Build to Last

Annual Report and Accounts 2015

Balfour Beatty

Contents

On the cover:
We have built The Diamond, a multi-disciplinary teaching and research facility in Sheffield with specialised laboratories and a clean room to facilitate study and research.

Build to Last

Build to Last, our transformation programme launched in early 2015, has made this a significant year in the development of Balfour Beatty.

We are implementing consistent processes to integrate our businesses into a Group with greater transparency and control. Our main markets are providing a positive backdrop, so that with stronger governance we can both win and deliver business on the right terms. Looking to the future, we are investing to maintain Balfour Beatty's expertise and assets.

By the end of 2016 we will achieve our Phase One targets and over the medium term, we will reach industry-standard margins.

But above all, Build to Last is putting in place the foundations to build a Balfour Beatty with market leading strengths and performance over the longer term.

We are Lean, Expert, Trusted and Safe. We Build to Last.

Read more on p14

Chairman's introduction

Restoring Balfour Beatty to strength

"Whilst much remains to be done, I am confident that we have in place the right foundations and the right management to deliver the long-term success of the business."

2015 is the year that Balfour Beatty began making the changes that are necessary to restore the business to strength.

Once again the financial results are disappointing, reflecting the legacy issues which have scarred Balfour Beatty in recent years. However, despite these problems Balfour Beatty retains one of the strongest balance sheets in the sector, supportive clients, a dedicated workforce and growing core markets providing a solid platform from which to turn around our business.

Performance

With new governance and controls introduced across the business, Balfour Beatty is repositioning, withdrawing from certain types of work and focusing on the more profitable opportunities. As we do so, we have seen a small reduction in underlying revenues (2%) and order book (4%). However, as you would expect, the quality of new orders we have chosen to bid for and won has improved.

The underlying loss from continuing operations was £106 million – losses in Construction Services of £229 million were largely caused by historic issues in the UK, US and Middle East. Support Services profits of £24 million reflect, in part, the point in the regulatory cycle of some of its major customers.

The Investments business continued to perform strongly. The portfolio was valued at £1.24 billion. We continue to invest in new opportunities and realise value at the point where we believe it is in the optimum interest of shareholders to do so. The portfolio provides unique balance to the Group and means that Balfour Beatty maintains one of the strongest balance sheets in the sector.

Build to Last

Our annual report for 2014 set out Balfour Beatty's self-help transformation plan – Build to Last. In this year's report, we are able to provide you with more detail about how the plan has been rolled out across the business; the difference it is making; and the progress we have made to deliver our initial, Phase One targets of £200 million cash in and £100 million cost out over 24 months. We are on course to meet these targets.

Management of the business has been strengthened with a new leadership team and an organisation re-aligned with key customer segments. The Build to Last programme is gaining traction throughout the business, demonstrated by the significant improvement in the Group's cash performance this year.

Markets

Importantly, we are continuing to win new business across our core markets – the order book is worth £11.0 billion. Our new work is not business which is being bought at the expense of future profitability, but good business won on better terms across our operations.

Against a backdrop of rising markets, our customers recognise the expertise that exists within Balfour Beatty's teams. That is why we are selected for jobs such as the Thames Tideway tunnel, the 'Smart Motorways' work on the M5, M6 and M4 and the Bergstrom Expressway, to name just a few.

The Board

I joined the Board on 26 March, one of five new Board members in 2015. Strengthening the Board has been a key priority for me since my appointment.

Leo Quinn joined as Group Chief Executive on 1 January, the transformation plan he started implementing from day one was outlined in the 2014 report. Philip Harrison, Chief Financial Officer, took up his appointment in June. Philip was previously Group Finance Director at Hogg Robinson Group plc. Prior to which, he was Group Finance Director at VT Group.

Stephen Billingham and Stuart Doughty joined as non-executive Directors. Stephen has immense experience of different industries, including construction and support services, both from the supplier and the client side, as well as having a strong background in finance in several complex organisations. Stuart is the former Chief Executive of engineering company Costain plc, and has 45 years of highly relevant, in-depth experience in the construction industry.

We have also had four retirements from the Board during the year: my predecessor, Steve Marshall, Duncan Magrath, Robert Amen and Peter Zinkin. Quite remarkably Peter joined the business in 1981 and I wish to thank him, Duncan, Robert and Steve for their time at Balfour Beatty.

Our people

Balfour Beatty is a people business and I am proud of the expertise, enthusiasm and dedication that I see from so many of our colleagues. 2015 has been an unprecedented year of change at Balfour Beatty and the early successes and importantly the continued focus on delivering for our clients is a result of the dedication of so many colleagues. On behalf of the Board, I would like to thank all of our employees for the commitment they have demonstrated this year.

Contracting is an inherently dangerous industry; it is therefore incumbent from the Board to the newest apprentice joining the firm to understand the risks and take action to mitigate and prevent accidents. Safety is one of our core Build to Last goals – with our objective being Zero Harm. The new Board Safety and Sustainability Committee assesses serious incidents to review that we are doing all we can to ensure that our workers, suppliers, subcontractors and members of the public with whom we interact are kept safe.

Across our business, four people working for Balfour Beatty died during 2015. A fifth was killed in Aberdeen early in 2016. Words are inadequate to express my regret that there are five families mourning their loved ones. On behalf of the Board, I would like to formally send our condolences and give an assurance that we will do all we can to prevent future accidents.

Dividend

By the end of 2016, Balfour Beatty will have achieved its Phase One targets: costs are coming down and cash flow has improved substantially, such that the Board expects to reinstate the dividend, at an appropriate level, at the interim results in August 2016.

Conclusion

As you will read in this report, this has been a year of significant and necessary change at Balfour Beatty. Whilst much remains to be done, I am confident that we have in place the right foundations and the right management to deliver the long-term success of the business and one which can provide our customers, employees and shareholders with superior returns.

Philip Aiken AM
Chairman

Transforming the business

"Build to Last is putting in place the foundations to deliver value for clients, colleagues, shareholders and wider society."

Read more on pages 14-17

This was a year of fundamental change at Balfour Beatty as the Build to Last transformation programme was implemented.

Coming into 2015, the business performance had deteriorated as a decade of forced growth culminated in an overly complex business, poor contract discipline and unaffordable overhead costs. Whilst the sale of Parsons Brinckerhoff in late 2014 provided liquidity to the balance sheet, the cash situation for the Group remained a challenge.

Decisive action was taken to arrest the decline. The Build to Last transformation programme was launched in early 2015, beginning with a 24-month "self-help" phase. Senior leadership was upgraded and immediate steps taken to strengthen governance, controls and processes. Cost reduction plans were agreed, the proposed share buy-back was cancelled, the dividend suspended and agreement reached to re-phase a deficit contribution to the pension fund.

The initial "self-help" phase of Build to Last targeted £200m cash in and £100m of cost out within 24 months. Half way through this period the Group is on course to deliver on these specific targets and the progress made in improving the cash performance in 2015 gives confidence that colleagues, at every level, are fully engaged in delivering change.

Build to Last is designed to address the Group's performance as it affects all stakeholders – customers and supply chain, employees and subcontractors, investors and communities – by driving continuous measurable improvement. The steps that are being taken are often, in themselves, simple and straightforward. However, taken together they are transforming Balfour Beatty against four goals: Lean, Expert, Trusted and Safe.

In 2016, Balfour Beatty will continue to work through the legacy contracts, increasingly able to look to a future as an organisation with lean ways of working, differentiated by its experts, trusted by clients and leading on safe working practices. Build to Last is putting in place the foundations to deliver value for clients, colleagues, shareholders and wider society.

Leo Quinn
Group Chief Executive

Group at a glance

Leading the way with more than 100 years' experience

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

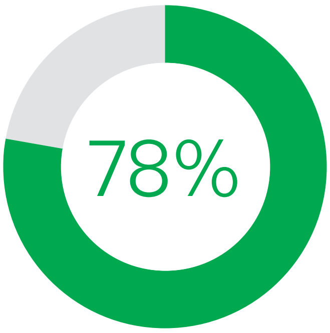
Balfour Beatty finances, develops, builds and maintains the infrastructure that underpins daily life, supports communities and enables economic growth.

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

Construction Services

The construction businesses in the UK and US, and joint ventures in the Middle East and South East Asia, are top tier and all operate across the infrastructure and building sectors.

Total revenue



Order book[1]

£7.9bn

Revenue[1]

£6,388m

(Loss)/profit from operations[1,2]

£(229)m

What we do

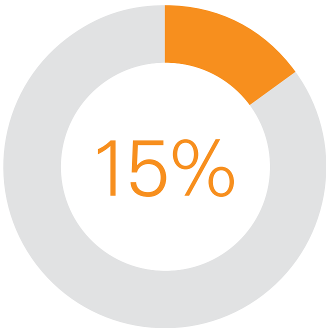
- Building
- Civil engineering
- Ground engineering
- Mechanical and electrical services
- Rail engineering
- Refurbishment and fit-out

Construction Services p22

Support Services

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

Total revenue



Order book[1]

£3.1bn

Revenue[1]

£1,259m

Profit from operations[1]

£24m

What we do

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

Support Services p26

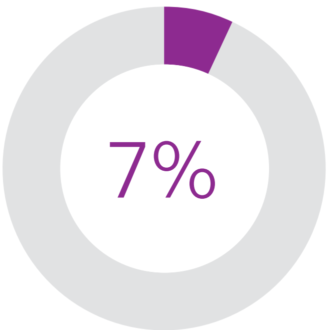
[1] From continuing operations including share of joint ventures and associates, before non-underlying items.

[2] Total loss from continuing operations was £280 million (2014: £391 million), including non-underlying items.

Infrastructure Investments

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

Total revenue



Directors' valuation

£1.24bn

Revenue[1]

£588m

Pre-tax result[1]

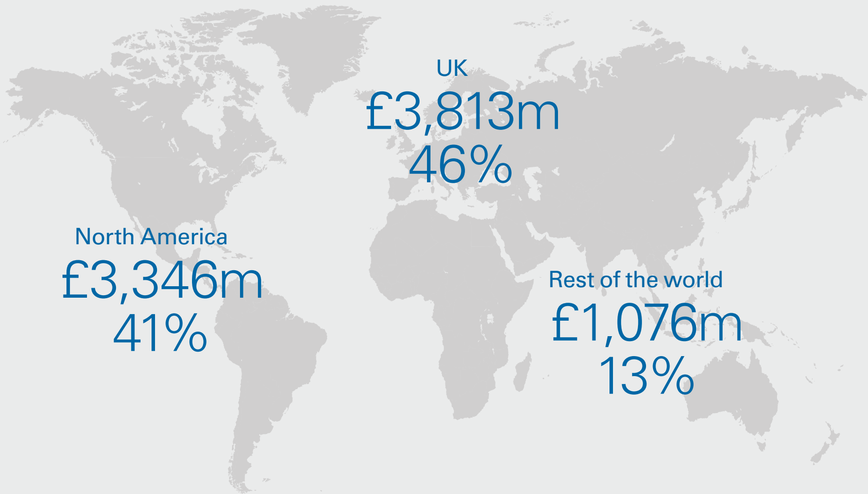
£161m

What we do

- Develop and finance both public and private infrastructure projects around the world
- Operate a portfolio of more than 70 long-term infrastructure projects

Infrastructure Investments p28

Revenue by region[1]



Portfolio valuation

The Group continued to make substantial investments into the portfolio with £102 million of cash invested into projects in 2015.

Directors' valuation of the Investments portfolio p31

Revenue generated this year[1]

£8,235m

Employees worldwide (Group + JVs)

34,000

Portfolio valuation December 2015

Value by sector

Sector	No. projects (2014)	2015 £m	2014 £m
Roads	13 (13)	**412**	467
Healthcare	4 (4)	**137**	225
Schools	7 (8)	**76**	102
Student accommodation	5 (3)	**69**	28
OFTOs	3 (3)	**40**	82
Waste & biomass	4 (3)	**40**	14
Other	4 (4)	**28**	25
UK total	40 (38)	**802**	943
US military housing	21 (21)	**355**	322
Healthcare	2 (2)	**5**	4
Student accommodation	4 (3)	**26**	9
Other	4 (2)	**18**	2
North America total	31 (28)	**404**	337
BBIP fund		**38**	20
Total	71 (66)	**1,244**	1,300

Trusted to deliver engineering excellence

Top row (from left to right)
Thames Tideway
M25
New Parkland Hospital

Bottom row (from left to right)
Runcorn Bridge
Dr. Phillips Centre for the Performing Arts
Crossrail

Market review

Main markets providing a positive backdrop

Medium-term outlook

	UK – Building	UK – Infrastructure	US – Building	US – Infrastructure
2015 market growth	Flat – some growth Strong growth in industrial, weaker growth in public and commercial building.	Strong growth Strong growth after two years of stagnation. Hotspots in power and roads, whilst rail slowed.	Strong growth Strong growth in lodging, offices and manufacturing.	Flat – some decline Lack of secure funding constrained growth in transport. Elsewhere, growth in water and sewage was offset by a declining power sector.
Medium-term market outlook	Growth – Austerity measures dampen growth in public sector. – Private sector continues to grow as long as economic conditions stay positive. – Risk from global economic slowdown.	Strong growth – Large pipeline of major infrastructure projects – timing of these is key. – Power T+D and rail spend impacted by delays in 2016 but expected to grow thereafter.	Growth – Particular hotspots expected in commercial and office construction. – Risk from global economic slowdown.	Flat – some growth – New federal funding deal provides certainty but spend levels flat in real terms. – Water sector should grow with the economy.
Balfour Beatty prospects	Increased selectivity in regional business to drive higher quality project portfolio.	Well positioned for major schemes and regulatory spending uplift.	Increased selectivity in US Buildings business to drive higher quality project portfolio.	Leading position in rail transit and target states. Able to capitalise on trend to design/build despite flat market overall.

Headlines

Recovery in UK and US markets continued in 2015.

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

Medium-term outlook is positive but key risks are the timing of major infrastructure projects in the UK and any sustained slowdown in the global economy.

Long-term market drivers for infrastructure remain sound.

Hong Kong

Decline
Delays in infrastructure spending partially offset by stable building market.

Strong growth
- Strong infrastructure pipeline and residential drivers.
- Risks of further delays to infrastructure projects and the effect of China slow down.

Well positioned for next batch of major infrastructure projects.

United Arab Emirates

Growth
Continued construction market recovery, including growth in new development schemes.

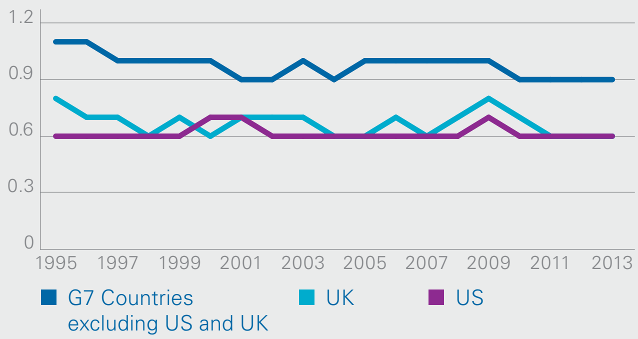
Flat – some decline
- Expo 2020 should drive growth in Dubai, but low oil prices likely to impact Middle East region as a whole.

Increased selectivity in general contracting and M&E businesses to drive higher quality project portfolio.

Long-term drivers for infrastructure

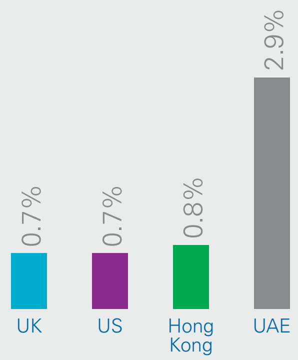
Ageing infrastructure due to under investment
After years of under investment in the UK and US infrastructure markets, an upswing is due.

Infrastructure investment as a % GDP



Population growth
Steady overall population growth in all our markets boosted by urbanisation and growth in particular areas such as the sun belt in the US.

Population growth 2015–2020 CAGR



A business model to create value

Financing, developing, building and maintaining complex infrastructure projects around the world

How we create value

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

Represents 78% of our revenue, and is responsible for the design, engineering and construction across the most complex infrastructure and building projects.

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

Our differentiation

Local presence
We have global scale, but work locally with our customers where they need us.

Sector expertise and capability
Individual infrastructure projects will have very unique requirements whether a road network or hydro-electric dam. Our sector expertise is essential to ensure the successful delivery of each project.

World-class process
Customers need total trust in our ability to manage the project from start to finish, to scope, on time and to budget.

Excellent safety and ethics
Safety is fundamental to us delivering our business model, as is the manner in which we do business. We take a long-term view, doing the right thing to make sure we build a respected sustainable business.

How we manage our business risk
8-stage gated lifecycle to ensure work winning efforts are focused on the right opportunities and projects are delivered effectively.

Read more on p42

Our priorities

Build to Last: A transformation programme to return Balfour Beatty to strength

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

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

	What does it mean?
Lean	Deliver value to our customers by improving operational efficiency and eliminating waste right through the supply chain.
Expert	Ensure we have the best engineering, design and project management capabilities.
Trusted	Be the construction partner of choice for our customers and supply chain by delivering on our promises.
Safe	We must ensure the health and safety of everyone who comes into contact with our activities.

Why is it important?	Our KPIs
We want to make sure that our customers get the best value for their money; we need to be relentless in driving out unnecessary costs and work with our customers to ensure their money is spent in the best way possible. Providing customers with better value for their money drives our competitiveness and provides Balfour Beatty with the capital to invest back into developing our expertise. Lean is measured against our financial returns: operating profit and cash flow performance. Read more on p16	£163m Net cash £(106)m Operating profit/(loss)
We deliver world-class buildings and infrastructure for our customers by constantly driving innovation. Our strongest differentiator is our engineering and project management capabilities. Having the best talent supported by the strongest supply chain creates a virtuous circle that ensures we win the best and most exciting projects to deliver. Expert is measured against employee satisfaction and retention. Read more on p16	60% Average employee satisfaction
Customers must have confidence in our ability to deliver and to do what we say we will do. A robust risk framework ensures that challenges are mitigated and projects are delivered in the right way. Satisfied customers provide us with the opportunities and projects for the future. Trusted is measured against customer satisfaction. Read more on p17	82% Average customer satisfaction rating
Health and safety is at the heart of everything we do – we must protect our employees, our supply chain partners, our customers and the public. Construction is an inherently dangerous business and without the highest standards of safety we don't have a licence to operate. A safe and healthy workplace is also happier, more motivated and more efficient. Safe is measured against our commitment to Zero Harm. Read more on p17	0.24 Lost Time Injury Rate, excluding international JVs

Our priorities continued
Build to Last continued

Build to Last

The Group launched the Build to Last transformation programme in early 2015 as a framework to drive continuous improvement for all stakeholders against four goals – Lean, Expert, Trusted and Safe – as measured by cash/EBIT, employee engagement, customer satisfaction and Zero Harm. Rapid action was taken to remove layers and upgrade leadership and governance through a simplified Group structure. As a result Balfour Beatty is stabilising and making significant progress on its four goals:

Lean

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

The Group's underlying cash performance improved in 2015. Cash flow in 2015 was £357 million better than 2014, excluding the proceeds from the sale of Parsons Brinckerhoff. This was the result of:

- Strong discipline around cash and working capital;
- Enhanced financial processes – including more consistent reporting and driving down cash management into projects;
- Group-wide "Cash is our Compass" employee training; and
- Management incentives aligned to delivering better performance.

In 2015 good progress was made against the targeted £100 million of cost out. Actions were taken to simplify the business, including the reduction of 846 indirect employees, and standardise working practices which delivered £60 million of annualised savings in the year, comprising: £39 million of savings from centralising back office and support functions; £13 million from IT; and £8 million from indirect procurement.

- Business unit and support function costs have been reduced in the year. Balfour Beatty's back office structure was a legacy of a decade of forced growth. The Group was unnecessarily complicated with lack of integration, inefficiencies in processes, lack of accountability and control and significant additional cost. A federated structure had resulted in supporting functions such as HR and IT being run independently within each unit, causing duplication of services. During 2015, support functions were formed across all businesses to standardise working practices. This will allow significant savings as duplicate systems are removed and a more focused, value added approach is taken. For example, a review of Human Resource policies uncovered multiple different policies for each part of the business; a process is now underway to remove duplication and cut the number of HR policies from c.200 to around 50. Office costs were also reduced by rationalising a number of property locations, including relocating from the Group head office, a saving of £2 million.
- IT systems have seen significant change during the year. The Group is simultaneously focused on increasing the effectiveness of its software, whilst also driving out cost from an inefficient IT estate with poor levels of customer support and sub-optimal outsourcing agreements. In the UK construction business, where it was vital to increase transparency and migrate away from ageing systems to a single platform, the Oracle R12 system was rolled out in August. To reduce costs, a review of the architecture of the IT systems concluded with notice served on the external infrastructure support contract.
- The Group spends approximately £7 billion with suppliers. The existing procurement processes were fragmented with localised arrangements and a disjointed supply base. Therefore, improvements to procurement processes are a key focus to deliver value for customers and to drive out cost for the Group. An enhanced procurement capability for the business is now being put in place, with immediate savings being realised from indirect procurement in 2015. Whilst the latter is a smaller proportion of the overall spend, it provides the opportunity for immediate results. In 2016 the focus will move on to direct procurement costs, with the opportunity to reduce third-party spend across a range of categories. Here Balfour Beatty does not necessarily realise the full financial benefit directly, due to gain share agreements with some clients, but improves the Group's competitive advantage.

Progress continues to be made to simplify the business, with the sale of the signalling business SSL in May and agreement to sell the German rail electrification business, subject to regulatory approvals, reached in December. The UK Regional construction business is in the process of rationalising its management structure and offices. The Support Services and US Construction businesses have removed a layer of management.

Expert

- Ensure that Balfour Beatty has the best engineering, design, project management and delivery capabilities.
- The Group metric is average employee satisfaction.

Both the Board and executive management were strengthened significantly during 2015. In addition, the management structure was simplified and rationalised, with layers removed in US Construction and Support Services. There were five additions to the Board, with a new Chairman, Group Chief Executive and Chief Financial Officer joining in the first half of 2015. In addition, Stephen Billingham and Stuart Doughty joined as non-executive Directors. Stephen has broad experience across multiple industries, including construction and support services, both from the supplier and the client side, as well as having a strong background in finance in several complex organisations. Stuart is the former chief executive of engineering company Costain plc, and has 45 years of highly relevant, in-depth experience in the construction industry.

- In addition to the roles of Group Chief Executive and Chief Financial Officer, executive management was upgraded during the year, with two-thirds of the executive committee comprising new appointments to Balfour Beatty or people new to post. The business held its first Group Leadership Conference in January 2016, bringing together 300 leaders from across the business.

- The organisation structure of the UK businesses was simplified with the heads of Major Projects, Gas and Water, Power T&D and Rail all now reporting directly to the Group Chief Executive, as does the new role of managing director for the Regional and Engineering Services business.

At the end of 2015 Balfour Beatty relocated from its central London offices to new devolved offices which are modern and largely open plan, providing staff with a more productive and collaborative working environment.

The 'My Contribution' initiative is the mechanism to engage all staff directly in Build to Last. Since its launch in June, over 3,000 ideas have been submitted, which will drive both measurable savings and improvement to key processes.

Reward and recognition has been aligned across the Group. In 2015, a significant proportion of all bonuses were linked to cash performance. A new Group CEO share awards scheme has been introduced to align incentives for selected key staff who do not qualify for share-based bonuses.

For the first time, a single Group-wide employee opinion survey was carried out in November, which will provide a baseline to monitor employee engagement throughout the Build to Last programme.

In 2015, Balfour Beatty hired 156 apprentices and 216 graduates across the UK and the US. Balfour Beatty is a member of The 5% Club, committed to the aim of ensuring that, within two years, 5% of the UK workforce are apprentices, graduates or sponsored students on structured development programmes. The proportion of the UK workforce in these categories increased from 3.1% to 4.6% in 2015.

Trusted

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

During 2015, Balfour Beatty continued to win landmark contracts in all its key markets. Considerable progress was made to review, adapt and implement improved governance, processes and controls particularly with respect to the bidding and operation of contracts.

The 8-gated business lifecycle is now mandated for all new business with systems and controls in place to ensure compliance. The process reduces the risk of pursuing inappropriate opportunities, underbidding or accepting inappropriate levels of risk. It also reviews the cash profile of projects.

Prior to the introduction of the process, progress of bids could not be measured. Today across the UK and US approximately 14% of bids are known to be terminated before Gate 4, the final stage before bid submission.

Building on the investment in Oracle R12 and Hyperion, the Group is using data analytics through the pilot of a new, standardised, project reporting and risk-identification system. For the first time, this will provide a complete overview of all active projects to both local and senior management eliminating a large amount of manual work previously required and improving the speed and accessibility of the information required by decision makers.

Automated audit tests and business rules – which create a risk-weighted list of 'review required' projects – are being piloted in the UK. The system will be rolled out across the businesses in 2016, starting with UK Regional construction followed by US Construction. This will enable management for the first time to invasively monitor and review any project in the system.

The Group focused on significantly improving customer engagement in 2015. The number of customer reviews carried out increased by 70% to 1,057 (2014: 622). Customer satisfaction scores were higher in 2015 at 82% (2014: 77%).

Safe

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

Many of the activities carried out by Balfour Beatty can be, by their nature, potentially dangerous. It is therefore essential the health and safety of employees and those who come into contact with Balfour Beatty is a paramount consideration.

A new Group Safety and Sustainability Board Committee has been created to ensure that appropriate Board governance is maintained over the businesses in their identifying and remedy of potential risks. Safety matters are regularly reviewed by the Executive Committee and Business Unit leadership teams. A single UK Health and Safety function was created to strengthen leadership and ensure that best practice is shared across the business.

The reinvigorated focus on safety has seen an increase in safety 'observations' of 100%. These observations can be identifying positive activities and behaviours, as well as potential issues. These observations are an indicator of staff engagement.

The Lost Time Injury Rate (LTIR) for the Group, excluding international joint ventures, improved from 0.31 to 0.24. The recent Group employee opinion survey demonstrated that staff have confidence in the Group's attitude to safety.

New sentencing guidelines published by the Ministry of Justice came into effect in early 2016 which have the potential to lead to significantly higher penalties for Health and Safety breaches. The impact on the industry is yet to be fully understood.

Repositioning Balfour Beatty for profitable growth

Results for the year

	2015	2014
Revenue from continuing operations, including joint ventures and associates		
– underlying	**£8,235m**	£8,440m
– reported	**£8,444m**	£8,793m
Pre-tax loss from continuing operations		
– underlying	**£(123)m**	£(80)m
– reported	**£(199)m**	£(304)m
Post-tax (loss)/profit from discontinued operations		
– underlying	**£(1)m**	£24m
– reported	**£nil**	£242m
Loss per share		
– underlying	**(19.8)p**	(8.0)p
– basic	**(30.1)p**	(8.6)p

Group financial summary

As the business repositioned to focus on profitable opportunities, underlying revenue from continuing operations, including joint ventures and associates, declined by 2% to £8,235 million (2014: £8,440 million). Revenue at constant exchange rates (CER) fell by 6% as sterling fell against both of the Group's principal foreign currencies, the US dollar and Hong Kong dollar.

As a result of improved controls and disciplines on bidding, together with the decision to withdraw from certain types of work in non-core areas, the underlying order book declined by 4% in 2015 to £11.0 billion (2014: £11.4 billion), down 6% at CER. However the quality of the order book improved as the business increased bid margin thresholds and focused on jobs where the Group can deliver value. Construction Services remained stable at £7.9 billion (2014: £7.9 billion) as an 11% increase in the US offset a 17% decline in the UK; the improved bidding framework resulted in lower order intake in areas of the UK business that suffered from the greatest contract problems in the prior year. The Support Services order book declined by 11% to £3.1 billion (2014: £3.5 billion) caused largely as the business continued to execute on long-term contracts and by the decision to exit a poor performing local authority contract.

At the year-end there was a strong pipeline of projects across both Support Services and Construction Services that were awarded preferred bidder status during 2015. These are not yet included in the order book, but are expected to reach final award in 2016.

The underlying loss from continuing operations was £106 million (2014: £58 million). Infrastructure Investments continued to deliver excellent results with profit from operations of £132 million (2014: £127 million), including the benefit of £95 million of gains from investment disposals (2014: £93 million). Underlying losses in Construction Services of £229 million (2014: £209 million) were largely caused by historic issues in the UK, US and Middle East, whilst the Far East performed in line with expectations. Support Services profits of £24 million (2014: £50 million) were lower than the prior year reflecting, in part, the regulatory cycle of some of its major customers; profitability in 2015 was impacted by lower volumes in the power sector and lower lifecycle cost benefits being realised in the utilities sector, as well as tough comparatives from the prior year, which included positive contract settlements and a strong performance in the transportation business.

Total loss from continuing operations, including non-underlying items, was lower than the previous year at £182 million (2014: £281 million). This was largely due to an improved performance from the Engineering Services contracts reported within non-underlying items which contributed a loss from operations of £8 million (2014: £88 million). Rail Germany's trading losses were £2 million (2014: £23 million).

Net finance costs decreased by £6 million to £17 million (2014: £23 million) predominantly due to lower pension net interest expense of £3 million (2014: £16 million), partially offset by lower subordinated debt interest income of £24 million (2014: £29 million). Total reported loss before tax from continuing operations was £199 million (2014: £304 million). Including discontinued operations, the post-tax loss of £206 million (2014: £59 million) was greater than the prior year due to the £234 million gain on the sale of Parsons Brinckerhoff in 2014 that benefited the prior year comparative.

Non-underlying items

Pre-tax losses from non-underlying items for continuing operations reduced by £148 million to £76 million (2014: £224 million). The improvement was largely due to lower trading losses on certain legacy ES contracts of £8 million (2014: £88 million) and lower trading losses in Rail Germany of £2 million (2014: £23 million). Non-underlying items also include amortisation of acquired intangible assets of £10 million (2014: £11 million).

Significant other non-underlying items included £23 million of costs incurred relating to the Group's Build to Last transformation programme which was launched in early 2015. At the same time, the Group incurred other restructuring costs of £9 million, relating to restructuring costs incurred in Rail Germany and Heery. Rail Germany also recognised further impairment in its underlying assets of £11 million, including £4 million relating to joint ventures and associates. This is as a result of an impairment assessment following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. This agreement remains subject to various approvals at the year end.

The Group continued its plan to transition other business units to its UK shared service centre in Newcastle-upon-Tyne, incurring further cost in the year of £8 million. In addition, the Group impaired £17 million of cost capitalised in relation to the transformation of its UK IT estate from a federated to a more centralised model due to curtailments in scope and termination of the agreement with its implementation partner.

The non-underlying charges recognised in 2015 were partially offset by a £16 million gain recognised on the disposal of Signalling Solutions Ltd in May 2015.

Taxation

The Group's underlying loss before tax from continuing operations for subsidiaries of £170 million (2014: £135 million) resulted in an underlying tax charge of £11 million (2014: credit £2 million). The tax charge principally arises due to significant non-recognition of deferred tax assets on losses incurred in the year.

Discontinued operations

The underlying post-tax loss from discontinued operations was £1 million (2014: £24 million profit). Total post-tax profit from discontinued operations was £nil (2014: £242 million).

Profit from discontinued operations reflects an additional gain on disposal of £5 million from the sale of Parsons Brinckerhoff, which completed in 2014. Profit from discontinued operations also included an underlying post-tax loss of £1 million relating to Rail Italy which was disposed in March 2015 resulting in a loss on disposal of £4 million.

Earnings per share

Underlying loss per share from continuing operations was 19.7 pence (2014: 11.5 pence), which along with non-underlying loss per share from continuing operations of 10.5 pence (2014: 32.4 pence) gave a total loss per share for continuing operations of 30.2 pence (2014: 43.9 pence). Total loss per share of 30.1 pence (2014: 8.6 pence) increased on the prior year due to the gain on the sale of Parsons Brinckerhoff that reduced the total loss per share in 2014.

Cash flow performance

The total cash flow performance, including non-underlying items, improved on the prior year, as the Group focused on cash and working capital management throughout 2015. Working capital generated an inflow of £178 million (2014: outflow £31 million), offset by an operating cash outflow, before movements in working capital, of £247 million (2014: £272 million) and pension deficit payments of £66 million (2014: £49 million). Therefore, total cash used in operations was £135 million (2014: £352 million) – an improvement of £217 million compared to the prior year. In addition, tax refunds of £6 million were received (2014: £20 million paid).

The total cash movements in the period resulted in a £56 million reduction to the Group's net cash position, excluding non-recourse net borrowings, of £163 million. This compares to an increase in the Group's net cash position of £285 million in 2014, which was boosted by £723 million of net cash consideration from the sale of Parsons Brinckerhoff. Excluding the impact of Parsons Brinckerhoff, the Group's cash performance improved by £357 million in 2015, compared to 2014.

	2015 £m	2014 £m
Operating cash flows†	**(247)**	(272)
Working capital	**178**	(31)
Infrastructure Investments		
– disposal proceeds	**145**	159
– new investments	**(102)**	(73)
Pension deficit payments	**(66)**	(49)
Parsons Brinckerhoff net proceeds	**25**	723
Other	**11**	(172)
Cash (outflow)/inflow	**(56)**	285
Cash outflow excl. PB net proceeds	**(81)**	(438)
Opening net cash/(debt)*	**219**	(66)
Movements in the year	**(56)**	285
Closing net cash*	**163**	219

† Before pension deficit payments.
* Excluding infrastructure concessions (non-recourse).

Chief Financial Officer's review continued

Working capital

The focus on improving working capital management, as part of the Build to Last programme, resulted in favourable operating working capital increasing by £178 million. The increase is mainly driven by Construction Services, where an increase in favourable working capital of £182 million has occurred. Working capital for Support Services was broadly in line with December 2014's position.

The Group has been particularly focused on driving working capital inflows from improvements in its billing and WIP management; converting debtors and WIP into cash at a quicker rate. This is reflected in an improved working capital position held as trade and other receivables, which generated a £74 million working capital inflow (2014: £43 million outflow), and a reduction in inventories and non-construction work in progress, which generated a £27 million working capital inflow (2014: £30 million outflow).

Movements in the Group's due from/due to construction contract customers balances, which reflect the net unbilled contract position and traded profit and loss for each individual construction contract, generated a working capital inflow of £313 million (2014: £43 million outflow). A portion of this inflow is a result of risk contingencies recognised on specific construction contracts. Offsetting this is a working capital outflow in trade and other payables of £236 million (2014: £85 million inflow) as a result of the Group settling creditor invoices within a quicker timeframe compared to the previous year and cash outflows on historic loss-making contracts.

	2015 £m	2014 £m
Working capital movements		
Inventory & WIP	**27**	(30)
Construction contract balances#	**313**	(43)
Trade & other payables	**(236)**	85
Trade & other receivables	**74**	(43)
	178	(31)

Including provisions.

Including the impact of foreign exchange and disposals in the year, favourable working capital increased to £890 million at December 2015 (2014: £731 million).

Pensions

The Group's balance sheet includes aggregate deficits of £146 million (2014: £128 million) for pension schemes. The Group recorded net actuarial losses on those schemes of £86 million (2014: £237 million gains). The small increase in the deficit in the year is largely as a result of poor performance of the return-seeking assets in the Group's largest scheme.

In July 2015, following the establishment of a Scottish Limited Partnership (SLP) into which the Group transferred its 40% interest in the Birmingham Hospital PFI concession, agreement was reached to defer the payment of £85 million, which had been due to be paid to the BBPF in 2015, over the period to 2023 with the first payment of £4 million due in 2016.

The next formal triennial valuation of the Group's largest pension scheme, the Balfour Beatty Pension Fund, will be as at 31 March 2016. The Company remains committed to proactively working with the trustees to agree an appropriate level of funding which is consistent with the Build to Last programme and allows the Company and the trustees to meet their obligations.

Goodwill and intangible assets

The goodwill on the Group's balance sheet at 31 December 2015 increased by £18 million to £844 million (2014: £826 million), primarily relating to movements in foreign currency being partially offset by a £4 million charge in respect of Blackpool airport. Impairment reviews have been carried out, and none of the carrying values have been impaired.

In light of the significant losses incurred within the UK construction business in 2015, the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in the related cash-generating units and concluded that it is not the case. The stabilisation and recovery of the Group's UK construction business to more normal levels of performance is, however, a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

Other intangible assets increased to £222 million (2014: £216 million), which is primarily driven by additions in the period, including £23 million in Infrastructure Investments from the continuing construction of Edinburgh student accommodation and £20 million spend on software, partially offset by a £17 million impairment charge against the Group's UK software assets due to curtailments in the scope of the implementation and termination of the agreement with its implementation partner.

Banking facilities

In December 2015, the Group agreed a new £400 million syndicated revolving credit facility, refinancing the facilities that had been due to expire in 2016. The size of the credit facility was reduced, consistent with the Group's ongoing capital requirements and the underlying strength of the balance sheet. The new facility extends through to 2018, with the option for two additional one-year extensions through to 2020, subject to bank approval. At 31 December 2015, these bank facilities were undrawn.

Net borrowings

The Group's net cash position at 31 December 2015, excluding non-recourse net borrowings, was £163 million (2014: £219 million), representing a strong cash flow performance as working capital inflows mitigated the operating losses. Average net cash in 2015 was £3 million (2014: £371 million net borrowings). Non-recourse net borrowings held in wholly-owned infrastructure concessions reduced to £365 million (2014: £445 million). The balance sheet also includes £98 million for the liability component of the preference shares.

Outlook and dividend

Build to Last is a long-term transformation programme designed to deliver superior returns for all stakeholders from a Group which is lean, expert, trusted and safe.

The first 24 months are focused on driving consistent processes across the Group to provide transparency and short interval control. At the same time, key investments are being maintained to enhance Balfour Beatty's core strengths.

The trading environment in the Group's core UK and US markets remains positive. In the UK, Government policy is helping to drive a strong pipeline of major infrastructure projects in transport and energy. In the US, the transportation bill signed in December 2015 gives visibility over a five-year period that will provide further growth opportunities. This positive market backdrop allows the Group to be more selective, targeting contracts with improved profitability and cash flow dynamics. Whilst in the short term this may lead to some revenue contraction in certain sectors, such as UK regional construction, it will have the corresponding effect of gradually improving Group margins as historic contracts reach completion, bidding disciplines tighten and overhead and procurement savings are delivered.

In its initial year, Build to Last has begun to deliver measurable improvements: costs are coming down and cash flow has improved substantially, such that the Board expects to reinstate the dividend, at an appropriate level, at the interim results in August 2016.

By the end of 2016, Balfour Beatty will have achieved its Phase One targets. Over the following 24 months, the Group expects each of its businesses to reach industry-standard margins, with the foundations in place to build a Balfour Beatty with market leading strengths and performance over the longer term.

Financial risk factors and going concern

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

The Group's US private placement and committed bank facilities contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2015, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective, so the Group's poor trading performance and consequent low level of EBIT had no impact on these tests.

The Group is forecasting to remain within its banking covenants during 2016. The losses incurred in the second half of 2015 will be included in the 12-month EBIT for the purpose of the covenant tests at June 2016, which will reduce headroom against these tests. In considering that forecast, account was taken of the range of mitigating actions to conserve and generate cash and EBIT. While recognising that there can be no absolute certainty, the Directors believe that these covenant tests will be met.

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

- the Group has a strong order backlog
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates
- excluding the non-recourse net borrowings of PPP subsidiaries, the Group had net cash balances of £163 million at 31 December 2015 and has committed bank facilities of £400 million lasting until December 2018, which were undrawn at 31 December 2015.

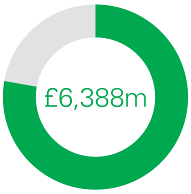
Based on the above, and having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern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

To appreciate the prospects for the Group as a whole, the complete Annual Report and Accounts 2015 needs to be read.

Philip Harrison
Chief Financial Officer

What we've been doing in 2015
Construction Services

Revenue[1]



Order book[1]
£7.9bn

(Loss)/profit from operations[1,2]
£(229)m

Financial review

The construction business continued to be more selective in the work that it bid, through increased bid margin thresholds, improved risk frameworks and better contract governance. As a result of these actions there was a small decline of 3% (7% decline at CER) in underlying revenue from continuing operations to £6,388 million (2014: £6,597 million). Revenues in the UK fell by 14% due to the lower levels of order intake in the prior year and as the improved bidding disciplines resulted in lower levels of contracts in previous problem areas. This was partially offset by a revenue increase of 3% in the US (4% decline at CER) and a 16% increase in Hong Kong (8% at CER).

Underlying loss from continuing operations was £229 million (2014: £209 million). This was largely due to historic issues in the UK, US and Middle East that resulted in profit write-downs and contract provisions. Total loss from continuing operations reduced by £111 million to £280 million (2014: £391 million), reflecting lower losses arising from Rail Germany and the legacy Engineering Services contracts, as they largely performed to expectations in 2015.

The improved bidding disciplines also resulted in the order book remaining broadly stable during the year (4% decline at CER), as strong growth in the US and the Middle East offset declines in the UK and elsewhere. At the same time, the quality of the UK order book improved as bid margin thresholds and the focus on larger jobs rose. At the year end there was a strong pipeline of projects that were awarded preferred bidder status during 2015. These are not yet included in the order book, but are expected to reach final award in 2016.

Across the construction portfolio there remain a small number of long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes could result in a materially positive or negative swing to underlying profitability and cash flow. In the UK, the majority of these contracts are within Major Projects. Outside of the UK this primarily relates to a small number of contracts in Hong Kong, which have been recorded at break-even. Several of these claims are expected to reach commercial settlement in 2016.

The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts and Rail Germany as non-underlying in the year. These ES contracts were classified as non-underlying items in 2014 as they relate to poor legacy management and in regions where ES withdrew from tendering for third-party work.

Operational review

UK

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

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

Underlying revenue in the UK fell by 14% to £2,024 million, predominantly due to a decline in the Regional construction business. The UK business continued to be more selective in the work that it bid, through increased bid margin thresholds, improved risk frameworks and better contract governance. Revenues were lower due to the lower levels of order intake in 2014 and as the improved bidding disciplines resulted in lower levels of contracts in previous problem areas. The business areas that saw the greatest revenue decline were those that suffered from the greatest contract problems, such as Engineering Services, London and the South West. As the UK business focused on improving the quality of new orders, the UK order book declined by 17%.

The underlying loss from the UK construction business was £187 million (2014: £229 million), after provisions were taken to maintain an adequate level of cover against the likely end contract positions on a number of historic contracts that suffered schedule slippages and operational deterioration. The total loss from the UK construction business after including the results of the non-underlying Engineering Services contracts was £195 million (2014: £317 million).

The business is continuing to manage the historic problem contracts through to completion. At the 2015 half-year 89 historic contracts were identified that have had a material negative impact on profitability and cash. The Group continued to make good progress in completing on these contracts. As at the end of December 2015, 60% of these projects were already at practical or financial completion, up from 31% as at June 2015. By the end of 2016, the number of these projects at practical or financial completion is still expected to be greater than 90%.

A number of significant changes were made during the year to improve the operational and financial performance of the business. The senior leadership within the UK Regional and Engineering Services business has been strengthened by the appointment of a new managing director who, along with the managing director of Major Projects, now reports directly to the Group Chief Executive. The regional business was also further streamlined, to focus on profitable markets, with a reduction in delivery units from 19 to 11. The gated risk management framework has been introduced to ensure rigour and control during both the sale and delivery phases of the contract lifecycle. Financial reporting is undergoing a radical overhaul with the introduction of Oracle R12, and new, uniform reporting dashboards have been introduced across the business which are already starting to provide clear, regular reporting to senior management.

1 From continuing operations including share of joint ventures and associates, before non-underlying items.
2 Total loss from continuing operations was £280 million (2014: £391 million), including non-underlying items.

The Major Projects business had a number of landmark successes in 2015, including a £416 million contract for the construction of the six-kilometre 'West' section of London's new 'super sewer', the Thames Tideway Tunnel, as part of a joint venture with BAM and Morgan Sindall. Construction is expected to last until 2022 and is worth approximately £139 million to Balfour Beatty. The highways business was awarded a £104 million road scheme for Norfolk County Council to complete works on the Norwich Northern Distributor Road, including the construction of 19.6 kilometres of new dual carriageway, nine new roundabouts and seven new bridges. The London Olympic Stadium transformation successfully reached its planned phase completion in time for the stadium to host the Diamond League athletics and the Rugby World Cup events.

Included within the projects 'awarded but not contracted' in Major Projects, the Highways business was selected to deliver a smart motorway package worth up to £607 million to upgrade sections of the M5, M6 and M4, in joint venture with VINCI – representing the largest of Highways England's three packages across its £1.5 billion smart motorway programme. Highways England also appointed a Balfour Beatty Carillion joint venture as preferred bidder on the £292 million construction package to widen a critical and complex 10-mile stretch of the existing A14, as part of the wider A14 Cambridge to Huntingdon improvement scheme. Within nuclear, the business was appointed preferred bidder for the £460 million Hinckley Point C power station electrical package for EDF Energy, in joint venture with NG Bailey. The work will deliver the critical infrastructure to power the station, including cabling totalling over 3,000 kilometres in length, fire and environmental sealing and specialist packages associated with data acquisition and plant control.

The Major Projects business is also continuing to pursue a number of major infrastructure opportunities across the core transportation and energy markets, with the largest being High Speed 2 (HS2). The proposed rail route will connect London, Birmingham, Leeds and Manchester; construction is scheduled to start in 2018 and will last 17 years, with total estimated costs of over £50 billion. Balfour Beatty and VINCI are in joint venture pursuing work on HS2, utilising the expertise acquired by both companies on High Speed 1, VINCI's involvement on the €8bn Tours-Bordeaux high-speed rail project in France, and Balfour Beatty's extensive work on transport networks across the UK and overseas. In December 2015 the Balfour Beatty VINCI joint venture was successfully shortlisted for the first stage of this iconic project, for £900m of preparatory work, and is actively pursuing a number of civil engineering and station packages that will be awarded under long-term, collaborative contracts. In addition the highways market continues to provide good growth opportunities following Highways England's commitment to spend £11.4 billion on capital projects over the five-year period to 2020.

The Regional business works on a large number of smaller projects, located throughout the UK. Notable new contract awards in the period included an £80 million contract to construct the National Automotive Innovation Centre (NAIC) in Coventry for the University of Warwick, a £32 million contract to build Baltic Triangle, a three-tower residential development in Liverpool city centre and a £28 million contract for the redevelopment of Dundee rail station in Scotland. The business enjoyed continued success in the defence sector with the award of a £35 million contract at RAF Brize Norton, for the construction of a new aircraft maintenance facility, in addition to the ongoing construction of the Defence College of Technical Training at the former RAF Lyneham airbase.

We're redeveloping and reconfiguring the Olympic Stadium into a 60,000 seat arena to host football, athletics and concerts.

What we've been doing in 2015 continued
Construction Services continued

We've built The Diamond, a multi-disciplinary teaching and research facility in Sheffield with specialised laboratories and a clean room to facilitate study and research.

We recently completed the largest healthcare project in the US: the New Parkland Hospital in Dallas is a 1.9 million sq ft 862-bed hospital.

Included within the projects 'awarded but not contracted', the Regional business was appointed by the University of Manchester to deliver the bulk of its £1 billion capital programme through a partnership framework agreement along with two other contractors. As part of the framework Balfour Beatty has been selected as construction partner on the University's flagship project, the £350 million Manchester Engineering Campus Development, with a full construction contract award expected in spring 2016. In London, the business was selected to deliver pre-construction services for The Madison; a £150 million scheme for the construction of a 187 metre, 53-storey residential tower, adjacent to Canary Wharf in London Docklands, with full construction award expected in mid-2016. The business was also selected to deliver the pre-construction services contract for a £130 million renovation and new-build scheme at No. 1 Palace Street, in St James'. Construction of the 72 apartments is due to start in early 2016. The Regional business also secured a number of significant framework positions, including: sole contractor for a £1.5 billion framework operated by Scape Group, which is open to all public sector bodies in the UK and covers projects ranging from road repairs, new bridges and coastal defence works to light rail schemes and major road projects; and the £800 million southern construction framework for public sector work in the South West.

US

Revenues in the US grew by 3% in the period (4% decline at CER), whilst the order book increased by 11% (6% at CER). The business reported a loss from operations for the year of £22 million (2014: £29 million profit), as losses in the first half outweighed a return to profitability in the second half.

Profitability was impacted by write-downs and provisions relating to historic issues. A number of multi-family housing unit projects, bid primarily in 2012 and 2013 by a now discontinued business unit in the South East, suffered subcontractor failures. Two projects in the federal healthcare sector, which had been bid pre 2011, suffered programme overruns and subcontractor performance issues. In addition, provisions were included against a small number of other contracts, primarily awarded in 2013 or earlier.

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

In the building business, revenues were relatively stable with only a 3% decline at CER. The order book increased by 8% at CER, as the business continued to see strong order intake despite improved bidding disciplines. The business remains focused on working with repeat customers and where it can deliver value. The organisational structure of the US building business was simplified to create a leaner structure, as part of the Build to Last programme, with the removal of the top layer of regional management.

Notable awards included a US$268 million contract for the construction of a million-square-foot office campus in Plano, Texas. The 9.3 acre campus will include two 19-storey twin towers connected by a 4,600-car parking garage, an on-site medical centre and retail space on the lower levels. In Texas, a US$175 million contract was awarded for a high-rise residential tower in Austin. In Seattle, a US$154 million design and build contract was awarded for the King County justice facility. In San Francisco, a US$176 million contract was awarded for a mixed-use development. In Florida, contract wins for a 50-storey luxury residential tower in Miami and a new resort hotel featuring 1,000 guest rooms, totalled approximately US$300 million.

In the infrastructure business, revenues were flat on the prior year but profitability was lower due to provisions being taken against ongoing contract disputes and favourable contract resolutions that benefited the prior year. The order book grew due to a number of awards, including a US$582 million design-build contract for the Bergstrom Expressway in Austin, Texas, awarded in joint venture with Fluor Corporation, a US$179 million contract for the modernisation of the Rinconada water treatment plant in California and a US$140 million contract in Denver for the extension of Regional Transport District's light-rail line across Denver's south-east suburbs. The business continued to pursue design-build and alternative delivery projects in its key rail, highway and water markets to reflect ongoing changes in procurement trends in the marketplace. As expected, in 2015 the market showed a considerable increase in design-build procurement opportunities and a decrease in hard-bid project opportunities.

A new US$305 billion transportation bill was signed in December 2015, providing guaranteed funding for a five-year period. Whilst funding levels were broadly held flat it is the first transportation funding bill lasting longer than two years since 2005. This will permit longer-term project planning horizons in the public market and, in due course, lead to improved visibility for public funded projects that have been slow to come to market. There are good medium-term opportunities for the business, but there remain risks that a number of new contract awards continue to slip into later years.

International

The Group also operates in South East Asia and the Middle East, through joint ventures. Revenue in the Group's Hong Kong and Singapore joint venture, Gammon, increased by 16% (8% at CER), due in particular to growth in major building projects which overtook civils to become the largest division in 2015. Revenue benefited from new projects awarded in 2014, such as the Tuen Mun Area 54 housing development and the Hong Kong Science Park phase 3C. Profits in the region increased to £19 million (2014: £12 million). The order book was 13% lower at CER as the business continued to execute on long-term major infrastructure projects, with a number reaching completion during the period. At the end of December, the new Midfield Concourse at Hong Kong International Airport, under construction since 2011, opened to commercial flights, providing capacity for an additional 10 million passengers every year. New awards during the year included: the TW5 Cityside residential property development which includes the construction of seven residential towers, worth HK$3.2 billion (£270 million); the development of 33 Tong Yin Street, including residential towers and retail areas; and the conversion of the ex-government Murray building into a hotel.

In the Middle East, the order book grew in 2015 with significant growth in the construction joint venture in Dubai. Wins included a contract with Meeras for a mixed-use development on the Dubai Creek waterfront and work on phase 1 of the Container Terminal 4 project at Jebel Ali Port. Reviews of the Middle East historic contracts resulted in an increase in project-specific provisions, predominantly in the mechanical and electrical engineering business, for additional cost overruns and claim recovery shortfalls. As a result losses from operations in the region were £34 million (2014: £15 million).

Rail

Revenue and the order book declined, as expected, following the disposal of the Group's 50% stake in Signalling Solutions Ltd, the exit from the North-West electrification project and a reduction in operations outside the UK. Underlying losses in the period were £5 million (2014: £6 million) due to lower volumes and as the business continued to be impacted by poor contract performance on a small number of rail projects.

In the first half, phase 2 of the North-West electrification project reached practical completion. However, following a review of future schemes in the North-West, it was concluded that the proposed alliance was unlikely to meet its stated objectives of delivering the scope of the work on time and to budget. In July, it was agreed with Network Rail that Balfour Beatty would not continue with the alliance framework for phases 3-7.

In December, agreement was reached to sell parts of the German Rail business to Tianjin Keyvia Electric Co Ltd, and this remains subject to various approvals. The results of Rail Germany have been presented as non-underlying items within continuing operations, as the Group remains committed to exiting the remaining parts of the German rail business.

