawyers, Incorporating Service Company, 211 E. 7th Street, Suite 620, Austin TX 78701-3218		
Northside Campus Partners, LP (iv)	10	Infrastructure Concession
Northside Campus Partners 2,LP (iv)	10	Infrastructure Investment
Northside Campus Partners 3, LP (i)(iv)	70	Infrastructure Concession
Northside Campus Partners 4, LP (i)(iv)	65	Infrastructure Concession
Northside Campus General Partner, LLC	50	Infrastructure Concession
Construction Service Company, 251 Little Falls Drive, Wilmington DE19808		
BBC – ApexOne Caroline Cove, LLC	50	Infrastructure Investment
BBC – ApexOne Chenal Pointe, LLC	50	Infrastructure Investment
BBC – ApexOne City Lake, LLC	50	Infrastructure Investment
BBC – ApexOne Landings, LLC	50	Infrastructure Investment
BBC – ApexOne Lexington, LLC	50	Infrastructure Investment
BBC – ApexOne Moretti, LLC	50	Infrastructure Investment
BBC – ApexOne Paces Brook, LLC	50	Infrastructure Investment
BBC – ApexOne Retreat, LLC	50	Infrastructure Investment
BBC – ApexOne Riverchase Landing, LLC	50	Infrastructure Investment
BBC – ApexOne San Mateo, LLC	50	Infrastructure Investment
BBC – ApexOne Southwind, LLC	50	Infrastructure Investment
BBC – ApexOne Waterchase, LLC	50	Infrastructure Investment
BBC – ApexOne Wolfchase, LLC	50	Infrastructure Investment
BBC – ApexOne Zephyr Ridge, LLC	50	Infrastructure Investment
BBC Army Integrated, LLC	10	Infrastructure Investment
Carolina Cove (Wilmington) Owner, LLC	50	Infrastructure Investment
Chenal Pointe (Little Rock) Owner, LLC	50	Infrastructure Investment
City Lake (Houston) Owner, LLC	50	Infrastructure Investment
LAX Integrated Express Solutions Holdco, LLC	27	Infrastructure Concession
LAX Integrated Express Solutions, LLC	27	Infrastructure Concession
Landings (Jacksonville) Owner, LLC	50	Infrastructure Investment
Lexington (Ridgeland) Owner, LLC	50	Infrastructure Investment
Moretti (Homewood) Owner, LLC	50	Infrastructure Investment
Northside Campus Limited Partner, LLC	10	Infrastructure Concession
Paces Brook (Columbia) Owner, LLC	50	Infrastructure Investment
Retreat at Schillinger (Mobile) Owner, LLC	50	Infrastructure Investment
Riverchase Landing (Hoover) Owner, LLC	7.5	Infrastructure Investment
San Mateo (Kissimmee) Owner, LLC	50	Infrastructure Investment
Southwind (Memphis) Owner, LLC	20	Infrastructure Investment
Southwind (Memphis) Holdings, LLC	20	Infrastructure Investment
Swiftsure Housing Partners, LLC	23	Infrastructure Concession
T-BBA Riverchase Holdings, LLC	7.5	Infrastructure Investment
Waterchase (Largo) Owner, LLC	50	Infrastructure Investment
Wolfchase (Bartlett) Owner, LLC	50	Infrastructure Investment
Zephyr Ridge (Zephyrhills) Owner, LLC	50	Infrastructure Investment
Registered Agent Solutions, Inc. 9 E Loockerman Street, Suite 311 Dover DE 19901		
United Campus Partners, LLC	50	Infrastructure Investment
430 Eastwood Road, Wilmington, NC 28403		
New Energy Alliance LLC	50	Construction and Support Services
Vietnam		
5th Floor, Gemadept Tower, 2Bis–4–6 Le Thanh Ton Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam		
Gammon Construction Vietnam Co. Ltd	50	Building Construction and Management Services

Notes

(i) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.

(ii) The Group holds a 70% interest in Balfour Beatty Rail Sdn Bhd, which holds a 60% interest in Balfour Beatty Ansaldo Systems JV Sdn Bhd. Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of these companies, the Directors consider that the Group does not control these companies and they have been accounted for as joint ventures.

(iii) Preference shares and/or deferred shares also held.