We're working with Heathrow Airport to maintain and upgrade Terminals 1, 2 and 4, with works ranging from structural upgrades to multiple asset replacements such as escalators and passenger conveyors, passenger and goods lifts, air conditioning systems, retail areas, CCTV and access and security systems.

What we've been doing in 2015 continued
Support Services

Revenue[1]

Order book[1]
£3.1bn

Profit from operations[1]
£24m

Financial review

Revenue for the division fell by 1% to £1,259 million (2014: £1,273 million), as growth in utilities was offset by a decline in transport. Revenues in utilities grew by 2% as growth in Gas & Water more than offset an expected decline in Power. Revenues from transport declined by 4%, as a decline from local authority work more than offset growth in highways. Underlying profit from operations declined to £24 million (2014: £50 million). Profits for the year were impacted by a weak first half partially offset by an improved performance in the second half. Profitability in 2015 was lower than the prior year due to lower volumes in the power sector, lower lifecycle cost benefits being realised and due to tough comparatives from the prior year, which included positive contract settlements and a strong performance in the transportation business.

The Support Services order book decreased by 11% to £3.1 billion (2014: £3.5 billion) due to an expected decline in transportation whilst utilities remained broadly stable. The transportation order book fell largely due to the active decision to exit from a poor performing local authority contract and as the business continued to execute on long-term contracts. The utilities order book remained flat as growth in water offset expected declines in gas and power.

Operational review

As part of the Build to Last transformation programme, the organisational structure of Support Services was simplified during the first half; the top management layer was disbanded, with the managing directors of each business now reporting directly to the Group Chief Executive. This brings the Group's expertise closer to strategically important customers, whilst also eliminating waste. The leaner structure enables the Group to more efficiently identify and focus on growth opportunities and deliver value in complex projects, in what are increasingly challenging regulated markets.

The utilities business operates across power transmission and distribution and the gas and water sectors. Revenues in utilities fell due to an expected decline in Power revenues whilst revenues in Gas & Water remained stable. Profitability fell as a result of lower volumes in Power, particularly in overhead lines, and due to timing differences as the utilities business realised lower lifecycle cost savings in the period that are now expected to be realised in future years. This was partially offset by positive contract performance on completion of AMP5 water contracts and following mobilisation of the new AMP6 contracts. The order book remained stable as new contract awards in Water were offset by declines elsewhere as the business continued to execute on long-term contracts.

Within Power, revenues and profitability declined following the completion of the Beauly Denny project in Scotland, lower volumes coming from the National Grid Alliance projects and the completion of other overhead lines projects in Scotland. This was partially offset by growth in the offshore transmission (OFTO) market, following emergency cable repairs successfully completed on both the Thanet and Gwynt y Môr sub-sea cables. As a result of this work the business was awarded a new 20-year operate and maintain (O&M) contract for the Gwynt y Môr sub-sea cables, in addition to 20-year contracts already secured for Thanet and Greater Gabbard. The business continues to see medium-term opportunities within the cabling market, as demonstrated by the award of the Nemo sub-sea cable interconnector between the UK and Belgium, the Group's first win in an expanding market, and preferred bidder status for the construction and maintenance of the cable systems for Eleclink, the Channel Tunnel interconnector project.

We're partners in a strategic joint venture to provide water and waste asset solutions as part of Thames Water's 'super-alliance'.

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

Gas & Water revenues remained stable. Volumes in the gas distribution strategic partnership contracts with National Grid returned to more normalised levels from the lower comparatives in 2014. However, this was largely offset by the expected decline in revenues within the Water business as it completed work under the AMP5 regulatory cycle and transitioned to the new AMP6 regulatory cycle, which controls capital expenditure across the network from April 2015 through to 2020. The Water business was awarded a further contract under the AMP6 regulatory period, as a one-third partner in a joint venture, which includes Skanska and MWH Treatment, providing water asset solutions as part of Thames Water's 'super-alliance'. This contract has a value to Balfour Beatty of approximately £265 million over the initial five years and follows on from a two-year Early Contractor Involvement phase that started in March 2013.

The Transportation business operates across rail, highways and managed road schemes for local authorities. Revenues decreased by 4% due to a decline in local authority work whilst revenues in highways and rail remained stable. Profitability fell slightly as an improved performance in the rail sector was offset by an expected decline in highways, whose performance was boosted by contract settlements in 2014. The order book declined as the business continued to execute on long-term contracts and due to the exit from a poor performing local authority contract.

Highways revenues remained stable as the business continued to deliver on long-term contracts for Highways England. New contract awards during the period included a 10-year extension to its existing contract to deliver O&M activities on a 64-mile section of the A30/A35 trunk road across Devon and Dorset. Profitability was lower than in 2014, but this was due to positive contract settlements recognised in 2014.

Local Authority revenues declined due to reduced volumes on highways contracts and following the decision to exit one contract which had suffered operational and commercial issues. Whilst profitability remained relatively stable, the order book declined. At the start of 2016, the business was awarded a £245 million highways maintenance contract over seven years for Coventry City Council, Solihull Metropolitan Borough Council and Warwickshire County Council. This unique collaborative arrangement enables the business to work in partnership with the three councils as a single source service provider, and will result in better value for money, improved service resilience and flexibility in service provision.

The rail business remained stable in the period as rail renewal work for London Underground largely offset the loss of revenue from exiting the Network Rail 'rail renewals' contract in 2014, and the completion of a rail grinding contract. Profitability improved in the year due to higher volumes on the London Underground contract.

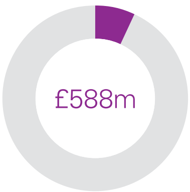
We're installing high-voltage electricity cables in deep underground tunnels, protecting London's future demand for energy.

www.balfourbeatty.com/showcase

Balfour Beatty carried out a land-to-sea horizontal directional drill (HDD) crossing to connect a 220kV cable between Hunterston and Kintyre in Scotland.

What we've been doing in 2015 continued
Infrastructure Investments

Revenue[1]



Directors' valuation
£1.24bn

Pre-tax result[1]
£161m

Financial review

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

Underlying profit from operations increased to £132 million (2014: £127 million). The pre-disposals operating profit increased by £3 million to £37 million (2014: £34 million). A strong underlying operational performance, as well as lower bidding and overhead costs, more than offset lower income from movements in the fair value of PPP financial assets and recognition of bid costs deferred income. Gains on disposal were £95 million (2014: £93 million) as the business completed four disposals in the year, one of which was a partial disposal; total disposal proceeds were £145 million. Net interest income declined to £29 million (2014: £35 million) due to the loss of interest income from disposed assets. Underlying profit before tax remained stable at £161 million (2014: £162 million).

The Directors' valuation of the Investments portfolio decreased to £1,244 million as at December 2015 (2014: £1,300 million), after realising £145 million of disposal proceeds and £82 million of distributions, which were partially offset by £102 million of new investments. The number of investments within the portfolio increased to 71 (2014: 66) as the business continued to invest in new opportunities.

Operational review

The Investments business continued to grow with its appointment as preferred bidder on eight new projects where equity will be invested, comprising: two university student accommodation projects, three private rental housing projects, one OFTO, one healthcare project and one energy project. The business had reached financial close on four of these projects as at 31 December 2015, as well as reaching financial close on three of the projects which were already preferred bidder at the start of 2015. Seven projects currently remain at preferred bidder, with investment already made into one of these projects, located in Glasgow, in order to begin construction.

The Investments business was also appointed as third-party manager on three fee-based portfolios in the residential sector, consisting of seven locations in Florida, where no equity will be invested, as well as one fee-based student accommodation project that reached preferred bidder stage in 2014.

UK new contract wins and financial closes

The business continued to grow its presence within the student accommodation sector, with the appointment as preferred bidder on two new projects in 2015; this brings the total number of student accommodation projects in the UK and the US to nine. In January 2015, the business was appointed preferred bidder for the University of Sussex's East Slope Residences project, for the development of 2,000 new bedrooms and other innovative student amenities. Balfour Beatty will design, build, finance and operate the project under a 50-year contract, in partnership with the university. In Glasgow, the business is designing, building and financing a 520-bed facility on Kennedy Street, which will also include ground floor retail spaces and a student hub.

We're delivering a 30-year concession for the financing, design, build and maintenance of the Campbell River and Comox Valley Hospitals on Vancouver Island, British Columbia.

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

The Group has built a strong market position within the specialised, but sizeable, offshore transmission (OFTO) market for the provision of sub-sea cabling and substations that connect offshore wind farms to the mainland electricity grid. In February 2015, a Balfour Beatty consortium with Equitix completed the asset purchase of the £352 million Gwynt y Môr offshore transmission project connecting the 576MW offshore wind farm to the onshore transmission grid in North Wales. In September, the same Balfour Beatty consortium was appointed preferred bidder to own and operate the offshore transmission link for the 220MW Humber Gateway wind project over a 20-year period. This wind farm, located in the North Sea off the coast of East Yorkshire, features 73 wind turbines that can meet the energy requirements of around 170,000 homes.

In March 2015, the business, in partnership with Places for People, signed a development agreement with the London Legacy Development Corporation to invest and construct the new East Wick and Sweetwater housing development project. The project at Queen Elizabeth Olympic Park in East London will create two new neighbourhoods with up to 1,500 homes, including 450 affordable homes, 530 homes for private sale and 500 private rented sector homes.

In the energy sector, the £52 million Welland Waste Wood power station project reached financial close in March 2015. Once complete, the project will convert 60,000 tonnes of dry waste wood feedstock into 9MW of electricity – powering over 17,000 households a year.

Within healthcare, the Investments business, in consortium with Prime and InfraRed Capital Partners was selected as preferred tenderer for the €140 million Irish Primary Care PPP project to deliver 14 primary care centres across Ireland, in the first programme of its kind in the Republic of Ireland's primary care market.

North America new contract wins and financial closes

In North America, the Investments business reached financial close on the acquisition of stakes in three private rental housing developments and reached financial close on two student accommodation projects, one of which is an expansion of an existing student accommodation project. Balfour Beatty Communities will perform property management services for each development, leveraging the existing capabilities of the business. These include: a 398-unit garden style apartment community in Coppell, Texas; a portfolio of five apartment communities in Dallas-Fort Worth, Texas; a 392-unit multifamily community in Rogers, Arkansas; a 595-bed student accommodation project in Dallas, Texas; and a 420-bed student accommodation expansion project in Iowa. In addition, the Investments business reached financial close on one fee-based student accommodation project located in Texas.

We delivered mechanical, electrical and process services for the leading edge facility that will carry out detailed research into Graphene.

We're delivering an innovative Public Realm contract for Herefordshire County Council including highways maintenance and improvement works, street lighting, street cleaning, public rights of way, parks and open spaces.

What we've been doing in 2015 continued
Infrastructure Investments continued

The Investments business continues to pursue opportunities to leverage its existing property management, customer services and related real estate capabilities from the multifamily, military, and student housing markets. This has resulted in winning a number of fee-based residential projects, where no equity will be invested and the business acts as a third-party manager; three further portfolios were awarded in 2015, consisting of seven locations in Florida. The Investments business continues to see significant opportunities for future investment in the sector as well as third-party management opportunities.

Asset sales and new investment

The business continued its stated strategy of selling assets at the optimum time to maximise value for the Group. Interests in four assets were sold in 2015, one of which was a partial disposal, generating total book gains on disposal of £95 million (2014: £93 million from three assets). The business sold its 50% interest in the Edinburgh Royal Infirmary project, 80% of its interest in the Thanet OFTO project (where the Group retains a 20% interest), its 20% interest in the Aura BSF schools project in Newcastle and its 33.3% interest in the Greater Gabbard OFTO project. All of these sales realised values consistent with the revised methodology and Directors' valuation published in January 2015.

The Investments business continued to make substantial equity investments in the portfolio, with £102 million invested in 2015 (2014: £53 million). The bulk of this investment was in eight projects: Gwynt y Môr OFTO; Welland Waste Wood biomass; student accommodation in Edinburgh, Glasgow and the University of Texas at Dallas; and the three private rental housing developments in North America that reached preferred bidder and financial close in the year. A further £15 million was invested into the fund managed by Balfour Beatty Infrastructure Partners.

The Investments business continues to see significant opportunities for future investment in its core geographic markets in the UK and North America, across both its existing market sectors and as it continues to grow into new adjacent sectors.

We have delivered capacity improvements and ongoing maintenance and upgrades on the M25, one of the busiest motorway networks in Europe.

www.balfourbeatty.com/showcase

Directors' valuation of the Investments portfolio

The Group continued to make substantial investments into the portfolio with £102 million of cash invested into projects in 2015. This reflected continued success in targeted sectors with nine new projects being included in the Directors' valuation for the first time, as well as further investment in existing projects. The nine new projects include a project which achieved preferred bidder in 2014 but wasn't included in the Directors' valuation until financial close was achieved in 2015.

The Group continued its strategy of realising value through selling mature investments generating £145 million in aggregate at pricing consistent with the Directors' valuation. Cash yield from distributions amounted to £82m. For the tenth year in succession the portfolio generated cash flow to the Group net of investment.

In overall terms, the Directors' valuation fell slightly to £1,244 million at 31 December 2015 with the number of projects in the portfolio increasing from 66 to 71.

The Directors' valuation has been undertaken using the revised methodology introduced in 2014. This produces a valuation that more closely reflects market value and which consequently changes with movements in the market. For each project, cash flows are forecast based on progress to date and market expectations of future performance. These cash flows have then been discounted using different discount rates depending on project risk and maturity, and reflecting secondary market transaction experience. As in previous years, the Directors' valuation may differ significantly from the accounting book value of investments shown in the accounts, which are produced in accordance with International Financial Reporting Standards rather than using a discounted cash flow approach.

Portfolio valuation December 2015

Value by sector

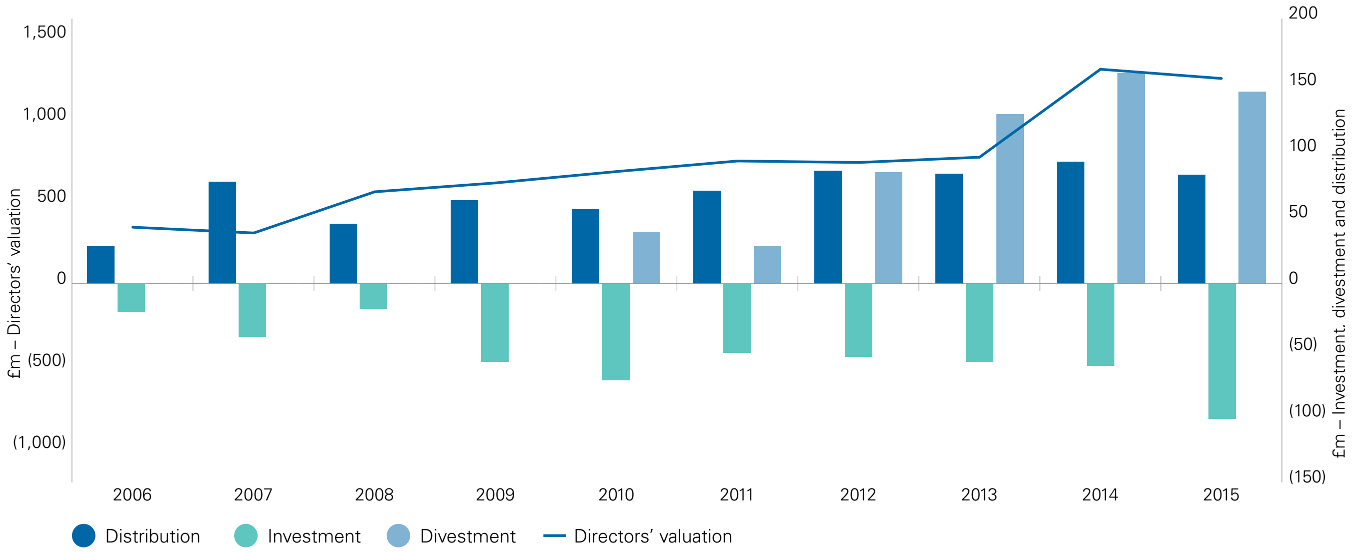
Sector	No. projects (2014)	**2015 £m**	2014 £m
Roads	13 (13)	**412**	467
Healthcare	4 (4)	**137**	225
Schools	7 (8)	**76**	102
Student accommodation	5 (3)	**69**	28
OFTOs	3 (3)	**40**	82
Waste & biomass	4 (3)	**40**	14
Other	4 (4)	**28**	25
UK total	40 (38)	**802**	943
US military housing	21 (21)	**355**	322
Healthcare	2 (2)	**5**	4
Student accommodation	4 (3)	**26**	9
Other	4 (2)	**18**	2
North America total	31 (28)	**404**	337
BBIP fund		**38**	20
Total	71 (66)	**1,244**	1,300

Portfolio valuation December 2015

Value by phase

Stage	No. projects (2014)	**2015 £m**	2014 £m
3+ years post construction	23 (18)	**413**	405
0–3 years post construction	23 (26)	**539**	723
Construction	20 (19)	**218**	137
Preferred bidder	5 (3)	**36**	15
BBIP fund		**38**	20
Total	71 (66)	**1,244**	1,300

Portfolio investment, divestment and distribution since 2006



Directors' valuation of the Investments portfolio continued

UK portfolio

In 2015 five new projects in the health, OFTO, student accommodation and biomass sectors were included in the Directors' valuation for the first time, increasing the value by £28 million. These included preferred bidder status on a student accommodation project at Sussex University, the Humber Gateway OFTO and a Primary Care PPP project in Ireland, the start of construction on an open market student accommodation project in Glasgow and financial close on a waste wood biomass project in Welland. Significant investment was made in the Gwynt y Môr OFTO, the Welland biomass project, the student accommodation projects in Edinburgh and Glasgow and into the fund managed by Balfour Beatty Infrastructure Partners (BBIP). Total investment amounted to £88 million.

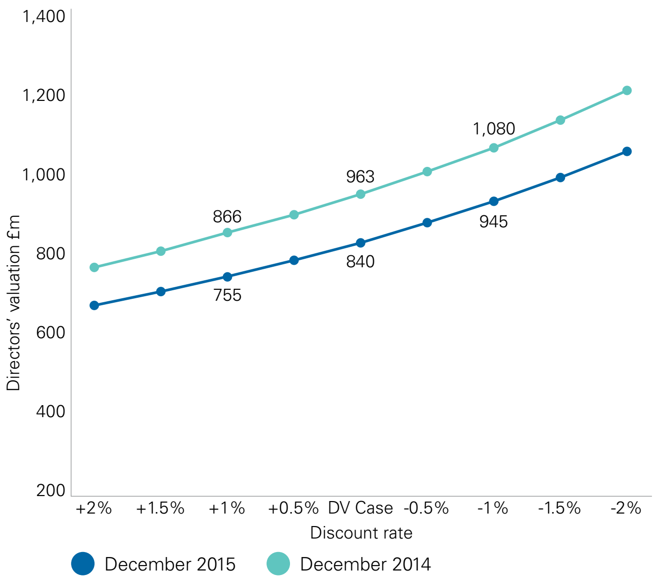
The secondary market remains strong and the Group continued its strategy of realising value from mature investments. The business sold 80% of its interest in the Thanet OFTO as well as its entire interest in the Edinburgh Royal Infirmary, Newcastle BSF schools and Greater Gabbard OFTO projects for an aggregate £145 million. The proceeds received from these sales were consistent with the Directors' valuation. The business continues to preserve interests in projects with strategic clients and those that offer further value to the wider Group through the provision of future lifecycle and maintenance work. Strong demand for infrastructure investment allied to a shortage of supply in the secondary market is expected to underpin pricing for the foreseeable future. With the largest primary infrastructure portfolio held by any contractor in the UK, the Group remains well placed to benefit from these market dynamics.

Operational performance movements resulted in a £100 million reduction in value. The most significant components of this were lower inflation (in the year, as well as forecast), lower forecast deposit interest rates, higher actual and forecast lifecycle and management costs and an increase in the assumed tax burden for potential purchasers. The changes to inflation reflect a lowering of forecast inflation which now steps up through 2016 and 2017 before reverting to a long-term assumption of 3% thereafter. The long-term interest rate assumption has been lowered from 3.5% to 2.75% in response to the continuing policy of near zero interest rates adopted by the Bank of England and the resulting impact on long-term rates forecast by the financial markets. In line with government announcements the corporation tax rate has been reduced from 20% currently to 19% in April 2017 and to 18% from April 2020.

The Group's investment in the fund managed by BBIP is included in the UK portfolio and amounted to £38 million at December 2015.

Valuation – The portfolio value at a range of discount rates

UK portfolio*



* Includes value of investment in BBIP at £38m under all discount rates.

Discount rates applied to the UK portfolio range between 7% and 14% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio (excluding BBIP) is 8.3% (2014: 7.8%). The increase during 2015 reflects the impact of selling mature operational projects with lower discount rates whilst investing in new projects where construction has yet to be completed and which are valued using higher discount rates. A 1% change in the discount rate would change the value of the UK portfolio (excluding BBIP) by approximately £95 million.

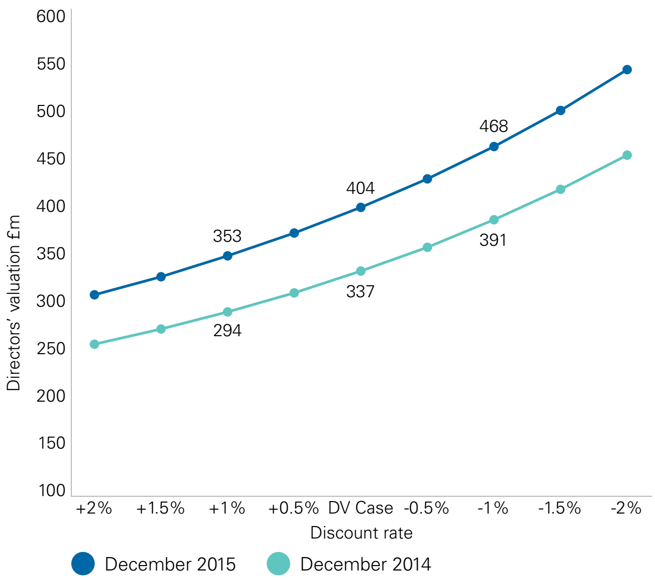
In 2015, the OECD BEPS project delivered its recommendations in relation to the tax deductibility of interest expense, including the potential for a 'public benefit' exemption. A number of governments are currently considering their response to these recommendations. The UK Government has consulted extensively in order to understand the views of the infrastructure industry. At this stage any impact on the Directors' valuation remains uncertain as is the timing of any changes to legislation. Balfour Beatty will continue to actively engage with the UK Government and to monitor developments in this area.

North American portfolio

In North America, the business acquired investments in three residential housing developments at Coppell and Dallas-Fort Worth (both in Texas) and at Rogers in Arkansas, achieved financial close on a student accommodation project for the University of Texas at Dallas and commenced a further phase of accommodation at the University of Iowa. These projects increased the value of the portfolio by £17 million. Overall investment in existing and new projects in the portfolio totalled £14 million during the year. Operational performance movements increased the valuation by £13 million. This increase arose predominantly from the annual budget settlement for the military housing portfolio, particularly the inflation adjustment for housing rental allowances which feeds through to the fee income and equity returns from individual projects. The Indianapolis justice facility which was at preferred bidder stage was cancelled by the procuring authority just prior to financial close and has therefore been removed from the valuation.

Discount rates applied to the North American portfolio range between 7.5% and 10%. The implied weighted average discount rate for the North American portfolio is 8.2% (2014: 8.1%). A 1% change in the discount rate would change the value of the North American portfolio by approximately £58 million.

Valuation – The portfolio value at a range of discount rates
North American portfolio



Movements in value 2014–2015 £m

	2014	Equity invested	Distributions received	Disposal proceeds	Unwind of discount	New project wins	Operational performance	FX movements	**2015 £m**
UK	963	88	(56)	(145)	64	28	(100)	(2)	**840**
North America	337	14	(26)	–	29	17	13	20	**404**
Total	1,300	102	(82)	(145)	93	45	(87)	18	**1,244**

Creating value through innovation, research and development

Innovation, research and development

Innovation plays an important role in creating additional value for the Group and ultimately its customers. Most of Balfour Beatty's innovation emanates from collaboration with its customers, joint ventures and supply chain, and internally across the businesses. The examples provided below illustrate how the Group has used creative solutions on its projects to deliver savings and benefits for its customers.

Building Information Modelling (BIM) and 3D modelling

Using high-density ground penetrating radar technology combined with BIM to map and model underground services as a 3D design, Balfour Beatty is able to identify potential clashes early on. For example, on the Dartford Crossing free-flow project over 400 clashes between the proposed design and existing services were found. This allowed changes to be made in advance of work starting, saving time and money. Ground penetrating radar and BIM are also used extensively across the US business.

The Rail business developed a new software package known as RED (Railway Electrification Designer) in anticipation of the BIM Level 2 changes in 2016 for centrally funded railway projects in the UK. Railways are more complex than buildings. Unlike the building market, there is no national BIM library for Overhead Line Electrification (OLE) projects, so all suppliers have to model and attach asset information to each component, which takes a significant amount of time.

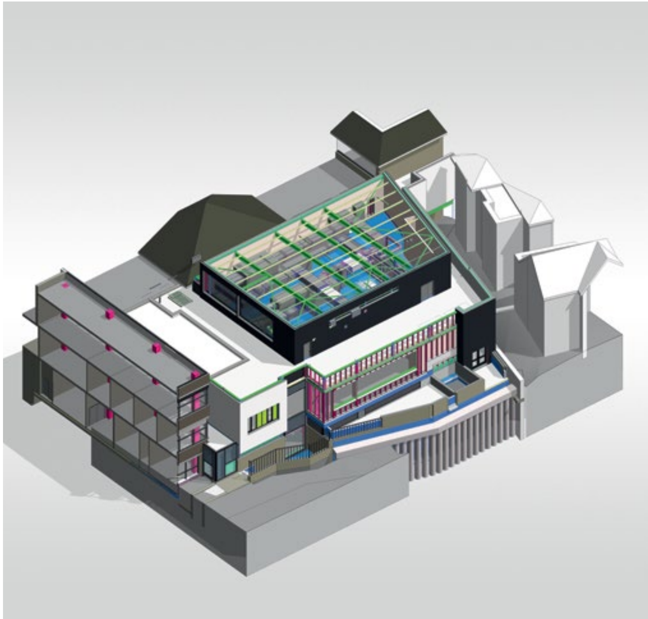
Apart from generating 3D models, RED is able to detect ground profile models and understand how these interact with foundations, enabling correct geospatial placement of OLE models. RED also dynamically attaches information to each 3D component as it is modelled.

The Group uses 3D mapping data across its highways projects in the UK to:

- analyse accident hotspots from RTIs or cone and varioguard strikes to keep the workforce safe
- provide map overlays for engineers to understand road layouts for resurfacing lanes and planning traffic management
- provide land registry and land owner information.

In Hong Kong, Gammon uses drones to survey sites by taking photos and superimposing these images onto the 3D model to allow stereoscopic photo interpretation and image photogrammetry, significantly reducing costs. Other examples from its operations in Hong Kong are the use of a curtain wall installation robot and an automatic plastering machine.

For the Rossall coastal defence scheme, a drone was used to survey the placement of rock armour ensuring that the correct grades and placement of rock were in line with the designs. Prior to using the drone for these surveys, the engineers would have used cherry pickers or walked across the rock armour. A drone can undertake a complete survey within 20 minutes.



The Group has also helped local communities and emergency services inspect the devastating flood damage caused by the storms in the North West of England by utilising one of its drones.

Collaboration with universities

Innovation is informed by research work at several academic partner organisations, including Salford University (BIM), Bristol University (systems engineering), Liverpool John Moores University (condition monitoring), Sheffield University (smart buildings), University College London (future leaders in infrastructure, 3D repo and radar), Manchester University (overhead line structures and composite crossarms), and Loughborough University (accounting for whole-life carbon emissions from highways maintenance contracts), Cambridge University (e-luminate, merging art, music and light), and Queen's University Belfast (resource efficiency through BIM).

In the US, the Group has taught students and funded research at Penn State University, Stanford University, the University of Colorado at Boulder, Virginia Tech, and the University of Texas at Austin.

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

Awards

Balfour Beatty was recognised for its expertise at the 2015 British Construction Industry Awards, the annual celebration of building and civil engineering achievements.

Balfour Beatty celebrated success in four categories, including: The BIM Project Application Award for construction of the National Graphene Institute for the University of Manchester, the Product Design Innovation Award for the Crossrail Liverpool Street and Whitechapel Station Tunnels project and a Building Project of the Year Award for its construction of the Aloft hotel in Liverpool.

Connect Plus Services, a joint venture between Balfour Beatty, Atkins and Egis Road Operation also celebrated a win for the Queen Elizabeth II Bridge expansion joint replacement scheme in the Temporary Works Award category.

Balfour Beatty also won the major category at the Institution of Civil Engineers South West Civil Engineering Awards that celebrates outstanding civil engineering achievement, innovation and ingenuity for the construction of a new sea wall and implementation of slope stabilisation measures to the east of Lyme Regis, providing protection for houses, infrastructure and other assets from landslides.

The Group's US construction division recently won the buildingSMART Hong Kong International BIM award 2015 for the campus improvement programme of the University of San Diego and its expansion of the Shiley-Marcos School of Engineering. The team was able to resolve 261 clashes digitally and used digital docs to hyperlink drawings to the workflow in the cloud so that all contractors could access these. The BIM model was linked to the school asset management system to allow future preventive maintenance to be carried out.

The team also won Oracle's Sustainability Innovation Award for 2015 for programming JD Edwards software to collect carbon data for its US operations.

Building a sustainable business continued

Innovation, research and development continued

Applications

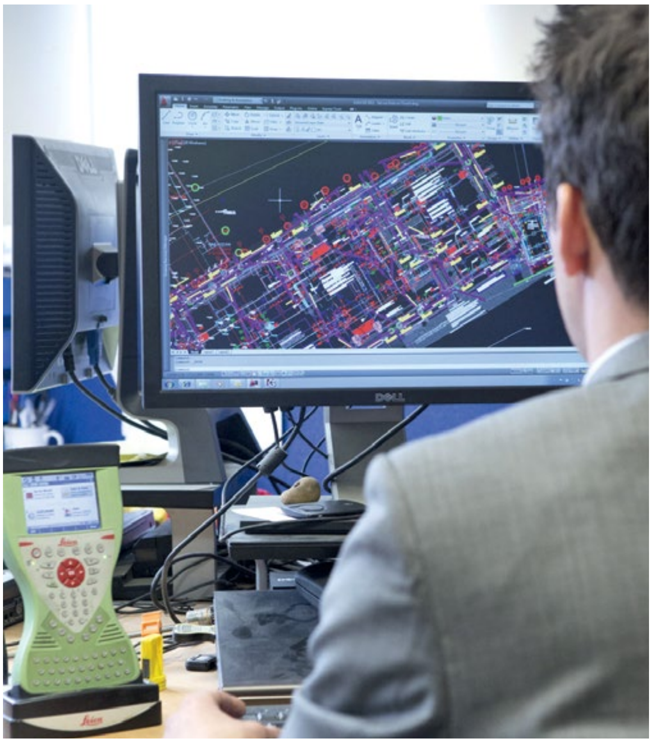
Other innovations are powered by employee insights which tackle mega trends such as urbanisation, resource scarcity and climate change. Balfour Beatty is undertaking research on two projects funded by Innovate UK. One is in collaboration with Queen's University Belfast and the University of the West of England to devise a new BIM tool that designers and contractors can use to successfully predict and reduce waste at the design phase.

The other research project is with technology start-up 3DRepo and the Association of Interior Specialists to support the development of a new innovative procurement application called Bid4Free. The application reduces the cost of bidding by digitising transactions.

Elsewhere, other innovations include Gammon's development of a Green Concrete range. It is the only supplier in Hong Kong to offer low carbon concrete solutions that are PAS 2050:2011 certified and the first to have achieved labels in the Hong Kong Construction Industry Council's Carbon Labelling Scheme, with six products achieving Grade A ('Outstanding') and four achieving Grade B ('Excellent').

The Group has developed a new smartphone/tablet app called snapfile with its JV partners Skanska on the M25 to asset tag over 1,000 motorway assets and capture them on a 3D model. Workers were assigned iPads to collect the asset data. As work proceeded, issues – structural defects, missing signs, poor paint finishes – were photographed and their locations could be finetuned using Google Street View, which is incorporated in ONtrack's browser-based system. The software helped close the gap between site and office-based project staff through real time reporting, saving valuable time. An added benefit of the system is that it helps ensure that problems are closed off before traffic management measures are lifted. Rectifying these later can be very costly.

To improve safety awareness on sites, Gammon has developed a new safety training system which uses gaming technology and virtual reality to create an interactive, and engaging, first-person experience.



3D printing

Gammon used 3D printing to develop roof designs at Midfield Concourse at Hong Kong International Airport and new visualisation software solutions in Singapore. Gammon's concrete department has also been working with the Hong Kong Polytechnic University on a study into the manufacture of partition wall blocks from cement slurry waste and fine recycled concrete aggregates. The research involves carbonation of formed blocks which sequester (or capture) CO_2 from industrial applications such as flue gases.

Balfour Beatty has produced a scaled 3D printed model for a large section of the Wylfa Newydd nuclear power station. Each component has been individually printed to allow both the customer and the Group's own team to understand how the power station will be constructed.

Mock-up prints

Balfour Beatty in the US, has been using repositionable textile graphics for the majority of items that need to be installed on drywalls such as in the redevelopment of BC Children's and BC Women's Redevelopment Project, where over US$121,000 was saved through the use of this system. Mock-ups of items such as outlets, air diffusers, fire sprinklers, time clocks, data jacks and dialysis boxes were printed and then positioned on the drywalls for different types of rooms so that the end users could be consulted on how these worked dimensionally within the room. This low tech solution ensured that end users received a solution that was optimised to their needs, reducing potential rework, unnecessary trim outs and time.

Innovative finance

Together with WattzOn, Balfour Beatty launched a new financial energy model called 'Negawatts' to allow companies to purchase energy savings and effectively fund behaviour change programmes for military housing contracts managed by Balfour Beatty. Negawatts is a hybrid between a power purchase agreement (where energy is purchased at a reduced rate over an agreed period of time) and an energy savings performance contract (with guaranteed savings shared between the end user and the provider).

People

Innovation champions across the businesses capture, share and promote innovation. The ability to collaborate has been enhanced by the growth in communities of practice, internal competitions, and the deployment of training in collaborative working practices, and through ongoing Group-wide accreditation to the standard BS 11000 Collaborative Business Relationships. 2015 also saw the introduction of 'My Contribution' which is an internal open platform for submitting business improvement ideas.

Working safely, ethically and responsively for a positive legacy

Health and safety

The Group's objective for safety is clear: to achieve Zero Harm across the business.

'Safe' is one of the four Build to Last goals and all operations were charged with improving performance. Group-wide changes included the new Safety and Sustainability Committee of the Board and the appointment of a new UK-wide Health and Safety director. A single health and safety enabling function now supports the UK business and facilitates Group learning and sharing.

The Zero Harm objective remains core with a reinvigorated focus supported by risk-based prioritised action plans and proactive evidence-based initiatives to increase skills and performance. This has included leading in raising awareness and actions to combat occupational disease and ill health.

This year saw a Group-wide safety stand down focused on the shared commitment to Zero Harm, with over 20,000 direct employees and subcontractors taking part in the UK alone. A key to delivering Zero Harm is 'making safety personal', supporting behavioural safety programmes with an aim to ensure direct employees and subcontractors feel empowered to make safe choices with support from uncompromising leadership. Observation and near miss reporting, one of the leading indicators, has seen a substantial increase. These events, in other circumstances, could have led to injury or ill health and have a key part to play in identifying learning opportunities which can then be shared and lead to improved processes.

Sadly, despite this, four workers lost their lives across the Group as a result of work activities in 2015. The incidents occurred in the UK, the Republic of Ireland and Hong Kong. Three of the workers were subcontractors and one was a direct employee.

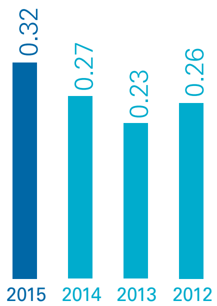
Each fatal accident is subject to a thorough investigation and a detailed review by the Group Chief Executive. In addition, the Safety and Sustainability Committee, focusing attention on health and safety, held an extraordinary meeting to review the findings to date and ensured lessons were promulgated across the business and wider industry. One of the work-related fatalities involved the inadvertent movement of a heavy goods vehicle during a trailer coupling operation. As a result of the investigation findings, the Group has worked with manufacturers and the road haulage industry to lead the way, requiring improved audible alarms and physical controls to prevent automatic brake release without direct intervention of the driver on all operations.

In 2015, the Group's Lost Time Injury Rate (LTIR) has risen from 0.27 to 0.32 due to an increased number of injuries that have led to lost time in the Group's international joint ventures. The LTIR improved from 0.31 to 0.24, excluding the Group's international joint ventures.

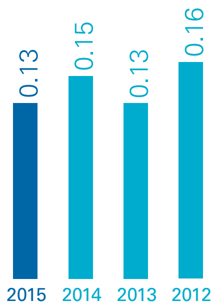
In 2015, the business won a number of awards recognising safety excellence. In the UK, the Group has been awarded by key customers for outstanding achievements in health and safety, such as the Heathrow Airport Health & Safety Awards for driver training, as well as receiving the British Construction Industry (BCI) Health & Safety Award for the M4 M5 Smart Motorways Project. In the US, the Group received the National ABC Diamond Safe Award and has been recognised through the North Carolina Department of Labour (NCDOL) Safety Awards, among others.

As part of the Zero Harm objective to protect direct employee and subcontractors' health and safety, in 2016 the Group will continue its relentless focus on safety to include a stronger focus on occupational health and hygiene, striving to eliminate occupational disease and ill health within the business and wider industry.

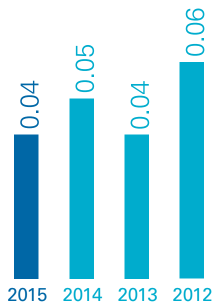
The Group's Lost Time Incident Rate (LTIR)



Accident Frequency Rate (AFR)



Major injury rate



Building a sustainable business continued

People and leadership

The quality of its people, their commitment and engagement is what defines Balfour Beatty.

The Group's people strategy is about inspiring its people to excel. This new strategy forms a key element of the Group's transformation programme – Build to Last. Balfour Beatty continued to invest in its people in 2015, through the training and development of its existing employees and targeted external recruitment as necessary.

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

In 2015, the first Group-wide employee engagement survey was completed using Best Companies in order to benchmark versus other companies. The results will be used to drive co-ordinated actions in order to improve employee engagement, which will enhance the Group's business performance.

Emerging talent

Balfour Beatty is a member of The 5% Club, committed to the aim of ensuring that, within two years, 5% of the UK workforce are apprentices, graduates or sponsored students on structured development programmes. The proportion of the UK workforce in these categories has increased from 3.1% to 4.6% in 2015.

	2014	**2015**
Apprentices	326	**400**
Graduates	184	**304**
Sponsored students	17	**17**
Total UK workforce	17,000	**15,687**
% of structured trainees	3.1%	**4.6%**

The Group's UK businesses are supporting around 180 people studying part-time at local colleges and universities (2014: 230). In 2015, the Group recruited 216 graduates and 156 apprentices across the UK and the US.

Balfour Beatty has been leading a consortium on behalf of the sector to support government reforms on apprenticeships for the construction industry gaining approval of 14 new Apprenticeships Standards for craft and technical/professional job roles.

In recognition of its work to develop young employees, Balfour Beatty's Academy was shortlisted down to the final three organisations for the SEMTA Skills & Innovation Award 2015.

Upskilling the UK's infrastructure workforce

During 2015, Balfour Beatty worked with the UK Government and received a grant to further develop the leadership and technical skills of its workforce and to attract people into the industry.

The Balfour Beatty Academy trained over 2,386 people in 2015 in a range of areas including programmes to upskill the craft workforce with the support of the Skills Funding Agency under the Employer Ownership of Skills fund. One of the programmes developed was the Construction Ambassador Scheme to promote careers within the industry.

The Balfour Beatty Academy will become the delivery vehicle for a range of management and leadership development programmes. It provides a focus for the Group's UK activities and aims to ensure it is delivering in a co-ordinated and cost-effective way.

As part of the Build to Last transformation programme the Group invested significantly in a number of new training initiatives; over 200 people have attended a High Value Selling programme and 250 people attended negotiation skills training, both designed to help improve the quality of work winning activities.

The Academy is developing a range of programmes to enhance technical and leadership skills in project management, commercial management, planning and design, and other functions. These will be fully rolled out during 2016.

The Group has invested in its project managers as a community to ensure they hold an APMP qualification. The programme was launched in June 2015 and to date 56 project managers have been trained.

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

Diversity and inclusion

Diversity and inclusion remain central to Balfour Beatty's people strategy. The Group values diversity, encouraging and celebrating individual differences, believing that its inclusive culture helps the business continue to grow as a strong, dynamic and innovative organisation.

Key interventions are in place to enhance diversity and inclusion in Balfour Beatty's core business. For example, the Group is supporting the UK Government's Your Life campaign, which is encouraging the study of STEM subjects amongst female students. The Group has further demonstrated its commitment to improving diversity by becoming a signatory to the WISE Ten Steps.

Further building on the Opportunity Now accreditation, a Connecting Women network forum continues to provide valuable support. However, the proportion of female employees has reduced in recent years with the disposals of Balfour Beatty WorkPlace in 2013 and Parsons Brinckerhoff in 2014.

Female employees across the workforce:

2015	**16%**
2014	17%
2013	22%
2012	23%

An LGBT network was established in 2014 as part of the Stonewall Diversity Champion programme. Balfour Beatty was the first infrastructure company to become a member of the OUTstanding LGBT professional network and is proud to be represented in the 2015 Financial Times Top 100 LGBT Business Leaders list.

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

At 31 December 2015	Male	Female	Total	% Male	% Female
Board	**7**	**1**	**8**	**87**	**13**
Senior management[1]	**89**	**20**	**109**	**82**	**18**
Directors of subsidiaries	**266**	**32**	**298**	**89**	**11**
Group	**19,374**	**3,749**	**23,123**	**84**	**16**

[1] Members of Group head office and divisional senior leadership teams.

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

Values and behaviour

Balfour Beatty has a well-developed ethics and compliance programme with a focus on presenting a consistent, well supported and relevant ethics and compliance message throughout the Group to ensure that working environments enable people to make the right choices, and support those who challenge where others have not.

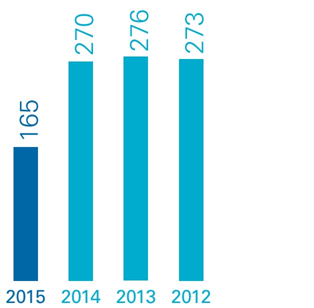
The Group continually seeks to embed its programme through training programmes and workshops, updated technologies and tools to make compliance simple and intuitive, and by investigating issues and complaints.

Whistleblowing

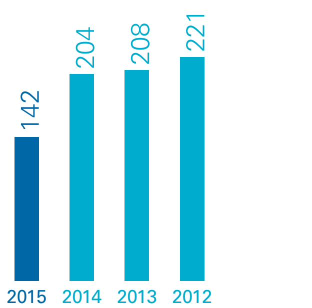
Balfour Beatty encourages its staff and wider community to report any concerns about unethical conduct. In early 2015, a new whistleblowing hotline service was put in place which improved interaction with whistleblowers, enabling the collection of vital information, thus providing better case management technology to support investigations.

There has been a drop in the total number of reported cases in 2015 compared with 2014, which reflects the reduction in the number of employees following the sale in 2014 of Parsons Brinckerhoff, the professional services business. There has also been a drop in the number of cases per 1,000 employees.

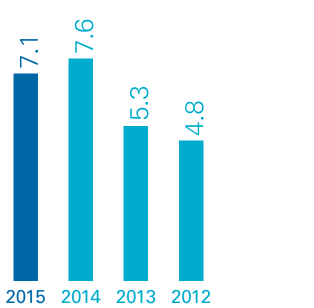
Ethics Helpline cases
Number



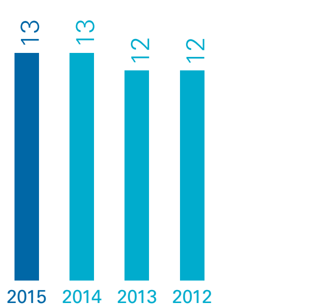
Ethics Helpline cases (excluding HR grievances) Number



Cases per 1,000 employees (Balfour Beatty) Number



Cases per 1,000 employees (global benchmark) Number



Ethics and compliance agenda 2015/2016

To address the drop in the number of reported cases and to ensure that the Group continues to maintain a consistent, well supported and relevant ethics and compliance programme, it undertook a series of activities during 2015, which will continue in 2016. These include a relaunch of training modules, Gifts and Hospitality and Conflicts of Interest registers, recruiting additional team members and a fundamental review of the programme and responsibility for it.

Environmental performance

The Group's sustainability strategy, the Blueprint, is customer-focused, embedded in the local community, efficient, innovative and responsible. As a result, sustainability is at the heart of all of Balfour Beatty's operations.

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

The Group has continued to improve the accuracy of measurement techniques, specifically around its Scope 1 and 2 emissions, and is striving to improve the accuracy of other sustainability metrics in the future.

Standards

Sustainability is an integral part of modern infrastructure projects: public sector clients require conformance to standards such as BREEAM, LEED®, BEAM, ESTIDAMA, Green Mark, and CEEQUAL and these are important to planning authorities. Meeting these standards has resulted in a £1.7 billion turnover on green infrastructure projects in 2015. The Group's certifications in this area and its technical knowledge improve the whole life performance of customers' built assets.

Scope 1 and 2 carbon emissions

The Group has seen an increase in carbon emissions intensity in 2015 compared to 2014 from 40.3 tonnes of CO_2 equivalent (CO_2e)/£m revenue to 44.9 tonnes of CO_2e/£m revenue. Since establishing the baseline in 2010, tonnes of CO_2e/£m revenue have dropped by 4.1% from 46.8 tonnes of CO_2e/£m revenue to 44.9 tonnes of CO_2e/£m revenue.

The Group's total CO_2e figure for Scope 1 and 2 emissions, has dropped by 21,919 tonnes of CO_2e (5%) from 436,734 tonnes of CO_2e to 415,198 tonnes of CO_2e over the same period.

Balfour Beatty's 2020 goal is to achieve a 50% reduction per £ million turnover of its Scope 1 and 2 emissions (against a 2010 baseline). Whilst the business has only five years to achieve this target, it has recently appointed a dedicated energy team to reduce fuel and energy use which will lead to a reduction in Scope 1 and 2 carbon emissions. As part of its strategy, Balfour Beatty is also implementing ISO 50001 across some of its operations.

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

	Absolute tonnes of CO_2e				
	Base year 2010	2012	2013	2014	**2015**
Scope 1	320,307	317,518	278,241	302,701	**288,664**$^{\Delta}$
Scope 2	116,427	145,623	129,489	105,122	**126,534**$^{\Delta}$
Total Scope 1 and 2 carbon emissions	436,734	463,141	407,730	407,823	**415,198**
Total Scope 1 and 2 carbon emissions per £m revenue	46.8	48.2	37.3	40.3	**44.9**

Scope 1 emissions include those resulting from the combustion of fuel and operation of facilities. Scope 2 emissions result from the purchase of electricity, heat, steam and cooling for own use. The full description of our definitions can be found in our reporting guidance found at www.balfourbeatty.com/enablon

Building a sustainable business continued

Environmental performance continued

Gammon, the joint venture in Hong Kong, accounts for approximately 29% of the Group's Scope 1 and 2 emissions. In 2014, it became the first construction company in Hong Kong to be awarded the CarbonCare® Label that covers all of its operations in Hong Kong (except joint venture projects). This is in addition to the ISO 14064-1 international standard for quantifying and reporting greenhouse gas (GHG) emissions it holds. Its Scope 1 and 2 GHG emissions are independently verified by SGS.

www.balfourbeatty.com/showcase

GHG reporting and assurance

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

The Group uses the operational control approach under the GHG Protocol Corporate Accounting and Reporting Standard as of 31 December 2015 to report emissions from its operations around the world. However, Balfour Beatty has chosen not to report against the market-based approach. Even though Balfour Beatty does procure significant amounts of renewable electricity, the average DEFRA/DECC conversion factors have been used for carbon reporting purposes in order not to detract from reducing energy intensive operations. Balfour Beatty has also reported on its energy consumption in MWh for the first time to allow readers to make more informed comparisons of its energy use.

As illustrated below, although Balfour Beatty's CO_2e emissions went up by approximately 7,000 tonnes from 2014 to 2015, the number of MWh over the same period actually dropped from 1,364,007MWh to 1,302,406MWh.

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

The table illustrates that despite Balfour Beatty using approximately 4.5% less energy than it did in 2014, its fuel mix led it to emitting more Scope 1 and 2 emissions.

This includes assets that are otherwise not referred to across the rest of the financial statements as defined in our reporting guidance. The Group also developed reporting guidance for the calculation of GHG emissions as well as other sustainability metrics.

The Group has determined and reported the emissions it is responsible for within this boundary and does not believe there are any material omissions. The Group uses the UK Government's carbon conversion factors that were updated in 2015 to calculate its emissions into equivalent tonnes of carbon dioxide (CO_2e).

The Group has removed the Scope 1 and 2 data for Parsons Brinckerhoff and Rail Austria which were disposed of in 2014 and 2015 respectively and stripped this data from the original 2010 baseline.

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

www.balfourbeatty.com/IIA

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

- interviewing management responsible for the data
- examining reporting processes and documentation
- agreeing a selection of the data to the corresponding source documentation at operating company level
- performing analytical procedures over the aggregated data at Balfour Beatty Group level.

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

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

www.balfourbeatty.com/enablon

Energy use

		MWh
Fuel	2014	**2015**
Diesel	435,640	**648,774**
Gas oil/red diesel	575,511	**288,688**
Electricity	179,055	**213,395**
Motor gasoline (petrol)	121,866	**112,562**
Natural gas	20,100	**18,173**
Boiler fuel	22,253	**11,409**
LPG	339	**3,973**
Propane	7,692	**2,790**
Heat and steam	1,476	**2,603**
Butane	70	**38**
CNG	5	**1**
Total	1,364,007	**1,302,406**

CDP

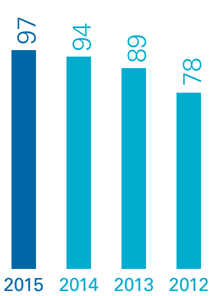
Over the last four years, Balfour Beatty has steadily increased its carbon disclosure score from 78 to 97, increasing its score by 19 points. The performance score has also improved from C to B.

The disclosure score, measured out of 100, assesses the completeness and quality of the Group's measurement and management of carbon footprint, climate change strategy, risk management processes and outcomes. The score's purpose is to provide a summary of the extent to which companies have answered these questions in a structured format. Balfour Beatty's score of 97 indicates that its team has provided comprehensive information in a transparent and open manner.

The performance score, ranked from A-E, assesses the level of action, as reported by the Company, on climate change mitigation, adaptation and transparency. Its intent is to highlight positive climate action. Balfour Beatty's score of B indicates that Balfour Beatty has set carbon reduction targets and is implementing programmes to reduce emissions in both its direct operations and supply chain.

Carbon disclosure score

/100



Environmental compliance

In 2015, three environmental incidents (2014: 10, 2013: 4, 2012: 4) resulted in enforcement action and fines totalling £3,959 (2014: £9,917, 2013: £13,260, 2012: £66,800).

Two of the violations were for allowing mosquitoes to breed and one related to vermin. There were corrective actions for each violation.

Community engagement

In 2015, Balfour Beatty established Involved (Balfour Beatty's Community Investment Programme) in its UK businesses.

Involved focuses on three key areas where the Group can add value to its customers and the local community:

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

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

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

Community investment through charitable fundraising

Through the Balfour Beatty Building Better Futures Charitable Trust, the Group aims to help the most disadvantaged young people in society. Three charities are supported by the Group's fundraising and volunteering programme: Barnardo's, Coram and The Prince's Trust.

Since 2008, the Group has donated almost £2 million to programmes aimed at helping young people, as well as providing support in kind, such as through employee volunteering. In 2015, employees raised over £10,000 through the Building Better Futures fundraising activity programme.

Given the youth unemployment issue affecting communities around the UK, and the skills gap opening up in the UK construction sector, many of the programmes are focused on improving employment and employability.

- Working together with The Prince's Trust over the last six years, the Group has helped transform the lives of 3,734 young people.
- Since 2013, the Group has raised £130,000 to support Barnardo's work with unemployed young people; helping over 1,000 young people to gain new skills, qualifications and stable work.
- Since 2010, the Group has also raised over £400,000 for Coram, allowing the charity to support 40,000 vulnerable children.