(iv) Partnership interest held.

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2021 continued

Associated undertakings incorporated in and outside the United Kingdom

Entity	% held by the Group	Principal activity
United Kingdom		
Ashford House, Grenadier Road, Exeter EX1 3LH		
UBB Waste (Essex) Holdings Ltd	30	Infrastructure Concession
UBB Waste (Essex) Intermediate Ltd	30	Investment Holding Company
UBB Waste (Gloucestershire) Holdings Ltd	49.5	Infrastructure Concession
UBB Waste (Gloucestershire) Intermediate Ltd	49.5	Investment Holding Company
UBB Waste (Gloucestershire) Ltd	49.5	Infrastructure Concession
C/O FRP Advisory Group plc, 2nd Floor, 110 Cannon Street, London EC4N 6EU		
UBB Waste (Essex) Ltd	30	Infrastructure Concession – In Receivership
United States		
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808		
ACC Group Housing, LLC (i)	100	Infrastructure Concession
AETC Housing LP (i)(ii)	80	Infrastructure Concession
AMC West Housing LP (i) (ii)	100	Infrastructure Concession
Balfour Beatty-Walsh Housing, LLC	67	Infrastructure Concession
Carlisle/Picatinny Family Housing LP (ii)	10	Infrastructure Concession
FDWR Parent LLC	10	Infrastructure Concession
Fort Bliss/White Sands Missile Range Housing LP (ii)	10	Infrastructure Concession
Fort Carson Family Housing LLC	10	Infrastructure Concession
Fort Detrick/Walter Reed Army Medical Center Housing LLC	9	Infrastructure Concession
Fort Eustis/Fort Story Housing LLC	10	Infrastructure Concession
Fort Gordon Housing LLC	10	Infrastructure Concession
Fort Hamilton Housing LLC	10	Infrastructure Concession
Fort Jackson Housing LLC	10	Infrastructure Concession
Lackland Family Housing, LLC (i)	100	Infrastructure Concession
Leonard Wood Family Communities, LLC	10	Infrastructure Concession
Northeast Housing LLC	9	Infrastructure Concession
Northern Group Housing, LLC (i)	100	Infrastructure Concession
Southeast Housing LLC	10	Infrastructure Concession
Stewart Hunter Housing LLC	10	Infrastructure Concession
TBB Evergreen Commons, LLC	15	Infrastructure Investment
TBB Evergreen Holdings, LLC	15	Infrastructure Investment
TBB Evergreen Park, LLC	15	Infrastructure Investment
TBB Evergreen Terrace, LLC	15	Infrastructure Investment
Vandenberg Housing LP (i)(ii)	90	Infrastructure Concession
Western Group Housing, LP (i)(ii)	100	Infrastructure Concession
West Point Housing LLC	10	Infrastructure Concession

Notes

(i) The Group evaluated each of its interests in the military housing projects to determine if the associated entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts were evaluated when determining which party or parties had control over the activities that most significantly impact a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not control or jointly control them and therefore the entities have been accounted for as associated undertakings.

(ii) Partnership interests held.

Financial statements

UNAUDITED GROUP FIVE-YEAR SUMMARY

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Income					
Revenue including share of joint ventures and associates	**8,263**	8,593	8,411	7,814	8,264
Share of revenue of joint ventures and associates	**(1,078)**	(1,273)	(1,098)	(1,180)	(1,348)
Group revenue from continuing operations	**7,185**	7,320	7,313	6,634	6,916
Underlying profit from continuing operations	**197**	51	221	205	196
Underlying net finance costs	**(10)**	(15)	(21)	(24)	(31)
Underlying profit before taxation	**187**	36	200	181	165
Amortisation of acquired intangible assets	**(5)**	(6)	(6)	(8)	(9)
Other non-underlying items	**(95)**	18	(56)	(50)	(39)
Profit from continuing operations before taxation	**87**	48	138	123	117
Taxation on profit from continuing operations	**52**	(18)	(5)	12	45
Profit from continuing operations after taxation	**139**	30	133	135	162
Profit from discontinued operations after taxation	**–**	–	–	–	6
Profit for the year	**139**	30	133	135	168
Profit for the year attributable to equity holders	**140**	30	130	135	168
(Loss)/profit for the year attributable to non-controlling interests	**(1)**	–	3	–	–
Profit for the year	**139**	30	133	135	168
Capital employed					
Equity holders' equity	**1,369**	1,336	1,368	1,231	1,056
Liability component of preference shares	**–**	–	110	106	103
Net non-recourse borrowings – infrastructure concessions	**243**	317	302	309	305
Net cash – other	**(790)**	(581)	(512)	(337)	(335)
	822	1,072	1,268	1,309	1,129