Balfour Beatty also supports the London Youth Games, facilitating another record year of participation for young people in London, with 136,427 taking part. Balfour Beatty staff again played a key role among 4,483 volunteers that our investment also enabled to be trained and supported as they helped to put on the Games and bring them to life. Since Balfour Beatty started sponsoring the Games, participant numbers have increased fivefold.

This brings multiple benefits, including engaging our employees in volunteering, community engagement, helping customer relationships and supporting communities in and around London where Balfour Beatty operates. For the participants, the Group recognises the value that sport brings to the lives of young people and is committed to helping raise their aspirations, motivation and attainment levels in local communities.

The US construction business contributed over US$900,000 to charitable causes in 2015. Some of the organisations receiving donations are:

- American Heart Association
- Boy Scouts of America
- Habitat for Humanity
- Hospitality House
- Make a Wish
- Teach for America
- United Way
- Wounded Warrior Project.

Specifically for Make-A-Wish® Georgia's Walk for Wishes, the Georgia Division achieved one of its largest fundraising efforts to date raising nearly US$400,000 for the annual Walk for Wishes event which grants wishes to children in Georgia who have been afflicted with life threatening illnesses.

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

In 2015, staff from Gammon took part in a total of 43 community events across Hong Kong, mainland China and Singapore. The highlight event was the Gammon Walkathon 2015 held in early December which has raised over HK$1.0m (£87,489) over the last five years. In addition, Gammon is involved in planning and executing community-based activities and there has been a heightened focus on project-driven engagement, often collaborating with NGOs to make a positive difference in the communities in which Gammon operates.

Taxation

The Group's tax strategy, approved by the Board, is to sustainably minimise tax cost whilst complying with the law.

In doing so, it ensures it acts in accordance with its ethics, values and compliance programme. It always considers the financial and reputational risk arising from its management of tax issues, aiming to maximise long-term shareholder value.

Balfour Beatty has clear tax policies, procedures and controls in place which are monitored and reviewed by internal tax specialists and seeks external specialist tax advice where necessary.

The Group has an open, honest and positive working relationship with the tax authorities and is committed to prompt disclosure and transparency in all tax matters. Where disputes arise with tax authorities with regard to the interpretation and application of tax law, the Group is committed to addressing the matter promptly and resolving it with the tax authority in an open and constructive manner.

The Group makes a major contribution to the tax revenues of governments from its activities in the many countries in which it operated in 2015. For example, the Group's tax contribution extends significantly beyond corporate tax, as the size of its workforce means it not only collects very large amounts of income tax, but also pays over £100 million in employer social security costs in its major territories in a typical year.

Risk management framework

2015 saw strengthening of the risk management culture and disciplines embedding the Group's gateway reviews across project lifecycles. This approach forms a fundamental element of the three line of defence model in place across the business.

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

The Board has overall responsibility for risk management determining the nature and extent of the principal risks to be taken and for the review and effectiveness of the risk management and internal control systems.

Following the review of the Group's approach to risk management in 2014, a new framework was designed. This sets common minimum standards for commercial and project management and the simplification and unification of internal controls across the Group.

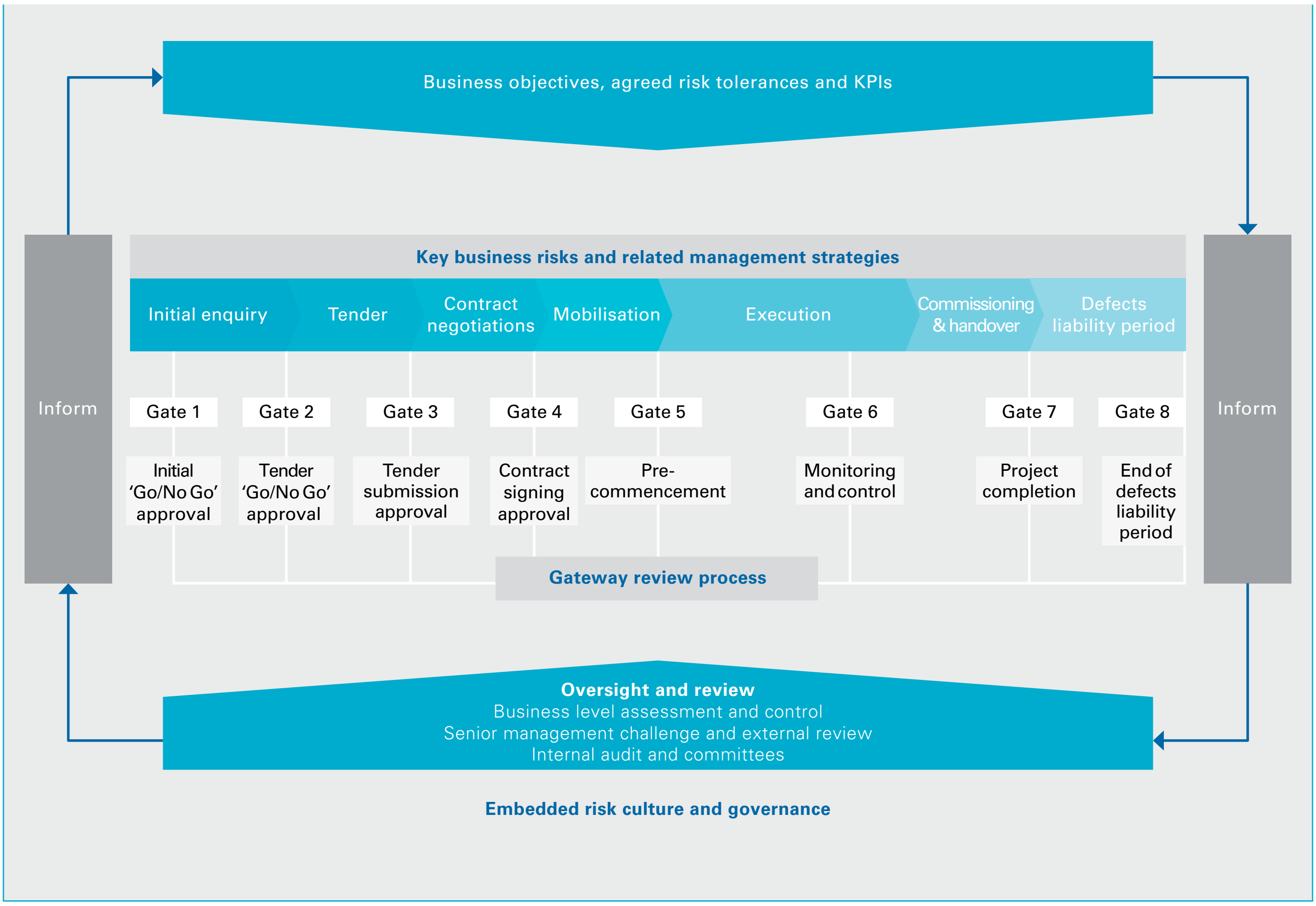
The rollout of the framework during the year has raised risk consciousness across the organisation and allowed risk management to be built into activities from project pursuit, through design, delivery and completion. Good risk management is a key enabler of the Build to Last transformation programme and the Group continues to roll out enhancements to achieve consistency across its operations. The Group is also improving its audit and assurance processes to both support and ensure the application of the improvements made.

Risks are owned and managed within the business and inform the focus of audit and assurance activities around the Group.

Central to the risk management and control framework are the eight approval and review gates, spanning initial project pursuit through to delivery and completion. These mandatory reviews require Group, divisional or business unit level approval depending upon the nature and complexity of the project. At each gate an assessment of risk and risk appetite is made.

Additionally, a number of initiatives are underway within operational delivery to increase understanding and embed a culture of risk management. These measures include project manager training delivered through the Balfour Beatty Academy, increased cascade and promotion of minimal commercial expectations and continued adherence to Group commercial policies and process.

Risk management framework



Risk attitude

Balfour Beatty's approach to risk management is guided by its core values, strategic priorities and related objectives. It regards its risk attitude as the amount of risk that it is willing to accept in order to deliver its strategic priorities. The tolerances used vary from zero to high and reflect the level of risk and related control. Tolerance levels are based on the Group's risk management framework which analyses risk using a combination of agreed impact and probability criteria.

	Strategic priority – Build to Last value	Risk attitude
Lean	Deliver value to our customers by improving operational efficiency and eliminating waste right through the supply chain.	We will manage our operational activities and exposures to avoid material adverse impacts on annual profit and cash flow.
Expert	Ensure we have the best engineering and project management capabilities.	We are prepared to develop our engineering and project management talent from within through investment in training and development programmes. We will take risk in attracting external talent when it is appropriate to do so.
Trusted	Be the construction partner of choice for our customers and supply chain by delivering on our promises.	We will not compromise new or existing customer relationships by poor bid and mobilisation practices. Our risk tolerance for procuring materials and products that do not meet the Group's quality and sourcing requirements is zero.
Safe	We must ensure the health and safety of everyone who comes into contact with our activities.	Our aim is to ensure safety for every employee, subcontractor, customer and community and we will not trade this objective for the achievement of other objectives. We have zero tolerance for breaches of the legal and/or regulatory framework within which we operate or for behaviours not in accordance with our policies and code of ethics.

Principal risks

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

The principal risks that could adversely impact the Group's profitability and ability to achieve its strategic objectives are set out below. In addition, the Chief Financial Officer's review starting on page 18 includes discussion on financial risk factors and going concern.

Health and safety

No change to risk →

Build to Last pillar: **Safe**

Owner: **Safety and Sustainability Committee**

Risk description

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

Causes

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

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

What impact it might have

Failure to manage these risks could result in harm to, or even the death of, employees, subcontractor staff and members of the public, as well as potential criminal prosecutions, debarment and reputational damage.

How it is mitigated

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

Each division has experienced health and safety professionals who provide advice and support and undertake regular reviews.

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

During 2015, business units continued their work on implementing Zero Harm action plans.

Economic environment

No change to risk →

Build to Last pillar: **Expert**

Owner: **The Board**

Risk description

The effects of national or market trends, political change or new developments in infrastructure expenditure or procurement may cause customers to postpone, reduce or change existing or future projects, which may impact the Group's strategy, business model, revenue or profitability in the short or medium term.

Causes

The business may fail to anticipate or assess national or market events and developments, their potential negative impact, or the opportunities they present. Such events or developments, whether or not anticipated or correctly assessed, could lead to:

- cash pressures for customers and suppliers
- wider than expected fluctuations in inflation
- increased competition (eg in the UK from other EU countries)
- supply chain failure risk
- reduced revenue or pressure on margins.

These risks may also be triggered or exacerbated by the need, actual or perceived, to pursue work in a declining market.

What impact it might have

Any significant changes in the level or timing of customer spending or investment plans could adversely impact the future order book. Such changes could arise from changes in government policy or customers' failure to secure financing for future projects or for future stages of existing projects.

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

How it is mitigated

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

It is essential that the financial solvency and strength of counterparties is always considered before contracts are signed and this is a specific focus in the current economic climate. During the life of a contract such assessments are updated and reviewed whenever possible. The business also seeks to ensure that it is not over-reliant on any one counterparty.

Bidding
Decreased risk ↓

Build to Last pillar: **Trusted**

Owner: **Group Tender and Investment Committee**

Risk description
Through its different businesses, Balfour Beatty seeks to win profitable work through a large number of bids. In some cases it bids in joint venture with carefully selected partners, often to help manage or spread risks, especially where the Group wants to augment its expertise or knowledge of the relevant market.

The Group also invests in infrastructure assets, where success depends on a number of assumptions made, at the time of investment, on financial modelling, future revenues and costs.

Balfour Beatty's success depends on its ability to identify, price and execute the right volume and quality of bids to maintain a profitable, sustainable order book. This in turn requires that it has a competitive business model and overheads.

Causes
- Unrealistic programme
- Unrealistic assumptions on cost savings
- Overambitious budgets
- Work scope not understood or realistically costed
- Poor partner selection
- Customer credit and late payment risks
- Partner and subcontractor performance and credit risks
- Inability to make profit from infrastructure assets
- Failure to ensure the Group's overhead structure remains competitive and realistic.

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

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

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

How it is mitigated
The Group operates to consistent and shared policies and minimum commercial expectations including acceptable margins. Alongside targeted recruitments a wide and ongoing range of initiatives has been undertaken across all disciplines within the Group including Cash is our Compass and High Value Selling to drive increased commercial awareness and an understanding of expectations on margins and cost.

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

The Group has defined delegated authority levels for approving all tenders and infrastructure investments.

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

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

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

Principal risks continued

Project execution
No change to risk →

Build to Last pillar: **Trusted**

Owner: **Group management**

Risk description
The Group works on complex design, engineering, construction and asset management projects.

Successful delivery of many of these projects is dependent on the effective implementation and maintenance of a range of operational and commercial procedures and controls, backed up by appropriate training, operational systems, clear accountabilities and oversight, accurate, realistic and timely reporting, and regular review.

It is also dependent on the combined availability and effective management of subcontractors and other service providers. Finally, it relies upon many complex, technical and commercial judgements and estimates regarding cost, value, progress and likely or practicable outcomes.

Causes
- Unrealistic progress assessments and cost to complete judgements
- Overestimating the Group's ability to recover claims within the timeframe or in the amounts estimated
- Incomplete visibility and appreciation of scale of commercial judgements
- Inaccurate and/or incomplete cost and value data or failure to analyse and report correctly, which could arise due to poor training, lack of supervision, lack of accountability or fear of reporting bad news
- Inadequate experience, independent challenge from support functions such as audit, risk, quality, commercial, operations and finance.

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

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

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

How it is mitigated
It is essential that each business area has defined operating procedures to address the risks inherent in project delivery. The revision of the Group risk management framework and the reinforcing of Group policy and principles encourage prudent and realistic financial planning.

The Group has instigated an increased focus on identifying, understanding and reporting risks inherent in projects such as the accuracy and timeliness of cost and cash forecasting supported by consistent application of strong commercial management and contract administration processes.

Alongside these measures, targeted recruitment of key staff within project delivery teams and senior management, together with ongoing and focused training of staff, has strengthened the ability of the Group to successfully manage and deliver projects.

Projects are subject to greater and more direct senior management oversight and challenge. Allied with this, integrated reviews of projects across audit, risk, quality, commercial, operations and finance disciplines are now in place.

The My Contribution initiative has delivered a significant number of local level improvements in project delivery including efficiencies in service level agreements, greater use of BIM technology and resource allocation. A strong pipeline of ideas will be assessed across 2016 to drive further improvements.

The Group also has professional indemnity cover to provide further safeguards.

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

Supply chain
No change to risk →

Build to Last pillar: **Lean**

Owner: **Group management**

Risk description
The Group is heavily reliant on its supply chain partners for successful operational delivery, which means it is also exposed to a variety of risks in the supply chain including availability, financial stability, technical ability, quality, safety, environmental, social and ethical.

Causes
- Supply chain failure risk, exacerbated during, and when emerging from, tough economic conditions
- Retention of subcontracted parties in buoyant markets
- A subcontractor's failure to perform to an appropriate standard and quality, which could cause project delays, reducing Balfour Beatty's ability to meet contractual commitments and harming its reputation
- Supply chain operating to lower standards (safety, ethics, quality, material stewardship, child labour, forced labour)
- Failure to deliver targeted procurement savings
- Failure to comply with Group supply agreements
- Unethical treatment of the supply chain.

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

The Group retains commercial as well as reputational responsibility for performance shortcomings by suppliers and subcontractors, whether in terms of quality, safety, environmental, social, technical or ethical standards.

Mistreatment of suppliers, subcontractors and their staff, or poor ethical standards in the supply chain, could lead to significant reputational harm for Balfour Beatty.

How it is mitigated
The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations. It develops contingency plans to address subcontractor failure, and also obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency.

Staff are encouraged through the My Contribution programme to generate ideas for more effective procurement and resourcing efficiencies have already been made in material and plant costs. This initiative will be further developed in 2016.

Rigorous adherence to the Group's risk management framework and the gateway review process allows for early and ongoing assessment of the appropriateness of resource allocation, including third-party dependencies.

The Group undertakes audits of key suppliers within projects to ensure they are in a position to consistently deliver against requirements.

Balfour Beatty aims to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share its values. It also aims to avoid becoming over-reliant on any one supplier or subcontractor.

Transformation programme
Increased risk ↑

Build to Last pillar: **All**

Owner: **The Board**

Risk description
The Build to Last transformation programme is being delivered throughout the business in order to improve operating efficiency. There is a risk that deploying such a wide range of initiatives required to meet the objectives of Build to Last creates a high level of disruption to the delivery of day-to-day operations and the Build to Last programme itself.

Causes
Ineffective change management during the implementation of the Build to Last programme could cause the risk to be realised via:

- excessive drive to deliver anticipated outcomes
- resource (financial, physical and people) being diverted from the day-to-day operational priorities towards realising new initiatives and addressing legacy problems
- employee fatigue with change programme and loss of focus owing to a perceived high number and frequency of new initiatives
- loss of key people and intellectual resource through dissatisfaction with the programme
- new systems and processes being used without appropriate controls being in place and/or tested.

What impact it might have
Failure to meet the target of £100 million cost out and £200 million cash in.

Failure to win new and retain existing business.

Failure to attract and retain the best talent in the industry.

There is also the risk of management losing focus on existing key deliverables and market opportunities.

How it is mitigated
The implications and required controls associated with the Build to Last programme have been well considered. A suite of mitigations are in place to ensure successful delivery including:

- Build to Last champions are embedded within each business for constant dialogue and direction
- senior leadership communication across the businesses is clear and frequent
- employee surveys form a key part of the programme
- the Build to Last delivery programme is phased over several years rather than a one-off delivery
- leaders throughout the business frequently monitor the delivery and impacts of the programme
- senior leadership are well experienced in delivering business transformation successfully.

Principal risks continued

People
Increased risk ↑

Build to Last pillar: **Expert**

Owner: **The Board**

Risk description
Inability to recruit and retain the best people may weaken the Group's ability to meet its strategic objectives.

Causes
- Failure to attract and retain skilled staff
- Distraction and impact on morale due to transformation programmes and continued operational issues
- Inability to successfully promote the right people through succession planning
- Commercial and project management quality/performance
- New staff unfamiliar with culture and procedures
- Lack of a diverse workforce
- Loss of former staff with traditional bidding and execution skills
- Deterioration of client relationships.

What impact it might have
Failure to recruit and retain appropriately skilled people could harm the Group's ability to win or perform specific contracts and grow its business.

A high level of staff turnover can result in a drop in confidence in the business within the market, client relationships being lost and an inability to focus on business improvements.

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

All potential recruits for key roles in the organisation are measured against a leadership framework. Businesses within the Group undertake organisation and people reviews to review the roles, competencies, performance and potential of personnel.

Recruitment and retention is measured and regularly reviewed across all parts of the business.

A Group-wide employee engagement survey was conducted in 2015 to measure engagement and appropriate actions are being developed and communicated.

The Group's succession planning process to identify and develop high-potential personnel is reviewed regularly within the organisation and by the Board.

Balfour Beatty regularly reviews its remuneration arrangements to ensure they are appropriate to help it attract, motivate and retain key employees.

Business conduct/compliance
No change to risk →

Build to Last pillar: **Trusted**

Owner: **The Board**

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

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

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

How it is mitigated
Balfour Beatty has a proactive approach to assessing and addressing corruption risks. It promotes compliance with its Code of Conduct and in areas such as competition and false claims fraud. The Ethics and Compliance function, together with compliance officers in the business, are responsible for embedding and monitoring the compliance programme and investigating any alleged breaches of it.

The risk of business conduct/compliance breaches by third parties is harder to control, but the Group has a range of risk assessment, due diligence and procurement controls that are designed to identify and minimise such risks. Balfour Beatty works with very few agents, all of whom undergo a rigorous due diligence and approval process.

Legal and regulatory
No change to risk →

Build to Last pillar: **Trusted**

Owner: **The Board**

Risk description
The Group operates in diverse territories and its businesses are subject to a variety of complex, demanding and evolving legal, tax and regulatory requirements.

Causes
- Data protection and privacy
- Information security lapse
- Cybercrime
- Government/regulatory enquiry and enforcement actions
- Adverse changes of law, including changes to tax law
- Local procurement laws
- Debarment or blacklisting.

What impact it might have
Changes to local laws and regulations could lead to legal proceedings, investigations or disputes resulting in business disruption ranging from additional project costs to potential debarment and reputational damage. Such action could also impact upon the valuation of assets within that territory. Increasingly, businesses are the target of cybercrime, which can result in loss of confidential, personal or commercial data, disruption to operations and associated costs. Sometimes Balfour Beatty may be the target of state-sponsored cyber activities purely because of its customer base.

How it is mitigated
The Group monitors and responds to tax, legal and regulatory developments and requirements in the territories in which it operates. Local legal and regulatory frameworks are further considered as part of any Group decision to conduct business in a new country. Data protection and information security programmes are in place across the Group, and cybercrime and other information security risks are assessed on a regular basis.

Environment and sustainability
No change to risk →

Build to Last pillar: **Expert**

Owner: **Safety and Sustainability Committee**

Risk description
The Group's activities can have a positive or negative impact on the natural environment and the communities it operates in. The Group's activities and their location mean that environmental and sustainability risks need to be identified, monitored and managed.

Causes
Environmental risk may arise leading to a breach of compliance and incident due to:

- failure to deliver leadership
- ineffective management of subcontractors
- poor risk identification/assessment
- having processes that fail to promote risk elimination or mitigation
- failure to follow procedures
- not briefing people properly before setting them to work
- failure to identify emerging regulatory requirements.

The reporting of inaccurate greenhouse gas (GHG) data and other data needed for sustainability performance reporting may mean the Group is unaware of its actual impact and expose it to reputational damage and fines.

Unethical/unsustainable sourcing (eg timber, forced labour, child labour) could lead to reputational damage and impact Balfour Beatty's ability to tender for work.

Insufficient management support and resourcing to achieve the Group's environment and sustainability goals.

What impact it might have
Failure to address these risks and to execute projects to meet the Group's environmental and sustainability goals could result in significant potential liabilities, reputational damage, an inability to win future work and in some operational regions potential criminal prosecutions.

How it is mitigated
The Group's Blueprint strategy provides a framework for its operating businesses to accommodate and embed environment and sustainability into operations. Issues such as climate change and resource use are considered in risk management activities at the business unit as well as project level.

Balfour Beatty's business processes are used to identify potential risks and opportunities for the business. Management systems are in place to control some of the aforementioned risks and in addition the Group is subject to external audits undertaken by third parties.

Scope 1 and 2 GHG emissions are also externally assured (see page 40) to ensure that the data is correct.

Principal risks continued

Legacy pension liabilities No change to risk →	Build to Last pillar: **Lean**	Owner: **The Board**

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

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

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

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

How it is mitigated
The Group constructively engages with the trustees of the pension funds to ensure that the the funds' assets and liabilities are managed in a way which reduces the likelihood of an unexpected cost to the Company. The Group's main UK fund has hedged over 65% of its exposure to interest rate and inflation movements.

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

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three-year period to 31 December 2018. The Directors consider this period to be appropriate because this is the period aligned to the current order book or for which there is a good pipeline of potential new projects. This period also allows greater certainty over the forecasting assumptions used in labour and material pricing, skills and availability. Consequently, the Group performs its medium-term planning over three years.

In its assessment of the viability of the Group, the Directors have considered the need to be successful in implementing the Group's Build to Last programme and focus on strategic priorities of Lean, Expert, Trusted and Safe detailed on pages 14 to 17, as well as each of the Group's principal risks and uncertainties detailed on pages 44 to 50. In particular the impact of a reduction in revenue, a reduction in margin, an increase in operating costs, the inability to access financing and a slowdown in the Group's PPP disposal programme. The Directors have also considered the Group's income and expenditure projections, the Group's projected cash position, bank facilities, its maturity profile and covenants, the borrowing powers allowed under the Company's Articles of Association and the fact that the Company's PPP investments comprise reasonably realisable securities which can be sold to meet funding requirements if necessary.

Based on the Group's processes for monitoring operating costs, managing Group performance, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period until 31 December 2018.

Our 2015 Strategic Report, from pages 1 to 50, was approved by the Board on 14 March 2016.

Philip Harrison
Chief Financial Officer

Chairman's introduction

"A new executive team and a refreshed Board have the privilege of taking Balfour Beatty forward to its next chapter."

As described in my predecessor's report last year there has been a significant change in the composition of the Company's leadership both at Board and executive level during 2015. Details of the changes at Board level are set out on page 54. The arrival of Leo Quinn, as Group Chief Executive, at the start of the year signalled the start of a period of detailed self-analysis and self-help built around our Build to Last programme. The appointment of Philip Harrison as Chief Financial Officer has, as predicted, brought a wealth of relevant experience.

Leadership

Following my own appointment, I have sought to re-balance the background experience of the non-executive members of the Board, by increasing relevant construction/contracting sector skills and experience through the appointments of Stuart Doughty and Stephen Billingham. Each of the Directors brings skills and experiences which enhance the quality of debate in the boardroom and in the case of the non-executive Directors provides additionally, guidance and challenge to the executive Directors. The Directors believe that the Board provides effective leadership.

Diversity

In seeking to recruit new Directors with relevant experience, we specifically ask search firms to identify suitable female candidates. We do not however believe in gender quotas, preferring to appoint individuals based on merit. Details of our diversity and inclusion policy can be found on the website balfourbeatty.com.

Accountability

We believe that Balfour Beatty's processes and procedures have been strengthened during the year as the gated approval process has been embedded into the organisation, enabling the Board to present a fair, balanced and understandable assessment of the Group's trading position and its prospects. We continue to keep under review the matters reserved to the Board and the terms of reference of the Board and its Committees. Copies can be found on the website.

Remuneration

The remuneration policy was approved by shareholders at the 2014 AGM and can be found on the website. We do not currently intend to revert to shareholders with any proposed changes until our AGM in 2017. Details of how we will operate that policy in 2016 can be found in the Remuneration report on pages 68 to 84.

Relations with shareholders

Our investor relations programme is of critical importance to the Board, particularly as we progress through this period of change. The Board routinely receives, at each meeting, a comprehensive report from our investor relations team as well as periodic reports from analysts and feedback from any meetings which the Directors have with institutional investors. We recognise the AGM as an important opportunity for private investors to engage with the Board. All resolutions will, however, be put to a poll rather than a show of hands. This reflects best practice and will ensure that shareholders who are not able to attend the meeting have their votes fully taken into account.

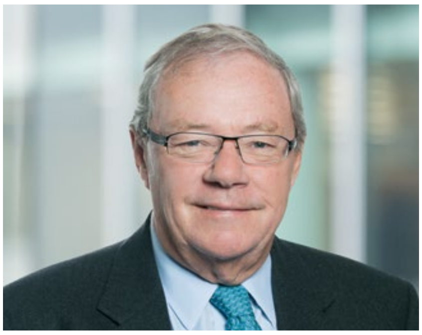
Philip Aiken AM
Chairman

Compliance with the Code

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

The Company has complied with the requirements of the Code from 10 August 2015 to the end of the accounting period. From 1 January 2015 to 10 August 2015, the effectiveness of the Group's whistleblowing procedure was kept under review by the Business Practices Committee, but otherwise the Company complied with the requirements of the Code.

Board of Directors



Philip Aiken AM (67)
Non-executive Chairman
(from 26 March 2015)

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

2 3 4

Leo Quinn (58)
Group Chief Executive
(from 1 January 2015)

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

3 5 6

Philip Harrison (55)
Chief Financial Officer
(from 1 June 2015)

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

5 6

Board Committees code:

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

Other Directors who held office during the year were:

Robert Amen
Non-executive Director until 31 December 2015

Duncan Magrath
Chief Financial Officer until 8 May 2015

Steve Marshall
Chairman until 26 March 2015

Peter Zinkin
Planning and Development Director until 26 March 2015

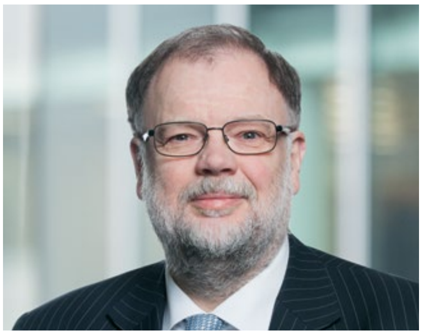
From 14 January 2016, as part of an agreed review of Committee memberships:

Iain Ferguson rejoined the Audit and Risk Committee

Leo Quinn joined the Safety and Sustainability Committee

Maureen Kempston Darkes left the Nomination Committee

Stuart Doughty left the Remuneration Committee



Iain Ferguson CBE (60)
Senior Independent Director
Appointed a Director in 2010. Until 2009, he was chief executive of Tate & Lyle. Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development. He is non-executive chairman of Berendsen plc and Stobart Group Limited. He is also chairman of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office and lead independent director at the Department for Environment, Food and Rural Affairs. He was formerly a non-executive director of Sygen International and of Greggs plc.

2 3 4

Maureen Kempston Darkes (67)
Non-executive Director
Appointed a Director in 2012. She joined General Motors Corporation in 1975 and held a number of progressively senior roles during her time with the business, culminating in her appointment as group vice-president for General Motors' Latin America, Africa and Middle East operations. She retired from General Motors in 2009. She has a portfolio of non-executive directorships including Brookfield Asset Management, Canadian National Railways, Enbridge Inc, Irving Oil Company and Schlumberger. She is a member of the Canadian Government's Science, Technology and Innovation Council.

2 3 4

Graham Roberts (57)
Non-executive Director
Appointed a Director in 2009. He is chief executive of Assura plc, a UK primary healthcare property company and was formerly finance director of The British Land Company between 2002 and 2011. Prior to that, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors. He is a Fellow of the Institute of Chartered Accountants.

1 3 4

Dr Stephen Billingham (57)
Non-executive Director
(from 1 June 2015)

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

1

Stuart Doughty CMG (72)
Non-executive Director
(from 8 April 2015)

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

1 2 4

Governance report

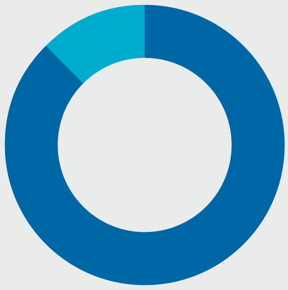
Board balance

Chairman	1
Executive Directors	2
Non-executive Directors	5

Board tenure

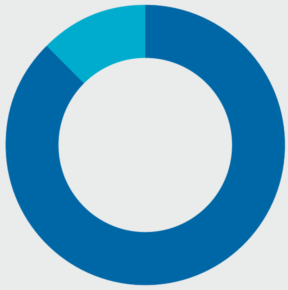
0–2 years	5
2–4 years	1
4–6 years	0
6+ years	2

Board geography



UK	7
Americas	1

Board balance



Male	7
Female	1

Non-executive Directors – significant strengths

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

Directors' independence

At its meeting on 10 March 2016, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them continues to be independent.

The Board and its composition

The Board comprises eight Directors, of whom six, including the Chairman, are non-executive. The names of the Directors serving throughout the year and at the year end are shown on pages 52 and 53.

As previously reported, Leo Quinn was appointed Group Chief Executive with effect from 1 January 2015. Steve Marshall stepped down from the role of Chairman on 26 March 2015 to be succeeded by Philip Aiken. Peter Zinkin ceased to be a Director on 26 March 2015. Stuart Doughty and Stephen Billingham were appointed non-executive Directors on 8 April 2015 and 1 June 2015 respectively. Duncan Magrath ceased to be a Director with effect from 8 May 2015. Philip Harrison was appointed Chief Financial Officer with effect from 1 June 2015. Robert Amen retired as a non-executive Director on 31 December 2015.

All of the Directors in office on 14 March 2016 will seek election or re-election at the AGM in accordance with the Code. Brief biographical details are shown on pages 52 and 53 and a non-exhaustive list of the key strengths of the Directors is set out in the table above. Details of their service agreements, emoluments and share incentives are shown in the Remuneration report starting on page 68.

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

Roles

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

Chairman – Philip Aiken

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

Group Chief Executive – Leo Quinn

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

Senior Independent Director – Iain Ferguson

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

Board and Committee meetings

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

Details of the number of meetings of the Board and its Committees held during the year and attendance of Directors thereat are set out on page 56. Outside the formal schedule of meetings, the non-executive Directors met without the executive Directors present on a number of occasions. Meetings were normally held at the Company's head office.

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

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

- progress with the 'Build to Last' programme
- strategy and budgets
- operating structures, processes and costs
- the Group's financial performance
- legacy contract out-turns
- annual and interim financial statements
- health and safety performance
- significant human resources issues, including succession planning and diversity
- consideration of issues relating to major disputes, proceedings or other matters of potentially adverse affect on the Group's reputation.

Responsibility and delegation

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

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

The Board reviewed its list of reserved matters, most recently, at its meeting in January 2016. The full list and the terms of reference of the Board Committees are available on the Company's website:

www.balfourbeatty.com/investors

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

Governance report continued

Board and Committee meetings attendance

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

Director	Board (11)	Audit and Risk (6)	Safety and Sustainability (3)	Nomination (4)	Remuneration (4)
Philip Aiken (from 26 March 2015)	8(8)		3(3)	2(2)	2(2)
Robert Amen	7(11)	4(6)	2(3)	4(4)	
Stephen Billingham (from 1 June 2015)	6(6)	2(2)			
Stuart Doughty (from 8 April 2015)	7(7)	3(3)	3(3)		1(1)
Iain Ferguson	10(11)	4(4)	2(3)	4(4)	4(4)
Philip Harrison (from 1 June 2015)	6(6)				
Maureen Kempston Darkes	11(11)		3(3)	4(4)	4(4)
Duncan Magrath (to 8 May 2015)	4(4)				
Steve Marshall (to 26 March 2015)	3(3)			2(2)	2(2)
Leo Quinn	11(11)			3(4)	
Graham Roberts	10(11)	6(6)		3(4)	3(4)
Peter Zinkin (to 26 March 2015)	3(3)				

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships). Non-attendance at meetings was due to compelling business commitments or exceptionally illness. In each case, where the Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman, or the Committee chair, as appropriate. Iain Ferguson left the Audit and Risk Committee in July 2015 and rejoined it in January 2016.

Further information about the work of each of the Board's Committees may be found on pages 59 to 63 and pages 68 to 84.

Board development

Induction

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

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

Professional development

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

Board evaluation

Introduction

In keeping with the Code, the Board undertakes external evaluations, typically every three years, with internal evaluations in the intervening two years. The most recent external evaluation was carried out in early 2016, and considered the performance of the Board and its Committees, as well as the Chairman and individual Directors, during 2015.

2015 evaluation

All Board members were requested to complete an online survey, which was prepared by Lintstock, an external facilitator. Lintstock also facilitated Balfour Beatty's 2014 evaluation and has no other connection with the Company.

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

Lintstock subsequently delivered a report to the Board, which formed the basis for one-to-one interviews between the Chairman and each Director, the outcomes of which were discussed by the Board at the March 2016 meeting. The Committee reviews were discussed individually at each Committee meeting.

Key conclusions from the evaluation

Given that over 60% of the current Board, including the Chairman, joined during 2015, comparisons to the 2014 review are of limited value; however, overall ratings across most areas showed an improvement year-on-year. The importance of the new non-executive Directors continuing to enhance their understanding of the business was seen to be a key priority for the coming year.

Following the review, among other things the Board agreed to spend more time discussing the Company's future strategy, including the implementation of 'Build to Last'; increase its exposure to, and engagement with, management; and continue its focus on overseeing risk management, including Health and Safety.

Risk management and internal control

Risk management

Effective risk management underpins the delivery of the Group's objectives. It is essential to protecting its reputation and generating sustainable shareholder value. Balfour Beatty identifies key risks and applies controls at an early stage and develops action plans to eliminate them or mitigate their impact and likelihood to an acceptable level. For more information, refer to pages 42 to 50.

The Board has applied principle C2 of the UK Corporate Governance Code by embedding continuous risk management processes throughout the Group at all levels which form an integral part of day-to-day business activity. They are designed to help management to identify and understand the risks they face in delivering business objectives and the status of the key controls in place for managing those risks.

Roles and responsibilities

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

The roles and responsibilities of the Board, its Committees, and divisional and business unit management during the year are set out below.

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

Risk management and internal control continued

Risk management process

Balfour Beatty's risk management policy requires that all divisions and those business units within them identify and assess the risks to which they are exposed and which could impact on the ability to deliver their, and the Group's, objectives.

Identified risk events, their causes and possible consequences are recorded in risk registers, with details of the likelihood and potential business impact and the control systems in place to manage them analysed and, if required, additional actions developed and put in place to mitigate or eliminate unwanted exposures; and individuals allocated responsibility for evaluating and managing these risks to an agreed timescale.

The Group sets delegated authorities which are the trigger for matters requiring Group senior management or Board approval. In relation to bidding, this means that projects above a certain value, with certain features that import certain risks or involve a move into new markets or work types, require approval by the Group Tender and Investment Committee, with divisions having a delegated level of authority as well as their own approval and risk management committees and triggers.

Reporting structures ensure that risks are monitored continually, mitigation plans are reviewed and significant exposures are escalated – from project level to business unit management to divisional and Group senior management.

A range of procedures is used to monitor the effectiveness of internal controls, including management assurance, risk management processes and independent assurance provided by internal audit and other specialist third parties.

Improvements to the risk management framework were made throughout 2015 as outlined on pages 42 and 43. Continuing co-ordination of commercial and more general business risk and assurance reporting is ongoing with financial and general business risk being subject to regular review. Further strengthening of the risk management and review framework is to be deployed in 2016 to increase risk oversight and scrutiny. These processes are detailed further at pages 44 to 50 but in principle will improve the approach taken to risk management using a transparent and common approach.

Internal control

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

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

Central to the Group's systems of internal control are its processes and framework for risk management. These align with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and were in place throughout 2015 and up to the date of signing this report.

The Group's systems of internal control operate through a number of different processes, some of which are interlinked. These include:

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

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

The divisional CEOs are responsible for ensuring that a comprehensive framework of assurance (including internal audit) exists within their division and business units which is in accordance with Group requirements.

The Board continued to assess the effectiveness of the risk management processes and internal controls during 2015 and to the date of this report. Such assessment is based on reports made to the Board, the Audit and Risk Committee and the Safety and Sustainability Committee, including:

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

Principal risks

The principal risks that could adversely impact on the Group's profitability and ability to achieve its strategic objectives are set out on pages 44 to 50.

Audit and Risk Committee

Graham Roberts

Chairman of the Audit and Risk Committee

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

Main responsibilities

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

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

Graham Roberts, a Fellow of the Institute of Chartered Accountants, a former partner at Andersen and former finance director of The British Land Company, has been identified by the Board as having recent and relevant financial experience.

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

Summary of activities in 2015

In 2015, the Committee's work programme focused on a number of significant issues and other accounting judgements where the Committee believed the highest level of judgement was required and with the highest potential impact on the Group's financial statements. Further information is set out on page 60. The Committee's standing agenda items comprised reports on:

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

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

As reported more fully on page 61, the Committee led the process of retendering the external audit, resulting in the recommendation to approve KPMG's appointment for the year ended 31 December 2016. It also oversaw the recruitment of the Group Risk and Audit director and the subsequent reorganisation of the activities reporting to him.

Risk management and assurance

The Committee oversaw the development of more robust processes to embed operational risk in core reporting processes. This work is ongoing with the intention of developing a unified and common approach to risk management and assurance across the Group.

Fair, balanced and understandable

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

Viability statement

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

See page 50 for further details

Areas of focus in 2016

In 2016, the Committee will continue to address the topics on its standing agenda as well as continuing to undertake reviews of the risk management and assurance practices across the Group on a rolling programme. The Committee will also continue to receive any necessary training in order to broaden and refresh the skills and knowledge of its members.

Audit and Risk Committee continued

Significant issues and other accounting judgements

Revenue and margin recognition	Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports and met with management, the Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements.
Carrying value of goodwill and other intangibles	The judgement largely relates to the assumptions underlying the value in use of the cash-generating units, primarily the achievement of the three-year strategic plan and the macroeconomic assumptions (such as discount rates) underpinning the valuation process. The Committee received reports from management outlining the impairment model and the assumptions used; in addition, the external auditor provided detailed written reports in this area.
Accounting for acquisitions and disposals	The Committee judges whether a business should be treated as held for sale and classified as a discontinued operation. In doing so, it reviews management's position and Group strategy and evaluates the likelihood that the business will be disposed of within a 12-month period and if it constitutes a separate major line of business.
Going concern and viability statement	In order to satisfy itself that the Company has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's viability statement, cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the Annual Report. More details on going concern and the viability statement are contained on pages 21 and 50.
Non-underlying items	The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.
Provisions	The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.
Retirement benefits	The key judgement relates to the assumptions underlying the valuation of the retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.
Deferred tax assets	The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.
Directors' valuation of the Investments portfolio	The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Risk management and internal control

The risk management and internal control framework was reviewed and strengthened in February 2015 and now comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion. These processes are underpinned by common minimum standards in project and commercial management and are under constant review to ensure their effectiveness and compliance.

Internal auditor effectiveness

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

External auditor independence and effectiveness

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

Non-audit work

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

- as part of the statutory audit, it is required to report directly on non-audit work
- it makes management decisions on behalf of the Group
- it acts as advocate for the Group
- the level of non-audit fees is such, relative to audit fees, as to raise concerns about its ability to form objective judgements.

The Company's policy identifies the various types of non-audit services and determines the analysis to be undertaken and level of authority required before the external auditor can be considered to undertake such services.

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

In 2015, the external auditor was appointed to carry out various non-audit related work, including corporate finance services for reasons of commercial confidentiality and efficiency as well as tax advisory services in Germany and the UK.

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

The majority of non-audit related work provided by all the major international accounting firms (85% by value) was carried out by firms other than Deloitte.

Annual assessment of the audit process

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

A detailed assessment of the external audit process and the effectiveness of the external auditor, together with any identified improvement recommendations, is prepared each year. Each division and operating company within the Group is required to evaluate the performance of the assigned external audit team and to compare that performance against the previous year. This assessment has taken into account the issues which have been raised during 2015.

The external auditor's annual transparency report for the year ended 31 May 2015 was reviewed. This was prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 made by the Professional Oversight Board of the Financial Reporting Council.

External auditor rotation

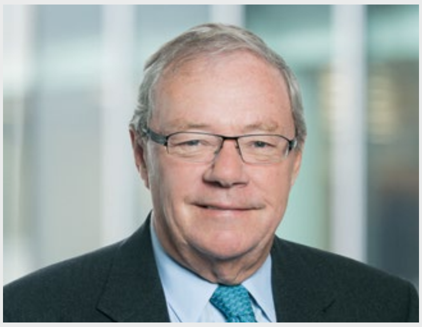
As indicated last year, in light of the requirements of the UK Corporate Governance Code and other recent changes to the EU regulatory framework, the Committee undertook a competitive tender for the external audit, Deloitte having been the Company's auditor since August 2002. This process involved:

- presentations to the Committee by four firms, including Deloitte, addressing key business risks and their proposed audit approach
- individual meetings of the tendering firms with all of the divisional management teams, executive management and members of the Committee
- the presentation of formal tender submissions
- a final presentation to a selection committee chaired by the chairman of the Audit and Risk Committee and comprising executive and non-executive Directors of the Group.

The result of the comprehensive tender process was that on the recommendation of the committee, the Board selected KPMG as auditor for the year ending 31 December 2016. Accordingly, shareholder approval will be sought to confirm the appointment of KPMG as auditor of the Company at the AGM to be held on 19 May 2016.

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

Nomination Committee



Philip Aiken

Chairman of the Nomination Committee

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

Summary of activities in 2015

In 2015, the Committee's work programme entailed the selection of and recommendations to the Board for the appointment of two new non-executive Directors.

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

In seeking suitable candidates for the positions, The Zygos Partnership, an external executive search agency was engaged. The Committee identified the competencies sought and the required experience, and the agency prepared shortlists of potential candidates who were interviewed by members of the Committee and by the executive Directors.

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

The search agency appointed was reminded to approach a diverse talent pool of candidates, and has no other connections with Balfour Beatty.

Areas of focus in 2016

In January 2016, the Committee received a comprehensive presentation on the succession and development plans for the Group's senior leadership team and discussed successions plans for the Board. It will continue to monitor the appropriateness of the composition of the Board and if appropriate, make recommendations to the Board concerning the need for the introduction of new non-executive Directors. The implications of the business strategy for senior executive recruitment and the impact on the Group's succession planning are also areas which the Committee will consider during the year.

Safety and Sustainability Committee

Maureen Kempston Darkes

Chairman of the Safety and Sustainability Committee

"The principal role of the Committee is to drive greater focus on the development of the safety culture within the business through the Zero Harm programme and to review the environmental performance of the Group."

Summary of activities in 2015

The Committee met for the first time in July 2015, having assumed the safety and environmental responsibilities of the former Business Practices Committee, with the objective of providing greater emphasis on these areas. Oversight of the whistleblowing policies and procedures is now provided by the Audit and Risk Committee, whilst ethics and compliance reports are reviewed by the Board.

The principal role of the Committee is to drive greater focus on the development of the safety culture within the business through the Zero Harm programme and to review the environmental performance of the Group.

In addition to the standard agenda items designed to provide the Committee with objective reporting of absolute and relative performance against agreed KPIs, during the year the Committee has overseen the simplification of the UK health and safety function by creating a UK-wide centre of expertise under one leadership team. This has facilitated the development of a more proactive, risk-based approach focused on end-to-end risk elimination, improved learning and communication. The UK function also performs a Group-wide data collection and reporting role.

In the US, safety issues will be dealt with separately because of different statistical measurement of performance, although every opportunity will be taken to share and promote best practice across the Group.

The Committee considered certain significant health and safety-related incidents, including fatalities, discussing in detail the themes around supervision, communications and remote working.

Areas of focus in 2016

In 2016, the Committee will continue to focus on the key reputational risk areas of health and safety and sustainability and will monitor progress against the various action plans.

Group Tender and Investment Committee

Summary of role

The Committee has been chaired by the Group Chief Executive, or in his absence by the Chief Financial Officer, or in his absence by the Chief Executive of Investments (other than for Infrastructure Investments tenders). In November 2015, three more members of the Committee were approved by the Board to chair meetings. Similar restrictions apply to each of them in relation to review of proposals from those areas of the business for which each has executive responsibility.

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

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

Finance and General Purposes Committee

Summary of role

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

Its principal purpose is to approve various routine banking and treasury matters, grants and exercises of employee share options and other matters relating to share capital.

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

Directors' report – other disclosures

Business and financial review

The Chairman's introduction on pages 2 and 3, the Group Chief Executive's review on pages 4 and 5, the market and strategic reviews on pages 10 to 17, the Chief Financial Officer's review on pages 18 to 21, the performance review on pages 22 to 33 and the section titled Building a sustainable business on pages 34 to 41 are incorporated by reference into the Directors' report.

Results and dividends

The results for the year are shown in the audited financial statements presented on pages 90 to 177 and are explained more fully in the Chairman's introduction, the Chief Financial Officer's review and the performance review. No ordinary dividends were paid in 2015 (2014: 5.6p (net) per ordinary share). Preference dividends totalling 10.75p (gross) per preference share were paid in 2015 (2014: 10.75p (gross)).

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

Innovation, research and development

Information concerning innovation, research and development is set out on pages 34 to 36 and forms part of the Directors' report disclosures.

Branches

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

Share capital and shareholders

Details of the share capital of the Company as at 31 December 2015, including the rights attaching to each class of share, are set out in Note 29 on pages 145 and 146. During the year ended 31 December 2015, no ordinary or preference shares were repurchased for cancellation. 210,214 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme.

At 31 December 2015, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2015 to purchase through the market 68,950,577 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2016 AGM or on 1 July 2016.

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

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

As at 31 December 2015, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its ordinary share capital.

	Number of ordinary shares held	Percentage of ordinary shares held
Causeway Capital Management LLC	55,778,133	8.08
Prudential plc	40,072,886	5.81
Norges Bank	34,534,864	5.01
Newton Investment Management Limited	31,347,697	4.55
Invesco Limited	29,102,945	4.21

Auditor

As explained on page 61, during 2015, the Board completed a competitive tender process for the appointment of the external auditor, as a result of which KPMG LLP was selected as the Company's auditor for the year ending 31 December 2016. A resolution for their appointment will be proposed at the 2016 AGM.

Articles of Association

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

Relations with shareholders

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

The Company continued its programme of communication with institutional investors and sell-side analysts throughout 2015. Presentations of the half-year and full-year results were made in accordance with the practice of previous years, and teleconferences have been held for Interim Management Statements.

Through the year, approximately 102 one-on-one and group meetings were held at regular intervals with institutional shareholders (2014: approximately 207). Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during hosted roadshows in London, Scotland and North America.

This communication programme will be maintained and expanded where appropriate, subject to the constraints of regulation and practice. The 2016 investor relations programme will focus on ensuring investors and the analyst community understand the Group, its operations and strategy, and that international institutions continue to be given the opportunity to meet with management.

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

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

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

Further information on our investor relations programme can be found at:

www.balfourbeatty.com/investors

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders. The chairs of the Board Committees attend the AGM each year along with the other Directors and are available to answer questions from shareholders. The circular setting out the Notice of the 2016 AGM provides a detailed explanation of the business to be transacted and includes contact details which shareholders can use to make any comments or ask any questions concerning the AGM.

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

Political donations

At the AGM held in May 2015, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2016 AGM.

In the US and Canada, corporate political contributions totalling £35,000 were made by business units during 2015 (2014: £282,000). Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct.

Corporate responsibility

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 34 to 41.

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

Greenhouse gas emissions

Details of emissions during the year and the actions which the Group is taking to reduce them are set out on pages 39 and 40 and form part of the Directors' report disclosures.

Employment

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

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

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

Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible. The Group 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.

Directors' report – other disclosures continued

Employment continued
The Company also operates an all employee Share Incentive Plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders. Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants.

Information concerning the performance of the Group and the Company's share price is provided to all employees via the Group intranet, 360, and through the Company's website.

Events after the reporting date
As at 14 March 2016, there were no material events after the reporting date.

Change of control provisions
The Group's bank facility agreements contain provisions that, on 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control of the Company and cancel all commitments under the agreement concerned.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty on a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

The Group's US private placement arrangements require the Company, promptly upon becoming aware that a change of control of the Company has occurred (and in any event within 10 business days), to give written notice of such fact to all holders of the notes and make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest.

The Group's convertible bond arrangements provide that the holder of bonds can require the Company to redeem its bonds following a change of control of the Company at their principal amount, together with accrued interest. The Company is required to notify the bond holder within 14 days of a change of control.

Some other commercial agreements, entered into in the normal course of business, include change of control provisions.

The Group's share and incentive plans include usual provisions relating to change of control, as do the terms of the Company's cumulative convertible redeemable preference shares.

There are no agreements providing for compensation for the Directors or employees on a change of control.

Financial instruments
The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are detailed in Note 38 on pages 155 to 162.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and they have also chosen to prepare the parent company financial statements under IFRS as adopted by the EU. 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for preventing and detecting fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU and Article 4 of the IAS Regulation, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

In light of the work undertaken by the Audit and Risk Committee reported in greater detail on pages 59 to 61 and the internal verification and approval process which has been followed this year, the Directors are able to state that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Statements of Directors as to disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

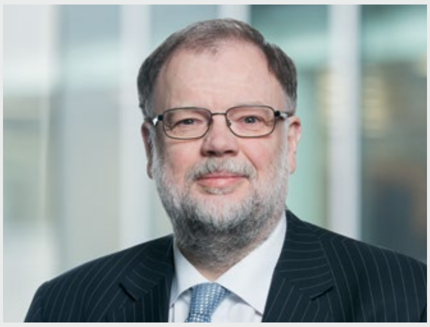
By order of the Board

Andrew Astin
Company Secretary
14 March 2016

Registered Office:
5 Churchill Place, Canary Wharf
London E14 5HU

Registered in England Number 395826

Remuneration report
Chairman of Remuneration Committee introduction



Iain Ferguson

Chairman of the Remuneration Committee

"2015 was a year of strong cash performance where the recently appointed executive Directors had a positive impact on Company performance despite having to deal with significant legacy issues. It was a busy year for the Committee which will continue through 2016 as we undertake a full review of our reward tools and practices, to ensure that they fully support the next stage of the Company's transformation,. We intend to present a new Remuneration Policy for approval by shareholders at the 2017 AGM.

The Committee is responsible for remuneration strategy and policies, incentive plans and individual remuneration packages."

I am pleased to present the Directors' Remuneration report for 2015.

This report is divided into two sections, the Policy Report and the Annual Report, the latter being subject to an advisory vote at the 2016 AGM.

Link to strategy

The primary objectives of our remuneration policy are to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders. Balfour Beatty executive remuneration comprises base salary, benefits and incentive plans that are designed to reward both short-term and long-term performance. The incentive plans are subject to clawback provisions.

Summary of activities in 2015

Impact of Board changes

This year, the Committee has dealt with a number of Board changes, including the departure of Duncan Magrath as Chief Financial Officer in May 2015 and the recruitment of his replacement, Philip Harrison, who joined Balfour Beatty in June 2015. Peter Zinkin, the Planning and Development Director, retired in August 2015 after a 34-year career with the Company.