	2021 Pence	2020 Pence	2019 Pence	2018 Pence	2017 Pence
Statistics					
Underlying earnings per ordinary share from continuing operations*	**29.7**	3.7	26.7	26.3	20.9
Basic earnings per ordinary share from continuing operations	**21.3**	4.4	19.0	19.7	23.7
Diluted earnings per ordinary share from continuing operations	**21.1**	4.4	18.8	19.5	23.4
Proposed dividends per ordinary share	**9.0**	1.5	2.1	4.8	3.6
Underlying profit from continuing operations before net finance costs including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	**2.4%**	0.6%	2.6%	2.6%	2.4%

Note

* Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group's underlying trading performance.

Financial calendar

	2022
12 May	Annual General Meeting
6 July	Provisional ordinary dividend payable
17 August*	2022 half year results announcement
5 December*	Provisional ordinary dividend payable
8 December*	Trading update

* Dates are subject to change

Registrars

Balfour Beatty's share register is maintained by Link Group, the Company's Registrars. Link Group is a trading name of Link Market Services Limited. All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Link Group, clearly stating your registered address and, if available, your shareholder reference number.

Please write to: Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL.

Telephone: 0371 664 0524. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales.

Alternatively, you can email: shareholderenquiries@linkgroup.co.uk. Link Group can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; or record the death of a shareholder. You can also visit www.signalshares.com to manage your shareholding, and access shares-related services and share plans online.

Share certificates

In order to sell or transfer your shares, you must ensure that you have a valid share certificate. If you lose or misplace your share certificate, you can contact Link Group's customer support centre and request a replacement certificate. Link Group will then issue a letter of indemnity to you which you will need to sign and return for a new certificate to be produced. There is a fee charged for this service which includes an administration charge and a cover charge (the cover charge can vary depending on the value of the shareholding).

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). Link Group can provide a dividend mandate form. A Dividend Reinvestment Plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at: www.balfourbeatty-shares.com.

International payment service

Shareholders outside the UK may elect to receive dividends directly into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars, Link Group using the contact details above. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

Electronic shareholder communications

The Company's website www.balfourbeatty.com provides a range of information about the Company, our people and businesses and our policies on corporate governance and corporate responsibility.

The website should be regarded as your first point of reference for information on any of these matters. The share price can also be found there.

You can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to: view your holdings and indicative share price and valuation; view movements on your holdings and your dividend payment history; register a dividend mandate to have your dividends paid directly into your bank account; change your registered address; sign up to receive e-communications or access the online proxy voting facility; and download and print shareholder forms.

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: shareportal@linkgroup.co.uk.

Unsolicited telephone calls

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. We advise our shareholders to be wary of any unsolicited telephone calls, advice or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free annual and/or other reports on the Company.

If you receive any unsolicited investment advice:

» Always ensure the firm is authorised by the Financial Conduct Authority (FCA), is on the FCA Register and is allowed to provide financial advice before handing over your money. You can check if a firm is on the FCA's Register via https://register.fca.org.uk/.

» Ask the caller for their name and telephone number and inform them you will call them back. Then check their identity to ensure that they are from the firm they say are from by calling the firm using the contact number listed on the FCA Register. If there are no contact details on the FCA Register or you are told that they are out of date, or if you have any other doubts, call the FCA Consumer Helpline on 0800 111 6768.

» If you are approached about a share scam, please visit the FCA's ScamSmart website at: www.fca.org.uk/scamsmart where you can access information about the various types of scam, including share and boiler room fraud, see the FCA's Warning List and reports on firms about whom consumers have expressed concerns. Alternatively, you can call the FCA Consumer Helpline (see above). If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong.