Steve Marshall stepped down from the Board as Chairman in March 2015 on the appointment of his successor, Philip Aiken.

Leo Quinn joined the Board in January 2015 as Group Chief Executive and his appointment terms were detailed in the 2014 Remuneration report.

Reward for 2015

In respect of 2015, the annual bonus payments for the executive Directors reflect the mixed performance of the Company – cash performance was strong, as was the personal performance of both executive Directors; however, profit performance continued to disappoint as the Company dealt with legacy issues.

The TSR performance conditions relating to the 2013 PSP which measured performance over the three years ended 31 December 2015 were not achieved and so those awards lapsed in full in March 2016.

While a below Board initiative, an innovative approach approved by the Committee in 2015 was the introduction of the CEO Share Awards under the Restricted Share Plan as a clear commitment to building a talent pipeline to secure the future of the Company. In 2015, modest awards of three-year restricted stock were made to 344 colleagues identified as key future talent. Each individual award was sponsored by the Group Chief Executive and provides a clear retention and reward tool as we look to deliver further performance improvements.

Areas of focus in 2016

In 2016, the Committee will undertake a formal review of the remuneration policy and the appropriateness of the short-term and long-term incentive arrangements to meet the current and future needs of the Company, as it implements the next phase of its business strategy. If changes are considered necessary, the Committee will consult with shareholders at the appropriate time, prior to proposing any resolution at the 2017 AGM.

Remuneration policy for 2016

We remain committed to the principles of our existing remuneration policy and its strong alignment to performance and shareholder value. A summary of how the Committee intends to operate the policy for 2016 is set out below:

- Reflecting the ongoing transformation of the Group through Build to Last, the AIP for 2016 will be measured using stretching profit and cash targets and strategic objectives. Cash generation remains critical as the Group looks to build on progress made in 2015 and return to profitability.
- The Committee will adopt a combination of TSR, EPS and cash performance measures for the 2016 PSP awards. This provides consistency with the measures used for the 2015 PSP award and reflects the continued strategic priorities of the Company.

Conclusion

The Committee will continue to engage with the Company's major shareholders to ensure that its executive remuneration remains appropriate and that, if changes are proposed, they remain true to the Committee's principles of rewarding strong performance and enhanced value to shareholders.

The Committee noted the significant number of votes cast against the advisory vote on the Directors' Remuneration report at the 2015 AGM (68% 'For' and 32% 'Against'). As shareholders are aware, 2014 was a challenging period for the Company and the Committee had to deal with a number of critical issues, including the recruitment terms of the Group Chief Executive, which resulted in many of the votes against the Directors' Remuneration Report at the 2015 AGM.

The Board takes its responsibility to engage with investors seriously and the Committee believes that the remuneration actions taken in 2014, including those related to the appointment of the Group Chief Executive, and those taken in 2015, were necessary and in the best interest of the Company and its shareholders.

I hope you will be supportive of the resolution to approve the Annual Report on Remuneration at the 2016 AGM.

Iain Ferguson
Chairman of the Remuneration Committee

Directors' remuneration policy report

The policy was approved by shareholders at the AGM on 15 May 2014. Although there is no requirement to include the Policy Report this year, it has been included for ease of reference.

Policy overview

The Committee, on behalf of the Board, determines the Company's remuneration policy and the remuneration packages of the executive Directors of the Company and the Chairman. In setting the remuneration policy, the Committee takes into account a number of factors, including:

- general trends in pay and conditions throughout the Group
- the positioning of remuneration levels against the external market
- the balance between fixed and variable pay – more specifically, variable pay should form a significant but not disproportionately high level of potential remuneration
- the strategy of the business.

In setting the overall remuneration policy, general trends and average increases throughout the Group are taken into account when setting executive Directors' reward packages. A key feature for the executive Directors is that a higher proportion of their remuneration package is delivered through performance-related pay, which has a greater linkage to the results of the Group. The areas covered in this Policy Report comprise:

Consideration of shareholders' views

The Committee considers feedback from shareholders received at each AGM, and any feedback from additional meetings, as part of any review of executive remuneration. In addition, the Committee engages proactively with shareholders and will ensure that shareholders are consulted in advance, where any material changes to the remuneration policy are proposed.

Consideration of employment conditions elsewhere in the Group

In determining the remuneration of the Company's Directors, the Committee takes into account the general trends in pay and conditions across the Group as a whole. Whilst employees have not been consulted formally on executive pay, due in part to the diverse geographic disposition of the Group, the Committee seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken. These are focused for the most part on market competitiveness, business performance and personal performance.

In practice, the remuneration policy for executive Directors is more heavily weighted towards variable pay than for other employees, so that a significant proportion of their remuneration is dependent on Company performance. For employees below Board level, variable pay represents a lower proportion of their total remuneration, which is driven by market comparators and general performance.

Remuneration report continued
Directors' remuneration policy report continued

Summary of executive Directors' remuneration policy

The following table sets out a summary of each element of the executive Directors' remuneration packages, their link to the Company's strategy, the policy for how these are operated, the maximum opportunity and a description of any relevant performance metrics.

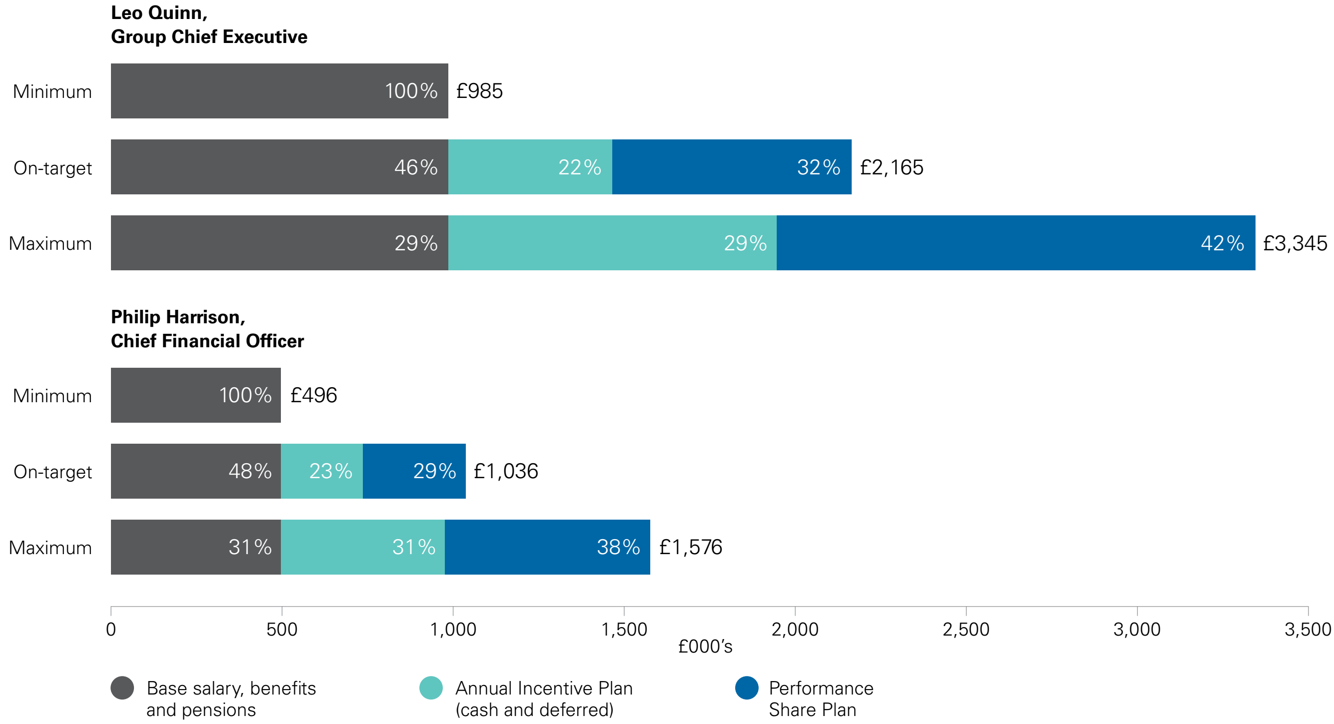
Element of pay	Purpose and link to Company's strategy	How operated in practice
Base salary	To attract and retain high-calibre individuals. To provide a competitive salary relative to comparable companies in terms of size and complexity.	Salaries are reviewed and set annually in July. The Committee considers remuneration levels in companies of comparable market capitalisation, revenue and industry sector. In addition, a key reference point for salary increases is the average increase across the general workforce (with the exception of promotions or significant changes in responsibility). Salaries are paid monthly in cash.
Benefits	To aid retention and to remain competitive in the marketplace. In addition, medical benefits are provided to minimise disruption due to absence.	Private medical and life assurance may be provided. A car and fuel card or car allowance are offered. Other benefits may be provided as appropriate.
Pension	To remain competitive in the marketplace.	Executive Directors can elect either to: – participate in the defined contribution (DC) section of the Group's pension fund. Executive Directors must make contributions of 5% of base salary (up to an earnings cap), with the Company contributing 20% of base salary (up to the cap). On earnings above the cap, executive Directors receive a salary supplement; or – receive a salary supplement in lieu of a pension.
Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)	To motivate executive Directors and incentivise the achievement of key business performance targets over the financial year without encouraging excessive risk taking. Managing risk is critical, particularly given the nature of the Company's business. To facilitate share ownership and provide further alignment with shareholders.	50% of any payment is normally deferred into shares for three years. Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results. Participants may also receive an award of cash or shares in lieu of the value of dividends on vested shares.
Performance Share Plan (PSP)	To incentivise and reward delivery of long-term performance linked to the business strategy. To facilitate share ownership and provide further alignment with shareholders. To aid retention.	PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year. Awards normally vest on the third anniversary, subject to performance. Participants also receive an award of cash or shares in lieu of the value of dividends on vested shares. Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results.
Shareholding guidelines	To align the interests of executive Directors with those of shareholders.	Executive Directors are expected to accumulate a shareholding in the Company's shares to the value of 100% of their base salary. Executive Directors are expected to retain at least 50% of shares (net of tax) which vest from awards made under the PSP and DBP until the target shareholding is attained.

Executive Directors may also participate in the all-employee share schemes up to prevailing HMRC limits.

Maximum opportunity	Performance metrics
There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role. Current salary levels are disclosed on page 75.	A number of factors are considered, notably market competitiveness, business and personal performance.
The maximum opportunity for medical benefits is cover for the executive Director and his or her family. Life assurance cover and any car or car allowance are based on market norms.	None
Executive Directors who participate in the Group's pension fund benefit from a pension contribution of 20% of base salary up to the earnings cap and a salary supplement of 20% of base salary in excess of the cap. If a salary supplement is taken in lieu of a pension contribution, this is equivalent to 20% of base salary.	None
Maximum annual incentive opportunity is 120% of base salary.	A majority of the bonus will be based on profit and a minority of the bonus may be based on other performance metrics linked to the business strategy, measured over a one-year performance period. Measures are reviewed each year and varied as appropriate to reflect the strategy.
The limit in the rules of the PSP is 200% of base salary. Other than in exceptional circumstances, the normal limit will be 175% of base salary.	Performance measures will normally be based on relative total shareholder return (TSR) and/or earnings per share (EPS) metrics, although strategic measures may be used in exceptional circumstances. Targets will normally be measured over a three-year performance period. There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance.
–	None

Remuneration report continued
Directors' remuneration policy report continued

Remuneration scenarios for executive Directors
The charts below provide estimates for the potential future remuneration based on the current remuneration policy for the two executive Directors. Potential outcomes are based on three performance scenarios: minimum, on-target and maximum.



Notes
1 Salary levels are based on those applying from 1 January 2016. These salaries will be reviewed in July 2016.
2 The value of benefits receivable for 2016 has been estimated.
3 The on-target level of AIP is taken to be 50% of the maximum AIP opportunity (120% of salary for executive Directors), of which 50% is paid in cash and 50% is deferred in shares under the DBP.
4 The on-target level of vesting under the PSP is taken to be 50% of the face value of the award at grant (175% of salary for the Group Chief Executive and 150% of salary for the Chief Financial Officer). The executive Directors' buyout awards, as agreed as part of their joining arrangements, are not reflected in the above charts as these are not part of the ongoing remuneration policy.
5 The maximum level of AIP and vesting under the PSP is taken to be 100% of the AIP opportunity and 100% of the face value of the PSP awards at grant.
6 No share price appreciation or dividend awards have been assumed for the DBP shares and PSP awards.

Recruitment and promotion policy for executive Directors
To ensure the ongoing leadership continuity of the Group, the appointment of high-calibre executives may be necessary, either by external appointment or internal promotion. The remuneration package for a new executive Director would be set in accordance with the terms of the Company's remuneration policy at the time of appointment and take into account the scope and complexity of the role, the experience of the individual, the prevailing market rate for that experience and the importance and immediacy of securing that candidate.

The salary would be provided at such a level as required to attract the most appropriate candidate. The AIP potential would be limited to 120% of salary, and grants under the PSP may be up to the plan maximum of 200% of salary. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards were consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal executive Director appointment, any remuneration awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Service agreements and payments for loss of office for executive Directors

It is the Company's policy that executive Directors should have contracts with an indefinite term, which are subject to one year's notice by the Company and six months' notice by the executive Director. In accordance with the UK Corporate Governance Code, all executive Directors submit themselves for re-election at the AGM. In the event of early termination, the executive Directors' contracts provide for compensation in line with their contractual notice period. In summary, the contractual provisions are to provide the following:

Provision	Detailed terms
Notice period	12 months by the Company, six months by the executive Director.

There are no contractual compensation provisions for termination of employment. However, other non-contractual considerations are as follows:

Notice payments	If any existing contract was breached by the Company, it would be liable to pay an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period, subject to mitigation and phased payments where appropriate.
Remuneration entitlements	Pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below). In all cases, performance targets would apply.
Change of control	No executive Director's contract contains additional provisions in respect of change of control.

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, good leaver status may be applied. For good leavers, awards will not be forfeited on cessation of employment and, subject to the satisfaction of the relevant performance conditions, will vest under the normal vesting schedule, being reduced pro-rata to reflect the proportion of the performance period actually served. However, the Remuneration Committee has discretion to determine that PSP awards vest at cessation and/or to amend time pro rating. Outstanding DBP awards will lapse on cessation of employment. However, in certain good leaver circumstances, DBP awards will vest in full on the date of cessation.

External appointments of executive Directors

The Committee recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. Executive Directors are permitted to have one external appointment, from which fees may be retained with the approval of the Board.

Appointment of non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. All non-executive Directors are appointed for a term of three years. In accordance with the UK Corporate Governance Code, all non-executive Directors submit themselves for re-election at the AGM.

Element of pay	Purpose and link to Company's strategy	How operated in practice	Maximum opportunity
Non-executive Director fees	To attract and retain high-quality and experienced non-executive Directors.	The Chairman is paid an annual fee and the non-executive Directors are paid an annual base fee and additional responsibility fees for the role of Senior Independent Director or for chairing a Board Committee. Non-executive Directors based outside Europe receive a travel allowance for each visit made on Company business to the UK, or to any other country (excluding their home country). Fee levels are normally reviewed annually in July. The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes.	As per executive Directors, there is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive director market and for the broader employee population, but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role.

None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause and may be terminated at will by either party.

Remuneration report continued
Annual report on remuneration

This part of the Remuneration report sets out how the remuneration policy will be applied over the year ending 31 December 2016 and how it was implemented over the year ended 31 December 2015. 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 areas covered in this annual report on Remuneration comprise:

Implementation of the remuneration policy for the year ending 31 December 2016

The detailed information about the Directors' remuneration, set out on pages 75 to 84 (excluding the performance graph on page 82), has been audited by the Company's independent auditor, Deloitte LLP.

Base salaries

The annual base salary review date is 1 July for executive Directors. Current base salaries for the executive Directors are as follows:

Base salary	On appointment £	**1 July 2015 £**	% increase
Leo Quinn	800,000	**800,000**	0.0%
Philip Harrison	400,000	**400,000**	0.0%

The annual base salary for Leo Quinn was set at £800,000 from appointment to the Board on 1 January 2015. Philip Harrison joined the Board as Chief Financial Officer on 1 June 2015 on an annual base salary of £400,000. The normal review date for executive Directors' base salaries is 1 July, but it was agreed on appointment that neither would receive an increase in 2015. The next salary review date is 1 July 2016.

Performance targets for the AIP in 2016

For 2016, the AIP for the executive Directors will be a maximum bonus of 120% of base salary subject to three performance measures:

- profit before tax (51%)
- cash (25%)
- strategic business and personal objectives (24%).

The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in the form of Balfour Beatty shares.

While the Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in next year's Annual Report on Remuneration.

Performance targets for PSP awards granted in 2016

Consistent with the approach adopted in 2015, the PSP awards to be granted in 2016 will be subject to the following targets:

- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–150 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2016, the start of the performance period. There is no vesting 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 growth in the Company's EPS over the three-year performance period
- Cash (33.3%) – cash remains critical as a long-term performance measure during the Company's transformation.

As at the date of publication of this Remuneration report, the Committee had not finalised the EPS and cash performance targets for the PSP award to be granted in 2016. These EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement issued immediately following the PSP award and in the Remuneration report for 2016.

Non-executive Directors

As detailed in the Policy Report, the Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. A summary of current fees is as follows:

	1 July 2014 £	**1 July 2015 £**	% increase
Chairman[1]	265,750	**270,000**	1.6%
Base fee	56,000	**56,000**	0%
Senior Independent Director fee	10,000	**10,000**	0%
Committee chair fee	10,000	**10,000**	0%

[1] The Chairman's fees shown at 1 July 2014 are those paid to Steve Marshall who stepped down from the Board on 26 March 2015, and was replaced by Philip Aiken whose fees are shown at 1 July 2015. As disclosed last year, Steve Marshall received a temporary increase in his annual fee from £265,750 to £531,500 from 3 May 2014 to 31 December 2014 to reflect his additional responsibilities and time commitment as Executive Chairman.

For non-executive Directors based outside Europe, the travel allowance for each overseas visit made on Company business remains at £2,500.

Where the Chairman or Senior Independent Director is also the chair of a Committee, he or she receives no committee chair fee.

Remuneration report continued
Annual report on remuneration continued

Remuneration received by Directors for the year ended 31 December 2015

The table below sets out the Directors' remuneration for the year ended 31 December 2015 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2014.

	Year	Base salary and fees[1,2] £	Taxable benefits[3,4] £	Pension[5] £	Annual incentive cash £	Annual incentive deferred shares £	Long-term incentives £	Other £	Total £
Executive Directors									
Philip Harrison	**2015**	**233,333**	**8,506**	**46,667**	**65,800**	**65,800**	**–**	**–**	**420,106**
	2014	–	–	–	–	–	–	–	–
Leo Quinn[6]	**2015**	**800,000**	**30,870**	**160,000**	**225,600**	**225,600**	**–**	**2,052,902**	**3,494,972**
	2014	–	–	–	–	–	–	–	–
Former executive Directors									
Duncan Magrath[7]	**2015**	**177,195**	**5,513**	**31,079**	**43,600**	**–**	**–**	**373,351**	**630,738**
	2014	487,395	15,568	86,100	–	–	166,803	4.128	759,994
Andrew McNaughton[8]	**2015**	**–**	**–**	**–**	**–**	**–**	**–**	**265,852**	**265,852**
	2014	224,167	6,041	44,833	–	–	–	–	275,041
Peter Zinkin[9]	**2015**	**106,179**	**2,697**	**21,236**	**34,050**	**–**	**–**	**–**	**164,162**
	2014	448,500	10,385	89,700	–	–	–	–	548,585
Non-executive Directors									
Philip Aiken	**2015**	**206,654**	**–**	**–**	**–**	**–**	**–**	**–**	**206,654**
	2014	–	–	–	–	–	–	–	–
Stephen Billingham[10]	**2015**	**37,333**	**–**	**–**	**–**	**–**	**–**	**–**	**37,333**
	2014	–	–	–	–	–	–	–	–
Stuart Doughty	**2015**	**42,000**	**–**	**–**	**–**	**–**	**–**	**–**	**42,000**
	2014	–	–	–	–	–	–	–	–
Iain Ferguson	**2015**	**66,000**	**774**	**–**	**–**	**–**	**–**	**–**	**66,774**
	2014	66,000	1,877	–	–	–	–	–	67,877
Maureen Kempston Darkes[11]	**2015**	**76,000**	**3,309**	**–**	**–**	**–**	**–**	**–**	**79,309**
	2014	86,000	5,496	–	–	–	–	–	91,496
Graham Roberts	**2015**	**66,000**	**–**	**–**	**–**	**–**	**–**	**–**	**66,000**
	2014	66,000	–	–	–	–	–	–	66,000
Former non-executive Directors									
Robert Amen[12]	**2015**	**68,500**	**3,839**	**–**	**–**	**–**	**–**	**–**	**72,339**
	2014	76,000	7,311	–	–	–	–	–	83,311
Steve Marshall[13]	**2015**	**62,690**	**1,706**	**–**	**–**	**–**	**–**	**–**	**64,396**
	2014	441,488	5,878	–	–	–	–	–	447,366
Belinda Richards	**2015**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2014	49,397	–	–	–	–	–	–	49,397
Bill Thomas	**2015**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2014	49,397	2,168	–	–	–	–	–	51,565

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors.

2 In practice, the base salaries paid to Leo Quinn and Peter Zinkin were reduced due to their participation in the Company's Share Incentive Plan. These salary reductions in 2015 were £3,150 for Leo Quinn and £375 for Peter Zinkin. The base salary for Peter Zinkin has also been reduced by £24,000 per annum in 2015 (2014: £24,000) to meet additional travelling costs incurred by him in order to fulfil his role. The base salary paid to Peter Zinkin in 2014 was reduced by £588 which corresponds to his contributions to the Balfour Beatty Pension Fund for the month of January 2014 which were met directly by the Company due to his participation in the Group's SMART Pensions salary sacrifice arrangement.

3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn and Duncan Magrath received private medical insurance for the Director and his immediate family. Peter Zinkin received private medical insurance for the Director and his spouse. Philip Harrison received private medical insurance for the Director only. Leo Quinn received a car allowance of £20,000 per annum, Philip Harrison received a car allowance of £14,000 per annum and Duncan Magrath received a car allowance of £14,000 per annum. Peter Zinkin received a fully expensed car with taxable benefit value of £9,624 per annum.

4 Robert Amen, Iain Ferguson, Maureen Kempston Darkes and Steve Marshall received taxable travel expenses which are shown in the taxable benefits column.

5 For periods of membership of the DC section of the Group's pension fund, this comprises the amount of employer contributions plus any salary supplements in lieu of pension on earnings that are above the earnings cap. For any periods of non-membership of the Group's pension fund, this comprises any salary supplements in lieu of pension contributions. Further details are set out in the section on Directors' pensions on page 83.

6 For Leo Quinn, other payments relate to recruitment arrangements to compensate him for loss of earnings with his former employer. The payments were delivered part in shares and part in cash. Further details of these awards are set out on page 79.

7 Duncan Magrath ceased to be a Director on 8 May 2015. Other payments in 2015 were contractual in relation to loss of office as detailed on page 80.

8 Andrew McNaughton ceased to be a Director on 3 May 2014. Payments in 2015 were contractual in relation to loss of office as detailed in the Remuneration report 2014.

9 Peter Zinkin ceased to be a Director on 26 March 2015. In addition to the amount disclosed above, Peter Zinkin earned £235,785 in base salary and pension allowance in the period he was an employee but not an executive Director (26 March 2015 to 31 August 2015).

10 Due to an administrative error by the Company, Stephen Billingham was overpaid in 2015 by £4,666. He should have received £32,667. The overpayment has been repaid.

11 Maureen Kempston Darkes' fees shown for 2015 include £10,000 in respect of travel allowances for meetings attended in 2015 (2014: £20,000).

12 Robert Amen stepped down from the Board effective 31 December 2015. His fees shown for 2015 include £12,500 in respect of travel allowances for meetings attended in 2015 (2014: £20,000).

13 Steve Marshall's fees shown for 2014 include the additional annual fee agreed when he became Executive Chairman, pro rated for the period 3 May 2014 to 31 December 2014.

AIP awards for the year ended 31 December 2015

For 2015, the AIP for the current executive Directors was a maximum bonus of 120% of base salary subject to three performance measures:

– profit before tax (51%)
– cash (25%)
– strategic business and personal objectives (24%).

The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares.

AIP objective			Actual	Maximum (% of salary)	Actual (% of salary)	Payable in cash (% of salary)	Payable in shares (% of salary)
Profit before tax and non-underlying items	Threshold Target Maximum	£45m £65m £75m	£(123)m	61.2%	0%	0%	0%
Improvement in operating cash flow (Q4 average 2015 on 2014)	Threshold Target Maximum	£150m £175m £200m	£221m	30.0%	30.0%	15.0%	15.0%
Strategic business and personal objectives as agreed by the Remuneration Committee	Remuneration Committee assessment of achievement		91.7% achieved	28.8%	26.4%	13.2%	13.2%
			Total	120%	56.4%	28.2%	28.2%

Performance against the 2015 AIP targets as it relates to the current executive Directors was:

– the threshold level of performance against the profit before tax target was not achieved and no bonus is payable against this element
– strong cash performance by the Company resulted in the maximum level of performance being achieved against this element. Therefore a full payment of the 25.0% weighting for this element is payable, ie 30.0% of salary as the AIP maximum payment is 120.0%
– following detailed consideration by the Committee of performance against strategic business and personal objectives, the executive Directors were both awarded a payment of 22.0% of the 24.0% weighting payable for this element, ie 26.4% of salary as the AIP maximum payment is 120.0%. The factors the Committee considered in agreeing this assessment included the success of the Build to Last transformation programme and the delivery of other key strategic objectives including the review of the Investments portfolio and the refinancing.

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of disappointing profit performance and determined that the above payments are appropriate. The performance issues relate to legacy contracts and the recently appointed executive Directors have, in the opinion of the Committee, dealt with these challenges to create the foundations for a sustainable business.

Vesting of PSP awards for the year under review

The PSP awards granted on 16 April 2013 were based on a performance period for the three years ended 31 December 2015. As disclosed in previous Remuneration reports, the performance conditions were comparative Total Shareholder Return against two different comparator groups. 25% of each part of the award would vest for median performance increasing to 100% of the award vesting for upper quartile performance or above.

Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting
Total Shareholder Return (50% of the award)	TSR against a group of construction and professional services companies – AECOM, Atkins, Bilfinger and Berger, Carillion, Costain, Hochtief, Morgan Sindall, Tutor Perini, Skanska and URS.	TSR ranking	5 or above	2.5 or above	9	0%
Total Shareholder Return (50% of the award)	TSR against the 89 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts) as at the start of the performance period and still listed at the end of the performance period.	TSR ranking	45 or above	22.5 or above	61	0%
					Total vesting	0%

Details of the PSP awards vesting for the year under review for the executive Directors who received the April 2013 award and served during 2015 are therefore as follows:

Executive	Type of award	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares £
Duncan Magrath	2013 conditional	255,818	–	255,818	–
Peter Zinkin	2013 conditional	266,653	–	266,653	–

Remuneration report continued
Annual report on remuneration continued

The 2013 PSP awards for Duncan Magrath and Peter Zinkin were scheduled to formally lapse on 16 April 2016. However, as the performance conditions were measured to 31 December 2015, the Committee was able to consider performance and lapse the awards effective 10 March 2016. The number of shares shown as to lapse represents the original shares awarded. Had the 2013 PSP award vested based on the achievement of the performance conditions, the number of shares available to both of them would have been reduced pro-rata to reflect the time served with the Company to cessation of their employment.

Outstanding share awards

				Maximum number of shares subject to award				
Name of Director	Share award	Date granted	At 1 January 2015	Awarded during the year	Vested during the year	Lapsed during the year	**At 31 December 2015**	Exercisable and/or vesting from
Philip Harrison	PSP[4,5,7,8]	26 June 2015	–	295,857	–	–	**295,857**	26 June 2018
	Share buyout[14]	11 June 2015	–	30,831	–	–	**30,831**	31 December 2016
	Share buyout[14]	11 June 2015	–	61,662	–	–	**61,662**	31 December 2017
Duncan Magrath[18]	PSP[1,5,6]	16 April 2012	219,076	–	–	219,076	**–**	16 April 2015
	PSP[2,5,6]	16 April 2013	255,818	–	–	56,848	**198,970**	16 April 2016
	PSP[3,5,6]	31 March 2014	211,162	–	–	117,312	**93,850**	31 March 2017
	DBP[9,11,12]	30 March 2012	65,954	–	65,954	–	**–**	30 March 2015
	DBP[9,10,12]	31 March 2013	49,133	–	49,133	–	**–**	31 March 2016
	DBP[9,10,12]	31 March 2014	37,823	–	37,823	–	**–**	31 March 2017
	SRSOS[15,16,17]	11 May 2010	1,291	–	–	1,291	**–**	1 July 2015
Leo Quinn	PSP[4,5,7,8,]	26 June 2015	–	788,954	–	–	**788,954**	26 June 2018
	DBP[9,10,12,13]	26 June 2015	–	193,280	–	–	**193,280**	26 June 2018
	Share buyout[14]	2 January 2015	–	141,791	141,791	–	**–**	26 May 2015
	Share buyout[14]	2 January 2015	–	308,010	–	308,010	**–**	29 June 2015
	Share buyout[14]	2 January 2015	–	504,151	267,365	236,786	**–**	9 August 2015
	Share buyout[14]	2 January 2015	–	604,256	–	–	**604,256**	2 January 2017
	Share buyout[14]	2 January 2015	–	1,208,511	–	–	**1,208,511**	2 January 2018
Peter Zinkin[18]	PSP[1,5,6]	16 April 2012	232,600	–	–	232,600	**–**	16 April 2015
	PSP[2,5,6]	16 April 2013	266,653	–	–	29,628	**237,025**	16 April 2016
	PSP[3,5,6]	31 March 2014	220,105	–	–	97,824	**122,281**	31 March 2017
	DBP[9,11,12]	30 March 2012	70,025	–	70,025	–	**–**	30 March 2015
	DBP[9,10,12]	31 March 2013	51,215	–	51,215	–	**–**	31 March 2016
	DBP[9,10,12]	31 March 2014	39,424	–	39,424	–	**–**	31 March 2017

1 2012 PSP award: The award formally lapsed on 16 April 2015. Details of the Company's performance against the performance conditions were set out in the 2014 Remuneration report.

2 2013 PSP award: The award formally lapsed on 10 March 2016 as detailed on page 77 and above.

3 2014 PSP award: The award is subject to two TSR performance targets over a three-year performance period commencing 1 January 2014. Relative TSR (50% weighting) – measured against a comparator group of companies ranked 51–150 by market capitalisation in the FTSE All Share Index. Relative TSR (50% weighting) – measured against a comparator group of construction and professional services companies. No vesting below median ranking, 25% at median rising to 100% vesting at upper quartile performance or better.

4 2015 PSP award: Details of this award are set out on page 79.

5 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.

6 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 awards granted, was 277.3p for the 2012 award, 249.2p for the 2013 award and 301.9p for the 2014 awards. The closing middle market price of ordinary shares on the date of the awards was 271.9p, 244.9p and 299.6p respectively.

7 The 2015 PSP award used a share price of 202.8p to calculate the number of shares awarded, being the average middle market price of ordinary shares in the Company for the 10 dealing dates before Leo Quinn joined the Company on 2 January 2015. The closing middle market price of ordinary shares on the date of the award was 243.0p.

8 On 26 June 2015, for all participants in the PSP, a maximum of 3,969,923 conditional shares were awarded which are exercisable on 26 June 2018.

9 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.

10 The initial DBP awards made in 2013, 2014, March 2015 and June 2015 will vest on 31 March 2016, 31 March 2017, 31 March 2018 and 26 June 2018 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).

11 The initial DBP awards made in 2012 vested on 30 March 2015. The closing middle market price of ordinary shares in the Company on the vesting date was 241.6p.

12 The DBP awards made on 30 March 2012, 31 March 2013, 31 March 2014, 31 March 2015 and 26 June 2015 were purchased at average prices of 286.99p, 234.85p, 301.9p, 241.0p and 245.0p respectively.

13 On 31 March 2015, for all participants in the DBP, a maximum of 506,807 conditional shares were awarded which will normally be released on 31 March 2018. On 26 June 2015, 193,280 conditional shares were awarded to Leo Quinn in relation to the annual bonus payable by his previous employer and these will normally be released on 26 June 2018.

14 The share buyout awards were granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. The awards compensate each of Leo Quinn and Philip Harrison for incentive awards which were forfeited on leaving their previous employers. Further details of these awards are set out on pages 79 and 81. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.

15 All savings-related share option scheme (SRSOS) options are granted for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.

16 The closing market price of the Company's ordinary shares on 31 December 2015 was 270.2p. During the year, the highest and lowest closing market prices were 272.5p and 198.8p respectively.

17 The SRSOS options granted to Duncan Magrath in May 2010, exercisable at 236.0p, lapsed unexercised on 8 May 2015.

18 Duncan Magrath stepped down from the Board on 8 May 2015 and Peter Zinkin retired from employment on 31 August 2015. At these dates, a proportion of their 2013 and 2014 PSP awards lapsed reflecting the proportion of the performance period for each award which had not been completed at the date of leaving. The remainder of their 2013 PSP and 2014 PSP awards were preserved to be tested as per the original performance tests at the time of grant. The DBP awards made to Duncan Magrath and Peter Zinkin made in 2013 and 2014 vested on 8 May 2015 and 31 August 2015 respectively.

PSP awards granted during the year

On 26 June 2015, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Leo Quinn	Conditional	200% of salary of £800,000	202.8p	788,954	£1,599,999	25%	14 October 2017	26 June 2018
Philip Harrison	Conditional	150% of salary of £400,000	202.8p	295,857	£599,998	25%	31 December 2017	26 June 2018

The performance condition for 33% of the award (the TSR Part) will measure the Company's Total Shareholder Return performance over a three-year period relative to the TSR performance of a comparator group of companies comprising the constituents of the FTSE 51–150 (excluding investment trusts) as at the start of the measurement period. The measurement period for the TSR Part is the three financial years to 31 December 2017, except for Leo Quinn's award for which the measurement period is the three years to 14 October 2017.

No portion of the TSR Part will vest unless the Company's TSR performance ranks at least equal to median TSR performance of the comparator group, at which point 25% of the TSR Part will vest, rising on a straight-line basis to full vesting for the Company's TSR performance ranking at upper quartile or better.

The performance condition applying to a separate 33% of the award (the Net Debt Part) will measure improvement in the Company's net debt over a measurement period comprising the three financial years to 31 December 2017.

No portion of the Net Debt Part will vest unless the Company's net debt at the 2017 financial year end is less than £(150)m. Were net debt to be £(150)m or less but more than £(50m), 25% to 50% of the Net Debt Part would vest on a straight-line between such levels. Were net debt to be £(50)m or less, between 50% and 100% of the Net Debt Part would vest on a straight-line basis for net debt between £(50)m and £nil.

The performance condition applying to a separate 33% of each award (the "EPS Part") will measure the Company's underlying earnings per share (EPS) performance over a measurement period comprising the three financial years to 31 December 2017.

No portion of the EPS Part will vest unless the Company's EPS for the 2017 financial year is 14p, at which point 25% of the EPS Part will vest, rising on a straight-line basis to full vesting for the Company's EPS being 21p or more.

Leo Quinn recruitment terms

As part of his recruitment arrangements and as fully disclosed in the 2014 Remuneration report, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer. During 2015 the following awards have been made in relation to these recruitment terms:

- compensation for loss of annual bonus payable by the previous employer, based on actual performance achieved in respect of its financial year ending 31 March 2015, resulting in a cash payment of £473,537 in July 2015 and £473,537 invested in 193,280 Balfour Beatty plc shares (at a share price of 245p), deferred for three years with vesting subject to continued employment
- a cash payment of £360,801 in July 2015 in respect of a conditional share award over 141,791 Balfour Beatty plc shares released in May 2015 which were not performance based as vesting was solely based on continued employment with the previous employer. A cash payment of £15,537 was also made in relation to dividend shares on this award
- in relation to a conditional award of 308,010 Balfour Beatty plc shares which were available to vest in June 2015, this award lapsed in full as it mirrored the performance-based treatment of a share award at Leo Quinn's previous employer
- in relation to a conditional award of 504,151 Balfour Beatty plc shares which were available to vest in August 2015, 267,365 of these shares vested on 12 August 2015 based on the treatment of a performance-based share award at Leo Quinn's previous employer. After statutory withholdings, 141,451 shares have been retained by Leo Quinn at a cost of 263.75p per share. A cash payment of £24,314 was also made in relation to dividend shares on this award.

Outstanding at year end is a conditional share award over 1,812,767 Balfour Beatty plc shares granted on 2 January 2015 which will vest in two tranches:

- 604,256 shares (one-third of the award) will vest on the second anniversary of grant subject to share price targets tested at the end of the two-year period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p. No vesting for this part of the award will take place for an average share price of less than 222p
- 1,208,511 shares (two-thirds of the award) will vest on the third anniversary of grant subject to share price targets tested at the end of the three-year period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p
- in addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The above share-based buyout award lapses in the event of voluntary resignation or termination for cause prior to the respective vesting dates. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro rating at the time of cessation.

Remuneration report continued
Annual report on remuneration continued

Executive Director changes and payments for loss of office

Departure of Duncan Magrath

Duncan Magrath stepped down from the Board on 8 May 2015. In line with his contractual entitlements, it was agreed that he should receive:

– an amount of £414,606 in lieu of nine months' unworked contractual notice period (since notice was served on 13 February 2015), comprising £336,497 for salary, £67,300 for pension allowance and £10,809 for car allowance. Half of the payment in lieu of notice was paid as a lump sum at cessation (£207,303) with the balance payable in monthly instalments and subject to mitigation until the expiry of the notice period on 12 February 2016. The monthly instalments would have been reduced, on a pound for pound basis, had Duncan Magrath secured alternative employment before the expiry of the notice period, which was not the case. Of the £414,606 payment in lieu of unworked contractual notice period, £348,197 was paid in the year to 31 December 2015

– a payment of £25,154 in lieu of accrued but not taken holiday entitlement.

In respect of Duncan Magrath's incentives, it was determined that:

– there would be an entitlement under the 2015 AIP for the four months of the year during which he served on the Board. A payment of £43,600 will be made in March 2016

– the 2013 and 2014 PSP awards should vest on their original vesting date, subject to performance conditions being satisfied at that point and pro rated for the proportion of the performance period served. As a result of the performance conditions not being met in respect of the 2013 award, this PSP award lapsed

– awards held under the DBP (86,956 shares in respect of annual bonuses earned in the financial years ended 31 December 2012 and 2013) should vest at cessation. These shares were released on cessation of his employment at a value of £210,781, subject to tax and national insurance deductions.

Departure of Andrew McNaughton

Andrew McNaughton stepped down from the Board on 3 May 2014. As fully disclosed in the 2014 Remuneration report, in line with his contractual entitlements, it was agreed that he should continue to receive his base salary, car allowance, pension allowance and medical benefits, paid monthly, in respect of his 12-month notice period (he therefore received monthly payments of £66,463 for each of the four months from January 2015 to April 2015. The agreement with Andrew McNaughton included a duty to mitigate by reducing payments to him in the event of his finding new employment which was not invoked.

Retirement of Peter Zinkin

Peter Zinkin stepped down from the Board on 26 March 2015 and retired from the Company on 31 August 2015. In respect of Peter Zinkin's incentives, it was determined that:

– there would be an entitlement under the 2015 AIP for the three months of the year during which he served on the Board. A payment of £34,050 will be made in March 2016

– the 2013 and 2014 PSP awards should vest on their original vesting date, subject to performance conditions being satisfied at that point and pro rated for the proportion of the performance period served. As a result of the performance conditions not being met in respect of the 2013 award, this PSP award lapsed

– awards held under the DBP (90,639 shares in respect of annual bonuses earned in the financial years ended 31 December 2012 and 2013) should vest at retirement. These shares were released on his retirement at a value of £234,528, subject to tax and national insurance deductions.

With effect from 1 September 2015, Peter Zinkin entered a consultancy agreement with the Company whereby he provides specialist advice to the Company, initially for a period of six months, which was subsequently extended to 14 July 2016. The fee payable under this agreement is anticipated to be £3,750 per month, although this can vary up or down based on actual time spent. £15,000 was paid to Peter Zinkin during the period from 1 September 2015 to 31 December 2015.

Appointment of Philip Harrison

Philip Harrison joined the Board as Chief Financial Officer on 1 June 2015. The key elements of his remuneration package, which are consistent with the Company's approved remuneration policy, are as follows:

– a base salary of £400,000 and a salary supplement at 20% of base salary in lieu of pension contributions
– a maximum annual bonus of 120% of base salary, with 50% of any payment in Balfour Beatty shares deferred for three years
– an annual PSP award of 150% of base salary.

As part of his recruitment arrangements, the Company agreed to compensate Philip Harrison for share awards which were forfeited upon leaving his previous employer. The performance targets are consistent with the awards granted to Leo Quinn at the start of 2015.

The Company granted a conditional share award over 92,493 Balfour Beatty plc shares on 11 June 2015 which will vest in two tranches:

– 30,831 shares (one-third of the award) will vest on 31 December 2016 subject to share price targets tested at the end of the period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p. No vesting for this part of the award will take place for an average share price of less than 222p
– 61,662 shares (two-thirds of the award) will vest on 31 December 2017 subject to share price targets tested at the end of the period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p
– in addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The share buyout award lapses in the event of voluntary resignation or termination for cause prior to the respective vesting dates. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro rating at the time of cessation.

Payments to past Directors

There were no payments to past executive Directors other than the payments disclosed on pages 76 and 80 in respect of Duncan Magrath, Andrew McNaughton and Peter Zinkin.

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:

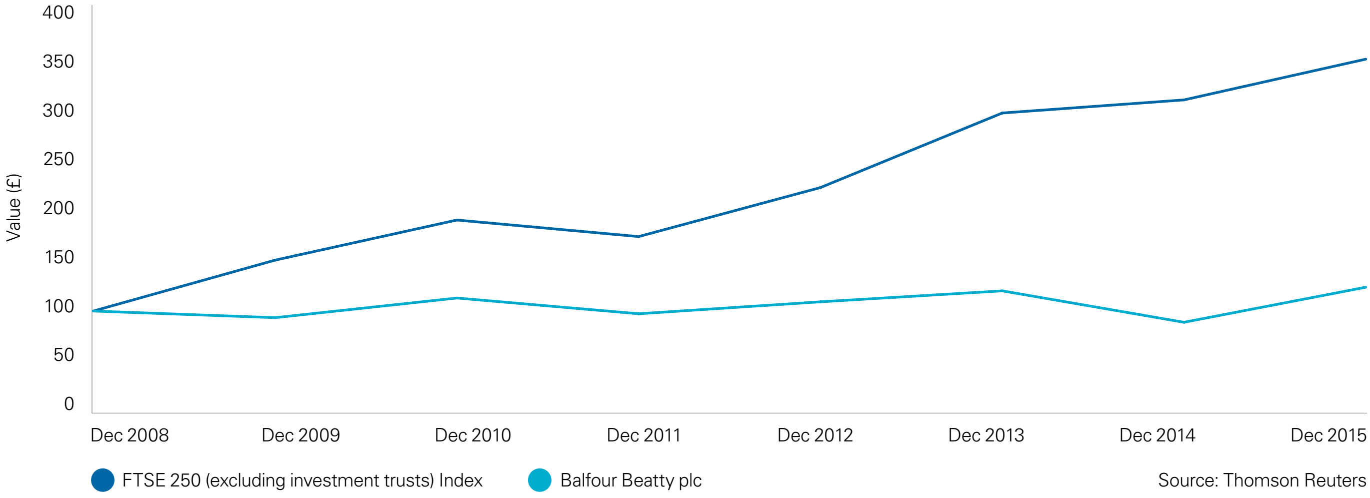
Directors	Beneficially owned at 1 January 2015[1,2]	Beneficially owned at 31 December 2015[2 3 4]	Outstanding PSP awards	Outstanding DBP awards	Outstanding share buyout awards	Beneficially owned at 31 December 2015 as a % of base salary at 31 December 2015	Guideline met[5]
Philip Harrison	1,685	6,349	295,857		92,493	4.3%	No
Duncan Magrath	191,890	226,905					
Leo Quinn	20,000	162,675	788,954	193,280	1,812,767	54.9%	No
Peter Zinkin[6]	315,694	315,863					
Philip Aiken	–	10,000					
Robert Amen	10,139	10,139					
Stephen Billingham[7]	11,291	11,350					
Stuart Doughty	–	–					
Iain Ferguson	55,000	55,000					
Maureen Kempston Darkes	7,000	7,000					
Steve Marshall	17,142	17,142					
Graham Roberts	15,000	15,000					

1 Or date of appointment, if later.
2 Includes any shares held in the Company's all-employee Share Incentive Plan.
3 Or date of stepping down from the Board, if earlier.
4 As at 14 March 2016, there have been no changes to the above other than in respect of ordinary shares held in the Share Incentive Plan which increased the shares for Leo Quinn by 182.
5 The executive Directors are required to hold shares in the Company worth 100% of base salary and must retain no fewer than 50% of the shares, net of taxes, vesting under the DBP and PSP until the required shareholding is met.
6 Peter Zinkin was also interested at 1 January 2015 and 26 March 2015 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc.
7 Stephen Billingham was also interested in 33,272 and 34,612 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc on appointment and at 31 December 2015, respectively. As at 14 March 2016, Stephen Billingham had acquired a further 1,458 preference shares as a result of reinvestment of dividends.

Remuneration report continued
Annual report on remuneration continued

Performance graph

As in previous reports, the Remuneration Committee has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, and have been calculated using 30 trading day average values.



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last seven financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ended 31 December						
	2009	2010	2011	2012	2013	2014	**2015**
Total remuneration[1]	£1,617,233	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568	**£1,442,070**
AIP (%)[2]	60.4%	69.6%	65.3%	40.2%	21.0%	0%	**47.0%**
PSP (%)	50%	18.4%	0%	0%	0%	0%	**0%**

1 The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures for 2015 relate to Leo Quinn.
2 Andrew McNaughton did not qualify for any 2014 AIP.

Percentage change in Group Chief Executive's remuneration compared with all UK employees

The table below shows the percentage change in the Group Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2014 and 31 December 2015, compared with the percentage increase in the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator.

	2014	**2015**	% change
Salary for year ended 31 December			
Group Chief Executive (£000)[1]	650	**800**	29
All UK employees (£m)[2]	832	**650**	(22)
Benefits for year ended 31 December			
Group Chief Executive (£000)[1]	148	**191**	29
All UK employees (£m)	31	**34**	10
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000)[3]	–	**451**	100
All UK employees (£m)	18	**26**	44
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	798	**1,442**	81
All UK employees (£m)	881	**710**	(19)

1 For 2014, salary, benefits, annual bonus and total remuneration received by Andrew McNaughton, annualised to reflect amounts receivable for a full year's service in role.
2 Reflects reduction in UK headcount year-on-year following the disposal of Parsons Brinckerhoff in October 2014.
3 Andrew McNaughton did not qualify for a 2014 AIP award.

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:

	2014	**2015**	% change
Staff costs (£m)[1]	1,896	**1,124**	(41)%
Dividends (£m)	96	**0**	(100)%
Underlying pre-tax profit/(loss) (£m)[2]	(41)	**(124)**	(202)%

[1] Staff costs include base salary, benefits and bonuses for all Group employees in continuing and discontinued operations (excluding joint ventures and associates).

[2] Underlying pre-tax profit/(loss) is from continuing and discontinued operations.

Directors' pensions and pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2015.

Peter Zinkin was the only Director to participate in the Balfour Beatty Pension Fund (the Fund) as a contributing member during 2014. Peter Zinkin participated in the defined contribution (DC) section up to 31 January 2014. He opted out of the DC section of the Fund on 31 January 2014 and became a deferred pensioner of the DC section of the Fund at this date.

The DC section of the Fund is a money purchase scheme with a normal retirement age of 65. The Fund operates a Fund-specific earnings cap for pension purposes. Peter Zinkin's pensionable earnings were subject to the Fund-specific earnings cap. Peter Zinkin paid an annual contribution equal to 5% of contributory salary for the period to 31 January 2014 via the Group's SMART Pensions salary sacrifice arrangement as outlined in Note 2 in the Directors' remuneration table on page 76. A salary supplement was paid to Peter Zinkin in lieu of pension contributions on earnings above the Fund-specific earnings cap for the period to 31 January 2014 and this is included in the Directors' remuneration table on page 76. A salary supplement was paid to Peter Zinkin in lieu of Fund membership from 1 February 2014 and this is included in the Directors' remuneration table on page 76.

Duncan Magrath and Peter Zinkin both previously participated in the defined benefit (DB) section of the Fund. The DB section of the Fund provides for a pension at a normal retirement age of 62, although the majority of benefits can be taken unreduced from age 60.

Duncan Magrath opted out of the DB section of the Fund on 5 April 2012 and became a deferred pensioner. In accordance with the Fund rules, his deferred pension was revalued in the year in line with price inflation (measured by the Retail Prices Index). He chose not to participate in the DC section of the Fund. Duncan Magrath was paid a salary supplement in lieu of Fund membership which is included in the Directors' remuneration table on page 76.

Peter Zinkin opted out of the DB section of the Fund on 31 December 2010 and has been receiving his DB pension from 1 January 2011. He has not accrued any further DB pension in the Fund since 31 December 2010.

The pension table below sets out the accrued DB deferred pension based on each executive Director's service to his date of becoming a deferred pensioner of the Fund. The pension amount for Duncan Magrath is the value of the increase in his DB deferred pension, in excess of price inflation (measured by the Consumer Prices Index), over the year ended 31 December 2015. The pension amount for Peter Zinkin is the amount of the employer contributions paid to the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts. Figures for 2014 are included for comparative purposes. The pension amounts are included in the Directors' remuneration table on page 76.

Name of Director	**Age at 31 December 2015 Years**	Accrued DB deferred pension at 31 December 2014[1] £ pa	**Accrued DB deferred pension at 31 December 2015[1] £ pa**	Pension amount 2014[2] £	**Pension amount 2015[2] £**
Duncan Magrath[3]	**51**	39,979	**40,399**	–	**–**
Peter Zinkin[4]	**62**	n/a	**n/a**	2,350	**–**

[1] These amounts represent each Director's accrued DB deferred pension at the relevant date. In accordance with the Fund Rules, accrued DB deferred pension in excess of Guaranteed Minimum Pension has been increased in line with the Retail Prices Index between each Director's date of becoming a deferred pensioner of the Fund and the relevant date.

[2] The amounts for Duncan Magrath represent the value of the increase in excess of inflation (where inflation is measured as the annual increase in the Consumer Prices Index to the September before the relevant date) of the accrued DB deferred pension over the period. The increase in benefits has been calculated using HMRC methodology and then multiplied by a factor of 20. The figures for Peter Zinkin represent the contributions paid over the period by the Company into the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts.

[3] The accrued DB deferred pension figures shown for Duncan Magrath include his DB benefits in the Fund purchased with Additional Voluntary Contributions (AVCs). In May 2013, the Fund paid an Annual Allowance tax charge of £27,249 to HMRC on Duncan Magrath's behalf in a Scheme Pays arrangement. The value of this tax charge has been recorded as a negative DC contribution in respect of Duncan Magrath and will be rolled up to the Director's retirement date, at which point it will be used to reduce the level of DB pension to which he is entitled from the Fund. The pensions table above makes no allowance for Duncan Magrath's Scheme Pays arrangement. The accrued DB deferred pension figures for Duncan Magrath are at 31 December 2014 and 8 May 2015.

[4] Peter Zinkin has not accrued any DB benefits in the Fund since 31 December 2010. Peter Zinkin participated in the DC section from 1 January 2011 to 31 January 2014, and the Company paid £2,350 into this arrangement during 2014, in addition to his SMART Pensions salary sacrifice of £588.

Remuneration report continued
Annual report on remuneration continued

External appointments of executive Directors

During 2015, Duncan Magrath acted as a non-executive director of Brammer plc and received and retained fees of £16,786 to 8 May 2015; Peter Zinkin served as a local authority councillor and received and retained fees of £2,649 to 26 March 2015; and Leo Quinn acted as a non-executive director of Betfair Group plc until 2 February 2016 and received and retained fees of £60,000 during 2015.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code. No member of the Committee has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. During the year under review, the members of the Committee were as follows:

- Iain Ferguson (Committee chair)
- Philip Aiken
- Stuart Doughty
- Maureen Kempston Darkes
- Steve Marshall
- Graham Roberts.

Philip Aiken and Stuart Doughty joined the Committee on appointment to the Board (26 March 2015 and 8 April 2015 respectively). Stuart Doughty stepped down from the Committee on 14 January 2016 as part of a general review of committee membership by the Board. Steve Marshall was a member of the Committee to 26 March 2015.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed
- New Bridge Street (a trading name of Aon plc) (NBS).