» You should also report any approach to Action Fraud, which is the UK's national fraud reporting centre, at: www.actionfraud.police.uk, or by calling 0300 123 2040.

American Depository Receipts (ADRs)

An American Depository Receipt (ADR) is a negotiable instrument issued by a depositary bank that evidences ownership of shares in a corporation organised outside the US. Each ADR represents a specific number of underlying ordinary shares in the non-US company, on deposit with a custodian in the applicable home market.

ADRs are generally treated as US domestic securities. They are quoted and traded in USD and are subject to the trading and settlement procedures of the market in which they trade.

Balfour Beatty's ADR Programme Details

Symbol: BAFYY

ADR: Ordinary Share Ratio: 1:2

CUSIP:05845R306

ADR ISIN: US05845R3066

Underlying ISIN: GB0000961622

Depositary Bank: JP Morgan Chase Bank N.A.

Country: United Kingdom

Balfour Beatty's ADR Depositary Bank is JP Morgan Chase N.A. For all ADR-related enquiries, investors can contact JP Morgan via telephone, in writing or email as follows:

Telephone:

Toll free within the United States at: 1-800-990-1135 or locally at 651-306-4383.

JP Morgan representatives are available from 7.00am to 7.00pm Central Time, Monday to Friday.

In writing:

Mail
JP Morgan Shareholder Services
P.O Box 64504
St. Paul, Minnesota 55164-0504

Overnight Mail
JP Morgan Chase Bank N.A.
1110 Centre Pointe Curve, Suite 101
Mendota Heights MN 55120-4100

Contact Online
www.shareowneronline.com/informational/contact-us/

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form.

Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £40m has been given to more than 3,000 charities. The relevant share transfer form may be obtained from the Registrars. For more information visit www.sharegift.org.

Share dealing services

The Company's shares can be traded through most banks, building societies and stockbrokers. Additionally, Link Group offer online and telephone dealing for UK shareholders. For further information, contact www.linksharedeal.com.

Link Market Services Trustees Limited is authorised and regulated by the Financial Conduct Authority.

London Stock Exchange Codes

The London Stock Exchange Daily Official List (SEDOL) code is: 0096162.

The London Stock Exchange ticker code is: BBY.

Capital gains tax (CGT)

For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

Consolidated tax vouchers

Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank account. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars. A copy of the consolidated tax voucher may be downloaded from the Share Portal at: www.balfourbeatty-shares.com.

Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

Balfour Beatty plc Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU. Registered in England and Wales, registered number 395826

Forward-looking statements

This report, including information included or incorporated by reference in it, may include statements that are or may be forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty's business, financial condition and results of operations. All statements other than statements of historical facts included in this document may be forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", estimates", "projects", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by Balfour Beatty in good faith based on the information available to it at the date of this report and reflect the beliefs and expectations of Balfour Beatty. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US Government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 105 to 112 of this report.

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

Find out more about our investor relations at:
www.balfourbeatty.com/investors

Online annual report

For a summary of our Annual Report and Accounts 2021 visit:

ar21.balfourbeatty.com

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For more information about investor relations visit:

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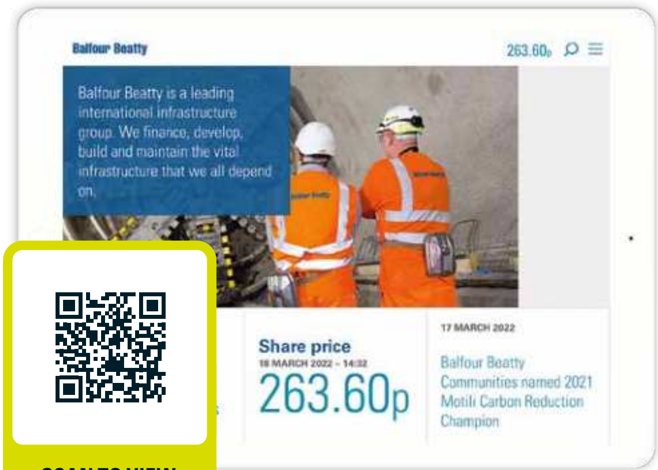

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Balfour Beatty
5 Churchill Place
Canary Wharf
London E14 5HU
Telephone: +44(0) 20 7216 6800

www.balfourbeatty.com