NBS has been appointed as external independent executive remuneration advisers by the Committee and has provided a range of advice to the Committee during the year, including:

- annual update for the Committee on developments in best practice, market experience and regulatory requirements for all remuneration elements
- assistance with the drafting of the Remuneration report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards
- advice in connection with certain Board changes during the year.

Neither NBS nor any part of Aon plc provided any other services to the Company during the year under review. Total fees paid to NBS in respect of its services to the Committee were £45,871 (2014: £85,922).

NBS is a signatory to the Remuneration Consultants' Code of Conduct. The Committee is satisfied that the advice that it receives from NBS is objective and independent.

Statement of shareholder voting at AGM

At the AGM on 14 May 2015, the resolution to approve the Remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	326,935,338	68.03%
Against	153,641,260	31.97%
Total votes cast	480,576,598	100%
Abstentions	19,764,175	

The Committee noted the significant number of votes cast against the advisory vote on the Directors' Remuneration report at the 2015 AGM. While 2014 was a challenging period for the Company, requiring some difficult decisions in respect of remuneration, the Committee has noted the feedback received both before and after the AGM.

By order of the Board

Iain Ferguson
Chairman of the Remuneration Committee

14 March 2016

Independent auditor's report to the members of Balfour Beatty plc

Opinion on financial statements of Balfour Beatty plc	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 2015 and of the Group's loss and Parent Company's profit for the year then ended; – have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and – have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Group and Parent Company Income Statements, Statements of Comprehensive Income, Balance Sheets, Cash Flow Statements, Statements of Changes in Equity and the related Notes 1 to 41. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.
Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the company	As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the Directors' statement on the longer-term viability of the Company contained on page 50. We have nothing material to add or draw attention to in relation to: – the Directors' confirmation on page 44 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; – the disclosures on pages 44 to 50 that describe those risks and explain how they are being managed or mitigated; – the Directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; – the Directors' explanation on page 50 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company 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 agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.
Independence	We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent auditor's report to the members of Balfour Beatty plc continued

Risk	How the scope of our audit responded to the risk

Recognition of contract revenue, margin and related receivables and liabilities
(Notes 2.4, 2.5, 2.26a and 2.26f)
 	
The construction industry is characterised by contract risk with significant judgements involved in the assessment of both current and future contract financial performance.
 	
Revenue and margin are recognised based on the stage of completion of individual contracts, calculated on the proportion of total costs at the reporting date compared to the estimated total costs of the contract.
 	
The status of contracts is updated on a regular basis. In doing so, management are required to exercise significant judgement in their assessment of the valuation of contract variations, claims and liquidated damages (revenue items); the completeness and accuracy of forecast costs to complete; and the ability to deliver contracts within forecast timescales.
 	
The potential final contract outcomes can cover a wide range. Dependent on the level of judgement in each, the range on each contract can be individually material. In addition, changes in these judgements, and the related estimates, as contracts progress can result in material adjustments to revenue and margin, which can be both positive and negative.
 	
We note that management has highlighted several contracts that have a wide range of possible outcomes, both positive and negative, within Note 2.26a.
	Our work on the recognition of contract revenue, margin and related receivables and liabilities included:
	
	– we assessed the key controls over the recognition of contract revenue and margin and, for continuing operations subject to full scope audit procedures, tested to determine whether these controls were operating effectively throughout the year;
	– we attended and inspected minutes from certain meetings, forming a key part of the Group's risk process to fully challenge at a lower executive level, both new tenders and contract bids, and ongoing performance on existing contracts;
	– we selected a sample of contracts in order to challenge both current and future financial performance. Samples were selected based on a number of quantitative and qualitative factors, as well as other randomly selected contracts;
	– for sampled contracts, we challenged management's key judgements inherent in the forecast costs to complete that drive the accounting under the percentage of completion method, including the following procedures:
	  – a review of the contract terms and conditions by reference to contract documentation;
	  – tested the existence and valuation of claims and variations both within contract revenue and contract costs via inspection of correspondence with customers and the supply chain;
	  – a review of legal and experts' reports received on contentious matters;
	  – an assessment of the forecasts through discussion with Group, finance, commercial and operational management;
	  – an assessment of the ability to deliver contracts within budgeted timescales and any exposures to liquidated damages for late delivery of contract works; and
	  – a review of post-balance sheet contract performance to support year end judgements.
	– we attended multiple site visits across the business;
	– we integrated construction experts into the audit team to support our audit challenge on a selection of contracts we determined to be most judgemental and of greatest risk;
	– we assessed the recoverability of related receivables, including testing of post year end cash receipts, and completeness of any contract loss provisions through completion of the above procedures.

Trading performance within UK Construction Services (Notes 5 and 10) The contract risks described above are applicable across the Group, including UK Construction Services. However, given the historical incidence of losses incurred by the UK Construction Services business, most notably within Engineering Services and the London region of Regional Construction, there is a greater risk of misstatement associated with contract judgements in this division, particularly in respect of under-performing contracts. Management provide commentary on these issues within the Strategic Report, both in the Construction Services section on pages 22 to 25, which includes detailed discussion of the performance in UK Construction Services, and within the Risk Management Framework section on page 42 on management's conclusions and response to failings in controls within the business during 2015.	In addition to the procedures described above and due to continued significant losses incurred by UK Construction Services during the year, we have maintained the following amendments to our audit approach: – we have maintained the component materiality used to scope our audit of the UK Construction Services operations at £3.4 million (2014: £3.4 million). This, in combination with our not placing reliance on internal controls in certain parts of the UK Construction Services business, led to an increase in the number of contracts tested substantively by us and a greater level of substantive audit procedures performed on the forecast costs to complete.

Risk	How the scope of our audit responded to the risk
Assessment of whether losses incurred in 2015 should have been recognised in prior periods (Note 2.26a) Given the £195 million of losses incurred in UK Construction Services in 2015 (including the £8 million disclosed as non-underlying), management have undertaken an assessment to determine whether any of the losses should have been recognised in prior periods. This exercise was inherently judgemental as it required the reassessment of contract positions as at the prior period balance sheet date using information which was available or should reasonably have been available at that point in time without using the benefit of hindsight and in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Management concluded from this exercise that the impact of any errors relating to prior periods was not material in the context of the Group accounts and accordingly the 2014 financial statements have not been restated.	Management performed an exercise looking at material contract write-downs. We reviewed this analysis and challenged the conclusions reached. In addition to reviewing management's own analysis, we also considered the following sources of information as part of our audit: – historical UK Construction Services and Group contract and commercial issues papers; – findings included in contract specific internal audit reports; – observations and findings from site visits performed and other discussions held with management during 2015; – subsequent events reviews performed at each balance sheet date; and – prior period audit working papers.
Impairment of goodwill and other intangible assets (Notes 2.12, 2.26d, 15 and 16) Under accounting standards, management is required to carry out an annual impairment test which incorporates judgements based on assumptions about future profitability for the related businesses against which appropriate long-term growth rates and discount rates must be applied. This exercise is highly judgemental and is used to support the carrying value of £844 million of goodwill as at 31 December 2015 (31 December 2014: £826 million).	We assessed the key controls around the assessment of the recoverability of goodwill balances. As part of this process, we obtained copies of the valuation models used to determine the recoverable amount of each cash-generating unit and tested the arithmetical accuracy of the models. We challenged the assumptions underpinning the models, including the discount rates used, long-term growth rates and cash flow forecasts. This was achieved through: consultation with Deloitte valuation specialists to critically assess the discount rate and long-term growth rates applied; assessment of the reasonableness of forecast future cash flows by comparison to historical performance and future outlook; and through discussions with management. We performed further sensitivities taking into account the historical forecasting accuracy of the Group, recognising its recent performance in this area and after considering the magnitude of the losses in 2014 and 2015. We have considered the adequacy of management's disclosures in respect of reasonable possible changes to assumptions as set out in Note 15 as well as management's disclosure in respect to the aggregation level in which management has performed their tests. With respect to the Group's UK construction business, we highlight that the recoverability of the goodwill within that cash-generating unit is predicated on returning the business to more normal levels of performance in the future. We also assessed whether assumptions have been determined and applied consistently across the Group.
	Last year our report included one other risk which is not included in our report this year: accounting for assets held for sale, discontinued operations, and disposal accounting. Given that there have been no significant disposals during the year, it has not had a significant impact on the strategy of our audit. The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 60. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Balfour Beatty plc continued

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the Group to be £8.5 million (2014: £8.5 million). Historically, we have used a current year profit metric to determine our materiality. However, due to the significant losses in the current and prior year, we have been unable to use the same approach. Instead, we have used professional judgement and maintained our materiality at the prior year level after reflecting the size and scale of the business being consistent with the prior year. Use of alternative benchmarks, such as net assets or revenue, could have resulted in much higher materiality levels. Materiality as a percentage of revenue and net assets in the current year is 0.1% (2014: 0.1%) and 1.0% (2014: 0.7%), respectively. We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £170,000 (2014: £170,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at the most significant operating companies, including joint ventures. Full audit procedures were performed on those companies within our audit scope. Operating companies representing the principal business units within the Group's reportable segments and accounting for 95% (2014: 85%) of the Group's total revenue, including discontinued operations, are subject to full audit procedures, with others accounting for 0% (2014: 7%) of the Group's revenue subject to specified audit procedures. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at these locations was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality and ranged from £3.4 million to £5.1 million (2014: £3.4 million to £5.1 million). At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The Group audit team follow a programme of planned visits to the significant operating companies. The Senior Statutory Auditor or another senior member of the Group audit team visited operating companies covering 91% (2014: 72%) of Group revenue in the year. The Senior Statutory Auditor or another senior member of the Group audit team also discussed the risk assessment, reviewed documentation of key findings and participated in the close meetings for all operating companies subject to full scope.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: – the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and – the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006, we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules, we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement on pages 66 and 67, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Simon Letts
Senior Statutory Auditor
For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom
14 March 2016

Group Income Statement

For the year ended 31 December 2015

	Notes	2015 Underlying items[1] £m	2015 Non-underlying items (Note 10) £m	2015 Total £m	2014 Underlying items[1] £m	2014 Non-underlying items (Note 10) £m	2014 Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**8,235**	**209**	**8,444**	8,440	353	8,793
Share of revenue of joint ventures and associates	18.2	**(1,471)**	**(18)**	**(1,489)**	(1,490)	(39)	(1,529)
Group revenue	4	**6,764**	**191**	**6,955**	6,950	314	7,264
Cost of sales		**(6,609)**	**(189)**	**(6,798)**	(6,723)	(410)	(7,133)
Gross profit/(loss)		**155**	**2**	**157**	227	(96)	131
Gain on disposals of interests in investments	32.2/32.3	**95**	**–**	**95**	93	–	93
Amortisation of acquired intangible assets	16	**–**	**(10)**	**(10)**	–	(11)	(11)
Other net operating expenses		**(403)**	**(65)**	**(468)**	(433)	(114)	(547)
Group operating loss		**(153)**	**(73)**	**(226)**	(113)	(221)	(334)
Share of results of joint ventures and associates	18.2	**47**	**(3)**	**44**	55	(2)	53
Loss from operations	6	**(106)**	**(76)**	**(182)**	(58)	(223)	(281)
Investment income	8	**52**	**–**	**52**	64	–	64
Finance costs	9	**(69)**	**–**	**(69)**	(86)	(1)	(87)
Loss before taxation		**(123)**	**(76)**	**(199)**	(80)	(224)	(304)
Taxation	11	**(11)**	**4**	**(7)**	2	1	3
Loss for the year from continuing operations		**(134)**	**(72)**	**(206)**	(78)	(223)	(301)
(Loss)/profit for the year from discontinued operations	12	**(1)**	**1**	**–**	24	218	242
Loss for the year		**(135)**	**(71)**	**(206)**	(54)	(5)	(59)
Attributable to							
Equity holders		**(135)**	**(71)**	**(206)**	(55)	(5)	(60)
Non-controlling interests		**–**	**–**	**–**	1	–	1
Loss for the year		**(135)**	**(71)**	**(206)**	(54)	(5)	(59)

[1] Before non-underlying items (Notes 2.10 and 10).

	Notes	2015 Pence	2014 Pence
Basic (loss)/earnings per ordinary share			
– continuing operations	13	**(30.2)**	(43.9)
– discontinued operations	13	**0.1**	35.3
	13	**(30.1)**	(8.6)
Diluted (loss)/earnings per ordinary share			
– continuing operations	13	**(30.2)**	(43.9)
– discontinued operations	13	**0.1**	35.3
	13	**(30.1)**	(8.6)
Dividends per ordinary share proposed for the year	14	**–**	5.6

Commentary on the Group Income Statement*

Total pre-tax loss from continuing operations for 2015 was £199m, which is inclusive of a non-underlying loss of £76m. The total loss after tax including discontinued operations was £206m.

Background

The Group Income Statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the statement of comprehensive income. The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The income statement shows the revenue and results of continuing operations. The post-tax results shown within discontinued operations primarily represent the residual gain on the disposal of Parsons Brinckerhoff (PB). Included within this are also the results of, and loss on the disposal of Rail Italy, which was classified as a discontinued operation in 2014 and was subsequently sold in March 2015.

Non-underlying items within continuing operations include the trading results of Rail Germany. The Group has continued to present the remaining parts of Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. Refer to Note 5 for further details.

In addition to this, the performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work has also continued to be included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group. Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group. Performance on these contracts including any claims recovery will be presented in non-underlying items through to their completion.

* The commentary is unaudited and forms part of the Chief Financial Officer's Review on pages 18 to 21.

Commentary on the Group Income Statement continued*

Revenue

Revenue from continuing operations including non-underlying items, joint ventures and associates decreased by 4% to £8,444m from £8,793m in 2014. Revenue was broadly flat across all segments albeit there was a slight change in the geographical mix.

Gain on disposal of investments

The Group continued its programme of realising accumulated value in the Investments portfolio and generated income by disposing of interests in Thanet OFTO HoldCo Ltd (the Group continues to hold a 20% stake), Edinburgh Royal Infirmary, Aura Holdings (Newcastle) Ltd and Greater Gabbard OFTO Holdings Ltd resulting in a net underlying gain of £95m after recycling gains of £23m from reserves to the income statement.

Share of results of joint ventures and associates

Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

This share reduced by £8m to £47m before non-underlying items, largely due to disposals from the Investments portfolio and increased losses in the Middle East.

Underlying loss from operations

Underlying loss from continuing operations increased to a loss of £106m from a £58m loss in 2014. Support Services and Infrastructure Investments continued to deliver excellent operating results, including the benefit of £95m of gains from investment disposals. This was offset with increased losses in the UK and US construction businesses. Following the construction business contract reviews carried out in the year, risk-based provisions were recognised on specific contracts. The risk-based provisions are recognised to reflect an increased level of prudence in estimating specific contract completion costs. In 2014, the risk-based provisions were recognised across the broader UK construction portfolio, and generally covered the smaller contracts.

Non-underlying items

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

Non-underlying items from continuing operations of £76m before tax were charged to the income statement. These comprised amortisation of acquired intangible assets of £10m, the trading loss from Rail Germany of £3m, losses resulting from legacy ES contracts of £8m and other loss items of £55m.

Significant other non-underlying items included £23m of costs incurred relating to the Group's Build to Last transformation programme which was launched in early 2015. The Group also incurred other restructuring costs of £9m, of which £4m represents costs associated with restructuring the continuing operations of Heery Inc. which was previously reliant on PB for its back office functions and the remaining £5m relates to restructuring cost incurred for Rail Germany.

Rail Germany also recognised further impairment in its underlying assets of £11m, including £4m relating to joint ventures and associates. This is as a result of an impairment assessment following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. This agreement remains subject to various approvals at the year end and therefore these parts which are subject to sale have not been classified as held for sale at the year end.

Non-underlying items continued

The Group continued its plan to transition other business units to its UK shared service centre in Newcastle-upon-Tyne incurring further cost in the year of £8m. In addition, the Group impaired £17m of cost capitalised in relation to the transformation of the UK IT estate from a federated to a more centralised model due to curtailments in scope and termination of the agreement with its implementation partner.

The non-underlying charges recognised in 2015 were partially offset by a £16m gain recognised on the disposal of Signalling Solutions Ltd in May 2015.

Net finance costs

Net finance cost of £17m in the year represents a decrease of 26% from £23m in 2014 mainly due to a decrease in net interest cost on the Group's pension schemes of £13m. This was partially offset by a £5m reduction in interest earned on subordinated debt.

Taxation

The Group's underlying loss before tax from continuing operations for subsidiaries of £170m (2014: £135m) resulted in an underlying tax charge of £11m (2014: £2m credit). The tax charge principally arises due to significant non-recognition of deferred tax assets on losses incurred in the year.

Profit from discontinued operations

Profit from discontinued operations primarily reflects an additional gain on disposal of £5m from the sale of PB, which completed in 2014. Refer to Note 32.2.9.

Profit from discontinued operations also included an underlying post-tax loss of £1m relating to Rail Italy which was disposed in March 2015 resulting in a loss on disposal of £4m.

Earnings per share

Basic loss per share from continuing operations was 30.2p (2014: 43.9p), as a result of increased losses as discussed above. Underlying loss per share from continuing operations was 19.7p (2014: 11.5p).

* The commentary is unaudited and forms part of the Chief Financial Officer's Review on pages 18 to 21.

Group Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 Group £m	2015 Share of joint ventures and associates £m	2015 Total £m	2014+ Group £m	2014+ Share of joint ventures and associates £m	2014+ Total £m
(Loss)/profit for the year		**(250)**	**44**	**(206)**	(112)	53	(59)
Other comprehensive (loss)/income for the year							
Items which will not subsequently be reclassified to the income statement							
Actuarial (losses)/gains on retirement benefit liabilities	30.1	**(86)**	**(4)**	**(90)**	237	(5)	232
Tax on above	30.1	**15**	**–**	**15**	(48)	–	(48)
		(71)	**(4)**	**(75)**	189	(5)	184
Items which will subsequently be reclassified to the income statement							
Currency translation differences	30.1	**29**	**3**	**32**	30	2	32
Fair value revaluations – PPP financial assets	30.1	**(13)**	**(170)**	**(183)**	79	224	303
– cash flow hedges	30.1	**8**	**21**	**29**	(54)	(102)	(156)
– available-for-sale investments in mutual funds	30.1	**–**	**–**	**–**	2	–	2
Recycling of revaluation reserves to the income statement on disposal*	32.2/32.3	**(15)**	**(5)**	**(20)**	18	(7)	11
Tax on above	30.1	**1**	**33**	**34**	(6)	(23)	(29)
		10	**(118)**	**(108)**	69	94	163
Total other comprehensive (loss)/income for the year		**(61)**	**(122)**	**(183)**	258	89	347
Total comprehensive (loss)/income for the year	30.1	**(311)**	**(78)**	**(389)**	146	142	288
Attributable to							
Equity holders				**(389)**			287
Non-controlling interests				**–**			1
Total comprehensive (loss)/income for the year	30.1			**(389)**			288

+ Re-presented to show the share of comprehensive (loss)/income relating to the Group's joint ventures and associates separately from the rest of the Group.
* Recycling of revaluation reserves to the income statement on disposal has no associated tax effect.

Commentary on Group Statement of Comprehensive Income*

Total comprehensive loss for 2015 was £389m comprising a total loss after tax including discontinued operations of £206m and other comprehensive income after tax of £183m.

Background

The Group Statement of Comprehensive Income is presented on a total Group basis combining continuing and discontinued operations. Other Comprehensive Income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement.

Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit liabilities are increases or decreases in the present value of the pension liability because of:

- differences between the previous actuarial assumptions and what has actually occurred; or
- changes in actuarial assumptions used to value the obligations.

Actuarial gains for the Group including joint ventures and associates decreased from £232m gain in 2014 to £90m loss in 2015. Refer to Note 28.

Items which will subsequently be reclassified to the income statement

Currency translation differences

The Group operates in a number of countries with different local currencies. Currency translation differences arise on translation of the balance sheet and results from the local functional currency into the Group's presentational currency, sterling.

Fair value revaluations – PPP financial assets

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related fair value movements recognised in OCI and other fair value movements recognised in the income statement. During the year there was an increase in gilt rates resulting in a fair value loss including joint ventures and associates of £183m being taken through OCI (2014: £303m gain).

Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in the Group's Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements. The fair value of derivatives changes in response to prevailing market conditions. During the year LIBOR increased resulting in a fair value gain on the interest rate swaps including joint ventures and associates of £29m being recognised in OCI in 2015 (2014: £156m loss).

Recycling of reserves to the income statement on disposal

Fair value gains and losses and currency translation differences recognised in OCI are transferred to the income statement upon disposal of the asset and therefore on disposal of Infrastructure Investments' concessions and rail businesses, £20m profit including joint ventures and associates was recycled to the income statement through OCI and is included in the gain on disposal.

There is no associated tax on the amounts recycled to the income statement.

* The commentary is unaudited and forms part of the Chief Financial Officer's Review on pages 18 to 21.

Group Statement of Changes in Equity
For the year ended 31 December 2015

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves (Note 18.7) £m	Other reserves (Note 30.1) £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2014		344	64	24	278	323	–	2	1,035
Total comprehensive income for the year	30.1	–	–	–	142	69	76	1	288
Ordinary dividends	14	–	–	–	–	–	(96)	–	(96)
Joint ventures' and associates' dividends	18.1	–	–	–	(56)	–	56	–	–
Issue of ordinary shares	29.1	1	–	–	–	–	–	–	1
Movements relating to share-based payments		–	–	–	–	(3)	5	–	2
Reserve transfers relating to joint venture and associate disposals	18.7	–	–	–	(24)	–	24	–	–
Other transfers		–	–	(1)	–	(249)	250	–	–
At 31 December 2014		345	64	23	340	140	315	3	1,230
Total comprehensive (loss)/income for the year	30.1	**–**	**–**	**–**	**(78)**	**5**	**(316)**	**–**	**(389)**
Joint ventures' and associates' dividends	18.1	**–**	**–**	**–**	**(69)**	**–**	**69**	**–**	**–**
Issue of ordinary shares	29.1	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Movements relating to share-based payments		**–**	**–**	**–**	**–**	**(1)**	**(12)**	**–**	**(13)**
Minority interest	30.1	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Reserve transfers relating to joint venture and associate disposals	18.7	**–**	**–**	**–**	**(13)**	**–**	**13**	**–**	**–**
Other transfers		**–**	**–**	**(1)**	**16**	**–**	**(15)**	**–**	**–**
At 31 December 2015		**345**	**65**	**22**	**196**	**144**	**54**	**4**	**830**

Commentary on Group Statement of Changes in Equity*
Total equity holders' funds of £830m at 31 December 2015 decreased by 33% primarily due to further losses incurred in the year as well as movements in other comprehensive income.

Background
The Group Statement of Changes in Equity includes the total comprehensive income attributable to equity holders of the Company and non-controlling interests and also discloses transactions which have been recognised directly in equity and not through the income statement.

Dividends
The Board has not recommended a final dividend in respect of 2015, resulting in a full-year dividend of nil (2014: 5.6p). The full-year dividend paid during 2015 was £nil.

Joint ventures' and associates' dividends
Dividends of £69m were received in the year from joint ventures and associates (JVA) resulting in a transfer of this amount between JVA reserves and Group retained profits.

Share issues
During the year 210,214 ordinary shares were issued for £1m.

Special reserve
A special reserve of £185m was created in 2004 as a result of cancelling £181m of share premium and cancelling the £4m capital redemption reserve in Balfour Beatty plc. This was approved by the court and becomes distributable to the extent of future increases in share capital and share premium, of which £1m occurred in 2015 (2014: £1m).

Other reserves
Other reserves comprise: the equity components of the preference shares of £18m (2014: £18m) and convertible bonds £26m (2014: £26m); the hedging reserves £(58)m (2014: £(74)m); PPP financial asset revaluation reserve £58m (2014: £101m); currency translation reserve £87m (2014: £55m) and other reserves £13m (2014: £14m).

Other reserve transfers relating to joint venture and associate disposals
On disposal of JVAs, retained profits relating to these businesses are transferred from the JVA reserves to the Group's retained profits.

* The commentary is unaudited and forms part of the Chief Financial Officer's Review on pages 18 to 21.

Company Income Statement

For the year ended 31 December 2015

		2015			2014		
	Notes	**Underlying items[1] £m**	**Non-underlying items (Note 10) £m**	**Total £m**	Underlying items[1] £m	Non-underlying items (Note 10) £m	Total £m
Revenue	4	**25**	**–**	**25**	168	–	168
Gain on disposal of interests in investments[+]	32.2/32.3	**54**	**–**	**54**	49	–	49
Net operating expense		**(13)**	**(4)**	**(17)**	(17)	(15)	(32)
Profit/(loss) from operations		**66**	**(4)**	**62**	200	(15)	185
Investment income	8	**7**	**–**	**7**	8	–	8
Finance costs	9	**(46)**	**–**	**(46)**	(49)	–	(49)
Profit/(loss) before taxation		**27**	**(4)**	**23**	159	(15)	144
Taxation	11	**11**	**–**	**11**	12	–	12
Profit/(loss) for the year attributable to equity holders		**38**	**(4)**	**34**	171	(15)	156

[1] Before non-underlying items (Notes 2.10 and 10).

[+] The gain relates to the disposal of the Company's 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd (2014: 50% interest in Consort Healthcare (Durham) Holdings Ltd). Refer to Note 32.2.5.

Company Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	**2015 £m**	2014 £m
Profit for the year		**34**	156
Other comprehensive income/(loss) for the year			
Items which will subsequently be reclassified to the income statement			
Currency translation differences	30.2	**2**	–
Total other comprehensive income for the year		**2**	–
Total comprehensive income for the year attributable to equity holders	30.2	**36**	156

Company Statement of Changes in Equity

For the year ended 31 December 2015

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves (Note 30.2) £m	Retained profits £m	Total £m
At 1 January 2014		344	64	24	362	271	1,065
Total comprehensive income for the year	30.2	–	–	–	–	156	156
Ordinary dividends	14	–	–	–	–	(96)	(96)
Issue of ordinary shares	29.1	1	–	–	–	–	1
Movements relating to share-based payments		–	–	–	5	–	5
Other transfers		–	–	(1)	(249)	250	–
At 31 December 2014		345	64	23	118	581	1,131
Total comprehensive income for the year	30.2	**–**	**–**	**–**	**–**	**36**	**36**
Issue of ordinary shares	29.1	**–**	**1**	**–**	**–**	**–**	**1**
Movements relating to share-based payments		**–**	**–**	**–**	**(2)**	**(14)**	**(16)**
Other transfers		**–**	**–**	**(1)**	**–**	**1**	**–**
At 31 December 2015		**345**	**65**	**22**	**116**	**604**	**1,152**

Balance Sheets
At 31 December 2015

		Group		Company	
	Notes	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Non-current assets					
Intangible assets – goodwill	15	**844**	826	**–**	–
– other	16	**222**	216	**–**	–
Property, plant and equipment	17	**167**	171	**–**	–
Investments in joint ventures and associates	18	**671**	759	**–**	–
Investments	19	**44**	51	**1,671**	1,571
PPP financial assets	20	**402**	559	**–**	–
Trade and other receivables	23	**114**	111	**4**	11
Deferred tax assets	27	**58**	52	**–**	–
Derivative financial instruments	38	**–**	–	**–**	1
		2,522	2,745	**1,675**	1,583
Current assets					
Inventories and non-construction work in progress	21	**144**	170	**–**	–
Due from construction contract customers	22	**379**	562	**–**	–
Trade and other receivables	23	**885**	966	**1,645**	1,381
Cash and cash equivalents – infrastructure concessions	26	**20**	40	**–**	–
– other	26	**646**	691	**50**	249
Current tax assets		**4**	8	**12**	–
Derivative financial instruments	38	**1**	2	**1**	2
		2,079	2,439	**1,708**	1,632
Assets held for sale	12	**–**	60	**–**	–
		2,079	2,499	**1,708**	1,632
Total assets		**4,601**	5,244	**3,383**	3,215
Current liabilities					
Due to construction contract customers	22	**(472)**	(350)	**–**	–
Trade and other payables	24	**(1,700)**	(1,959)	**(1,724)**	(1,591)
Provisions	25	**(126)**	(120)	**–**	–
Borrowings – non-recourse loans	26	**(22)**	(14)	**–**	–
– other	26	**(13)**	(4)	**(160)**	(142)
Current tax liabilities		**(20)**	(5)	**–**	–
Derivative financial instruments	38	**(11)**	(14)	**(1)**	(2)
		(2,364)	(2,466)	**(1,885)**	(1,735)
Liabilities held for sale	12	**–**	(47)	**–**	–
		(2,364)	(2,513)	**(1,885)**	(1,735)
Non-current liabilities					
Trade and other payables	24	**(130)**	(134)	**(8)**	(25)
Provisions	25	**(80)**	(77)	**(2)**	(2)
Borrowings – non-recourse loans	26	**(363)**	(471)	**–**	–
– other	26	**(470)**	(468)	**(236)**	(224)
Liability component of preference shares	29	**(98)**	(96)	**(98)**	(96)
Retirement benefit liabilities	28	**(146)**	(128)	**–**	–
Deferred tax liabilities	27	**(53)**	(49)	**(2)**	(2)
Derivative financial instruments	38	**(67)**	(78)	**–**	–
		(1,407)	(1,501)	**(346)**	(349)
Total liabilities		**(3,771)**	(4,014)	**(2,231)**	(2,084)
Net assets		**830**	1,230	**1,152**	1,131
Equity					
Called-up share capital	29	**345**	345	**345**	345
Share premium account	30	**65**	64	**65**	64
Special reserve	30	**22**	23	**22**	23
Share of joint ventures' and associates' reserves	30	**196**	340	**–**	–
Other reserves	30	**144**	140	**116**	118
Retained profits	30	**54**	315	**604**	581
Equity attributable to equity holders of the parent		**826**	1,227	**1,152**	1,131
Non-controlling interests	30	**4**	3	**–**	–
Total equity		**830**	1,230	**1,152**	1,131

On behalf of the Board

Leo Quinn
Director
14 March 2016

Philip Harrison
Director

Commentary on the Group Balance Sheet*

Total assets of £4.6bn were 12% less than last year. Total liabilities of £3.8bn decreased by 6%, resulting in an overall decrease in net assets of 33%. The decrease is primarily driven by further losses recognised in Construction Services.

Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2015. In accordance with IAS 1 Presentation of Financial Statements and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the Group does not re-present the prior year balance sheet for assets held for sale or disposals.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2015 increased to £844m (2014: £826m). The increase was primarily relating to currency translation differences, partially offset by a £4m impairment on the goodwill held on Blackpool Airport. The Group has conducted impairment reviews on the remainder of its goodwill balance and has concluded that it was fully recoverable at the year end.

Investments in joint ventures and associates

Investments in joint ventures and associates decreased during the year from £759m to £671m, primarily due to fair value losses on revaluations of their PPP financial assets.

PPP financial assets

The £157m decrease in PPP financial assets is principally driven by the sale of 80% of the Group's interest in Thanet. As a result, the Group no longer consolidates Thanet as a subsidiary, and the Group has accounted for its remaining 20% interest in Thanet as a joint venture. The Group recognised an underlying gain of £29m as a result of this sale.

Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 99.

Provisions are discussed in the working capital commentary and in detail in Note 25.

Borrowings

Borrowings excluding non-recourse loans

The Group's committed facility totals £400m. The Group completed its refinancing in December 2015. This new facility extends through to 2018, with the option for two additional one-year extensions through to 2020, subject to bank approval.

The purpose of this facility, and some other smaller facilities, is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its activities.

The Group's borrowings include recourse borrowings to the Group arising from its Infrastructure Investment projects in North America amounting to £10m (2014: £16m).

Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain construction and infrastructure concessions projects.

At 31 December 2015, the Group's share of non-recourse net borrowings amounted to £2,014m (2014: £1,965m), comprising £1,649m (2014: £1,520m) in relation to joint ventures and associates as disclosed in Note 18.2 and £365m (2014: £445m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 26.

Retirement benefit liabilities

The Group's balance sheet includes aggregate liabilities of £146m (2014: £128m) representing deficits in the Group's pension schemes. The retirement liabilities increased primarily due to actuarial losses on pension scheme assets. Refer to Note 28 for further details.

Any surplus of deficit contributions would be recoverable by way of a reduction in future contributions as the Group has the ability to use surplus funds in the defined benefit section of the Balfour Beatty Pension Fund (BBPF) to pay its contributions due under the defined benefit and defined contribution sections of the BBPF.

Assets and liabilities held for sale

At 31 December 2015, the Group does not have any discontinued operations or any assets and liabilities held for sale.

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 2015, contract bonds in issue by financial institutions under uncommitted facilities covered £3.4bn (2014: £3.0bn) of the contract commitments of the Group.

Equity commitments

During 2015 the Group invested £102m (2014: £53m) 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 £176m from 2016 onwards, inclusive of £76m expected for projects at preferred bidder stage. £44m of this is expected to be invested in 2016, as disclosed in Note 39(f).

* The commentary is unaudited and forms part of the Chief Financial Officer's Review on pages 18 to 21.

Statements of Cash Flows

For the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014^ £m
Cash flows used in operating activities					
Cash used in:					
– continuing operations – underlying[1]	31.1	**(84)**	(192)	**(157)**	293
– non-underlying	31.1	**(54)**	(114)	**(4)**	(15)
– discontinued operations	31.1	**3**	(46)	**–**	–
Income taxes received/(paid)		**6**	(20)	**–**	–
Net cash (used in)/from operating activities		**(129)**	(372)	**(161)**	278
Cash flows from investing activities					
Dividends received from joint ventures and associates:					
– infrastructure concessions[2]	18.6	**45**	29	**25**	6
– other[2]	18.6	**24**	28	**–**	–
Interest received – infrastructure concessions	18.6	**16**	23	**–**	1
Interest received – other		**5**	5	**6**	5
Acquisition of businesses, net of cash and cash equivalents acquired	32.1	**(3)**	(3)	**–**	–
Purchases of:					
– intangible assets – infrastructure concessions	16	**(23)**	(28)	**–**	–
– intangible assets – other	16	**(20)**	(35)	**–**	–
– property, plant and equipment – infrastructure concessions	17	**(13)**	(23)	**–**	–
– property, plant and equipment – other	17	**(27)**	(43)	**–**	–
– other investments	19	**(2)**	(8)	**–**	–
Investments in and long-term loans to joint ventures and associates	18.6	**(79)**	(41)	**–**	–
Investments in subsidiaries	19.2	**–**	–	**(100)**	–
Capital repayment from infrastructure concession joint venture	18.6	**7**	–	**–**	–
Short-term loans to joint ventures and associates^	18.6	**(11)**	(4)	**(11)**	(4)
Loans repaid from joint ventures and associates	18.6	**2**	2	**–**	–
PPP financial assets cash expenditure	20	**(75)**	(232)	**–**	–
PPP financial assets cash receipts	20	**30**	37	**–**	–
Disposals of:					
– investments in joint ventures – infrastructure concessions[2]	18.6/32	**104**	117	**54**	55
– investments in joint ventures – other[2]	18.6/32	**21**	–	**–**	–
– subsidiaries net of cash disposed, separation and transaction costs – infrastructure concessions[2]	32.2.10	**23**	34	**–**	–
– subsidiaries net of cash disposed, separation and transaction costs – other[2]	32.2.10	**16**	701	**–**	–
– property, plant and equipment		**7**	16	**–**	–
– other investments	19	**10**	12	**–**	–
Net cash from/(used in) investing activities		**57**	587	**(26)**	63
Cash flows from financing activities					
Purchase of ordinary shares	30.3	**(17)**	(2)	**–**	–
Proceeds from:					
– issue of ordinary shares	29.1	**1**	1	**1**	1
– other new loans – infrastructure concessions	31.3	**79**	236	**–**	–
– other new loans – other	31.3	**–**	11	**–**	–
– finance leases	31.3	**–**	1	**–**	–
Repayments of:					
– loans – infrastructure concessions	31.3	**(11)**	(7)	**–**	–
– loans – other	31.3	**(1)**	(83)	**–**	–
– finance leases	31.3	**–**	(3)	**–**	–
Ordinary dividends paid	14	**–**	(96)	**–**	(96)
Interest paid – infrastructure concessions		**(19)**	(21)	**–**	–
Interest paid – other		**(32)**	(29)	**(20)**	(22)
Preference dividends paid		**(11)**	(11)	**(11)**	(11)
Net cash used in financing activities		**(11)**	(3)	**(30)**	(128)
Net (decrease)/increase in cash and cash equivalents	31.3	**(83)**	212	**(217)**	213
Effects of exchange rate changes		**1**	(12)	**–**	–
Cash and cash equivalents at beginning of year		**727**	526	**107**	(106)
Net decrease in cash within assets held for sale	12	**18**	1	**–**	–
Cash and cash equivalents at end of year	31.2	**663**	727	**(110)**	107

1 Before non-underlying items (Notes 2.10 and 10).
2 Re-presented to separately identify cash flows from infrastructure concessions and other.
^ Re-presented to show short-term loans made to joint venture and associates separately from cash used in operations in the Company cash flow.

Commentary on the Group Statement of Cash Flows*

Cash and cash equivalents decreased by 9% during the year to £663m. Cash used in operating activities improved by 65% to £129m.

Background

The statement of cash flows shows the cash flows from operating, investing and financing activities during the year.

Working capital

Working capital includes: inventories and non-construction work in progress; amounts due to and from construction contract customers; operating trade and other receivables; operating trade and other payables; and operating provisions. Where the net working capital balance is in an asset position, ie the inventory and receivables balances are greater than the payables and provisions, this is referred to as "unfavourable/positive working capital". Where this is not the case, this is referred to as "favourable/negative working capital".

Working capital movements

The movement of the individual working capital balances on the balance sheet will not be reflective of the underlying movement of working capital in the year because the December 2015 balances exclude amounts relating to disposals whereas the prior year balances include these balances. The amounts on the balance sheet are also affected by foreign currency movements.

Working capital movements are disclosed in Note 31.1.

Inventories and non-construction work in progress

During 2015 underlying inventories and non-construction work in progress decreased by £21m for continuing operations primarily relating to a decrease in development land held in the UK.

Amounts due from/to construction contract customers and operating provisions

Movements in the Group's due from/to construction contract customers balances, which reflect the net unbilled contract position and traded profit and loss for each individual construction contract, and movements in provision balances generated an underlying working capital inflow of £287 million (2014: outflow of £18m). A portion of this inflow is a result of risk contingencies recognised on specific construction contracts.

Operating trade and other receivables

During 2015 there was a £52m decrease in underlying operating trade and other receivables for continuing operations primarily due to the Group's focus on working capital improvements which resulted in trade receivables being converted into cash at a quicker rate.

Operating trade and other payables

During 2015 there was a £181m decrease in underlying operating trade and other payables for continuing operations primarily as a result of creditors being settled within a quicker timeframe compared to the previous year.

Cash used in operations

Underlying cash used in continuing operations of £84m (2014: £192m) was impacted by a loss from operations of £106m (2014: £58m) and a working capital inflow of £179m (2014: £26m), after adjusting for the following items: share of results of joint ventures and associates £47m (2014: £55m), depreciation charges of £33m (2014: £33m), pension deficit payments of £66m (2014: £49m) and gain on disposals of investments in infrastructure concessions of £95m (2014: £93m).

Non-underlying cash used in continuing operations of £54m (2014: £114m) was impacted by a loss from operations of £76m (2014: £223m) and a working capital outflow of £5m (2014: £38m inflow), after adjusting for the following non-cash items: a £17m (2014: £21m) impairment of the Group's capitalised IT intangible asset, a £7m (2014: £30m) impairment of assets within Rail Germany, a depreciation charge of £2m (2014: £10m) relating to Rail Germany, a £4m (2014: £nil) goodwill impairment charge and an amortisation charge of £10m (2014: £11m) on acquired intangible assets.

Cash flows from investing activities

The Group received dividends of £69m (2014: £56m) from joint ventures and associates during the year.

During the year the Group incurred additional spend on intangible assets of £43m (2014: £63m) of which £23m (2014: £28m) related to the Edinburgh student accommodation and £20m (2014: £35m) related to software and other intangible assets. The £40m (2014: £66m) property, plant and equipment purchased during the year comprised: capitalisation of the cost relating to Phase 2 of constructing student accommodation in Iowa of £9m (2014: £23m (Iowa Phase 1 and Reno)); the purchase of land of £4m (2014: £nil); the purchase of plant and equipment of £21m (2014: £28m); and capitalisation of leasehold improvements of £6m (2014: £15m).

The Group disposed of interests in three infrastructure concession joint ventures during the year for £104m (2014: £117m). In addition the Group disposed of 80% of its interest in one infrastructure concession subsidiary for £23m, net of cash disposed (2014: £34m (100% disposal of subsidiary)). The Group disposed of two investments in other joint ventures during the year for £21m (2014: £nil). The Group also received £16m (2014: £701m) on the disposal of other subsidiaries comprising of: £25m in relation to the disposal of Parsons Brinckerhoff, an outflow of £10m on the disposal of Rail Germany and an inflow of £1m on the disposal of Rail Italy.

During the year the Group incurred cash expenditure of £75m (2014: £232m) and received cash receipts of £30m (2014: £37m) relating to PPP financial assets.

Cash flows from financing activities

The Group made further drawdowns on its non-recourse borrowings of £79m (2014: £236m) mainly to finance the construction of assets within its infrastructure portfolio.

Preference dividends of £11m (2014: £11m) were paid in the year.

Total interest payments amounted to £51m (2014: £50m) during the year of which £19m (2014: £21m) related to infrastructure concessions and £32m (2014: £29m) related to the US private placement, convertible bonds and recourse borrowings drawn down by the Group.

Cash and cash equivalents

Cash and cash equivalents decreased from £727m to £663m.

* The commentary is unaudited and forms part of the Chief Financial Officer's Review on pages 18 to 21.

Notes to the Financial Statements

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on page 21 and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2015.

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.

2 Principal accounting policies

2.1 Accounting standards

Adoption of new and revised standards

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

- Amendments to the following standards:
  - IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions
  - Improvements to IFRSs (2010–2012)
  - Improvements to IFRSs (2011–2013).

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

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2015:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendments to the following standards:
  - IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  - IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
  - IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
  - IAS 1 Disclosure Initiative
  - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
  - IAS 16 and IAS 41: Agricultural: Bearer Plants
  - IAS 27 Equity Method in Separate Financial Statements
  - Improvements to IFRSs (2012–2014).

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

In anticipation of IFRS 15, the Group will carry out a systematic review of all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date.

The requirements of IFRS 9 in issue as at 31 December 2015 are being assessed and might result in the Group's PPP financial assets being reclassified from 'available-for-sale', which is a category that no longer exists under the new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. Assuming the Group adopts the fair value through profit or loss option, movements in the fair value of PPP financial assets will no longer be recognised in other comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings. The effect within the Group's reserves would be a transfer of £58m from PPP financial asset reserves to retained earnings. The effect within the share of joint ventures' and associates' reserves would be a transfer of £282m from PPP financial asset reserves to retained earnings.

The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

2.2 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are consolidated from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition.

The interest of non-controlling equity holders is stated at the non-controlling equity holders' proportion of the fair value of the assets and liabilities recognised.

2 Principal accounting policies continued

2.2 Basis of consolidation continued

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less direct costs of the transaction and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (ie reclassified to profit or loss or transferred directly to retained earnings).

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its individual assets and obligations for its individual liabilities.

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control or joint control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The Group may elect to measure some of its investments in associates at fair value through profit or loss in accordance with IAS 39 where the investment is held by a Group entity which meets the classification of a venture capital organisation, in which case the investment will be marked to market with movements being recognised in the income statement. The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return. Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Joint operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

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 2.25c for details of the Group's accounting policies in respect of such derivative financial instruments.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales based taxes, after eliminating revenue within the Group.

Revenue is recognised as follows:

– revenue from construction and service activities represents the value of work carried out during the year, including amounts not invoiced
– revenue from manufacturing activities is recognised when title has passed
– interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount
– dividend income is recognised when the equity holder's right to receive payment is established.

Notes to the Financial Statements continued

2 Principal accounting policies continued

2.5 Construction and service contracts

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date.

Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract.

No margin is recognised until the outcome of the contract can be estimated with reasonable certainty.

Provision is made for all known or expected losses on individual contracts once such losses are foreseen.

Revenue in respect of variations to contracts and incentive payments is recognised when it is probable it will be agreed by the customer. Revenue in respect of claims is recognised when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the probable amount can be measured reliably.

Profit for the year includes the benefit of claims settled in the year on contracts completed in previous years.

2.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision maker and therefore the segmental disclosures provided in Note 5 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into three reportable segments. 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 22 to 30.

Working capital is the balance sheet measure reported to the chief operating decision maker. The profitability measure used to assess the performance of the Group is underlying profit from operations.

Segment results represent the contribution of the different segments after the allocation of attributable corporate overheads. Transactions between segments are conducted at arm's-length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable. Non-recourse net borrowings are directly attributable to Infrastructure Investments and therefore not included within Corporate activities.

Major customers are defined as customers contributing more than 10% of the Group's external revenue.

2.7 Pre-contract bid costs and recoveries

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written off are deferred and amortised over the life of the contract.

For construction and services projects, the relevant contract is the construction or services contract respectively. With respect to PPP projects, an assessment is made as to which contractual element the pre-contract costs relate to, in order to determine the relevant period for amortisation. The relevant contract is that which gives rise to a financial or intangible asset, which is either the construction contract or the contract which transferred the asset to the project.

2.8 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

2.9 Finance costs

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method.

2.10 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will not affect the absolute amount of the results for the period and the trend of results. Underlying items are items before non-underlying items.

Non-underlying items include:

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

These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group.

The results of Rail Germany and certain legacy ES contracts have been included as non-underlying. Refer to Note 5.

2.11 Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also accounted for within equity. Current tax is based on the profit for the year.

Deferred tax is provided in full, 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.

2 Principal accounting policies continued

2.11 Taxation continued

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.12 Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and other businesses, joint ventures and associates and represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written off or discount arising on acquisition credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation charges in respect of software and Infrastructure Investments intangibles are included in underlying items.

c) Research and development

Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits
- the development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure associated with bringing the asset to its operating location and condition.

2.14 Leasing

Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease, and depreciation is provided accordingly. The liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant effective rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2.15 Impairment of assets

Goodwill arising on acquisitions are not subject to amortisation are reviewed at least annually for impairment. Other intangible assets and property, plant and equipment are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

2.16 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Available-for-sale investments are measured at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Held to maturity investments are measured at amortised cost.

2.17 Assets held for sale and discontinued operations

Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Held for sale assets are measured at the lower of their carrying amount on classification as held for sale or fair value less costs to sell.

A component of the Group is presented as a discontinued operation if it has either been disposed of or is classified as held for sale and it is a separate major line of business or geographic operation or the proposed sale is part of a single co-ordinated plan to dispose of a single separate major line of business or geographical operation. When classified as a discontinued operation, income statement performance is reported in summary form outside continuing operations and comparative figures are restated.

Notes to the Financial Statements continued

2 Principal accounting policies continued

2.18 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.

2.19 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts.

2.20 Trade payables

Trade payables are not interest bearing and are stated at cost.

2.21 Provisions

Provisions for insurance liabilities retained in the Group's captive insurance companies, legal claims, defects and warranties, environmental restoration, onerous leases, and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability.

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

2.22 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.

2.23 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution retirement and other long-term employee benefit schemes, the majority of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the scheme assets. Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) would be recoverable by way of a reduction in future contributions as the Group has the ability to use surplus funds in the defined benefit section of the BBPF to pay its contributions due under the defined benefit and defined contribution sections of the BBPF.

2.24 Share-based payments

Employee services received in exchange for the grant of share options, performance share plan awards and deferred bonus plan awards are charged to the income statement on a straight-line basis over the vesting period, based on the fair values of the options or awards at the date of grant and the numbers expected to become exercisable.

The credits in respect of the amounts charged are included within separate reserves in equity until such time as the options or awards are exercised, when the proceeds received in respect of share options are credited to share capital and share premium or the shares held by the employee trust are transferred to employees in respect of performance share plan awards and deferred bonus plan awards.

2.25 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Classification of financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

b) Cumulative convertible redeemable preference shares and convertible bonds

The Company's cumulative convertible redeemable preference shares and the Group's convertible bonds are compound instruments, comprising a liability component and an equity component. The fair value of the liability components was estimated using the prevailing market interest rates at the dates of issue for similar non-convertible instruments. The difference between the proceeds of issue of the preference shares and convertible bonds and the fair value assigned to the respective liability components, representing the embedded option to convert the liability components into the Company's ordinary shares, is included in equity.

The interest expense on the liability components is calculated by applying applicable market interest rates for similar non-convertible debt prevailing at the dates of issue to the liability components of the instruments. The difference between this amount and the dividend/interest payable is included in the carrying amount of the liability component and is charged to the income statement on an accrual basis together with the dividend/interest payable.

c) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 38.

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently re-measured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

2 Principal accounting policies continued

2.25 Financial instruments continued

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (OCI). Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded in the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the balance sheet are recognised in the income statement as they arise.

d) PPP concession companies

Assets constructed by PPP concession companies are classified principally as available-for-sale financial assets.

In the construction phase, income is recognised by applying an attributable profit margin to the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant 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 on 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 and other movements recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement upon disposal of the asset.

2.26 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 2015 are discussed below.

All of the below are both judgements and estimates made by the Group apart from the classification of non-underlying items which is an item that requires judgement only.

a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in Notes 2.4 and 2.5, are central to how the Group values the work it has carried out in each financial year.

These policies require forecasts to be made of the outcomes of long-term construction services and support services contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

Following the construction business contract reviews carried out in the year, risk-based provisions were recognised on specific contracts. The risk-based provisions are recognised to reflect an increased level of prudence in estimating specific contract completion costs. In 2014, the risk-based provisions were recognised across the broader UK construction portfolio, and generally covered the smaller contracts.

Given the scale of the construction business losses incurred in 2015, consideration has also been given as to whether any of the losses incurred in 2015 should have been identified and accounted for in previous periods in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The results of the exercise showed that for the accounts for the year ended 31 December 2014, the aggregate impact of any errors was not material and accordingly the 2014 accounts have not been restated.

Across Construction Services there are several long-term and complex projects where the Group has incorporated significant judgements over contractual entitlements. The range of potential outcomes could result in a materially positive or negative change to underlying profitability and cash flow. In the UK, the majority of these contracts are within Major Projects. Outside the UK, this primarily relates to a small number of contracts in Hong Kong which have been recorded at break-even. Several of these claims are expected to reach commercial settlement in 2016.

Notes to the Financial Statements continued

2 Principal accounting policies continued

2.26 Judgements and key sources of estimation uncertainty continued

b) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised.

c) Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying items or non-underlying items requires judgement. A total non-underlying loss after tax of £71m (2014: £5m) was charged to the income statement for the year ended 31 December 2015. Refer to Note 10.

d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash-generating unit and the application of a suitable discount rate in order to calculate the present value. A nominal growth rate, based on real GDP growth plus CPI inflation, is used to calculate a terminal growth multiple in accordance with the Gordon Growth Model. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash-generating unit. The carrying value of goodwill at 31 December 2015 was £844m (2014: £826m).

e) Available-for-sale financial assets

At 31 December 2015, £2,638m (2014: £2,918m) of PPP financial assets constructed by the Group's subsidiary, joint venture and associate companies were classified as available-for-sale financial assets. In the operational phase the fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates, is used from 3.61% to 5.10% (2014: 4.23% to 7.23%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. Movements in the fair value of PPP financial assets attributable to non-market-related changes in future cash flow assumptions are recognised in the income statement. At December 2015 this has given rise to a fair value gain of £7m (2014: £15m) which has been recognised within underlying profit from operations.

A £183m loss was taken to other comprehensive income in 2015 (2014: £303m gain) and a cumulative fair value gain of £467m had arisen on these financial assets as a result of movements in the fair value of these financial assets at 31 December 2015 (2014: £683m gain).

f) Recoverable value of recognised receivables

The Group has recognised trade receivables with a carrying value of £495m (2014: £557m). The recoverability of trade receivables is regularly reviewed in the light of the available economic information specific to each receivable and specific provisions are recognised for balances considered to be irrecoverable.

g) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 December 2015 of £206m (2014: £197m).

h) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 28, including tables showing the sensitivity of the pension scheme obligations and assets to different actuarial assumptions.

At 31 December 2015, the retirement benefit liability recognised on the Group's balance sheet was £146m (2014: £128m). The effects of changes in the actuarial assumptions underlying the benefit obligation and discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2015 the Group recognised net actuarial losses of £90m in equity (2014: £232m gain), including its share of the actuarial gains and losses arising in joint ventures and associates.

i) Held for sale and discontinued operations

When it is highly probable that businesses will be sold within one year and they are being actively marketed they meet the criteria to be classified as held for sale. Discontinued operations are businesses or a group of businesses which meet the criteria to be classified as held for sale, have been sold or abandoned and form a separate major line of business of the Group. Details of the Group's discontinued operations are set out in Note 12.

3 Exchange rates

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

Average rates

£1 buys	**2015**	2014	Change
US$	**1.53**	1.65	(7.3)%
HK$	**11.84**	12.76	(7.2)%
Euro	**1.37**	1.24	10.5%

Closing rates

£1 buys	**2015**	2014	Change
US$	**1.48**	1.56	(5.1)%
HK$	**11.43**	12.09	(5.5)%
Euro	**1.36**	1.28	6.3%

4 Revenue

Continuing operations	**Group 2015 £m**	Group 2014 £m	**Company 2015 £m**	Company 2014 £m
Revenue from the provision of services*	**6,920**	7,195	**–**	–
Revenue from manufacturing activities	**14**	22	**–**	–
Proceeds from sale of development land	**21**	47	**–**	–
Dividends from subsidiaries	**–**	–	**–**	162
Dividends from joint ventures and associates	**–**	–	**25**	6
Total revenue	**6,955**	7,264	**25**	168
Investment income (Note 8)	**52**	64	**7**	8
Total revenue and investment income	**7,007**	7,328	**32**	176

* Includes IAS 11 construction contract revenue of £5,870m (2014: £6,195m).

5 Segment analysis

Reportable segments of the Group:

- Construction Services – activities resulting in the physical construction of an asset
- Support Services – activities which support existing assets or functions such as asset maintenance and refurbishment
- Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, schools, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment now also includes the Group's housing development division which has moved from Construction Services.

Rail Germany was reclassified from discontinued operations in 2014 and its performance was included within non-underlying items as part of continuing operations. The Group has continued to present Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity.

When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit. Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014. As a result, Rail Germany did not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation in 2014.

In 2014, the performance of external Engineering Services (ES) contracts linked to poor legacy management and in regions that ES has withdrawn from tendering for third-party work was also included in non-underlying items as the size and nature of the losses due to the problematic delivery of these contracts are exceptional and distort the underlying performance of the Group. ES has stopped bidding external work in London, South East and the South West. At 31 December 2015, two of these contracts were still active and currently scheduled to complete in May 2016. Separate disclosure of these contracts aids the reader's understanding of the underlying performance of the remainder of the Group. Performance on these contracts including any claims recovery will continue to be presented in non-underlying items through to their completion.

Notes to the Financial Statements continued

5 Segment analysis continued

5.1 Total Group

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

^ Presented before non-underlying items for underlying operations (Notes 2.10 and 10).

Income statement – performance by activity from continuing operations	Construction Services+ 2014 £m	Support Services 2014 £m	Infrastructure Investments+ 2014 £m	Corporate activities 2014 £m	Total 2014 £m	Rail Germany 2014 £m	Certain legacy ES contracts 2014 £m	Total 2014 £m
Revenue including share of joint ventures and associates	6,597	1,273	570	–	8,440	291	62	8,793
Share of revenue of joint ventures and associates	(1,168)	(26)	(296)	–	(1,490)	(39)	–	(1,529)
Group revenue	5,429	1,247	274	–	6,950	252	62	7,264
Group operating (loss)/profit^	(217)	49	81	(26)	(113)	(22)	(88)	
Share of results of joint ventures and associates	8	1	46	–	55	(1)	–	
(Loss)/profit from operations^	(209)	50	127	(26)	(58)	(23)	(88)	
Non-underlying items								
– include results from certain legacy ES contracts within Construction Services	(88)	–	–	–	(88)			
– include results from Rail Germany within Construction Services	(23)	–	–	–	(23)			
– amortisation of acquired intangible assets	(5)	–	(6)	–	(11)			
– other non-underlying items	(66)	(27)	(3)	(5)	(101)			
	(182)	(27)	(9)	(5)	(223)			
(Loss)/profit from operations	(391)	23	118	(31)	(281)			
Investment income					64			
Finance costs					(87)			
Loss before taxation					(304)			

^ Presented before non-underlying items for underlying operations (Notes 2.10 and 10).

+ £10m of costs relating to the acceleration of the completion of construction works were included within Infrastructure Investments.

5 Segment analysis continued
5.1 Total Group continued

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

* Includes non-operating items and current working capital.

Total assets#	**1,983**	**524**	**1,339**	**755**	**4,601**
Total liabilities	**(2,141)**	**(326)**	**(586)**	**(718)**	**(3,771)**
Net (liabilities)/assets	**(158)**	**198**	**753**	**37**	**830**

Inventory relating to development and housing land and work in progress amounting to £26m (2014: £37m) was previously included in Construction Services. This is now presented within Infrastructure Investments.

Assets and liabilities by activity	Construction Services 2014+ £m	Support Services 2014 £m	Infrastructure Investments 2014 £m	Corporate activities 2014 £m	Total 2014 £m
Due from construction contract customers	406	156	–	–	562
Due to construction contract customers	(317)	(33)	–	–	(350)
Inventories and non-construction work in progress	82	84	–	4	170
Trade and other receivables – current	807	104	55	–	966
Trade and other payables – current	(1,596)	(278)	(75)	(10)	(1,959)
Provisions – current	(89)	(15)	–	(16)	(120)
Working capital from continuing operations*	(707)	18	(20)	(22)	(731)
Classified as net assets held for sale (Note 12)	(2)	–	–	–	(2)
Adjusted working capital	(709)	18	(20)	(22)	(733)

* Includes non-operating items and current working capital.

Total assets	2,419	491	1,530	804	5,244
Total liabilities	(2,274)	(365)	(701)	(674)	(4,014)
Net assets	145	126	829	130	1,230

+ Includes net assets held for sale of £13m relating to the Rail disposal group (Note 12).

Other information – continuing operations	Construction Services 2015 £m	Support Services 2015 £m	Infrastructure Investments 2015 £m	Corporate activities 2015 £m	Total 2015 £m
Capital expenditure on property, plant and equipment (Note 17)	**14**	**12**	**14**	**–**	**40**
Depreciation (Note 17)	**16**	**16**	**2**	**1**	**35**
Gain on disposals of interests in investments (Note 32.2)	**–**	**–**	**95**	**–**	**95**

Other information – continuing operations	Construction Services 2014 £m	Support Services 2014 £m	Infrastructure Investments 2014 £m	Corporate activities 2014 £m	Total 2014 £m
Capital expenditure on property, plant and equipment (Note 17)	15	11	23	–	49
Depreciation (Note 17)	25	15	2	1	43
Gain on disposals of interests in investments (Note 32.3)	–	–	93	–	93

Notes to the Financial Statements continued

5 Segment analysis continued

5.1 Total Group continued

Performance by geographic destination – continuing operations	United Kingdom 2015 £m	United States 2015 £m	Rest of world 2015 £m	Total 2015 £m
Revenue including share of joint ventures and associates	**3,843**	**3,238**	**1,363**	**8,444**
Share of revenue of joint ventures and associates	**(185)**	**(170)**	**(1,134)**	**(1,489)**
Group revenue	**3,658**	**3,068**	**229**	**6,955**
Non-current assets excluding financial assets and deferred tax assets	**1,051**	**764**	**80**	**1,895**

Performance by geographic destination – continuing operations	United Kingdom 2014 £m	United States 2014 £m	Rest of world 2014 £m	Total 2014 £m
Revenue including share of joint ventures and associates	4,271	3,123	1,399	8,793
Share of revenue of joint ventures and associates	(329)	(180)	(1,020)	(1,529)
Group revenue	3,942	2,943	379	7, 264
Non-current assets excluding financial assets and deferred tax assets	1,135	709	128	1,972

Major customers

Included in Group revenue are revenues from continuing operations of £1,305m (2014: £1,201m) from the US Government and £1,426m (2014: £1,597m) from the UK Government, which are the Group's two largest customers. These revenues are included in the results across all three reported segments.

5.2 Infrastructure Investments

Underlying profit from operations[1]	Group 2015 £m	Share of joint ventures and associates (Note 18.2)+ 2015 £m	Total 2015 £m	Group 2014 £m	Share of joint ventures and associates (Note 18.2)+ 2014 £m	Total 2014 £m
UK^	**3**	**30**	**33**	2	40	42
North America	**17**	**8**	**25**	15	6	21
Infrastructure Fund	**–**	**3**	**3**	–	–	–
Infrastructure	**–**	**–**	**–**	(2)	–	(2)
Gain on disposals of interests in investments	**95**	**–**	**95**	93	–	93
	115	**41**	**156**	108	46	154
Bidding costs and overheads	**(24)**	**–**	**(24)**	(27)	–	(27)
	91	**41**	**132**	81	46	127
Net assets/(liabilities)						
UK^	**410**	**405**	**815**	475	522	997
North America	**146**	**112**	**258**	158	92	250
Infrastructure Fund	**–**	**38**	**38**	(2)	20	18
Infrastructure	**9**	**–**	**9**	14	–	14
	565	**555**	**1,120**	645	634	1,279
Infrastructure Investments central functions	**(2)**	**–**	**(2)**	(5)	–	(5)
Non-recourse borrowings net of associated cash and cash equivalents (Note 26)	**(365)**	**–**	**(365)**	(445)	–	(445)
Total Infrastructure Investments net assets	**198**	**555**	**753**	195	634	829

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.
^ Including Singapore and Australia.
1 Before non-underlying items (Notes 2.10 and 10).

6 Loss from operations

6.1 Loss from continuing operations is stated after charging/(crediting)

	2015 £m	2014 £m
Research and development costs	**2**	3
Depreciation of property, plant and equipment	**35**	43
Amortisation of intangible assets	**25**	17
Net (release)/charge of trade receivables impairment provision	**(3)**	5
Impairment of property, plant and equipment	**6**	1
Impairment of inventory	**4**	1
Impairment of IT intangible assets	**17**	21
Profit on disposal of property, plant and equipment	**(1)**	(7)
Cost of inventory recognised as an expense	**176**	168
Exchange gains and losses	**1**	–
Auditor’s remuneration	**4**	5
Short-term hire charges for plant and equipment	**83**	117
Other operating lease rentals	**51**	64

6.2 Analysis of auditor’s remuneration – continuing and discontinued operations

	2015 £m	2014 £m
Services as auditor to the Company	**1.1**	0.9
Services as auditor to Group subsidiaries	**2.8**	3.8
Total audit fees	**3.9**	4.7
Audit-related assurance fees	**0.3**	1.6
Taxation advisory fees	**0.2**	–
Corporate finance fees	**0.2**	1.0
Other assurance fees	**–**	1.0
Other services	**–**	0.1
Total non-audit fees	**0.7**	3.7
Total fees in relation to audit and other services	**4.6**	8.4

Notes to the Financial Statements continued

7 Employee costs

7.1 Group – continuing and discontinued operations

Employee costs during the year	2015 £m	2014 £m
Wages and salaries	**1,124**	1,896
Underlying redundancy costs	**4**	8
Non-underlying redundancy costs (Note 10)	**13**	14
Social security costs	**127**	176
Pension costs (Note 28)	**50**	77
Share-based payments (Note 33)	**5**	5
	1,323	2,176

Of the above employee costs, £1,323m (2014: £1,421m) relates to continuing operations.

Average number of Group employees	2015 Number	2014 Number
Construction Services	**14,368**	15,833
Support Services	**7,311**	8,936
Infrastructure Investments	**1,509**	1,512
Corporate	**128**	149
Continuing operations	**23,316**	26,430
Discontinued operations	**–**	13,321
	23,316	39,751

At 31 December 2015 the total number of Group employees was 23,123 (2014: 25,818, of which 125 related to discontinued operations).

7.2 Company

The Company did not have any employees and did not incur any employee costs in the year (2014: £nil). Balfour Beatty Group Employment Ltd was established in February 2013 as the employing entity for the Balfour Beatty Group's UK employees.

8 Investment income

Continuing operations	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Subordinated debt interest receivable	**24**	29	**1**	1
Interest receivable on PPP financial assets	**24**	26	**–**	–
Interest receivable from subsidiaries	**–**	–	**2**	2
Other interest receivable and similar income	**4**	9	**4**	5
	52	64	**7**	8

9 Finance costs

Continuing operations		Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Non-recourse borrowings	– bank loans and overdrafts	**19**	20	**–**	–
Preference shares	– finance cost	**11**	11	**11**	11
	– accretion	**2**	2	**2**	2
Convertible bonds	– finance cost	**5**	5	**–**	–
	– accretion	**6**	6	**–**	–
US private placement	– finance cost	**11**	10	**11**	10
Other interest payable	– loans under committed facilities	**–**	6	**–**	6
	– other bank loans and overdrafts	**1**	–	**2**	1
	– commitment fees	**6**	5	**6**	5
	– other finance charges	**5**	6	**1**	–
Net finance cost on pension scheme assets and liabilities (Note 28.2)		**3**	16	**–**	–
Interest payable to subsidiaries		**–**	–	**13**	14
		69	87	**46**	49

10 Non-underlying items

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Items (charged against)/credited to profit				
10.1 **Continuing operations**				
10.1.1 Trading results of Rail Germany (including £13m (2014: £15m) of other net operating expenses and £nil (2014: £1m) of finance cost)	**(3)**	(23)	**–**	–
10.1.2 Results of certain legacy ES contracts	**(8)**	(88)	**–**	–
10.1.3 Amortisation of acquired intangible assets	**(10)**	(11)	**–**	–
10.1.4 Other non-underlying items:				
– Build to Last transformation costs (2014: restructuring and reorganisation costs)	**(23)**	(23)	**(4)**	–
– restructuring costs relating to Heery and Rail Germany	**(9)**	–	**–**	–
– cost of implementing the shared service centre in the UK	**(8)**	(14)	**–**	–
– impairment of assets within Rail Germany	**(7)**	(30)	**–**	–
– gain on disposal of Signalling Solutions Ltd	**16**	–	**–**	–
– impairment of IT intangible asset (2014: Oracle R12 intangible asset)	**(17)**	(21)	**–**	–
– loss on disposal of parts of Rail Germany	**(3)**	–	**–**	–
– pension fund settlement gain	**3**	2	**–**	–
– impairment of goodwilll and other costs relating to Blackpool Airport	**(4)**	(1)	**–**	–
– Rail Germany regulatory matters	**–**	(6)	**–**	–
– cost incurred in relation to the aborted merger discussions with Carillion plc	**–**	(7)	**–**	(7)
– cost incurred on disposal of businesses	**–**	–	**–**	(10)
– release of provision against partial loan repayment from subsidiary	**–**	–	**–**	2
Total other non-underlying items from continuing operations	**(52)**	(100)	**(4)**	(15)
	(73)	(222)	**(4)**	(15)
10.1.5 Share of results of joint ventures and associates – trading gain of £1m and impairment of assets of £4m in respect of Rail Germany	**(3)**	(1)	**–**	–
10.1.6 Share of results of joint ventures and associates – goodwill impairment in respect of Middle East	**–**	(1)	**–**	–
Charged against loss before taxation from continuing operations	**(76)**	(224)	**(4)**	(15)
10.1.7 Tax on items above	**4**	1	**–**	–
Non-underlying items charged against loss for the year from continuing operations	**(72)**	(223)	**(4)**	(15)
10.2 **Discontinued operations**				
10.2.1 Amortisation of acquired intangible assets	**–**	(8)	**–**	–
10.2.2 Other non-underlying items:				
– gain on disposal of Parsons Brinckerhoff	**5**	234	**–**	–
– loss on disposal of Rail Italy	**(4)**	–	**–**	–
– goodwill impairment in respect of Rail Italy	**–**	(24)	**–**	–
– other	**–**	(3)	**–**	–
Total other non-underlying items from discontinued operations	**1**	207	**–**	–
Credited to (loss)/profit before taxation from discontinued operations	**1**	199	**–**	–
10.2.3 Tax on items above	**–**	19	**–**	–
Non-underlying items credited to (loss)/profit for the year from discontinued operations	**1**	218	**–**	–
Charged against (loss)/profit for the year	**(71)**	(5)	**(4)**	(15)

Continuing operations

10.1.1 Rail Germany was reclassified from discontinued operations in 2014 and has continued to be presented as part of the Group's non-underlying items within continuing operations. Refer to Note 5. In 2015, Rail Germany generated a loss before tax excluding share of joint ventures and associates of £3m (2014: £23m).

10.1.2 The Group has continued to present the results of certain external legacy Engineering Services (ES) contracts in non-underlying items. These contracts were classified as non-underlying items in 2014 as the performance of these contracts was linked to poor legacy management and in regions where ES has withdrawn from tendering for third-party work. Refer to Note 5. These contracts resulted in a loss before tax for the Group of £8m in 2015 (2014: £88m). No tax credit has been recognised on this loss. Refer to Note 27.

10.1.3 The amortisation of acquired intangible assets from continuing operations comprises: customer contracts £6m (2014: £6m); customer relationships £3m (2014: £4m); and brand names £1m (2014: £1m).

Notes to the Financial Statements continued

10 Non-underlying items continued

Continuing operations continued

10.1.4.1 The Group launched its Build to Last transformation programme in February 2015. The transformation programme is aimed to drive continual improvement across all of the Group's businesses and realise operational efficiencies. As a result of this programme, restructuring costs of £23m were incurred in 2015 relating to: Construction Services UK £11m; Support Services UK £6m; other UK entities £3m; and other non-UK entities £3m. These restructuring costs comprise: redundancy costs £12m; external advisers £4m; property-related costs £5m; and other restructuring costs £2m.

In 2014, the Group incurred restructuring costs relating to legacy transformation programmes of £23m relating to: Construction Services UK £11m; other UK entities £3m; and other non-UK entities £9m. These restructuring costs comprise: redundancy costs £13m; external advisers £5m; property-related costs £1m; and other restructuring costs £4m.

The Company incurred restructuring costs of £4m (2014: £nil) during the year.

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

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

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

10.1.4.3 In 2015, transitioning other operating companies to the UK shared service centre in Newcastle-upon-Tyne and increasing the scope led to incremental costs of £8m (2014: £14m).

10.1.4.4 An assessment of the carrying value of assets within Rail Germany was carried out in 2015 following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. This agreement remains subject to various approvals at the year end. The assessment resulted in an impairment charge of £11m, of which £4m was recognised at the joint venture level. In 2014, an impairment charge of £30m was recognised on the parts of Rail Germany which were sold to Rhomberg Sersa Rail Group in January 2015. Refer to Note 32.2.1.

10.1.4.5 On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Ltd for a cash consideration of £18m, resulting in a £16m gain in 2015. Refer to Note 32.2.6.

10.1.4.6 In 2015, an impairment charge of £17m was recorded to write-down intangible assets in relation to costs capitalised in the transformation of the Group's UK IT estate from a federated to a more centralised model. Refer to Note 16. In 2014, an impairment charge of £27m was recorded to write-down the cost capitalised in relation to the Oracle R12 software within intangible assets, £21m of which was recorded within continuing operations.

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

10.1.4.7 On 31 January 2015, the Group disposed of parts of its Rail Germany business for a cash consideration of £5m resulting in a £5m loss in 2015. Refer to Note 32.2.1.

On 12 March 2015, the Group also disposed of its 25% interest in Baoji BaoDeLi Electrification Equipment Ltd for a cash consideration of £4m resulting in a £2m gain in 2015. Refer to Note 32.2.4.

10.1.4.8 A settlement gain of £3m (2014: £2m) was recognised in relation to the Balfour Beatty Pension Fund following a commutation exercise commenced in 2014. Refer to Note 28.

10.1.4.9 In 2015, an impairment charge of £4m was recorded to write-down the entire goodwill relating to Blackpool Airport. Blackpool Airport Ltd went into creditors' voluntary liquidation on 16 October 2014 which resulted in costs of £1m in 2014. Blackpool Airport is reported within Infrastructure Investments. Refer to Note 15.

10.1.4.10 During 2014, Rail Germany booked costs of £6m in relation to allegations of historical anti-competitive behaviour occurring in Schreck-Mieves GmbH, a company acquired by Balfour Beatty in 2008.

10.1.4.11 In 2014, costs of £7m were incurred in relation to the aborted merger discussions with Carillion plc.

10.1.4.12 In 2014, the Company incurred costs of £10m relating to the PB disposal. These costs were included as part of the gain on disposal of PB at Group level. Refer to Note 32.3.5.

10.1.4.13 In 2014, the Company released £2m of provision against a loan due from a subsidiary following a partial repayment.

10.1.5 In 2015, the joint venture within Rail Germany generated a trading gain of £1m for the Group (2014: loss of £1m). In addition to this, a £4m impairment charge was recognised on the joint venture following an agreement to sell parts of Rail Germany to Tianjin Keyvia Electric Co Ltd. Refer to Note 10.1.4.4.

10.1.6 In 2014, a goodwill impairment charge of £1m was recognised in relation to the Group's investment in one of its joint ventures in the Middle East.

10.1.7 The non-underlying items charged against Group operating profit from continuing operations gave rise to a tax credit of £4m comprising: £2m charge on the results of Rail Germany and £nil on certain legacy Engineering Services contracts; £4m credit on amortisation of acquired intangible assets; and £2m credit on other non-underlying items (2014: £1m credit comprising: £4m charge on the results of Rail Germany; £4m credit on amortisation of acquired intangible assets; and £1m credit on other non-underlying items).

The non-underlying items charged against Company operating profit gave rise to a tax charge of £nil (2014: £nil).

10 Non-underlying items continued

Discontinued operations

10.2.1 There were no amortisation charges on acquired intangible assets from discontinued operations in 2015. In 2014, £8m of amortisation was charged comprising of: customer contracts £1m; customer relationships £2m; and brand names £5m.

10.2.2.1 On 31 October 2014, the Group disposed of its 100% interest in its professional services business, PB, resulting in a gain on disposal of £234m. In 2015, the Group finalised the cash consideration due on this disposal amounting to additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. In accordance with the stock purchase agreement, the Group received cash of £20m relating to historic tax matters (£16m of which was recognised as a current tax receivable in the prior period) and the Group also released an indemnity provision relating to an historic legal claim of £3m which was successfully settled during the period. Offsetting this additional non-underlying gain on disposal are separation costs incurred during the period of £4m, of which £2m were paid during the period, and the write-off of a deferred tax asset of £7m resulting in an overall net gain of £5m. Transaction costs of £9m, which were accrued in the prior period, were paid in the year. Refer to Note 32.2.9.

10.2.2.2 On 11 March 2015, as part of the ongoing process to exit the Mainland European rail businesses, the Group disposed of Rail Italy for a cash consideration of £5m, resulting in a £4m loss being recognised in the year. Refer to Note 32.2.3.

10.2.2.3 Rail Italy met the criteria to be classified as held for sale at 27 June 2014. Rail Italy was carried at the lower of cost and net realisable value which resulted in a goodwill impairment of £24m in 2014, of which £4m arose after its transfer to assets held for sale. Refer to Note 15.

10.2.3 The non-underlying items charged against profit from discontinued operations gave rise to a tax credit of £nil comprising: £nil on amortisation of acquired intangible assets; and £nil on other non-underlying items (2014: £19m comprising: £2m on amortisation of acquired intangible assets; and £17m on other non-underlying items).

11 Taxation

11.1 Taxation charge

	Group					
Continuing operations[x]	**Underlying items[1] 2015 £m**	**Non-underlying items (Note 10) 2015 £m**	**Total 2015 £m**	Total 2014 £m	**Company 2015 £m**	Company 2014 £m
Total UK tax	**15**	**–**	**15**	(15)	**(11)**	(12)
Total non-UK tax	**(4)**	**(4)**	**(8)**	12	**–**	–
Total tax charge/(credit)	**11**	**(4)**	**7**	(3)	**(11)**	(12)
Continuing operations[x]						
UK current tax						
– corporation tax for the year at 20.25% (2014: 21.5%)	**3**	**–**	**3**	1	**(8)**	(9)
– adjustments in respect of previous periods	**(5)**	**–**	**(5)**	(14)	**(3)**	(2)
	(2)	**–**	**(2)**	(13)	**(11)**	(11)
Non-UK current tax						
– non-UK tax on profits for the year	**3**	**1**	**4**	6	**–**	–
– adjustments in respect of previous periods	**(5)**	**–**	**(5)**	(20)	**–**	–
	(2)	**1**	**(1)**	(14)	**–**	–
Total current tax	**(4)**	**1**	**(3)**	(27)	**(11)**	(11)
UK deferred tax						
– current year charge/(credit)	**8**	**–**	**8**	(7)	**–**	(1)
– adjustments in respect of previous periods	**4**	**–**	**4**	3	**–**	–
– UK corporation tax rate change	**5**	**–**	**5**	2	**–**	–
	17	**–**	**17**	(2)	**–**	(1)
Non-UK deferred tax						
– current year (credit)/charge	**(7)**	**(5)**	**(12)**	9	**–**	–
– adjustments in respect of previous periods	**5**	**–**	**5**	17	**–**	–
	(2)	**(5)**	**(7)**	26	**–**	–
Total deferred tax	**15**	**(5)**	**10**	24	**–**	(1)
Total tax charge/(credit) from continuing operations	**11**	**(4)**	**7**	(3)	**(11)**	(12)

[x] Excluding joint ventures and associates.
[1] Before non-underlying items (Notes 2.10 and 10).

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 18.2), except where tax is levied at the Group level.

Notes to the Financial Statements continued

11 Taxation continued

11.1 Taxation charge continued

In addition to the Group tax charge, tax of £49m is credited (2014: £77m charged) directly to other comprehensive income, comprising: a deferred tax credit of £16m (2014: £54m charge); and a deferred tax credit in respect of joint ventures and associates of £33m (2014: £23m charge). Refer to Note 30.1.

11.2 Taxation reconciliation

Continuing operations	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
(Loss)/profit before taxation	**(199)**	(304)	**23**	144
Less: share of results of joint ventures and associates	**(44)**	(53)	**–**	–
(Loss)/profit before taxation	**(243)**	(357)	**23**	144
Add: non-underlying items charged excluding share of joint ventures and associates	**73**	222	**4**	15
Underlying (loss)/profit before taxation and the results of joint ventures and associates[1]	**(170)**	(135)	**27**	159
Tax on (loss)/profit before taxation at standard UK corporation tax rate of 20.25% (2014: 21.5%)	**(34)**	(29)	**5**	34
Effects of				
Expenses not deductible for tax purposes	**5**	1	**1**	–
Dividend income not taxable	**–**	–	**(5)**	(36)
Non-taxable disposals	**(19)**	(21)	**(11)**	(10)
Tax levied at Group level on share of joint ventures' and associates' profits	**9**	7	**–**	–
Preference share dividends not deductible	**2**	2	**2**	2
Deferred tax assets not recognised	**50**	47	**–**	–
Recognition of losses not previously recognised	**–**	(1)	**–**	–
Effect of tax rates in non-UK jurisdictions	**(6)**	4	**–**	–
UK corporation tax rate change	**5**	2	**–**	–
Adjustments in respect of previous periods	**(1)**	(14)	**(3)**	(2)
Total tax charge/(credit) on underlying (loss)/profit	**11**	(2)	**(11)**	(12)
Less: tax credit on non-underlying items	**(4)**	(1)	**–**	–
Total tax charge/(credit) on (loss)/profit from continuing operations	**7**	(3)	**(11)**	(12)

[1] Before non-underlying items (Notes 2.10 and 10).

12 Discontinued operations and assets held for sale

Rail disposal group

In 2013, following a strategic review in light of low activity levels and the commoditisation of work, the Group decided to divest all of its Mainland European rail businesses over time. The Group had been actively marketing its Mainland European rail businesses and accordingly, when it was probable that these businesses would be sold within a year, or were sold or abandoned, they met the criteria to be classified as an asset held for sale.

To also be classified as discontinued, an operation must represent a separate major line of business. Other than the Mainland European rail businesses there were no significant Group operations in Mainland Europe and therefore by exiting these businesses, the Group was exiting from a separate major geographical operation and they met the criteria to be classified as discontinued operations.

On 8 January 2014 the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m. The disposal resulted in a £nil gain being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed, including cash disposed of £9m, a £1m gain on recycling currency translation reserves to the income statement, and costs incurred and indemnity provisions of £1m. Refer to Note 32.3.1.

On 27 June 2014, following progression of talks with potential purchasers, it became highly probable that Rail Italy would be disposed within a year and met the criteria to be classified as an asset held for sale. Accordingly a £24m goodwill impairment charge was recognised in the year as a non-underlying item. Refer to Note 10.2.2.3. On 11 March 2015, the Group completed the sale of Rail Italy for a net consideration of £3m. Refer to Note 32.2.3.

In 2014, Rail Germany was reclassified from discontinued operations and its performance was included within non-underlying items as part of continuing operations. The Group has presented Rail Germany outside of underlying items as it remains committed to exiting its Mainland European rail businesses as soon as possible and does not consider its operations part of the Group's underlying activity. When initially classified as a discontinued operation on 28 June 2013 the German business was being marketed to be sold as an entire unit.

Subsequently it became apparent that this would not be possible and disposal of part of the business was agreed in November 2014. As a result, Rail Germany did not satisfy the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations for it to remain as a discontinued operation in 2014. However, the parts of Rail Germany which were subject to sale to Rhomberg Sersa Rail Group at December 2014 were classified as assets and liabilities held for sale at 31 December 2014. The sale subsequently completed in January 2015. Refer to Note 32.2.1.

There are no remaining operations within the Rail disposal group classified as discontinued operations or held for sale at 31 December 2015 following completion of the sales of parts of Rail Germany on 31 January 2015 and of Rail Italy on 11 March 2015.

The Rail disposal group was part of the Construction Services segment.

12 Discontinued operations and assets held for sale continued

Parsons Brinckerhoff

On 28 October 2014, shareholder approval was granted for the disposal of the Group's 100% interest in Parsons Brinckerhoff. The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m. The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations in 2014.

In 2015, the Group finalised the cash consideration due on this disposal amounting to additional consideration for the Group of £16m of which £7m was recognised as a receivable at the date of disposal in the prior period. In accordance with the stock purchase agreement, the Group received cash of £20m relating to historic tax matters (£16m of which was recognised as a current tax receivable in the prior period) and the Group also released an indemnity provision relating to an historic legal claim of £3m which was successfully settled during the period. Offsetting this additional non-underlying gain on disposal are separation costs incurred during the period of £4m, of which £2m were paid during the period, and the write-off of a deferred tax asset of £7m resulting in an overall net gain of £5m. Transaction costs of £9m, which were accrued in the prior period, were paid in the year. Refer to Note 32.2.9.

Results of the discontinued operations included within the Group Income Statement

	Rail disposal group 2015 £m	Parsons Brinckerhoff 2014 £m	Rail disposal group 2014 £m	Total discontinued operations 2014 £m
Revenue including share of joint ventures and associates	**1**	1,266	23	1,289
Share of revenue of joint ventures and associates	**–**	(13)	–	(13)
Group revenue	**1**	1,253	23	1,276
Underlying group operating (loss)/profit	**(1)**	38	1	39
Share of results of joint ventures and associates	**–**	–	–	–
Underlying (loss)/profit from operations and before tax	**(1)**	38	1	39
Taxation on underlying loss	**–**	(14)	(1)	(15)
Underlying (loss)/profit after tax	**(1)**	24	–	24
Non-underlying items:				
– gain on disposal+	**1**	234	–	234
– amortisation of acquired intangible assets	**–**	(8)	–	(8)
– other non-underlying items	**–**	–	(27)	(27)
	1	226	(27)	199
Taxation on non-underlying items	**–**	13	6	19
Non-underlying profit/(loss) after tax	**1**	239	(21)	218
Profit/(loss) for the year from discontinued operations	**–**	263	(21)	242

+ Includes £5m gain in 2015 relating to Parsons Brinckerhoff. Refer to Note 32.2.9.

Notes to the Financial Statements continued

12 Discontinued operations and assets held for sale continued

Major classes of assets and liabilities included within net assets held for sale

There are no remaining assets or liabilities held for sale within the Rail disposal group as at 31 December 2015. At 31 December 2014, assets and liabilities held for sale include Rail Italy and parts of Rail Germany which were sold in January 2015. Refer to Notes 32.2.1 and 32.2.3.

	Rail disposal group 2014 £m
Non-current assets	
Deferred tax asset	1
	1
Current assets	
Inventories and non-construction work in progress	2
Due from construction contract customers	14
Trade and other receivables	24
Current tax asset	1
Cash	18
	59
Total assets classified as held for sale	60
Current liabilities	
Due to construction contract customers	(1)
Trade and other payables	(39)
Provisions	(2)
Borrowings	(3)
	(45)
Non-current liabilities	
Retirement benefit liabilities	(2)
	(2)
Total liabilities classified as held for sale	(47)
Net assets of disposal group	13

Reconciliation of net assets classified as held for sale

	Rail disposal group 2015 £m
At 1 January 2015	13
Movement in the year within net assets held for sale	**(2)**
Net assets disposed – Rail Italy (Note 32.2.3)	**(6)**
– parts of Rail Germany (Note 32.2.1)	**(5)**
At 31 December 2015	**–**

Included within the Group's cash flows for the year ended 31 December 2015 are: net £nil operating cash outflows (2014: £1m); and net £1m investing cash inflows (2014: £9m outflows) relating to the Rail disposal group.

Included within the Group's cash flows for the year ended 31 December 2015 are: net £3m operating cash inflows (2014: £43m outflows); net £25m investing cash inflows (2014: £703m); and net £nil financing cash outflows (2014: £1m) relating to Parsons Brinckerhoff.

13 Earnings per ordinary share

Earnings

	Basic 2015 £m	**Diluted 2015 £m**	Basic 2014 £m	Diluted 2014 £m
Continuing operations				
Loss	**(206)**	**(206)**	(302)	(302)
Amortisation of acquired intangible assets – net of tax credit of £4m (2014: £4m)	**6**	**6**	7	7
Other non-underlying items – net of tax charge of £nil (2014: £3m)	**66**	**66**	216	216
Underlying loss	**(134)**	**(134)**	(79)	(79)
Discontinued operations				
Earnings	**–**	**–**	242	242
Amortisation of acquired intangible assets – net of tax credit of £nil (2014: £2m)	**–**	**–**	6	6
Other non-underlying items – net of tax credit of £nil (2014: £17m)	**(1)**	**(1)**	(224)	(224)
Underlying (loss)/earnings	**(1)**	**(1)**	24	24
Total operations				
Loss	**(206)**	**(206)**	(60)	(60)
Amortisation of acquired intangible assets – net of tax credit of £4m (2014: £6m)	**6**	**6**	13	13
Other non-underlying items – net of tax credit of £nil (2014: £14m)	**65**	**65**	(8)	(8)
Underlying loss	**(135)**	**(135)**	(55)	(55)

	Basic 2015 m	**Diluted 2015 m**	Basic 2014 m	Diluted 2014 m
Weighted average number of ordinary shares	**685**	**685**	686	686

Earnings per share	**Basic 2015 Pence**	**Diluted 2015 Pence**	Basic 2014 Pence	Diluted 2014 Pence
Continuing operations				
Loss per ordinary share	**(30.2)**	**(30.2)**	(43.9)	(43.9)
Amortisation of acquired intangible assets	**0.8**	**0.8**	1.1	1.1
Other non-underlying items	**9.7**	**9.7**	31.3	31.3
Underlying loss per ordinary share	**(19.7)**	**(19.7)**	(11.5)	(11.5)
Discontinued operations				
Earnings per ordinary share	**0.1**	**0.1**	35.3	35.3
Amortisation of acquired intangible assets	**–**	**–**	0.8	0.8
Other non-underlying items	**(0.2)**	**(0.2)**	(32.6)	(32.6)
Underlying (loss)/earnings per ordinary share	**(0.1)**	**(0.1)**	3.5	3.5
Total operations				
Loss per ordinary share	**(30.1)**	**(30.1)**	(8.6)	(8.6)
Amortisation of acquired intangible assets	**0.8**	**0.8**	1.9	1.9
Other non-underlying items	**9.5**	**9.5**	(1.3)	(1.3)
Underlying loss per ordinary share	**(19.8)**	**(19.8)**	(8.0)	(8.0)

14 Dividends on ordinary shares

	Per share 2015 Pence	**Amount 2015 £m**	Per share 2014 Pence	Amount 2014 £m
Proposed dividends for the year				
Interim – current year	**–**	**–**	5.6	38
Final – current year	**–**	**–**	–	–
	–	**–**	5.6	38
Recognised dividends for the year				
Final – prior year		**–**		58
Interim – current year		**–**		38
		–		96

Whilst the Board continues to recognise the importance of the dividend to its shareholders, in order to ensure balance sheet strength is maintained during the transformation programme it will not be recommending a final dividend payable for 2015. This results in a total dividend for the year of £nil (2014: 5.6p). The Board expects to reinstate the dividend payments, at an appropriate level, at the interim results in August 2016.

	2015 £m	2014 £m
Dividends on ordinary shares of the Company	**–**	96
Other dividends to non-controlling interests	**–**	–
Total recognised dividends for the year	**–**	96

Notes to the Financial Statements continued

15 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2014	1,091	(43)	1,048
Currency translation differences	24	5	29
Impairment charges in respect of Mainland European rail businesses (Note 10.2.2.3)	–	(20)	(20)
Reclassified from assets held for sale relating to Rail Germany	113	(113)	–
Reclassified to assets held for sale relating to Rail Italy	(24)	20	(4)
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	(227)	–	(227)
At 31 December 2014	977	(151)	826
Currency translation differences	**20**	**2**	**22**
Impairment charges in respect of Blackpool Airport (Note 10.1.4.9)	**–**	**(4)**	**(4)**
At 31 December 2015	**997**	**(153)**	**844**

	2015			2014		
Carrying amounts of goodwill by segment	**United Kingdom £m**	**United States £m**	**Total £m**	United Kingdom £m	United States £m	Total £m
Construction Services	**260**	**410**	**670**	260	391	651
Support Services	**129**	**–**	**129**	129	–	129
Infrastructure Investments	**–**	**45**	**45**	4	42	46
Group	**389**	**455**	**844**	393	433	826

	2015		2014+	
Carrying amounts of goodwill by cash-generating unit	**£m**	**Pre-tax discount rate %**	£m	Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**10.2**	248	10.4
Balfour Beatty Construction Group Inc.	**377**	**12.6**	356	12.6
Rail UK	**66**	**10.4**	66	8.7
Gas & Water	**58**	**10.3**	58	8.7
Balfour Beatty Communities US	**45**	**12.6**	43	8.7
Other	**50**	**10.3–12.7**	55	8.7–12.8
Group total	**844**		826	

+ Re-presented to align 2014's carrying amount of goodwill to 2015's CGU allocation as a result of changes in management reporting structure within Construction Services UK and Support Services. Construction Services UK has now been split into UK Regional and Engineering Services and Major Projects, the latter being included in Other. Support Services has also been split into Rail UK, Gas & Water and Power, the latter being included in Other. Balfour Beatty Communities US is now being shown separately from Other.

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected workload of each cash-generating unit (CGU), giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three Year Plan, which covers the period from 2016 to 2018 and includes a stabilisation of performance in the Construction Services UK business. 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.

It is anticipated that the UK construction market will grow modestly over the forecast period, with improvements in tender margins. It is anticipated that the US construction market will continue to improve, as will tender margins. In the Support Services segment, market conditions are anticipated to be stable in the UK. The Support Services business has a portfolio of long-term contracts and has secured the majority of its workload for the forecast period.

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

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

15 Intangible assets – goodwill continued

	2015			2014+		
	Inflation rate %	**Real growth rate %**	**Nominal long-term growth rate applied %**	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	**1.6**	**1.2**	**2.8**	1.9	1.3	3.2
Balfour Beatty Construction Group Inc	**1.6**	**1.7**	**3.3**	1.9	1.7	3.6
Rail UK	**1.6**	**1.2**	**2.8**	1.9	1.3	3.2
Gas & Water	**1.6**	**1.2**	**2.8**	1.9	1.3	3.2
Balfour Beatty Communities US	**1.6**	**1.7**	**3.3**	1.9	1.7	3.6
Other	**1.6**	**1.7**	**3.3**	1.9	1.7	3.6

+ Re-presented to align 2014's carrying amount of goodwill to 2015's CGU allocation as a result of changes in management reporting structure within Construction Services UK and Support Services. Construction Services UK has now been split into UK Regional and Engineering Services and Major Projects, the latter being included in Other. Support Services has also been split into Rail UK, Gas & Water and Power, the latter being included in Other. Balfour Beatty Communities US is now being shown separately from Other.

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.

In light of the significant losses incurred within the UK construction business in 2015 the Group has considered whether a reasonable possible change in assumptions would lead to an impairment of the goodwill in the related CGUs and concluded that it is not the case. The stabilisation and recovery of the Group's UK construction business to more normal levels of performance is however a key assumption underpinning the cash flow forecasts used to assess the recoverable amount of the related goodwill.

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

Using a pre-tax discount rate of 10.3% and nominal long-term growth rate of 2.8% the recoverable amount of the remaining goodwill in Gas & Water is £67m based on value-in-use, with consequent headroom of £9m. A 1.0% increase in the discount rate and a 1.0% reduction in the growth rate would lead to an impairment of £22m.

Notes to the Financial Statements continued

16 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Infrastructure Investments intangible £m	Software and other £m	Total £m
Cost						
At 1 January 2014	220	123	55	21	71	490
Currency translation differences	11	4	2	–	–	17
Additions	–	–	–	28	35	63
Reclassified from property plant and equipment (Note 17)	–	–	–	–	4	4
Reclassified from assets held for sale	–	–	–	–	3	3
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	(30)	(70)	(34)	–	(3)	(137)
At 31 December 2014	201	57	23	49	110	440
Currency translation differences	**10**	**2**	**–**	**–**	**–**	**12**
Additions	**–**	**–**	**–**	**23**	**20**	**43**
Disposals	**(4)**	**–**	**(2)**	**–**	**–**	**(6)**
At 31 December 2015	**207**	**59**	**21**	**72**	**130**	**489**
Accumulated amortisation						
At 1 January 2014	(138)	(93)	(46)	–	(9)	(286)
Currency translation differences	(6)	(4)	(1)	–	–	(11)
Charge for the year – continuing operations	(6)	(4)	(1)	–	(6)	(17)
Charge for the year – discontinued operations	(1)	(2)	(5)	–	–	(8)
Impairment charge – continuing operations	–	–	–	–	(21)	(21)
Impairment charge – discontinued operations	–	–	–	–	(8)	(8)
Reclassified from assets held for sale	–	–	–	–	(3)	(3)
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	29	65	33	–	3	130
At 31 December 2014	(122)	(38)	(20)	–	(44)	(224)
Currency translation differences	**(6)**	**(1)**	**–**	**–**	**–**	**(7)**
Charge for the year	**(6)**	**(3)**	**(1)**	**(1)**	**(14)**	**(25)**
Disposals	**4**	**–**	**2**	**–**	**–**	**6**
Impairment charge	**–**	**–**	**–**	**–**	**(17)**	**(17)**
At 31 December 2015	**(130)**	**(42)**	**(19)**	**(1)**	**(75)**	**(267)**
Carrying amount						
At 31 December 2015	**77**	**17**	**2**	**71**	**55**	**222**
At 31 December 2014	79	19	3	49	66	216

In 2013, the Group reached financial close on a student accommodation project in which the Group has demand risk and therefore, under IFRIC 12 Service Concession Arrangements, recognises an intangible asset as Infrastructure Investments intangible. The project to design, build and maintain postgraduate accommodation at the University of Edinburgh is nearing completion of the construction phase, with the first rooms occupied by students from September 2015. Additional spend of £23m (2014: £28m) was incurred in the year in respect of this project.

Software and other primarily comprises software of the UK shared service centre and operating companies with a cost of £116m (2014: £100m) and accumulated amortisation and impairment of £67m (2014: £43m), including internally generated software with a cost of £77m (2014: £75m) and accumulated amortisation and impairment of £42m (2014: £34m).

In 2015, an impairment charge of £17m was recognised against software intangible assets relating to costs capitalised in the transformation of the Group's UK IT estate from a federated to a more centralised model. Due to curtailments in the scope of the implementation and the Group's termination of its agreement with its implementation partner, future benefits expected to be generated from this asset are reduced. The impairment was recognised as a non-underlying charge. An impairment charge of £27m was recognised in 2014 relating to the impairment of the Oracle R12 asset. This charge was recognised within non-underlying items. Refer to Note 10.1.4.6.

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to 10 years for customer relationships, three to seven years for software, and up to five years for brand names, except for customer contracts and relationships relating to Balfour Beatty Investments North America which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships. These contracts have a duration of up to 50 years for customer contracts relating to Balfour Beatty Investments North America.

The Infrastructure Investments intangible is amortised on a straight-line basis over the life of the project which is 50 years.

The software for the UK shared service centre and operating companies is amortised on a basis matching its usage profile over its seven-year life. The Group's remaining knowledge sharing and collaboration software is amortised on a basis matching its usage profile over its five-year life. Other intangible assets are amortised over periods up to 10 years.

17 Property, plant and equipment

17.1 Movements

	Land and buildings £m	Plant and equipment £m	Infrastructure leasehold improvements £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 January 2014	108	412	–	12	532
Currency translation differences	3	3	–	1	7
Additions	15	28	–	23	66
Disposals	(4)	(49)	–	–	(53)
Reclassified to software (Note 16)	–	(4)	–	–	(4)
Reclassified to inventories	(3)	–	–	–	(3)
Transfers	–	–	34	(34)	–
Reclassified from assets held for sale	3	26	–	–	29
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	(53)	(54)	–	–	(107)
At 31 December 2014	69	362	34	2	467
Currency translation differences	**1**	**2**	**1**	**–**	**4**
Transfers	**–**	**2**	**–**	**(2)**	**–**
Additions	**6**	**21**	**–**	**13**	**40**
Disposals	**(3)**	**(28)**	**–**	**–**	**(31)**
At 31 December 2015	**73**	**359**	**35**	**13**	**480**
Accumulated depreciation					
At 1 January 2014	(48)	(276)	–	–	(324)
Currency translation differences	(1)	–	–	–	(1)
Charge for the year – continuing operations	(5)	(38)	–	–	(43)
Charge for the year – discontinued operations	(4)	(7)	–	–	(11)
Impairment	(2)	(1)	–	–	(3)
Disposals	2	41	–	–	43
Reclassified from assets held for sale	–	(11)	–	–	(11)
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	24	30	–	–	54
At 31 December 2014	(34)	(262)	–	–	(296)
Currency translation differences	**–**	**(1)**	**–**	**–**	**(1)**
Charge for the year	**(5)**	**(29)**	**(1)**	**–**	**(35)**
Impairment	**(2)**	**(4)**	**–**	**–**	**(6)**
Disposals	**2**	**23**	**–**	**–**	**25**
At 31 December 2015	**(39)**	**(273)**	**(1)**	**–**	**(313)**
Carrying amount					
At 31 December 2015	**34**	**86**	**34**	**13**	**167**
At 31 December 2014	35	100	34	2	171

In 2014, the Group completed construction on two student accommodation projects in Iowa and Reno. Upon completion, these buildings were transferred out of assets in the course of construction to be classified within infrastructure leasehold improvements. Both buildings are held under short leaseholds and are depreciated over 40 years.

In 2015, phase 2 commenced on the student accommodation project in Iowa resulting in capital expenditure of £9m. Construction is still in progress on this development and therefore it has been classified as assets in the course of construction. Additional land purchase of £4m also occurred in 2015. Construction on this land will take place in 2016.

The carrying amount of the Group's plant and equipment held under finance leases was £1m (2014: £1m). The Company has no property, plant and equipment held under finance leases.

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated on a straight-line basis over their expected useful lives. Buildings are depreciated at 2.5% per annum or over the term of the lease, and plant and equipment is depreciated at 4% to 33% per annum.

17.2 Analysis of carrying amount of land and buildings

	Group 2015 £m	Group 2014 £m
Freehold	**15**	16
Long leasehold – over 50 years unexpired	**1**	2
Short leasehold	**18**	17
	34	35

Notes to the Financial Statements continued

18 Investments in joint ventures and associates

18.1 Movements

	Net assets^ £m	Loans^ £m	Infrastructure Fund^ £m	Total £m
At 1 January 2014	446	209	11	666
Currency translation differences^	10	–	1	11
Income recognised – continuing operations	53	–	–	53
Fair value revaluation of PPP financial assets (Note 30.1)	224	–	–	224
Fair value revaluation of cash flow hedges (Note 30.1)	(102)	–	–	(102)
Actuarial movements on retirement benefit obligations (Note 30.1)	(5)	–	–	(5)
Tax on items taken directly to equity (Note 30.1)	(23)	–	–	(23)
Dividends^	(56)	–	(1)	(57)
Additions	25	–	–	25
Disposals	(33)	(20)	–	(53)
Loans advanced^	–	7	–	7
Loans repaid^	–	(2)	–	(2)
Capital calls^	–	–	9	9
Goodwill impairment	(1)	–	–	(1)
Reclassified from assets held for sale	8	–	–	8
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	(1)	–	–	(1)
At 31 December 2014	545	194	20	759
Currency translation differences	**8**	**–**	**2**	**10**
Income recognised+	**41**	**–**	**3**	**44**
Fair value revaluation of PPP financial assets (Note 30.1)	**(170)**	**–**	**–**	**(170)**
Fair value revaluation of cash flow hedges (Note 30.1)	**21**	**–**	**–**	**21**
Actuarial movements on retirement benefit obligations (Note 30.1)	**(4)**	**–**	**–**	**(4)**
Tax on items taken directly to equity (Note 30.1)	**33**	**–**	**–**	**33**
Dividends	**(67)**	**–**	**(2)**	**(69)**
Capital repayment during the period	**(7)**	**–**	**–**	**(7)**
Additions	**19**	**–**	**–**	**19**
Disposals	**(20)**	**(26)**	**–**	**(46)**
Fair value of retained interest in Thanet	**10**	**4**	**–**	**14**
Loans advanced	**–**	**45**	**–**	**45**
Loans repaid	**–**	**(2)**	**–**	**(2)**
Capital calls	**–**	**–**	**15**	**15**
Reclassify negative investment in Dutco# to provisions (Note 25)	**9**	**–**	**–**	**9**
At 31 December 2015	**418**	**215**	**38**	**671**

^ Re-presented to show the Group's investment in the Infrastructure Fund separately.
+ Represents gain on fair value movements for the Infrastructure Fund.
# Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.

The principal joint ventures and associates are shown in Note 39. The original cost of the Group's investments in joint ventures and associates was £80m (2014: £123m).

The Group's share of borrowings of joint ventures and associates is shown in Note 18.2. The amount which was supported by the Group and the Company was £20m (2014: £10m), relating to the Group's share of guaranteed borrowings.

The non-recourse borrowings of joint venture and associate entities relating to infrastructure concessions projects are repayable over periods extending up to 2046. 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 39f, the Group has committed to provide its share of further equity funding of joint ventures and associates in Infrastructure Investments' projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction is complete. As is customary in such projects, banking covenants restrict the payment of dividends and other distributions.

The Group has recognised losses in relation to Dutco# in excess of its carrying value of its investment as the Group has constructive obligations to provide further funding to make good these losses. At 31 December 2015, these losses amounted to £9m and have been classified as other provisions. Refer to Notes 18.4 and 25.

18 Investments in joint ventures and associates continued

18.2 Share of results and net assets of joint ventures and associates

Income statement – continuing operations	Construction Services 2015 £m	Support Services 2015 £m	Infrastructure Investments UK^ 2015 £m	Infrastructure Investments North America 2015 £m	Infrastructure Investments Infrastructure Fund 2015 £m	Infrastructure Investments Total 2015 £m	Total 2015 £m
Revenue[1]	**1,168**	**25**	**187**	**91**	**–**	**278**	**1,471**
Underlying operating profit[1]	**8**	**1**	**8**	**11**	**3**	**22**	**31**
Investment income	2	–	160	4	–	164	166
Finance costs	(2)	–	(129)	(7)	–	(136)	(138)
Profit before taxation[1]	**8**	**1**	**39**	**8**	**3**	**50**	**59**
Taxation	(3)	–	(9)	–	–	(9)	(12)
Profit after taxation before non-underlying items	**5**	**1**	**30**	**8**	**3**	**41**	**47**
Share of results within non-underlying items	(3)	–	–	–	–	–	(3)
Profit after taxation	**2**	**1**	**30**	**8**	**3**	**41**	**44**
Balance sheet							
Non-current assets							
Intangible assets – goodwill	30	–	–	–	–	–	30
– Infrastructure Investments intangible	–	–	25	–	–	25	25
– other	–	–	11	–	–	11	11
Property, plant and equipment	38	–	26	39	–	65	103
Investments in joint ventures and associates	5	–	–	–	–	–	5
PPP financial assets	–	–	2,159	77	–	2,236	2,236
Military housing projects	–	–	–	101	–	101	101
Infrastructure Fund investment	–	–	–	–	38	38	38
Other non-current assets	38	–	25	–	–	25	63
Current assets							
Cash and cash equivalents	296	–	204	59	–	263	559
Other current assets	464	5	62	–	–	62	531
Total assets	**871**	**5**	**2,512**	**276**	**38**	**2,826**	**3,702**
Current liabilities							
Borrowings – recourse	(20)	–	–	–	–	–	(20)
Borrowings – non-recourse	(19)	–	(60)	–	–	(60)	(79)
Other current liabilities	(642)	–	(123)	(18)	–	(141)	(783)
Non-current liabilities							
Borrowings – non-recourse	(23)	–	(1,669)	(141)	–	(1,810)	(1,833)
Other non-current liabilities	(64)	(1)	(255)	(5)	–	(260)	(325)
Total liabilities	**(768)**	**(1)**	**(2,107)**	**(164)**	**–**	**(2,271)**	**(3,040)**
Net assets	**103**	**4**	**405**	**112**	**38**	**555**	**662**
Reclassify net liabilities relating to Dutco# to provisions (Note 25)	9	–	–	–	–	–	9
Adjusted net assets	**112**	**4**	**405**	**112**	**38**	**555**	**671**

^ Including Singapore and Australia.
# Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.
1 Before non-underlying items (Notes 2.10 and 10).

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 £2,249m (2014: £2,099m). Note 39(e) details the Group's military housing projects.

The Group has elected to recognise its investment in Balfour Beatty Infrastructure Partners LP (Infrastructure Fund) at fair value with movements in fair value being recognised through the income statement. The Infrastructure Fund holds multiple assets which are valued by third parties.

Capital expenditure authorised and contracted which has not been provided for in the financial statements of the joint ventures and associates amounted to £nil (2014: £1m).

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 2015, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £24m (2014: £15m).

Notes to the Financial Statements continued

18 Investments in joint ventures and associates continued
18.2 Share of results and net assets of joint ventures and associates continued

Income statement – continuing operations	Construction Services 2014 £m	Support Services 2014 £m	Infrastructure Investments UK^ 2014 £m	Infrastructure Investments North America 2014 £m	Infrastructure Investments Infrastructure Fund 2014 £m	Infrastructure Investments Total 2014 £m	Total 2014 £m
Revenue[1]	1,168	26	249	47	–	296	1,490
Underlying operating profit[1]	10	1	11	8	–	19	30
Investment income	1	–	176	2	–	178	179
Finance costs	–	–	(135)	(4)	–	(139)	(139)
Profit before taxation[1]	11	1	52	6	–	58	70
Taxation	(3)	–	(12)	–	–	(12)	(15)
Profit after taxation before non-underlying items	8	1	40	6	–	46	55
Share of results within non-underlying items	(2)	–	–	–	–	–	(2)
Profit after taxation	6	1	40	6	–	46	53
Balance sheet							
Non-current assets							
Intangible assets – goodwill	29	–	–	–	–	–	29
– Infrastructure Investments intangible	–	–	24	–	–	24	24
– other	–	–	6	–	–	6	6
Property, plant and equipment	41	–	16	4	–	20	61
Investments in joint ventures and associates	5	–	–	–	–	–	5
PPP financial assets	–	–	2,326	33	–	2,359	2,359
Military housing projects	–	–	–	91	–	91	91
Infrastructure Fund investment	–	–	–	–	20	20	20
Other non-current assets	52	–	34	–	–	34	86
Current assets							
Cash and cash equivalents	258	2	161	107	–	268	528
Other current assets	447	7	49	–	–	49	503
Total assets	832	9	2,616	235	20	2,871	3,712
Current liabilities							
Borrowings – recourse	(10)	–	–	–	–	–	(10)
Borrowings – non-recourse	–	–	(51)	–	–	(51)	(51)
Other current liabilities	(608)	(7)	(137)	(7)	–	(144)	(759)
Non-current liabilities							
Borrowings – non-recourse	(40)	–	(1,566)	(131)	–	(1,697)	(1,737)
Other non-current liabilities	(51)	–	(340)	(5)	–	(345)	(396)
Total liabilities	(709)	(7)	(2,094)	(143)	–	(2,237)	(2,953)
Net assets	123	2	522	92	20	634	759

^ Including Singapore and Australia.
1 Before non-underlying items (Notes 2.10 and 10).

18.3 Aggregate information of joint ventures and associates

	Joint ventures 2015 £m	**Associates 2015 £m**	**Total 2015 £m**
The Group's share of profit from continuing operations	**33**	**11**	**44**
Aggregate carrying amount of the Group's interest	**530**	**141**	**671**

	Joint ventures 2014 £m	Associates 2014 £m	Total 2014 £m
The Group's share of profit from continuing operations	45	8	53
Aggregate carrying amount of the Group's interest	652	107	759

18 Investments in joint ventures and associates continued

18.4 Details of material joint ventures

	Dutco^		Gammon@		Connect Plus (M25) Ltd	
	2015 £m	2014+ £m	**2015 £m**	2014# £m	**2015 £m**	2014+ £m
Proportion of the Group's ownership interest in the joint venture	**49%**	49%	**50%**	50%	**40%**	40%
Income statement – continuing operations						
Revenue	**372**	361	**1,597**	1,377	**121**	249
Underlying operating (loss)/profit	**(62)**	(30)	**38**	38	**5**	5
Investment income	**–**	–	**11**	3	**153**	139
Finance costs	**(3)**	–	**(7)**	–	**(100)**	(105)
Income tax charge	**–**	–	**(3)**	(7)	**(10)**	(8)
(Loss)/profit and total comprehensive (loss)/income (100%)	**(65)**	(30)	**39**	34	**48**	31
Group's share of (loss)/profit and total comprehensive (loss)/income	**(32)**	(15)	**20**	17	**19**	12
Dividends received by the Group during the year	**–**	–	**9**	8	**11**	9
Balance sheet						
Non-current assets	**18**	39	**261**	277	**2,019**	2,127
Current assets						
Cash and cash equivalents	**–**	–	**489**	415	**152**	130
Other current assets	**447**	404	**420**	368	**65**	32
	447	404	**909**	783	**217**	162
Current liabilities						
Trade and other payables	**(412)**	(369)	**(563)**	(495)	**(41)**	(28)
Provisions	**(14)**	–	**(40)**	(33)	**–**	–
Borrowings – recourse	**(41)**	(20)	**–**	–	**–**	–
Borrowings – non-recourse	**–**	–	**(94)**	–	**(22)**	(6)
Other current liabilities	**(18)**	–	**(111)**	(118)	**(42)**	(43)
	(485)	(389)	**(808)**	(646)	**(105)**	(77)
Non-current liabilities						
Trade and other payables	**–**	(10)	**(63)**	(54)	**–**	–
Provisions	**–**	–	**(22)**	(15)	**–**	–
Borrowings – non-recourse	**–**	–	**(111)**	(200)	**(1,075)**	(1,074)
Other non-current liabilities	**–**	–	**(37)**	(29)	**(348)**	(408)
	–	(10)	**(233)**	(298)	**(1,423)**	(1,482)
Net assets (100%)	**(20)**	44	**129**	116	**708**	730

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%)	**(20)**	44	**129**	116	**708**	730
Group's share of net assets	**(10)**	22	**65**	58	**283**	292
Goodwill	**1**	1	**27**	26	**–**	–
Carrying amount of the Group's interest in the joint venture	**(9)&**	23	**92**	84	**283**	292

^ Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.
@ Represents the combined results of Gammon China Ltd and Gammon Capital (West) Pte. Ltd as both joint ventures have common ownership and report under the same management structure.
+ Re-presented to align 2014's classification of balance sheet items to 2015.
# Re-presented to include Gammon's infrastructure concession project held within Gammon Capital (West) Pte. Ltd. This project is included within the Infrastructure Investments segment.
& The negative carrying amount of the Group's interest in Dutco has been presented within provisions. Refer to Notes 18.1 and 25.

18.5 Infrastructure Investments' investments

	Net investment 2015 £m	**Reserves 2015 £m**	**Total 2015 £m**	Net investment 2014 £m	Reserves 2014 £m	Total 2014 £m
Roads	**149**	**190**	**339**	127	250	377
Healthcare	**32**	**(23)**	**9**	40	25	65
Schools	**29**	**14**	**43**	40	21	61
Other concessions	**18**	**(4)**	**14**	16	3	19
UK^	**228**	**177**	**405**	223	299	522
North America	**86**	**26**	**112**	70	22	92
Infrastructure Fund	**34**	**4**	**38**	19	1	20
Total investments	**348**	**207**	**555**	312	322	634

^ Including Singapore and Australia.

Notes to the Financial Statements continued

18 Investments in joint ventures and associates continued

18.6 Cash flow from/(to) joint ventures and associates

Cash flows from investing activities	Infrastructure Investments UK^ 2015 £m	Infrastructure Investments North America 2015 £m	Infrastructure Investments Infra-structure Fund 2015 £m	Other 2015 £m	Total 2015 £m	Infrastructure Investments UK^ 2014 £m	Infrastructure Investments North America 2014 £m	Infrastructure Investments Infra-structure Fund 2014+ £m	Other 2014# £m	Total 2014# £m
Dividends from joint ventures and associates	**34**	**9**	**2**	**24**	**69**	20	8	1	28	57
Subordinated debt interest received	**16**	**–**	**–**	**–**	**16**	24	–	–	–	24
Investments in and loans to joint ventures and associates	**(46)**	**(16)**	**(15)**	**–**	**(77)**	(24)	(6)	(9)	–	(39)
Equity	**(3)**	**(16)**	**–**	**–**	**(19)**	(19)	(6)	–	–	(25)
Subordinated debt invested	**(45)**	**–**	**–**	**–**	**(45)**	(7)	–	–	–	(7)
Subordinated debt repaid	**2**	**–**	**–**	**–**	**2**	2	–	–	–	2
Other investments and loans	**–**	**–**	**(15)**	**–**	**(15)**	–	–	(9)	–	(9)
Short-term loans to joint ventures and associates	**–**	**–**	**–**	**(11)**	**(11)**	–	–	–	(4)	(4)
Capital repayment received	**7**	**–**	**–**	**–**	**7**	–	–	–	–	–
Disposal of investments in joint ventures	**104**	**–**	**–**	**21**	**125**	117	–	–	–	117
Net cash flow from/(to) joint ventures and associates	**115**	**(7)**	**(13)**	**34**	**129**	137	2	(8)	24	155

^ Including Singapore and Australia.
+ Re-presented to show dividends received separately from investments made to the Infrastructure Fund.
# Re-presented to include short-term loans to joint ventures and associates.

18.7 Share of reserves of joint ventures and associates

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total (Note 30.1) £m
At 1 January 2014	166	(157)	251	18	278
Currency translation differences	–	–	–	2	2
Income recognised – continuing operations	53	–	–	–	53
Fair value revaluation of PPP financial assets	–	–	224	–	224
Fair value revaluation of cash flow hedges	–	(102)	–	–	(102)
Actuarial movements on retirement benefit liabilities	(5)	–	–	–	(5)
Tax on items taken directly to equity	1	21	(45)	–	(23)
Dividends	(56)	–	–	–	(56)
Recycling of revaluation reserves to the income statement on disposal	–	1	(8)	–	(7)
Reserves disposed	(24)	–	–	–	(24)
At 31 December 2014	135	(237)	422	20	340
Currency translation differences	**–**	**–**	**–**	**3**	**3**
Income recognised	**44**	**–**	**–**	**–**	**44**
Fair value revaluation of PPP financial assets	**–**	**–**	**(170)**	**–**	**(170)**
Fair value revaluation of cash flow hedges	**–**	**21**	**–**	**–**	**21**
Actuarial movements on retirement benefit liabilities	**(4)**	**–**	**–**	**–**	**(4)**
Tax on items taken directly to equity	**(1)**	**(7)**	**41**	**–**	**33**
Dividends	**(69)**	**–**	**–**	**–**	**(69)**
Recycling of revaluation reserves to the income statement on disposal	**–**	**26**	**(31)**	**–**	**(5)**
Transfer of reserves to retained earnings relating to businesses disposed	**–**	**(4)**	**20**	**–**	**16**
Reserves disposed	**(13)**	**–**	**–**	**–**	**(13)**
At 31 December 2015	**92**	**(201)**	**282**	**23**	**196**

19 Investments

19.1 Group

		Held to maturity bonds £m	Available-for-sale investments in mutual funds £m	Total £m
At 1 January 2014		35	60	95
Currency translation differences		–	2	2
Fair value movements	– continuing operations	–	1	1
	– discontinued operations	–	2	2
Additions	– continuing operations	–	1	1
	– discontinued operations	–	7	7
Maturities/disposals	– continuing operations	(4)	(6)	(10)
	– discontinued operations	–	(2)	(2)
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)		–	(45)	(45)
At 31 December 2014		31	20	51
Currency translation differences		**–**	**1**	**1**
Additions		**–**	**2**	**2**
Maturities/disposals		**(7)**	**(3)**	**(10)**
At 31 December 2015		**24**	**20**	**44**

The held to maturity bonds are held by the Group's captive insurance company, Delphian Insurance Company Ltd, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 1.06% (2014: 1.10%) and weighted average life of 1.4 years (2014: 2.1 years). The fair value of the bonds is £26m (2014: £33m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2015 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The available-for-sale investments in mutual funds comprise holdings in a number of funds, based on employees' investment elections, in respect of the deferred compensation obligations of the Group as disclosed in Note 28. The fair value of the available-for-sale investments is £20m (2014: £20m), determined by the market price of the funds at the reporting date.

19.2 Company

	Note	**2015 £m**	2014 £m
Investment in subsidiaries^		**1,771**	1,671
Investment in joint ventures and associates	32.2.5	**2**	2
Provisions		**(102)**	(102)
		1,671	1,571

^ The movement in investment in subsidiaries of £100m in 2015 represents additional equity contributions made from the Company to its subsidiaries.

20 PPP financial assets

	Schools £m	Roads £m	Other £m	Total £m
At 1 January 2014	196	193	66	455
Income recognised in the income statement:				
– construction contract margin	–	1	–	1
– interest income (Note 8)	5	16	5	26
Gains recognised in the statement of comprehensive income:				
– fair value movements	4	32	43	79
Other movements:				
– cash expenditure	–	39	193	232
– cash received	(8)	(21)	(8)	(37)
– disposal of interest in Knowsley (Note 32.3.7)	(197)	–	–	(197)
At 31 December 2014	–	260	299	559
Income recognised in the income statement:				
– construction contract margin	**–**	**1**	**–**	**1**
– interest income (Note 8)	**–**	**17**	**7**	**24**
Gains recognised in the statement of comprehensive income:				
– fair value movements	**–**	**(8)**	**(5)**	**(13)**
Other movements:				
– cash expenditure	**–**	**37**	**38**	**75**
– cash received	**–**	**(24)**	**(6)**	**(30)**
– disposal of interest in Thanet (Note 32.2.10)	**–**	**–**	**(214)**	**(214)**
At 31 December 2015	**–**	**283**	**119**	**402**

Notes to the Financial Statements continued

20 PPP financial assets continued
Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets and are denominated in sterling. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets.

In 2015, the Group disposed of an 80% interest in Thanet OFTO HoldCo Ltd (Thanet). Refer to Note 32.2.2. In 2014, the Group disposed of its 100% interest in Transform Schools (Knowsley) Holdings Ltd (Knowsley). Refer to Note 32.3.3.

There were no impairment provisions in 2015 or 2014.

21 Inventories

	2015 £m	2014 £m
Unbilled non-construction work in progress	**54**	61
Raw materials and consumables	**48**	44
Development and housing land and work in progress	**35**	53
Manufacturing work in progress	**–**	5
Finished goods and goods for resale	**7**	7
	144	170

22 Construction contracts

Contracts in progress at reporting date	2015 £m	2014 £m
Due from construction contract customers	**379**	562
Due to construction contract customers	**(472)**	(350)
	(93)	212

The aggregate amount of costs incurred plus recognised profits less recognised losses for all contracts in progress that had not reached practical completion at the reporting date was £12,840m from total operations (2014: £10,720m).

23 Trade and other receivables

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Current				
Trade receivables	**506**	583	**–**	–
Less: provision for impairment of trade receivables	**(11)**	(26)	**–**	–
	495	557	**–**	–
Other receivables	**45**	56	**3**	26
Due from subsidiaries	**–**	–	**1,626**	1,354
Due from joint ventures and associates	**55**	33	**15**	–
Due from joint operations	**10**	29	**–**	–
Contract retentions receivable#	**202**	210	**–**	–
Accrued income	**24**	39	**–**	–
Prepayments	**54**	42	**1**	1
	885	966	**1,645**	1,381
Non-current				
Other receivables	**2**	7	**–**	–
Due from joint ventures and associates	**12**	16	**4**	11
Due from joint operations	**–**	4	**–**	–
Contract retentions receivable#	**100**	84	**–**	–
	114	111	**4**	11
Total trade and other receivables	**999**	1,077	**1,649**	1,392
Comprising				
Financial assets (Note 38)	**945**	1,035	**1,648**	1,391
Non-financial assets – prepayments	**54**	42	**1**	1
	999	1,077	**1,649**	1,392

Including £298m (2014: £291m) construction contract retentions receivable.

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Directors believe no further credit risk provision is required in respect of trade receivables.

The Directors consider that the carrying values of current and non-current trade and other receivables approximate their fair values.

23 Trade and other receivables continued

Movement in the provision for impairment of trade receivables

	Group 2015 £m	Group 2014 £m
At 1 January	**(26)**	(32)
Currency translation differences	**–**	(1)
(Charged)/credited to the income statement:		
– additional provisions	**(3)**	(14)
– unused amounts reversed	**6**	6
Utilised during the year	**12**	5
Reclassified from assets held for sale	**–**	(1)
Reclassified to assets held for sale and subsequently sold	**–**	11
At 31 December	**(11)**	(26)

Maturity profile of impaired trade receivables and trade receivables past due but not impaired

	Impaired		**Past due but not impaired**	
	Group 2015 £m	Group 2014 £m	**Group 2015 £m**	Group 2014 £m
Up to three months	**1**	7	**42**	44
Three to six months	**–**	–	**12**	20
Six to nine months	**–**	–	**8**	7
Nine to 12 months	**–**	4	**5**	6
More than 12 months	**10**	15	**21**	6
	11	26	**88**	83

At 31 December 2015, trade receivables of £88m (2014: £83m) 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.

Notes to the Financial Statements continued

24 Trade and other payables

	Group 2015 £m	Group 2014 £m	**Company 2015 £m**	Company 2014 £m
Current				
Trade and other payables	**838**	905	**6**	16
Accruals	**755**	961	**16**	17
Deferred income	**7**	5	**–**	–
Advance payments on contracts	**–**	1	**–**	–
VAT, payroll taxes and social security	**67**	79	**2**	11
Due to subsidiaries	**–**	–	**1,695**	1,542
Due to joint ventures and associates	**25**	–	**–**	–
Dividends on preference shares	**5**	5	**5**	5
Due on acquisitions	**3**	3	**–**	–
	1,700	1,959	**1,724**	1,591
Non-current				
Trade and other payables	**86**	65	**–**	–
Accruals	**18**	24	**–**	–
Deferred income	**1**	3	**–**	–
Due to joint ventures and associates	**11**	27	**8**	25
Due on acquisitions	**14**	15	**–**	–
	130	134	**8**	25
Total trade and other payables	**1,830**	2,093	**1,732**	1,616
Comprising				
Financial liabilities (Note 38)	**1,732**	1,972	**1,730**	1,605
Non-financial liabilities:				
– accruals not at amortised cost	**23**	33	**–**	–
– deferred income	**8**	8	**–**	–
– advance payments on contracts	**–**	1	**–**	–
– VAT, payroll taxes and social security	**67**	79	**2**	11
	1,830	2,093	**1,732**	1,616

Maturity profile of the Group's non-current financial liabilities at 31 December

	Trade and other payables 2015 £m	**Accruals 2015 £m**	**Due to joint ventures and associates 2015 £m**	**Due on acquisitions 2015 £m**	**Total 2015 £m**
Due within one to two years	**69**	**4**	**–**	**3**	**76**
Due within two to five years	**5**	**6**	**–**	**7**	**18**
Due after more than five years	**12**	**8**	**11**	**4**	**35**
	86	**18**	**11**	**14**	**129**

	Trade and other payables 2014 £m	Accruals 2014 £m	Due to joint ventures and associates 2014 £m	Due on acquisitions 2014 £m	Total 2014 £m
Due within one to two years	43	11	1	2	57
Due within two to five years	7	7	5	7	26
Due after more than five years	15	6	21	6	48
	65	24	27	15	131

The Directors consider that the carrying values of current and non-current trade and other payables approximate their fair values. The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

25 Provisions

	Group				Company
	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m	Other provisions £m
At 1 January 2014	102	42	49	193	1
Currency translation differences	3	–	–	3	–
Transfers	–	(3)	3	–	–
Reclassified to accruals	(1)	–	(1)	(2)	–
Charged/(credited) to the income statement – continuing operations:					
– additional provisions	78	28	10	116	1
– unused amounts reversed	(27)	(7)	(12)	(46)	–
Utilised during the year	(54)	(11)	(10)	(75)	–
Charged to the income statement – discontinued operations	1	–	10	11	–
Reclassified from assets held for sale	7	2	–	9	–
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	(12)	–	–	(12)	–
At 31 December 2014	97	51	49	197	2
Currency translation differences	**1**	**–**	**–**	**1**	**–**
Reclassified from accruals	**3**	**–**	**1**	**4**	**–**
Reclassified from investments in joint ventures and associates in relation to Dutco^ (Note 18)	**–**	**–**	**9**	**9**	**–**
Charged/(credited) to the income statement:					
– additional provisions	**79**	**27**	**19**	**125**	**–**
– unused amounts reversed	**(26)**	**(12)**	**(10)**	**(48)**	**–**
Utilised during the year	**(62)**	**(12)**	**(8)**	**(82)**	**–**
At 31 December 2015	**92**	**54**	**60**	**206**	**2**

	Group				Group				**Company**	Company
	Contract provisions 2015 £m	**Employee provisions 2015 £m**	**Other provisions 2015 £m**	**Total 2015 £m**	Contract provisions 2014 £m	Employee provisions 2014 £m	Other provisions 2014 £m	Total 2014 £m	**Other provisions 2015 £m**	Other provisions 2014 £m
Due within one year	**66**	**26**	**34**	**126**	67	25	28	120	**–**	–
Due within one to two years	**8**	**9**	**7**	**24**	13	11	6	30	**–**	–
Due within two to five years	**12**	**13**	**18**	**43**	12	12	12	36	**2**	2
Due after more than five years	**6**	**6**	**1**	**13**	5	3	3	11	**–**	–
	92	**54**	**60**	**206**	97	51	49	197	**2**	2

^ Represents the combined results of BK Gulf LLC and Dutco Balfour Beatty LLC as both joint ventures have common ownership and report under the same management structure.

Contract provisions include construction insurance liabilities, principally in the Group's captive insurance companies, and defect and warranty provisions on contracts, primarily construction contracts, that have reached practical completion.

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's captive insurance companies and provisions for employee termination liabilities arising from the Group's restructuring programmes.

Other provisions principally comprise: motor and other insurance liabilities in the Group's captive insurance companies; legal claims and costs, where provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress; property-related provisions, mainly onerous lease commitments, some of which arise from the Group's restructuring programmes; and environmental provisions.

The Group takes actuarial advice when establishing the level of provisions in the Group's captive insurance companies and certain other categories of provision.

Insurance-related provisions within these categories were £76m (2014: £76m) as follows: Contract provisions £37m (2014: £39m); Employee provisions £35m (2014: £32m); and Other, mainly motor provisions £4m (2014: £5m).

Restructuring provisions within these categories were £12m (2014: £15m) as follows: Employee provisions £9m (2014: £8m); and Other, mainly property-related, provisions £3m (2014: £7m).

The Group has recognised losses in relation to Dutco^ in excess of its carrying value of its investment as the Group has constructive obligations to provide further funding to make good these losses. At 31 December 2015, these losses amounted to £9m and have been classified as other provisions. Refer to Note 18.

Notes to the Financial Statements continued

26 Cash and cash equivalents and borrowings

26.1 Group

	Current 2015 £m	Non-current 2015 £m	Total 2015 £m	Current 2014 £m	Non-current 2014 £m	Total 2014 £m
Unsecured borrowings at amortised cost						
– bank overdrafts	**(3)**	**–**	**(3)**	(4)	–	(4)
– US private placement (Note 26.2)	**–**	**(236)**	**(236)**	–	(224)	(224)
– liability component of convertible bonds (Note 26.3)	**–**	**(233)**	**(233)**	–	(227)	(227)
– other loans	**(9)**	**(1)**	**(10)**	–	(16)	(16)
Secured borrowings at amortised cost						
– finance leases	**(1)**	**–**	**(1)**	–	(1)	(1)
	(13)	**(470)**	**(483)**	(4)	(468)	(472)
Cash and deposits at amortised cost	**562**	**–**	**562**	653	–	653
Term deposits at amortised cost	**84**	**–**	**84**	38	–	38
Cash and cash equivalents (excluding infrastructure concessions)	**646**	**–**	**646**	691	–	691
	633	**(470)**	**163**	687	(468)	219
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2027 and 2037	**(22)**	**(363)**	**(385)**	(14)	(471)	(485)
Infrastructure concessions cash and cash equivalents	**20**	**–**	**20**	40	–	40
	(2)	**(363)**	**(365)**	26	(471)	(445)
Net cash/(borrowings)	**631**	**(833)**	**(202)**	713	(939)	(226)

The loans relating to infrastructure concession projects finance arise under non-recourse facilities taken out by project-specific subsidiary concession companies. The loans 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.

Included in cash and cash equivalents is restricted cash of: £25m (2014: £23m) held by the Group's captive insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations; £58m (2014: £17m) held within construction project bank accounts; £7m (2014: £nil) relating to cash collateral held against an issued letter of credit; £20m (2014: £40m) relating to the maintenance and other reserve accounts in the Infrastructure Investments subsidiaries and £nil (2014: £2m) not readily remittable from Argentina.

Cash, deposits and term deposits include the Group's share of amounts held by joint operations of £251m (2014: £212m).

Maturity profile of the Group's borrowings at 31 December

	Infrastructure concessions non-recourse project finance 2015 £m	Finance leases 2015 £m	Other borrowings 2015 £m	Total 2015 £m	Infrastructure concessions non-recourse project finance 2014 £m	Finance leases 2014 £m	Other borrowings 2014 £m	Total 2014 £m
Due on demand or within one year	**(22)**	**(1)**	**(12)**	**(35)**	(14)	–	(4)	(18)
Due within one to two years	**(35)**	**–**	**(2)**	**(37)**	(31)	(1)	(19)	(51)
Due within two to five years	**(34)**	**–**	**(293)**	**(327)**	(33)	–	(256)	(289)
Due after more than five years	**(294)**	**–**	**(175)**	**(469)**	(407)	–	(192)	(599)
	(385)	**(1)**	**(482)**	**(868)**	(485)	(1)	(471)	(957)

The carrying values of the Group's borrowings are equal to the fair values at the reporting date. The fair values are determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

Undrawn Group committed borrowing facilities at 31 December in respect of which all conditions precedent were satisfied

	Infrastructure concessions non-recourse project finance 2015 £m	Other borrowings 2015 £m	Total 2015 £m	Infrastructure concessions non-recourse project finance 2014 £m	Other borrowings 2014 £m	Total 2014 £m
Expiring in one year or less	**18**	**26**	**44**	69	–	69
Expiring in more than one year but not more than two years	**–**	**–**	**–**	32	791	823
Expiring in more than two years	**–**	**400**	**400**	–	–	–
	18	**426**	**444**	101	791	892

The Group completed its refinancing in December 2015 resulting in a new facility arrangement of £400m. This new facility extends through to 2018, with the option for two additional one-year extensions through to 2020, subject to bank approval.

26 Cash and cash equivalents and borrowings continued

26.2 US private placement

In March 2013, the Group raised US$350m (£231m) of borrowings through a US private placement of a series of notes with an average coupon of 4.94% per annum and an average maturity of 9.3 years. At 31 December 2015, as a result of movements in exchange rates, the balance outstanding was £236m (2014: £224m).

26.3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds of £100,000 each maturing on 3 December 2018 at a total issue price of £252.7m and incurred transaction costs of £6.7m resulting in net proceeds of £246m. The bonds have a coupon of 1.875% per annum payable semi-annually in arrears and the initial conversion price has been set at £3.6692 per share. On 23 April 2014, the conversion price was revised to £3.6212.

From 14 January 2014 until 14 days prior to final maturity, one bond is convertible at the option of the holder into one preference share in Balfour Beatty Finance No 2 Ltd which is immediately transferred to the Company in exchange for the issue of ordinary shares in the Company. The Group has the option to redeem the bonds from December 2015 under certain circumstances.

The bonds are compound instruments, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was £220m estimated using the prevailing market interest rate of 4.29% per annum for a similar non-convertible instrument. The difference between the net proceeds of issue of the convertible bonds after the transaction costs and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in equity holders' funds. Refer to Note 29.3.

Liability component recognised in the Balance Sheet	**2015 £m**	2014 £m
Liability component at 1 January at amortised cost	**227**	221
Accretion	**6**	6
Liability component at 31 December at amortised cost	**233**	227

The fair value of the liability component of the convertible bonds at 31 December 2015 was £236m (2014: £231m).

The finance cost of the convertible bonds is calculated using the effective interest method.

26.4 Company

	Current 2015 £m	**Non-current 2015 £m**	**Total 2015 £m**	Current 2014 £m	Non-current 2014 £m	Total 2014 £m
Cash and deposits	**50**	**–**	**50**	249	–	249
Unsecured borrowings at amortised cost						
– bank loans and overdrafts	**(160)**	**–**	**(160)**	(142)	–	(142)
– US private placement (Note 26.2)	**–**	**(236)**	**(236)**	–	(224)	(224)
Net borrowings	**(110)**	**(236)**	**(346)**	107	(224)	(117)

The bank loans and overdrafts are sterling denominated, variable rate instruments and repayable on demand.

Notes to the Financial Statements continued

27 Deferred tax

27.1 Group

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Net deferred tax position at 31 December

	Group 2015 £m	Group 2014 £m	**Company 2015 £m**	Company 2014 £m
Deferred tax assets	**58**	52	**–**	–
Deferred tax liabilities	**(53)**	(49)	**(2)**	(2)
	5	3	**(2)**	(2)

Movement for the year in the net deferred tax position

	Group £m	Company £m
At 1 January 2014	104	(3)
Currency translation differences	1	–
(Charged)/credited to income statement – continuing operations#	(24)	1
Credited to income statement – discontinued operations#	23	–
Charged to equity#	(54)	–
Reclassified from liabilities held for sale	(2)	–
Reclassified to assets held for sale	(1)	–
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	(44)	–
At 31 December 2014	3	(2)
Currency translation differences	**(3)**	**–**
Charged to income statement#	**(10)**	**–**
Credited to equity#	**16**	**–**
Release of deferred tax assets relating to businesses disposed (Note 32.2.9)	**(7)**	**–**
Disposals (Note 32.2.10)	**6**	**–**
At 31 December 2015	**5**	**(2)**

Group includes £5m charged (2014: £2m) to the income statement and £2m charged (2014: £nil) to equity in relation to reductions in the UK corporation tax rate.

27 Deferred tax continued

27.1 Group continued

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority.

Deferred tax assets	Depreciation in excess of capital allowances £m	Retirement benefit liabilities £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Total £m
At 1 January 2014	15	94	17	3	16	145
Currency translation differences	–	1	1	–	1	3
Transfers to deferred tax liabilities	2	1	–	–	14	17
Credited/(charged) to income statement – continuing operations	6	(8)	2	–	(1)	(1)
Credited/(charged) to income statement – discontinued operations	–	1	(1)	–	18	18
Credited/(charged) to equity	–	(47)	–	(1)	–	(48)
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	(5)	(16)	(5)	–	(18)	(44)
At 31 December 2014	18	26	14	2	30	90
Currency translation differences	**(1)**	**1**	**–**	**–**	**2**	**2**
Transfers to deferred tax liabilities	**–**	**–**	**2**	**–**	**–**	**2**
(Charged)/credited to income statement	**(3)**	**(16)**	**35**	**–**	**3**	**19**
Credited to equity	**–**	**15**	**–**	**–**	**–**	**15**
Release of deferred tax assets relating to businesses disposed (Note 32.2.9)	**–**	**–**	**(5)**	**–**	**(2)**	**(7)**
At 31 December 2015	**14**	**26**	**46**	**2**	**33**	**121**

Deferred tax liabilities	Preference shares £m	Fair value adjustments £m	Derivatives £m	Other GAAP differences £m	Other £m	Total £m
At 1 January 2014	(4)	(29)	–	–	(8)	(41)
Currency translation differences	–	(3)	–	1	–	(2)
Transfers from deferred tax assets	–	–	–	(17)	–	(17)
Credited/(charged) to income statement – continuing operations	1	(11)	–	(14)	1	(23)
Credited/(charged) to income statement – discontinued operations	–	(2)	–	–	7	5
Credited/(charged) to equity	–	–	(6)	–	–	(6)
Reclassified from liabilities held for sale	–	–	–	(2)	–	(2)
Reclassified to assets held for sale	–	–	–	–	(1)	(1)
Reclassified to assets held for sale and subsequently sold (Note 32.3.7)	–	3	(2)	(1)	–	–
At 31 December 2014	(3)	(42)	(8)	(33)	(1)	(87)
Currency translation differences	**–**	**(2)**	**1**	**(4)**	**–**	**(5)**
Transfers from deferred tax assets	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Charged to income statement	**–**	**(6)**	**–**	**(23)**	**–**	**(29)**
Credited to equity	**–**	**–**	**1**	**–**	**–**	**1**
Disposals (Note 32.2.10)	**–**	**–**	**6**	**–**	**–**	**6**
At 31 December 2015	**(3)**	**(50)**	**–**	**(62)**	**(1)**	**(116)**

Total net deferred tax asset	**5**

At the reporting date the Group had unrecognised tax losses from operations (excluding capital losses) that arose over a numbers of years of approximately £964m (2014: £708m) which are available for offset against future profits. £11m (2014: £7m) will expire between five and 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2016. The remaining losses may be carried forward indefinitely.

The Group has recognised deferred tax assets for UK corporation tax trading losses of £14m (2014: £55m). Given the losses recorded in the period, the Group has reassessed the period used in its assessment of future taxable profits to support the recoverability of both the temporary differences and these tax losses. The impact of this reassessment was a reduction in the deferred tax asset of £32m. The Group has UK corporation tax trading losses of £709m (2014: £376m) which are not recognised as deferred tax assets.

At the reporting date the undistributed reserves for which deferred tax liabilities have not been recognised were £1m (2014: £7m) in respect of subsidiaries and £nil (2014: £2m) 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.

Notes to the Financial Statements continued

27 Deferred tax continued

27.2 Company

Deferred tax assets and liabilities	Deferred tax liabilities Preference shares £m	Deferred tax assets Provisions £m	Net deferred tax assets/ (liability) £m
At 1 January 2014	(4)	1	(3)
Credited to income statement	1	–	1
At 31 December 2014	(3)	1	(2)
Credited to equity	**–**	**–**	**–**
At 31 December 2015	**(3)**	**1**	**(2)**

28 Retirement benefit liabilities

28.1 Introduction

The Group, through trustees, operates a number of defined contribution and defined benefit pension schemes.

Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

Defined benefit schemes are schemes other than defined contribution schemes where the Group's obligation is to provide specified benefits on retirement.

IAS 19 Employee Benefits (IAS 19) prescribes the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on high-quality corporate bonds. The pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net finance cost arising from the expected interest income on plan assets and interest cost on scheme obligations is included in finance costs. Actuarial gains and losses are reported in the Statement of Comprehensive Income. The IAS 19 accounting valuations are set out in Note 28.2.

A different calculation is used for the formal triennial funding valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme obligations. The principal difference between the two methods is that under the funding basis the obligations are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on high-quality corporate bonds as required by IAS 19 for the financial statements. Details of the latest formal triennial funding valuations are set out in Note 28.3.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of, the Group.

Principal schemes

The Group's principal schemes are the Balfour Beatty Pension Fund (BBPF), which includes defined contribution and defined benefit sections, and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme (RPS). The defined benefit sections of both schemes are funded and closed to new members with the exception of employees where employment has transferred to the Group under certain agreed arrangements. Pension benefits are based on employees' pensionable service and their pensionable salary.

The schemes operate under trust law and are managed and administered by trustees on behalf of the members in accordance with the terms of the trust deed and rules and relevant legislation. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice. The trustees are responsible for establishing the investment strategy and ensuring that there are sufficient assets to meet the cost of current and future benefits.

These schemes expose the Group to investment and actuarial risks where additional contributions may be required if assets are not sufficient to pay future pension benefits:

- investment risk: Equity returns are a key determinant of investment return but the investment portfolio is also subject to a range of other risks typical of the investments held, for example, credit risk on corporate bond holdings.
- actuarial risk: The ultimate cost of providing pension benefits is affected by inflation rates and members' life expectancy. The net present value of the obligations is affected by the market yield on high-quality corporate bonds used to discount the obligations.

Changes in the principal actuarial assumptions based on market data, such as inflation and the discount rate, and experience, such as life expectancy, expose the Group to fluctuations in the net IAS 19 liability and the net finance cost.

28 Retirement benefit liabilities continued

28.1 Introduction continued

Balfour Beatty Pension Fund

The investment strategy of the BBPF is to hold assets of appropriate liquidity and marketability to generate income and capital growth. The BBPF invests partly in a diversified range of assets including equities and hedge funds in anticipation that, over the longer term, they will grow in value faster than the obligations. The equities are in the form of pooled funds and are a combination of UK, other developed market and emerging market equities. The remaining BBPF assets are principally fixed and index-linked bonds and swaps in order to match the duration and inflation exposure of the obligations and enhance the resilience of the funding level of the scheme. The performance of the assets is measured against market indices.

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2013. As a result, the Group agreed with effect from April 2013, to make ongoing deficit payments of £50m per annum, increasing to: £55m per annum from April 2016; £60m per annum from April 2017; and £65m per annum from April 2018 to May 2020, increasing each year by CPI (minimum 0% and capped at 5%) plus (in the period before the next actuarial valuation is agreed) 200% of any increase in the Company's dividend in excess of capped CPI. If the Company makes any one-off return of value to shareholders in excess of £200m such as a special dividend, share buy-back, capital payment or similar before the next actuarial valuation is agreed, there will be an additional increase in the deficit payment for the following year only, calculated as the regular deficit payment for that year multiplied by 75%, multiplied by the value of the one-off return of value, divided by the total of the regular dividends for the year prior to the year in which the one-off return was made. This agreement constitutes a minimum funding requirement under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Under the terms of the trust deed and subject to the agreement of the trustees (who would need to balance their responsibility to set contribution rates in accordance with the trust rules together with the interests of the beneficiaries at the time), the Group has the ability to use surplus funds, should they arise, in the defined benefit section of the BBPF to pay its contributions towards further service benefits in the defined benefit and defined contribution sections of the scheme. The Directors consider that, as the Group is permitted to assume that it would not be required to make contributions to maintain a surplus, should one arise, these further service benefits will exceed the minimum funding requirement.

In 2014, the Group commenced a commutation exercise for pensioner members and dependants with benefits with a value of less than £30,000 and £18,000, respectively. This gave those members the option to extinguish their benefits within the BBPF in exchange for a cash lump sum. The acceptance of this offer by certain members and dependants gave rise to a settlement event resulting in a decrease in liabilities of £3m (2014: £2m), which was recognised in other non-underlying items. Refer to Note 10.1.4.8.

In anticipation of the disposal of Parsons Brinckerhoff and the then proposed £200m return of capital to shareholders, and following the scheme apportionment arrangement made in relation to the disposal of Balfour Beatty WorkPlace, agreement was reached on 24 September 2014 with the trustees of the BBPF for additional deficit payments of £100m in 2015, of which £15m was in respect of Balfour Beatty WorkPlace and £85m was in respect of Parsons Brinckerhoff. The £15m was paid to the BBPF in 2015 in agreed monthly instalments.

On 1 July 2015, the Group established a Scottish Limited Partnership (SLP) structure into which its investment in Consort Healthcare (Birmingham) Holdings Ltd (Consort Birmingham), which owns the Group's 40% interest in the Birmingham Hospital PFI investment, was transferred. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in Consort Birmingham for other investments from time to time. Alongside the establishment of the SLP, agreement was reached to defer the payment of £85m which had been due to be paid to the BBPF in 2015 over the period to 2023, with the first payment of £4m due in 2016. Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension deficit presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. The first distribution was received in December 2015 and amounted to £1m.

The next formal triennial valuation of the BBPF will be as at 31 March 2016. The Company and the trustees are in the early stages of preparing for this valuation.

Notes to the Financial Statements continued

28 Retirement benefit liabilities continued
28.1 Introduction continued
Railways Pension Scheme

The RPS is a shared cost scheme. The legal responsibility of the Group in the RPS is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing.

In 2013 and previous years, the assumed cost of providing benefits was split between the Group and the members in the ratio 60:40. This had been a reasonable assumption to make of how costs might have been shared over the long term.

In 2014, because of a declining population of active members, it became less likely that the costs of providing benefits borne by the Group would be capped in line with its economic interest of 60%. Based on discussions arising from the 2013 valuation process, it was expected that members might only be able to afford to fund 5% of the scheme deficit. In the accounts for the year ended 31 December 2014, the long-term cost of providing benefits was assumed to be split between the Group and the members in the ratio 95:5. This assumption remains valid for the year ended 31 December 2015. The balance sheet asset and liability disclosed, therefore, are equal to 95% of the total scheme asset and liability. Any future surplus or deficit is assumed to be split in this manner.

The RPS invests in a range of pooled investment funds intended to generate a combination of capital growth and income and as determined by the trustee, taking account of the characteristics of the obligations and the trustee's attitude to risk. The majority of the RPS' assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled growth fund. This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time. The remaining assets in the RPS are principally fixed and index-linked bonds.

Following the formal triennial funding valuation carried out as at 31 December 2010, the Group agreed to make ongoing fixed deficit contributions of £1.3m per annum plus an additional 1% of the active members' payroll costs. The triennial funding valuation as at 31 December 2013 continues to progress. The valuation has been subject to delays as the deficit is likely to have increased substantially and the shared cost nature of the scheme means that the impact of any of the trustees' funding decisions on members needs to be considered very carefully.

Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe and North America, the majority of which are closed to new entrants, and deferred compensation schemes in the US, where an element of employees' compensation is deferred and invested in available-for-sale assets (as disclosed in Note 19.1) in a trust, the assets of which are for the ultimate benefit of the employees but are available to the Group's creditors in the event of insolvency.

Membership of the principal schemes

	Balfour Beatty Pension Fund 2015			**Railways Pension Scheme 2015**			Balfour Beatty Pension Fund 2014			Railways Pension Scheme 2014		
	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	**17**	**6**	**20**	**111**	**66**	**21**	69	6	20	156	63	21
– deferred pensioners	**12,894**	**1,546**	**23**	**1,335**	**100**	**20**	13,423	1,539	23	1,389	99	20
– pensioners, widow(er)s and dependants	**19,045**	**1,479**	**11**	**1,632**	**148**	**12**	20,772	1,595	11	1,578	157	12
Defined contribution	**13,163**	**–**	**–**	**–**	**–**	**–**	12,809	–	–	–	–	–
Total	**45,119**	**3,031**	**17**	**3,078**	**314**	**16**	47,073	3,140	17	3,123	319	16

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

	Balfour Beatty Pension Fund 2015 %	**Railways Pension Scheme 2015 %**	Balfour Beatty Pension Fund 2014 %	Railways Pension Scheme 2014 %
Discount rate	**3.70**	**3.70**	3.60	3.60
Inflation rate – RPI	**3.00**	**3.00**	2.95	2.95
– CPI	**1.60**	**1.60**	1.55	1.55
Future increases in pensionable salary	**1.60**	**1.60**	1.55	1.55
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**2.85**	**1.80**	2.80	1.80

In December 2014, following independent advice from the Group's actuaries based on further announcements by the Office for National Statistics, the Group reassessed the difference between RPI and CPI measures of price inflation from 1.2% in January 2014 to 1.4% reducing the retirement benefit liability by a further £31m which was recognised in the Statement of Comprehensive Income.

28 Retirement benefit liabilities continued

28.2 IAS 19 accounting valuations continued

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 (45,119 members at 31 December 2015) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes.

The mortality assumptions as at 31 December 2015 have been updated to reflect the experience of Balfour Beatty pensioners for the period 1 April 2004 to 31 March 2015. The mortality tables adopted for the 2015 IAS 19 valuations are the Self-Administered Pension Scheme (SAPS) S2 tables (2014: SAPS S2 tables) with a multiplier of 102% for all male and female members (2014: 102%) and 109% for female widows and dependants (2014: 109%); all with future improvements in line with the CMI 2015 core projection model (2014: CMI 2014 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2014: 1.25% per annum and 1.00% per annum).

	2015 Average life expectancy at 65 years of age		2014 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**22.1**	**23.9**	22.2	24.0
Members not yet in receipt of a pension (current age 50)	**23.4**	**25.0**	23.5	25.1

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 £318m (2014: £306m) have been excluded from the other tables on pages 142 to 144. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

	Balfour Beatty Pension Fund 2015 £m	**Railways Pension Scheme 2015 £m**	**Other schemes 2015 £m**	**Total 2015 £m**	Balfour Beatty Pension Fund 2014 £m	Railways Pension Scheme 2014 £m	Other schemes 2014 £m	Total 2014 £m
Continuing operations								
Current service cost	**(4)**	**(2)**	**(1)**	**(7)**	(3)	(2)	(2)	(7)
Defined contribution charge	**(45)**	**–**	**(1)**	**(46)**	(49)	–	(3)	(52)
Included in employee costs (Note 7)	**(49)**	**(2)**	**(2)**	**(53)**	(52)	(2)	(5)	(59)
Interest income	**111**	**9**	**–**	**120**	113	6	–	119
Interest cost	**(110)**	**(11)**	**(2)**	**(123)**	(126)	(7)	(2)	(135)
Net finance cost (Note 9)	**1**	**(2)**	**(2)**	**(3)**	(13)	(1)	(2)	(16)
Settlements (Note 7)	**3**	**–**	**–**	**3**	2	–	–	2
Total charged to income statement from continuing operations	**(45)**	**(4)**	**(4)**	**(53)**	(63)	(3)	(7)	(73)
Discontinued operations								
Current service cost (Note 7)	**–**	**–**	**–**	**–**	–	–	(4)	(4)
Defined contribution costs (Note 7)	**–**	**–**	**–**	**–**	(4)	–	(12)	(16)
Net finance cost	**–**	**–**	**–**	**–**	–	–	(1)	(1)
Total charged to income statement from discontinued operations	**–**	**–**	**–**	**–**	(4)	–	(17)	(21)
Total charged to income statement	**(45)**	**(4)**	**(4)**	**(53)**	(67)	(3)	(24)	(94)

Amounts recognised in the Statement of Comprehensive Income

	Balfour Beatty Pension Fund 2015 £m	**Railways Pension Scheme 2015 £m**	**Other schemes 2015 £m**	**Total 2015 £m**	Balfour Beatty Pension Fund 2014 £m	Railways Pension Scheme 2014 £m	Other schemes 2014 £m	Total 2014 £m
Actuarial movements on pension scheme obligations	**57**	**5**	**6**	**68**	(195)	(128)	(14)	(337)
Actuarial movements on pension scheme assets	**(157)**	**4**	**(1)**	**(154)**	465	109	–	574
Total actuarial movements recognised in the Statement of Comprehensive Income (Note 30.1)	**(100)**	**9**	**5**	**(86)**	270	(19)	(14)	237
Cumulative actuarial movements recognised in the Statement of Comprehensive Income	**(276)**	**(44)**	**(29)**	**(349)**	(176)	(53)	(34)	(263)

The actual return on plan assets was a loss of £34m (2014: £693m gain).

Notes to the Financial Statements continued

28 Retirement benefit liabilities continued
28.2 IAS 19 accounting valuations continued
Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes† 2015 £m	Total 2015 £m	Balfour Beatty Pension Fund 2014 £m	Railways Pension Scheme 2014 £m	Other schemes† 2014 £m	Total 2014 £m
Present value of obligations	**(3,031)**	**(314)**	**(52)**	**(3,397)**	(3,140)	(319)	(59)	(3,518)
Fair value of plan assets	**2,988**	**263**	**–**	**3,251**	3,128	261	1	3,390
Liabilities in the balance sheet	**(43)**	**(51)**	**(52)**	**(146)**	(12)	(58)	(58)	(128)

† Available-for-sale investments in mutual funds of £20m (2014: £20m) are held to satisfy the Group's deferred compensation obligations (Note 19.1).

The defined benefit obligation comprises £52m (2014: £58m) arising from wholly unfunded plans and £3,345m (2014: £3,460m) arising from plans that are wholly or partly funded.

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes 2015 £m	Total 2015 £m	Balfour Beatty Pension Fund 2014 £m	Railways Pension Scheme 2014 £m	Other schemes 2014 £m	Total 2014 £m
At 1 January	(3,140)	(319)	(59)	(3,518)	(2,964)	(191)	(74)	(3,229)
Currency translation differences	**–**	**–**	**(1)**	**(1)**	–	–	(1)	(1)
Current service cost – continuing operations	**(4)**	**(2)**	**(1)**	**(7)**	(3)	(2)	(2)	(7)
Interest cost – continuing operations	**(110)**	**(11)**	**(2)**	**(123)**	(126)	(7)	(2)	(135)
Income statement costs relating to discontinued operations	**–**	**–**	**–**	**–**	–	–	(5)	(5)
Actuarial movements from reassessing the difference between RPI and CPI	**–**	**–**	**–**	**–**	27	4	–	31
Other financial actuarial movements	**41**	**4**	**6**	**51**	(226)	(133)	(13)	(372)
Actuarial movements from changes in demographic assumptions	**15**	**1**	**–**	**16**	9	2	–	11
Experience gains/(losses)	**1**	**–**	**–**	**1**	(5)	(1)	(1)	(7)
Total actuarial movements	**57**	**5**	**6**	**68**	(195)	(128)	(14)	(337)
Benefits paid	**163**	**13**	**5**	**181**	146	9	9	164
Settlements	**3**	**–**	**–**	**3**	2	–	–	2
Reclassified from liabilities held for sale	**–**	**–**	**–**	**–**	–	–	(20)	(20)
Reclassified to liabilities held for sale and subsequently sold (Note 32.3.7)	**–**	**–**	**–**	**–**	–	–	50	50
At 31 December	**(3,031)**	**(314)**	**(52)**	**(3,397)**	(3,140)	(319)	(59)	(3,518)

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2015 £m	Railways Pension Scheme 2015 £m	Other schemes 2015 £m	Total 2015 £m	Balfour Beatty Pension Fund 2014 £m	Railways Pension Scheme 2014 £m	Other schemes 2014 £m	Total 2014 £m
At 1 January	3,128	261	1	3,390	2,641	153	1	2,795
Interest income	**111**	**9**	**–**	**120**	113	6	–	119
Actuarial movements	**(157)**	**4**	**(1)**	**(154)**	465	109	–	574
Contributions from employer								
– regular funding	**3**	**1**	**–**	**4**	4	1	–	5
– ongoing deficit funding	**65**	**1**	**–**	**66**	48	1	–	49
Benefits paid	**(162)**	**(13)**	**–**	**(175)**	(146)	(9)	–	(155)
Settlements	**–**	**–**	**–**	**–**	3	–	–	3
At 31 December	**2,988**	**263**	**–**	**3,251**	3,128	261	1	3,390

28 Retirement benefit liabilities continued

28.2 IAS 19 accounting valuations continued

Fair value of the assets held by the schemes at 31 December

	2015			2014			
	Balfour Beatty Pension Fund £m	**Railways Pension Scheme† £m**	**Total £m**	Balfour Beatty Pension Fund £m	Railways Pension Scheme† £m	Other schemes £m	Total £m
Return-seeking	**973**	**200**	**1,173**	979	197	–	1,176
– Developed nation equities	**358**	**–**	**358**	356	–	–	356
– Emerging market equities	**103**	**–**	**103**	115	–	–	115
– Emerging market debt and currency	**116**	**–**	**116**	134	–	–	134
– Hedge funds	**336**	**–**	**336**	313	–	–	313
– Return-seeking growth pooled funds	**–**	**200**	**200**	–	197	–	197
– Other return-seeking assets	**60**	**–**	**60**	61	–	–	61
Liability matching bond-type assets	**1,963**	**63**	**2,026**	1,944	64	–	2,008
– Corporate bonds	**617**	**–**	**617**	681	–	–	681
– Fixed interest gilts	**628**	**–**	**628**	464	–	–	464
– Index-linked gilts	**588**	**–**	**588**	583	–	–	583
– Liability matching pooled funds	**–**	**63**	**63**	–	64	–	64
– Interest and inflation rate swaps	**130**	**–**	**130**	216	–	–	216
Other	**52**	**–**	**52**	205	–	1	206
Total	**2,988**	**263**	**3,251**	3,128	261	1	3,390

† The amounts in 2015 represent 95% of the scheme's assets (2014: 95%).

All assets have quoted prices in active markets with the exception of the following where the classification is in accordance with IFRS 13 Fair Value Measurement:

- £240m of the corporate bonds (Level 2)
- interest and inflation rate swaps (Level 2)
- hedge funds (Level 3)
- return-seeking growth pooled funds (Level 3)
- other return-seeking assets (Level 3)
- liability matching pooled funds (Level 3).

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2016

	Balfour Beatty Pension Fund 2016 £m	**Railways Pension Scheme 2016 £m**	**Total 2016 £m**
Regular funding	**2**	**1**	**3**
Ongoing deficit funding	**59**	**1**	**60**
Total	**61**	**2**	**63**

Notes to the Financial Statements continued

28 Retirement benefit liabilities continued

28.2 IAS 19 accounting valuations continued

Sensitivity of the Group's retirement benefit obligations at 31 December 2015 to different actuarial assumptions

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.

Obligations	**Percentage points/ Years**	**(Decrease)/ increase in obligations %**	**(Decrease)/ increase in obligations £m**
Increase in discount rate	**0.5%**	**(7.8)**	**(262)**
Increase in market expectation of RPI inflation	**0.5%**	**5.3**	**178**
Increase in salary growth	**0.5%**	**0.1**	**3**
Increase in life expectancy	**1 year**	**4.0**	**135**

Sensitivity of the Group's retirement benefit assets at 31 December 2015 to changes in market conditions

Assets	**Percentage points**	**(Decrease)/ increase in assets %**	**(Decrease)/ increase in assets £m**
Increase in interest rates	**0.5%**	**(8.3)**	**(270)**
Increase in market expectation of RPI inflation	**0.5%**	**4.9**	**159**

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

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Present value of obligations	**(3,397)**	(3,518)	(3,229)	(3,146)	(2,910)
Fair value of assets	**3,251**	3,390	2,795	2,813	2,640
Deficit	**(146)**	(128)	(434)	(333)	(270)
Experience adjustment for obligations	**1**	(7)	16	(39)	(11)
Experience adjustment for assets	**(154)**	574	(44)	83	148
Total deficit funding	**66**	49	59	61	113

28.3 Latest formal triennial funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal triennial funding valuation	31/03/2013	31/12/2010
Scheme deficit		
Market value of assets	3,103	260
Present value of obligations	(3,522)	(268)
Deficit in defined benefit scheme	(419)	(8)
Funding level	88.1%	97.0%

The triennial funding valuation as at 31 December 2013 for the RPS scheme continues to progress. The valuation has been subject to delays as the deficit is likely to have increased substantially and the shared cost nature of the scheme means that the impact of any of the trustees' funding decisions on members needs to be considered very carefully.

29 Share capital

29.1 Ordinary shares of 50p each

	Million	Issued £m
At 1 January 2014	689	344
Shares issued	1	1
At 31 December 2014	690	345
Shares issued	–	–
At 31 December 2015	**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.

Ordinary shares issued during the year credited as fully paid	**Ordinary shares 2015 Number**	**Consideration 2015 £m**	Ordinary shares 2014 Number	Consideration 2014 £m
Savings-related share options exercised	**210,214**	**1**	101,540	–
Executive share options exercised	**–**	**–**	318,840	1
	210,214	**1**	420,380	1

At 31 December 2015, there were no share options outstanding under the Savings-Related Share Option Scheme (SAYE) (2014: 591,789 options at an exercise price of 236.0p). No options have been granted under the SAYE since 2010.

29.2 Cumulative convertible redeemable preference shares of 1p each

	Million	Issued £m
At 31 December 2014 and 2015	**112**	**1**

All issued preference shares are fully paid. During the current and prior year, no preference shares were repurchased for cancellation by the Company.

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid on 1 July 2015 in respect of the six months ended 30 June 2015. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid on 1 January 2016 in respect of the six months ended 31 December 2015. As a result of changes in the tax legislation, and in accordance with the terms of the preference shares, from July 2016 the half-yearly dividend payment will be 5.375p.

On 1 July 2020, any preference shares still outstanding are redeemable at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2015 (2014: £112m).

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 24.69136 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances. The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30-day period exceeds 810p, subject to adjustment in certain circumstances.

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding up of the Company. On winding up the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares.

The preference shares are a compound instrument, comprising equity and liability components. The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13.5% per annum for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in equity holders' equity, net of deferred tax.

Notes to the Financial Statements continued

29 Share capital continued

29.2 Cumulative convertible redeemable preference shares of 1p each continued

Liability component recognised in the Balance Sheet	**2015 £m**	2014 £m
Redemption value of shares in issue at 1 January	**112**	112
Equity component	**(18)**	(18)
Interest element	**2**	–
Liability component at 1 January at amortised cost	**96**	94
Interest accretion	**2**	2
Liability component at 31 December at amortised cost	**98**	96

The fair value of the liability component of the preference shares at 31 December 2015 amounted to £109m (2014: £111m). The fair value is determined by using the market price of the preference shares at the reporting date.

Interest expense on the preference shares is calculated using the effective interest method.

29.3 Convertible bonds

On 3 December 2013, the Group issued convertible bonds for net proceeds of £246m. The convertible bonds are compound instruments comprising equity and liability components. The fair value of the liability component was estimated as £220m using the prevailing market rate at the date of issue for a similar non-convertible instrument. The difference between the net proceeds and the fair value of the liability represented the embedded option to convert the liability into the Company's ordinary shares being the equity component of £26m. Refer to Note 26.3.

30 Movements in equity

30.1 Group

					Other reserves							
	Called-up share capital 2015 £m	Share premium account 2015 £m	Special reserve 2015 £m	Share of joint ventures' and associates' reserves (Note 18.7) 2015 £m	Equity component of preference shares and convertible bonds 2015 £m	Hedging reserves 2015 £m	PPP financial assets 2015 £m	Currency translation reserve 2015 £m	Other 2015 £m	Retained profits 2015 £m	Non-controlling interests 2015 £m	Total 2015 £m
At 1 January 2015	345	64	23	340	44	(74)	101	55	14	315	3	1,230
Profit for the year	**–**	**–**	**–**	**44**	**–**	**–**	**–**	**–**	**–**	**(250)**	**–**	**(206)**
Currency translation differences	**–**	**–**	**–**	**3**	**–**	**–**	**–**	**29**	**–**	**–**	**–**	**32**
Actuarial movements on retirement benefit liabilities	**–**	**–**	**–**	**(4)**	**–**	**–**	**–**	**–**	**–**	**(86)**	**–**	**(90)**
Fair value revaluations												
– PPP financial assets	**–**	**–**	**–**	**(170)**	**–**	**–**	**(13)**	**–**	**–**	**–**	**–**	**(183)**
– cash flow hedges	**–**	**–**	**–**	**21**	**–**	**8**	**–**	**–**	**–**	**–**	**–**	**29**
Recycling of revaluation reserves to the income statement on disposal@	**–**	**–**	**–**	**(5)**	**–**	**4**	**(27)**	**3**	**–**	**5**	**–**	**(20)**
Tax on items recognised in other comprehensive income@	**–**	**–**	**–**	**33**	**–**	**4**	**(3)**	**–**	**–**	**15**	**–**	**49**
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**(78)**	**–**	**16**	**(43)**	**32**	**–**	**(316)**	**–**	**(389)**
Joint ventures' and associates' dividends	**–**	**–**	**–**	**(69)**	**–**	**–**	**–**	**–**	**–**	**69**	**–**	**–**
Issue of ordinary shares	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(12)**	**–**	**(13)**
Minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Reserve transfers relating to joint venture and associate disposals	**–**	**–**	**–**	**(13)**	**–**	**–**	**–**	**–**	**–**	**13**	**–**	**–**
Other transfers	**–**	**–**	**(1)**	**16**	**–**	**–**	**–**	**–**	**–**	**(15)**	**–**	**–**
At 31 December 2015	**345**	**65**	**22**	**196**	**44**	**(58)**	**58**	**87**	**13**	**54**	**4**	**830**

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

30 Movements in equity continued

30.1 Group continued

	Called-up share capital 2014 £m	Share premium account 2014 £m	Special reserve 2014 £m	Share of joint ventures' and associates' reserves (Note 18.7) 2014 £m	Other reserves: Equity component of preference shares and convertible bonds 2014 £m	Other reserves: Hedging reserves 2014 £m	Other reserves: PPP financial assets 2014 £m	Other reserves: Currency translation reserve 2014 £m	Other reserves: Merger reserve 2014 £m	Other reserves: Other 2014 £m	Retained profits 2014 £m	Non-controlling interests 2014 £m	Total 2014 £m
At 1 January 2014	344	64	24	278	44	(56)	56	8	249	22	–	2	1,035
Profit for the year	–	–	–	53	–	–	–	–	–	–	(113)	1	(59)
Currency translation differences	–	–	–	2	–	–	–	30	–	–	–	–	32
Actuarial movements on retirement benefit liabilities	–	–	–	(5)	–	–	–	–	–	–	237	–	232
Fair value revaluations													
– PPP financial assets	–	–	–	224	–	–	79	–	–	–	–	–	303
– cash flow hedges	–	–	–	(102)	–	(54)	–	–	–	–	–	–	(156)
– available-for-sale investments in mutual funds	–	–	–	–	–	–	–	–	–	2	–	–	2
Recycling of revaluation reserves to the income statement on disposal@	–	–	–	(7)	–	26	(18)	17	–	(7)	–	–	11
Tax on items recognised in other comprehensive income@	–	–	–	(23)	–	10	(16)	–	–	–	(48)	–	(77)
Total comprehensive income/(expense) for the year	–	–	–	142	–	(18)	45	47	–	(5)	76	1	288
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(96)	–	(96)
Joint ventures' and associates' dividends	–	–	–	(56)	–	–	–	–	–	–	56	–	–
Issue of ordinary shares	1	–	–	–	–	–	–	–	–	–	–	–	1
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	(3)	5	–	2
Reserve transfers relating to joint venture and associate disposals	–	–	–	(24)	–	–	–	–	–	–	24	–	–
Other transfers	–	–	(1)	–	–	–	–	–	(249)	–	250	–	–
At 31 December 2014	345	64	23	340	44	(74)	101	55	–	14	315	3	1,230

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

Notes to the Financial Statements continued

30 Movements in equity continued

30.2 Company

	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves: Equity component of preference shares and convertible bonds £m	Other reserves: Merger reserve £m	Other reserves: Other £m	Retained profits £m	Total £m
At 1 January 2014	344	64	24	44	249	69	271	1,065
Profit for the year	–	–	–	–	–	–	156	156
Total comprehensive income for the year	–	–	–	–	–	–	156	156
Ordinary dividends	–	–	–	–	–	–	(96)	(96)
Issue of ordinary shares	1	–	–	–	–	–	–	1
Movements relating to share-based payments	–	–	–	–	–	5	–	5
Other transfers	–	–	(1)	–	(249)	–	250	–
At 31 December 2014	345	64	23	44	–	74	581	1,131
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**34**	**34**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**36**	**36**
Issue of ordinary shares	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Movements relating to share-based payments	**–**	**–**	**–**	**–**	**–**	**(2)**	**(14)**	**(16)**
Other transfers	**–**	**–**	**(1)**	**–**	**–**	**–**	**1**	**–**
At 31 December 2015	**345**	**65**	**22**	**44**	**–**	**72**	**604**	**1,152**

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 £1m occurred in 2015 (2014: £1m).

30.3 The retained profits in the Group and the retained profits of the Company are stated net of investments in Balfour Beatty plc ordinary shares acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Performance Share Plan, the Executive Buyout Scheme, the Deferred Bonus Plan and the Restricted Share Plan. In 2015, 7.3m (2014: 0.6m) shares were purchased at a cost of £16.9m (2014: £1.7m). The market value of the 9.2m (2014: 2.9m) shares held by the Trust at 31 December 2015 was £24.9m (2014: £6.2m). The carrying value of these shares is £23.0m (2014: £9.0m). Following confirmation of the performance criteria at the end of the performance period in the case of the Performance Share Plan and the Executive Buyout Scheme, and at the end of the vesting period in the case of the Deferred Bonus Plan and the Restricted Share Plan, the appropriate number of shares will be unconditionally transferred to participants. In 2015, nil shares were transferred to participants in relation to the April 2013 special awards under the Performance Share Plan (2014: 0.1m shares were transferred to participants), nil shares were transferred to participants in relation to the April 2012 awards under the Performance Share Plan (2014: nil shares were transferred to participants in relation to the April 2011 awards under the Performance Share Plan), 0.3m were transferred to participants in relation to the January 2015 awards under the Executive Buyout Scheme and 0.7m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2014: 0.9m shares). The Trustees have waived the rights to dividends on shares held by the trust. Other reserves in the Group and Company include £3.9m relating to unvested Performance Share Plan awards (2014: £4.3m), £nil relating to unvested share options (2014: £0.4m), £0.2m (2014: £nil) relating to unvested Restricted Share Plan awards, £1.3m (2014: £nil) relating to unvested Executive Buyout Scheme awards and £1.5m relating to unvested Deferred Bonus Plan awards (2014: £2.1m).

31 Notes to the statements of cash flows

	Notes	Continuing operations Underlying items[1] 2015 £m	Continuing operations Non-underlying items (Note 10) 2015 £m	Discontinued operations and assets held for sale (Note 12) 2015 £m	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014^ £m
31.1 Cash (used in)/generated from operations								
(Loss)/profit from operations		**(106)**	**(76)**	**–**	**(182)**	(43)	**62**	185
Share of results of joint ventures and associates	18	**(47)**	**3**	**–**	**(44)**	(53)	**–**	–
Dividends received		**–**	**–**	**–**	**–**	–	**(25)**	(168)
Depreciation of property, plant and equipment	17	**33**	**2**	**–**	**35**	54	**–**	–
Amortisation of other intangible assets	16	**15**	**10**	**–**	**25**	25	**–**	–
Impairment of IT intangible assets	16	**–**	**17**	**–**	**17**	21	**–**	–
Pension deficit payments	28.2	**(66)**	**–**	**–**	**(66)**	(49)	**–**	–
Pension fund settlement gain	10	**–**	**(3)**	**–**	**(3)**	(2)	**–**	–
Movements relating to share-based payments	33	**5**	**–**	**–**	**5**	5	**–**	–
Profit on disposal of investments in infrastructure concessions	32.2	**(95)**	**–**	**–**	**(95)**	(93)	**(54)**	(49)
Profit on disposal of property, plant and equipment		**(1)**	**–**	**–**	**(1)**	(7)	**–**	–
Net gain on disposal of other businesses	32.2	**–**	**(13)**	**(1)**	**(14)**	(234)	**–**	–
Goodwill impairment	10	**–**	**4**	**–**	**4**	24	**–**	–
Impairment of assets within Rail Germany	10	**–**	**7**	**–**	**7**	30	**–**	–
Other non-cash items		**(1)**	**–**	**–**	**(1)**	1	**–**	–
Operating cash flows before movements in working capital		**(263)**	**(49)**	**(1)**	**(313)**	(321)	**(17)**	(32)
Decrease/(increase) in operating working capital		**179**	**(5)**	**4**	**178**	(31)	**(144)**	310
Inventories and non-construction work in progress		**21**	**5**	**1**	**27**	(30)	**–**	–
Due from construction contract customers		**160**	**22**	**–**	**182**	(92)	**–**	–
Trade and other receivables		**52**	**18**	**4**	**74**	(43)	**(259)**	46
Due to construction contract customers		**137**	**(11)**	**–**	**126**	50	**–**	–
Trade and other payables		**(181)**	**(51)**	**(4)**	**(236)**	85	**115**	264
Provisions		**(10)**	**12**	**3**	**5**	(1)	**–**	–
Cash (used in)/generated from operations		**(84)**	**(54)**	**3**	**(135)**	(352)	**(161)**	278

1 Before non-underlying items (Notes 2.10 and 10).
^ Re-presented to show short-term loans made to joint ventures and associates separately from cash used in operations in the Company cash flow.

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
31.2 Cash and cash equivalents				
Cash and deposits	**562**	653	**50**	249
Term deposits	**84**	38	**–**	–
Cash balances within infrastructure concessions	**20**	40	**–**	–
Bank overdrafts	**(3)**	(4)	**(160)**	(142)
	663	727	**(110)**	107

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

	Infrastructure concessions non-recourse project finance 2015 £m	Other 2015 £m	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
31.3 Analysis of movement in net (borrowings)/cash						
Opening net borrowings	**(445)**	**219**	**(226)**	(420)	**(117)**	(318)
Currency translation differences	**(3)**	**(12)**	**(15)**	(21)	**(12)**	(12)
Net (decrease)/increase in cash and cash equivalents	**(20)**	**(63)**	**(83)**	212	**(217)**	213
Accretion on convertible bonds	**–**	**(6)**	**(6)**	(6)	**–**	–
Proceeds from new loans	**(79)**	**–**	**(79)**	(247)	**–**	–
Proceeds from new finance leases	**–**	**–**	**–**	(1)	**–**	–
Repayments of loans	**11**	**1**	**12**	90	**–**	–
Repayments of finance leases	**–**	**–**	**–**	3	**–**	–
Transfer of borrowings in the period	**(6)**	**6**	**–**	–	**–**	–
Disposal of non-recourse borrowings (Notes 32.2.10 and 32.3.7)	**177**	**–**	**177**	163	**–**	–
Net decrease in cash within assets held for sale	**–**	**18**	**18**	1	**–**	–
Closing net (borrowings)/cash	**(365)**	**163**	**(202)**	(226)	**(346)**	(117)

Notes to the Financial Statements continued

31 Notes to the statements of cash flows continued

31.4 Borrowings

During the year ended 31 December 2015, the significant movements in borrowings were: a net decrease in cash and cash equivalents (excluding cash held in infrastructure concession projects) of £63m (2014: £237m net increase); a net repayment of short-term loans of £1m (2014: £83m); an increase of £79m (2014: £236m) in non-recourse loans funding the development of financial assets in infrastructure concession subsidiaries; disposal of non-recourse borrowings in Thanet OFTO HoldCo Ltd £177m (2014: £163m on disposal of Transform Schools (Knowsley) Holdings Ltd); and repayment of £11m (2014: £7m) of non-recourse loans.

32 Acquisitions and disposals

32.1 Current and prior year acquisitions

There were no material acquisitions during the years ended 31 December 2015 and 2014.

Deferred consideration paid during 2015 in respect of acquisitions completed in earlier years was £3m (2014: £3m). This related to the Group's acquisition of Centex Construction in 2007.

32.2 Current year disposals

Notes	Disposal date	Entity/business	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain £m	Non-underlying gain/(loss) £m
32.2.1	31 January 2015	Parts of Rail Germany*	100	5	(5)	(1)	(4)	–	(5)
32.2.2	16 February 2015	Thanet OFTO HoldCo Ltd*	80	40	(35)	18	6	29	–
32.2.3	11 March 2015	Rail Italy*	100	5	(6)	(2)	(1)	–	(4)
32.2.4	12 March 2015	Baoji BaoDeLi Electrification Ltd^	25	4	(2)	–	–	–	2
32.2.5	28 April 2015	Edinburgh Royal Infirmary^	50	72	(15)	(1)	(1)	55	–
32.2.6	27 May 2015	Signalling Solutions Ltd^	50	18	(1)	–	(1)	–	16
32.2.7	30 November 2015	Aura Holdings (Newcastle) Ltd^	25	7	(3)	–	–	4	–
32.2.8	2 December 2015	Greater Gabbard OFTO Holdings Ltd^	33	26	(25)	6	–	7	–
				177	**(92)**	**20**	**(1)**	**95**	**9**

* Subsidiary.
^ Joint venture.

32.2.1 On 31 January 2015, as part of the ongoing process to exit the Mainland European rail business, the Group disposed of part of its Rail business in Germany and its Rail business in Austria for a cash consideration of £5m. The disposal resulted in a £5m loss being recognised as a non-underlying item within continuing operations, comprising a £1m loss on recycling currency translation reserves to the income statement and costs of disposal of £4m, of which £1m remains unpaid. The disposal included cash disposed of £12m.

32.2.2 On 16 February 2015, the Group disposed of an 80% interest in Thanet OFTO HoldCo Ltd (Thanet) for a cash consideration of £40m. This infrastructure concession disposal resulted in a net gain of £29m being recognised within underlying operating profit, comprising: a gain of £5m in respect of the investment in the subsidiary, an £18m gain in respect of revaluation reserves recycled to the income statement and £6m representing the fair value uplift of the interest retained. The Group retains a 20% interest in Thanet which will be accounted for as a joint venture using the equity method. The disposal included cash disposed of £17m.

32.2.3 On 11 March 2015, as part of the ongoing process to exit the mainland European Rail business, the Group disposed of its Rail business in Italy for a cash consideration of £5m. The disposal resulted in a £4m loss being recognised as a non-underlying item within discontinued operations, comprising a £1m loss in respect of the fair value of net assets disposed, a £2m loss on recycling currency translation reserves to the income statement and costs of disposal of £1m. The disposal included cash disposed of £3m.

32.2.4 On 12 March 2015, as part of the ongoing process to exit the mainland European Rail business, the Group disposed of its 25% interest in Baoji BaoDeLi Electrification Equipment Ltd for a cash consideration of £4m. The disposal resulted in a £2m gain being recognised as a non-underlying item within continuing operations in respect of the investment in the joint venture.

32.2.5 On 28 April 2015, the Group disposed of its 50% interest in Consort Healthcare (Edinburgh Royal Infirmary) Holdings Ltd (Edinburgh Royal Infirmary) for a cash consideration of £72m. This infrastructure concession disposal resulted in a net gain of £55m being recognised within underlying operating profit, comprising: a gain of £57m in respect of the investment in the joint venture, a £1m loss in respect of revaluation reserves recycled to the income statement and £1m costs of disposal incurred.

The Company received £54m of cash consideration in relation to the disposal of its interest in Edinburgh Royal Infirmary and recognised an underlying gain of £54m in respect of this disposal.

32.2.6 On 27 May 2015, the Group disposed of its 50% interest in Signalling Solutions Ltd for an initial cash consideration of £17m. An additional cash consideration of £1m was subsequently received in the second half of the year. The disposal resulted in a £16m gain being recognised in non-underlying items within continuing operations in respect of the disposal of the investment in the joint venture, after deducting disposal costs of £1m.

32 Acquisitions and disposals continued

32.2 Current year disposals continued

32.2.7 On 30 November 2015, the Group disposed of its 25% interest in Aura Holdings (Newcastle) Ltd for a cash consideration of £7m. This infrastructure concession disposal resulted in a net gain of £4m being recognised within underlying operating profit in respect of the investment in the joint venture.

32.2.8 On 2 December 2015, the Group disposed of its 33% interest in Greater Gabbard OFTO Holdings Ltd for a cash consideration of £26m. This infrastructure concession disposal resulted in a net gain of £7m being recognised within underlying operating profit, comprising a gain of £1m in respect of the investment in the joint venture and a £6m gain in respect of revaluation reserves recycled to the income statement.

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

32.2.10 Subsidiaries net assets disposed

		Continuing operations	Discontinued operations and assets held for sale		
Net assets disposed	**Notes**	**Thanet £m**	**Rail Germany £m**	**Rail Italy £m**	**Total £m**
PPP financial assets	20	**214**	**–**	**–**	**214**
Deferred taxation	27	**(6)**	**–**	**1**	**(5)**
Inventories and non-construction work in progress		**–**	**1**	**–**	**1**
Due from construction contract customers		**–**	**10**	**4**	**14**
Trade and other receivables		**2**	**5**	**10**	**17**
Trade and other payables		**–**	**(20)**	**(11)**	**(31)**
Provisions		**–**	**(1)**	**–**	**(1)**
Retirement benefit liabilities		**–**	**(1)**	**(1)**	**(2)**
Current taxation		**–**	**–**	**1**	**1**
Derivatives		**(6)**	**–**	**–**	**(6)**
Cash		**17**	**12**	**3**	**32**
Recourse borrowings		**–**	**(1)**	**(1)**	**(2)**
Non-recourse borrowings	31.3	**(177)**	**–**	**–**	**(177)**
Net assets of interest retained		**(9)**	**–**	**–**	**(9)**
	12	**35**	**5**	**6**	**46**
Fair value movement on retained interest		**(6)**	**–**	**–**	**(6)**
Reserves recycled to the income statement		**(18)**	**1**	**2**	**(15)**
Costs directly related to the sale		**–**	**4**	**1**	**5**
		11	**10**	**9**	**30**
Net cash consideration		**(40)**	**(5)**	**(5)**	**(50)**
(Gain)/loss on disposal		**(29)**	**5**	**4**	**(20)**
Net cash flow effect					
Total consideration		**40**	**5**	**5**	**50**
Cash and cash equivalents disposed		**(17)**	**(12)**	**(3)**	**(32)**
Transaction and separation costs paid		**–**	**(3)**	**(1)**	**(4)**
Net cash consideration		**23**	**(10)**	**1**	**14**
Net receipt in relation to the disposal of Parsons Brinckerhoff	32.2.9				**25**
					39

Notes to the Financial Statements continued

32 Acquisitions and disposals continued

32.3 Prior year disposals

Notes	Disposal date	Entity/business	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Direct costs incurred, indemnity provisions created and fair value uplift £m	Underlying gain £m	Non-underlying gain £m
32.3.1	8 January 2014	Rail Scandinavia*	100	2	(2)	1	(1)	–	–
32.3.2	22 May 2014	Consort Healthcare (Durham) Holdings Ltd^	50	55	(43)	15	–	27	–
32.3.3	30 May 2014	Transform Schools (Knowsley) Holdings Ltd*	100	42	(10)	(8)	–	24	–
32.3.4	1 October 2014	Consort Healthcare (Mid Yorkshire) Holdings Ltd^	50	62	(12)	(8)	–	42	–
32.3.5	31 October 2014	Parsons Brinckerhoff*	100	812	(498)	(11)	(69)	–	234
				973	**(565)**	**(11)**	**(70)**	**93**	**234**

* Subsidiary.
^ Joint venture.

32.3.1 On 8 January 2014, the Group disposed of its Rail business in Scandinavia for a cash consideration of £2m. The disposal resulted in a £nil gain/loss being recognised as a non-underlying item, comprising a £nil gain/loss in respect of the fair value of net assets disposed and a £1m gain on recycling currency translation reserves to the income statement. Costs of disposal incurred and indemnity provisions of £1m were charged to the income statement which resulted in the overall £nil gain/loss. The disposal included cash disposed of £9m.

32.3.2 On 22 May 2014, the Group disposed of its 50% interest in Consort Healthcare (Durham) Holdings Ltd (CHDHL) for an agreed cash consideration of £55m, including a settlement of short-term loans due from joint ventures of £5m. On this date, the Group ceased to jointly control CHDHL by virtue of a put/call structure with a preferred bidder. The disposal was completed on 30 June 2014 and the proceeds were received in July 2014. This disposal resulted in a net gain of £27m being recognised within underlying operating profit in the income statement, comprising a gain of £12m in respect of the disposal of the investment in the joint venture and a £15m gain in respect of revaluation reserves recycled to the income statement.

The Company recognised an underlying gain of £49m in respect of this disposal.

32.3.3 On 30 May 2014, the Group disposed of its 100% interest in Transform Schools (Knowsley) Holdings Ltd (TSKHL) for an agreed cash consideration of £42m. On this date, the Group ceased to jointly control TSKHL by virtue of a put/call structure with a preferred bidder. The disposal of the subsidiary was completed on 12 June 2014. This disposal resulted in a net gain of £24m being recognised within underlying profit, comprising a gain of £32m in respect of the fair value of net assets disposed and an £8m loss in respect of revaluation reserves recycled to the income statement. The disposal included cash disposed of £8m.

32.3.4 On 1 October 2014, the Group disposed of its 50% interest in Consort Healthcare (Mid Yorkshire) Holdings Ltd for an agreed cash consideration of £62m. This disposal was completed on 1 October 2014 and resulted in a gain of £42m being recognised within underlying operating profit, comprising a £50m gain in respect of the disposal of the investment in the joint venture and an £8m loss in respect of revaluation reserves recycled to the income statement.

32.3.5 On 28 October 2014, shareholder approval was granted for the disposal of the Group's 100% interest in Parsons Brinckerhoff. The deal subsequently completed on 31 October 2014 for an agreed cash consideration of £812m. The disposal resulted in a net non-underlying gain of £234m being recognised within discontinued operations after incurring separation costs of £24m and transaction costs of £45m. The net gain comprised a gain of £314m before disposal costs in respect of the fair value of net assets disposed and a £11m loss in respect of reserves recycled to the income statement. This disposal included cash disposed of £42m. Additional consideration of £16m was received in 2015. Refer to Notes 12 and 32.2.9.

32.3.6 In 2014, the Group finalised the cash consideration due on the disposal of its UK facilities management business, Balfour Beatty WorkPlace (BBW), amounting to an additional consideration for the Group of £1m. At the same time, an agreement was reached to discharge the Group's obligation for which a provision of £14m had been made in return for a payment by the Group of £9m. This resulted in an additional non-underlying gain on disposal of £6m, which was fully offset with an impairment charge for an intangible asset of £6m. The additional net non-underlying gain on disposal recognised in 2014 was therefore £nil. Costs of £6m incurred in 2013 were subsequently settled in 2014.

32 Acquisitions and disposals continued
32.3 Prior year disposals continued
32.3.7 Prior year subsidiaries net assets disposed

Net assets disposed	**Notes**	**Parsons Brinckerhoff £m**	**Knowsley £m**	**Rail Scandinavia £m**	**Total £m**
Intangible assets – goodwill	15	227	–	–	227
Intangible assets – other	16	7	–	–	7
Property, plant and equipment	17	53	–	7	60
Investment in joint ventures and associates	18	1	–	–	1
Available-for-sale investments	19	45	–	–	45
PPP financial assets	20	–	197	–	197
Deferred taxation	27	42	2	–	44
Inventories and non-construction work in progress		116	–	5	121
Trade and other receivables		300	3	21	324
Trade and other payables		(269)	(4)	(30)	(303)
Provisions	25	(12)	–	(2)	(14)
Retirement benefit liabilities	28	(50)	–	(8)	(58)
Current taxation		(4)	–	–	(4)
Derivatives		–	(33)	–	(33)
Cash		42	8	9	59
Non-recourse borrowings	31.3	–	(163)	–	(163)
		498	10	2	510
Reserves recycled to the income statement		11	8	(1)	18
Costs directly related to the sale		69	–	1	70
		578	18	2	598
Net cash consideration		(812)	(42)	(2)	(856)
Gain on disposal		(234)	(24)	–	(258)
Net cash flow effect					
Total consideration		812	42	2	856
Cash and cash equivalents disposed		(42)	(8)	(9)	(59)
Transaction and separation costs paid		(47)	–	(1)	(48)
Net cash consideration		723	34	(8)	749
Net payments made in relation to BBW disposal and associated transaction costs (Note 32.3.6)					(14)
					735

33 Share-based payments
The Company operates five equity-settled share-based payment arrangements, namely the Executive Buyout Scheme (EBS), the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP), the Restricted Share Plan (RSP) and the Savings-Related Share Option Scheme (SAYE). The Group recognised total expenses relating to equity-settled share-based payment transactions of £4.5m in 2015 (2014: £4.9m). Refer to the Remuneration report for details of the various schemes and to Note 29.1.

33.1 Movements in share options

	SAYE options				**ESOS options**			
	2015 Number	**Weighted average exercise price 2015 Pence**	2014 Number	Weighted average exercise price 2014 Pence	**2015 Number**	**Weighted average exercise price 2015 Pence**	2014 Number	Weighted average exercise price 2014 Pence
Outstanding at 1 January	**591,789**	**236.0**	1,364,265	242.1	**–**	**–**	387,733	227.3
Forfeited during the year	**(134,062)**	**236.0**	(187,464)	242.8	**–**	**–**	–	–
Exercised during the year	**(210,214)**	**236.0**	(101,540)	242.3	**–**	**–**	(318,840)	227.3
Expired during the year	**(247,513)**	**236.0**	(483,472)	249.2	**–**	**–**	(68,893)	227.3
Outstanding at 31 December	**–**	**–**	591,789	236.0	**–**	**–**	–	–
Exercisable at 31 December	**–**	**–**	–	–	**–**	**–**	–	–

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 265.3p (2014: 274.7p). There are no SAYE options outstanding as at 31 December 2015. The weighted average remaining contractual life of SAYE options outstanding at 31 December 2014 was 0.5 years.

There are no ESOS options outstanding. The ESOS scheme is now closed.

Notes to the Financial Statements continued

33 Share-based payments continued

33.2 Movements in share plans

	EBS conditional awards	PSP conditional awards		DBP conditional awards		RSP conditional awards
	2015 Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number	**2015 Number**
Outstanding at 1 January	**–**	**6,833,065**	9,615,176	**1,345,473**	1,797,335	**–**
Granted during the year	**2,859,212**	**3,969,923**	2,521,625	**700,087**	490,541	**1,105,658**
Awards in lieu of dividends	**–**	**–**	–	**–**	96,973	**–**
Forfeited during the year	**–**	**(1,351,983)**	(2,431,898)	**(68,220)**	(116,179)	**–**
Exercised during the year	**(409,156)**	**–**	(143,337)	**(728,104)**	(923,197)	**–**
Expired during the year	**(544,796)**	**(2,607,027)**	(2,728,501)	**–**	–	**–**
Outstanding at 31 December	**1,905,260**	**6,843,978**	6,833,065	**1,249,236**	1,345,473	**1,105,658**
Exercisable at 31 December	**–**	**–**	–	**–**	30,239	**–**
Weighted average remaining contractual life (years)	**1.5**	**1.4**	1.1	**1.9**	1.7	**2.4**

The weighted average share price at the date of exercise for those EBS awards exercised during the year was 261.6p (2014: nil). Included in the number of shares exercised during the year is the exercise of an award of 141,791 shares which was cash-settled.

The weighted average share price at the date of exercise for those DBP awards exercised during the year was 278.1p (2014: 273.7p).

The principal assumptions, including expected volatility determined from the historical weekly share price movements over the three-year period immediately preceding the award date, used by the consultants in the stochastic model for all awards granted in 2015 subject to market conditions, were:

Award date	Name of award	Closing share price on award date Pence	Expected volatility of shares %	Expected term of awards Years	Risk-free interest rate %	Calculated fair value of an award Pence
2 January 2015	EBS – Leo Quinn	**212.4**	**38.6**	**2.0**	**0.43**	**102.1**
2 January 2015	EBS – Leo Quinn	**212.4**	**37.1**	**3.0**	**0.67**	**92.1**
11 June 2015	EBS – Philip Harrison	**253.1**	**38.4**	**1.6**	**0.55**	**157.1**
11 June 2015	EBS – Philip Harrison	**253.1**	**36.0**	**2.6**	**0.71**	**135.8**
26 June 2015	PSP award granted in 2015	**243.0**	**36.3**	**3.0**	**0.94**	**173.5**
26 June 2015	PSP award granted in 2015 – Leo Quinn	**243.0**	**37.4**	**3.0**	**0.94**	**193.4**

For the DBP and RSP awards granted in 2015, the fair value of the awards is the closing share price before award date.

34 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £4m (2014: £3m) in the Group and £nil (2014: £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 39f.

In January 2013, the Balfour Beatty Infrastructure Partners Fund (Infrastructure Fund) reached first close with US$317m of commitments, of which Balfour Beatty committed US$110m. Final close was reached in July 2014 with a total of US$618m committed. The Group has invested a net US$55m in the Infrastructure Fund, of which US$22m was invested in 2015.

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement for continuing operations is disclosed in Note 6.1.

Future operating lease expenditure commitments

Continuing operations	Land and buildings 2015 £m	Other 2015 £m	Land and buildings 2014 £m	Other 2014 £m
Group				
Due within one year	**28**	**32**	30	29
Due between one and five years	**58**	**43**	57	41
Due after more than five years	**23**	**3**	23	5
	109	**78**	110	75

The Company did not have any future operating lease expenditure commitments as at 31 December 2015 (2014: £nil).

34 Commitments continued

Future committed operating lease income

Continuing operations	**Land and buildings 2015 £m**	Land and buildings 2014 £m
Group		
Due within one year	**1**	1
Due between one and five years	**5**	1
Due after more than five years	**1**	–
	7	2

The Company did not have any future committed operating lease income as at 31 December 2015 (2014: £nil).

35 Contingent liabilities

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

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

36 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £414m (2014: £673m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 23 and 24 respectively.

Key management personnel

Remuneration of key management personnel of the Company	**2015 £m**	2014 £m
Short-term benefits	**2.584**	2.274
Long-term benefits	**0.291**	0.167
Post-employment benefits	**–**	0.002
Payments for loss of office	**0.639**	0.574
Joining costs	**2.053**	–
Share-based payments	**1.642**	0.988
	7.209	4.005

Key management personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors. The remuneration included above is that paid in respect of the period of the year during which the individuals were Directors. Further details of Directors' emoluments, post-employment benefits and interests are set out in the 2015 Remuneration report on pages 68 to 84.

Balfour Beatty Group Employment Ltd (BBGEL) was established in February 2013 as the employing entity for the Group's UK employees. During the year, employee costs of £6m (2014: £11m) were recharged from BBGEL as management fees to the Company.

37 Events after the reporting date

As at 14 March 2016, there were no material post balance sheet events arising after the reporting date.

38 Financial instruments

38.1 Capital risk management

The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The components of capital are as follows: equity attributable to equity holders of the Company comprising issued ordinary share capital, reserves and retained earnings as disclosed in Notes 29.1 and 30; preference shares as disclosed in Note 29.2; US private placement as disclosed in Note 26; convertible bonds as disclosed in Note 26; and cash and cash equivalents and borrowings as disclosed in Note 26.

The Group and Company maintain or adjust their capital structure through the payment of dividends to equity holders, issue of new shares and buyback of existing shares, and drawdown of new borrowings and repayment of existing borrowings. The policy of the Group and the Company 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 and the Company remains unchanged from 2014.

Notes to the Financial Statements continued

38 Financial instruments continued
38.2 Group
Categories of financial instruments

Group	Loans and receivables at amortised cost, cash and deposits 2015 £m	Financial liabilities at amortised cost 2015 £m	Available-for-sale financial assets 2015 £m	Held to maturity financial assets 2015 £m	Derivatives 2015 £m	Loans and receivables at amortised cost, cash and deposits 2014 £m	Financial liabilities at amortised cost 2014 £m	Available-for-sale financial assets 2014 £m	Held to maturity financial assets 2014 £m	Derivatives 2014 £m
Financial assets										
Fixed rate bonds and treasury stock	–	–	–	**24**	–	–	–	–	31	–
Mutual funds	–	–	**20**	–	–	–	–	20	–	–
PPP financial assets	–	–	**402**	–	–	–	–	559	–	–
Cash and deposits	**666**	–	–	–	–	731	–	–	–	–
Trade and other receivables	**945**	–	–	–	–	1,035	–	–	–	–
Derivatives	–	–	–	–	**1**	–	–	–	–	2
Total	**1,611**	–	**422**	**24**	**1**	1,766	–	579	31	2
Financial liabilities										
Liability component of preference shares	–	**(98)**	–	–	–	–	(96)	–	–	–
Trade and other payables	–	**(1,732)**	–	–	–	–	(1,972)	–	–	–
Unsecured borrowings	–	**(482)**	–	–	–	–	(471)	–	–	–
Secured borrowings	–	**(1)**	–	–	–	–	(1)	–	–	–
Infrastructure concessions non-recourse term loans	–	**(385)**	–	–	–	–	(485)	–	–	–
Derivatives	–	–	–	–	**(78)**	–	–	–	–	(92)
Total	–	**(2,698)**	–	–	**(78)**	–	(3,025)	–	–	(92)
Net	**1,611**	**(2,698)**	**422**	**24**	**(77)**	1,766	(3,025)	579	31	(90)
Current year comprehensive income/(loss) excluding share of joint ventures and associates	**25**	**(60)**	**(16)**	**1**	**12**	29	(68)	89	1	28

Derivatives

	Financial assets			**Financial liabilities**			Financial assets			Financial liabilities		
	Current 2015 £m	**Non-current 2015 £m**	**Total 2015 £m**	**Current 2015 £m**	**Non-current 2015 £m**	**Total 2015 £m**	Current 2014 £m	Non-current 2014 £m	Total 2014 £m	Current 2014 £m	Non-current 2014 £m	Total 2014 £m
Foreign currency contracts												
Held for trading at fair value through income statement	**1**	–	**1**	–	–	–	2	–	2	(1)	–	(1)
Designated as cash flow hedges	–	–	–	–	–	–	–	–	–	(1)	–	(1)
Interest rate swaps												
Designated as cash flow hedges	–	–	–	**(11)**	**(67)**	**(78)**	–	–	–	(12)	(78)	(90)
	1	–	**1**	**(11)**	**(67)**	**(78)**	2	–	2	(14)	(78)	(92)

38 Financial instruments continued

38.2 Group continued

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

	Infrastructure concessions non-recourse project finance 2015 £m	**Other borrowings 2015 £m**	**Other financial liabilities 2015 £m**	**Total non-derivative financial liabilities 2015 £m**	**Discount 2015 £m**	**Carrying value 2015 £m**
Due on demand or within one year	**(24)**	**(13)**	**(1,606)**	**(1,643)**	**2**	**(1,641)**
Due within one to two years	**(38)**	**(2)**	**(74)**	**(114)**	**3**	**(111)**
Due within two to five years	**(46)**	**(313)**	**(130)**	**(489)**	**47**	**(442)**
Due after more than five years	**(383)**	**(175)**	**(36)**	**(594)**	**90**	**(504)**
	(491)	**(503)**	**(1,846)**	**(2,840)**	**142**	**(2,698)**
Discount	**106**	**20**	**16**	**142**		
Carrying value	**(385)**	**(483)**	**(1,830)**	**(2,698)**		

	Infrastructure concessions non-recourse project finance 2014 £m	Other borrowings 2014 £m	Other financial liabilities 2014 £m	Total non-derivative financial liabilities 2014+ £m	Discount 2014+ £m	Carrying value 2014 £m
Due on demand or within one year	(18)	(4)	(1,841)	(1,863)	3	(1,860)
Due within one to two years	(43)	(18)	(58)	(119)	12	(107)
Due within two to five years	(73)	(278)	(25)	(376)	67	(309)
Due after more than five years	(609)	(197)	(163)	(969)	220	(749)
	(743)	(497)	(2,087)	(3,327)	302	(3,025)
Discount	258	25	19	302		
Carrying value	(485)	(472)	(2,068)	(3,025)		

+ Re-presented to exclude dividends relating to the Group's preference shares occuring after the balance sheet date.

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 2015 £m	**Receivable 2015 £m**	**Net payable 2015 £m**	Payable 2014 £m	Receivable 2014 £m	Net payable 2014 £m
Due on demand or within one year	**(45)**	**33**	**(12)**	(193)	172	(21)
Due within one to two years	**(13)**	**2**	**(11)**	(21)	5	(16)
Due within two to five years	**(29)**	**–**	**(29)**	(45)	1	(44)
Due after more than five years	**(64)**	**–**	**(64)**	(105)	–	(105)
Total	**(151)**	**35**	**(116)**	(364)	178	(186)

Notes to the Financial Statements continued

38 Financial instruments continued

38.2 Group continued

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk; credit risk; and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company
- interest rate swaps to mitigate the cash flow variability in Infrastructure Investments concessions 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 2014.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros, Hong Kong dollars and United Arab Emirates dirhams. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Whenever a current or future foreign currency exposure is identified with sufficient reliability Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer.

Refer to page 156 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures.

As at 31 December 2015, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £35m (2014: £176m) receivable and £36m (2014: £181m) payable with related cash flows expected to occur in up to two (2014: three) years. The foreign exchange gains or losses resulting from fair valuing these unhedged foreign exchange contracts will affect the income statement throughout the same periods.

The Group has designated forward exchange contracts with a notional principal amount of £nil (2014: £2m) receivable and £nil (2014: £2m) payable as cash flow hedges against highly probable cash flows which are expected to occur in up to one (2014: two) year. Fair value gains on these contracts of £nil (2014: £nil) have been taken to hedging reserves through other comprehensive income. The cumulative amount deferred in the hedging reserves relating to cash flow hedges at the reporting date is £nil (2014: £nil).

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the income statement in relation to any foreign exchange cash flow hedges.

The Group's investments in foreign operations are exposed to foreign currency translation risks. The Group does not enter into forward foreign exchange or other derivative contracts to hedge foreign currency denominated net assets.

In March 2013, the Group raised US$350m through a US private placement which has been designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements. The Group has reassessed this hedge and has concluded that the hedge continues to be effective. Exchange movements in the year totalled £12m (2014: £12m).

The hedging policy is reviewed periodically. At the reporting date there had been no change to the hedging policies since 2014.

38 Financial instruments continued

38.2 Group continued

(ii) Interest rate risk management

Interest rate risk arises in the Group's Infrastructure Investments concessions which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets. Floating rate borrowings expose the Group to cash flow interest rate risk. The Group's policy to manage this risk is to swap floating rate interest to fixed rate, using interest rate swap contracts.

In an interest rate swap, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The net effect of a movement in interest rates on income would therefore 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 2015 and 2014, the Group's infrastructure concessions subsidiaries' borrowings at variable rates of interest were denominated in sterling.

The notional principal amounts of the outstanding subsidiaries' interest rate swaps outstanding at 31 December 2015 totalled £304m (2014: £419m) with maturities that match the maturity of the underlying borrowings ranging from one year to 25 years.

At 31 December 2015, the fixed interest rates range from 3.5% to 5.1% (2014: 3.5% to 5.1%) and the principal floating rates are LIBOR plus a fixed margin.

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £20m increase (2014: £3m)/ £24m decrease (2014: £4m) in amounts taken directly to other comprehensive income by the Group in relation to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its Infrastructure Investments subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and other borrowings. A 50 basis point increase/ decrease in the interest rate of each currency in which these financial instruments are held would lead to a £2m decrease (2014: £nil)/ £1m (2014: £nil) increase in the Group's net finance cost.

(iii) Price risk management

The Group's principal price risk exposure arises in its Infrastructure Investments concessions. At the commencement of the concession, an element of the unitary payment by the customer is indexed to offset the effect of inflation on the concession's costs. The Group is exposed to price risk to the extent that inflation differs from the index used.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and deposits, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and deposits and derivative financial instruments, the Group has a policy of only using counterparties that are independently rated with a minimum long-term credit rating of BBB+. At 31 December 2015, £5m (2014: £13m) did not meet this criterion due to the operational and relationship difficulties in transferring certain balances, however no losses are anticipated from these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board of Directors for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables, credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at the reporting date is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 26.1. The maturity profile of the Group's financial liabilities is set out on page 157.

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.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds available-for-sale investments in mutual funds which are traded in active markets and valued at the closing market price at the reporting date.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date and taking into account own credit risk. Own credit risk for Infrastructure Investments' swaps is not material and is calculated using the following credit valuation adjustment (CVA) calculation: loss given default multiplied by exposure multiplied by probability of default.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts. Own credit risk for the other derivative liabilities is not material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party.

Notes to the Financial Statements continued

38 Financial instruments continued
38.2 Group continued
Level 3 – The fair value is based on unobservable inputs.

There have been no transfers between these categories in the current or preceding year.

PPP financial assets
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.

Investment in the Infrastructure Fund
The Group's investment in the Infrastructure Fund (the Fund) is subject to the terms and conditions of the Fund's offering documentation. The investment in the Fund is primarily valued based on the latest available financial information provided by the Fund's General Partner, which is a related party of the Group. Management reviews the details of the reported valuation obtained from the Fund and considers: (i) the valuation of the underlying investments; (ii) the value date of the net asset value (NAV) provided; (iii) cash flows (calls/distributions) since the latest value date; and (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair value information provided by the Fund's General Partner.

Where the information provided by the Fund's General Partner is not considered appropriate, management will make amendments to the NAV obtained as noted above in order to present a carrying value that more appropriately reflects the fair value of the Group's investment at the reporting date. In determining the continued appropriateness of the valuation, management reviews the valuation reports received from the Fund's General Partner. The terms of the Fund's partnership agreement require these valuation reports to be supported by an annual external valuation.

				2015				2014
Financial instruments at fair value	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3+ £m	Total+ £m
Available-for-sale mutual fund financial assets	**20**	**–**	**–**	**20**	20	–	–	20
Available-for-sale PPP financial assets	**–**	**–**	**402**	**402**	–	–	559	559
Financial assets – foreign currency contracts	**–**	**1**	**–**	**1**	–	2	–	2
Investment in the Infrastructure Fund (Note 18.2)	**–**	**–**	**38**	**38**	–	–	20	20
Total assets measured at fair value	**20**	**1**	**440**	**461**	20	2	579	601
Financial liabilities – foreign currency contracts	**–**	**–**	**–**	**–**	–	(2)	–	(2)
Financial liabilities – infrastructure concessions interest rate swaps	**–**	**(78)**	**–**	**(78)**	–	(90)	–	(90)
Total liabilities measured at fair value	**–**	**(78)**	**–**	**(78)**	–	(92)	–	(92)

+ Re-presented to include the Infrastructure Fund.

Level 3 financial assets
PPP financial assets
A change in the discount rate would have a significant effect on the value of the asset and a 50 basis points increase/decrease, which represents management's assessment of a reasonably possible change in the risk adjusted discount rate, would lead to a £14m decrease (2014: £27m)/£15m increase (2014: £27m) in the fair value of the assets taken through equity. Refer to Note 20 for a reconciliation of the movement from the opening balance to the closing balance.

Investment in the Infrastructure Fund
Management has determined that an absolute shift of 15% represents a reasonably possible change in the fair value of the Group's investment in the Fund and would result in an absolute change of £6m (2014: £3m). In arriving at this value, management have considered the economic assumptions and discount rates used in the valuation of the underlying investments. Refer to Note 18.6 for a reconciliation of the movement from the opening balance to the closing balance. At 31 December 2015, management considered that the NAV provided by the Fund's General Partner appropriately reflected the fair value of the Group's investment.

38 Financial instruments continued
38.3 Company
Categories of financial instruments

Company	Loans and receivables at amortised cost, cash and deposits 2015 £m	Financial liabilities at amortised cost 2015 £m	Derivatives 2015 £m	Loans and receivables at amortised cost, cash and deposits 2014 £m	Financial liabilities at amortised cost 2014 £m	Derivatives 2014 £m
Financial assets						
Cash and deposits	**50**	**–**	**–**	249	–	–
Trade and other receivables	**1,648**	**–**	**–**	1,391	–	–
Derivatives	**–**	**–**	**1**	–	–	3
Total	**1,698**	**–**	**1**	1,640	–	3
Financial liabilities						
Liability component of preference shares	**–**	**(98)**	**–**	–	(96)	–
Trade and other payables	**–**	**(1,730)**	**–**	–	(1,605)	–
Unsecured borrowings	**–**	**(396)**	**–**	–	(366)	–
Derivatives	**–**	**–**	**(1)**	–	–	(2)
Total	**–**	**(2,224)**	**(1)**	–	(2,067)	(2)
Net	**1,698**	**(2,224)**	**–**	1,640	(2,067)	1
Current year comprehensive income/(loss)	**7**	**(46)**	**–**	8	(49)	–

Derivatives

	Financial assets			**Financial liabilities**			Financial assets			Financial liabilities		
	Current 2015 £m	**Non-current 2015 £m**	**Total 2015 £m**	**Current 2015 £m**	**Non-current 2015 £m**	**Total 2014 £m**	Current 2014 £m	Non-current 2014 £m	Total 2014 £m	Current 2014 £m	Non-current 2014 £m	Total 2014 £m
Held for trading at fair value through income statement	**1**	**–**	**1**	**(1)**	**–**	**(1)**	2	1	3	(2)	–	(2)

The Company is responsible for executing all of the Group's external derivative contracts, except for those in relation to infrastructure concessions. The Company's external derivative contracts are matched with derivative contracts issued by the Company to the Group's operating companies. The Company's financial assets and financial liabilities measured at fair value are the derivative foreign currency contracts shown in the table above. The fair value of these foreign currency 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.

The Company's derivatives are classified as Level 2 in the fair value estimation hierarchy detailed above.

Notes to the Financial Statements continued

38 Financial instruments continued

38.3 Company continued

Non-derivative financial liabilities gross maturity

Maturity profile of the Company's non-derivative financial liabilities at 31 December

	Borrowings 2015 £m	Other financial liabilities 2015 £m	Total non-derivative financial liabilities 2015 £m	Total discount 2015 £m	Carrying value 2015 £m
Due on demand or within one year	**(160)**	**(1,722)**	**(1,882)**	**–**	**(1,882)**
Due within two to five years	**(62)**	**(112)**	**(174)**	**14**	**(160)**
Due after more than five years	**(174)**	**(8)**	**(182)**	**–**	**(182)**
	(396)	**(1,842)**	**(2,238)**	**14**	**(2,224)**
Discount	**–**	**14**	**14**		
Carrying value	**(396)**	**(1,828)**	**(2,224)**		

	Borrowings 2014 £m	Other financial liabilities 2014+ £m	Total non-derivative financial liabilities 2014+ £m	Total discount 2014+ £m	Carrying value 2014 £m
Due on demand or within one year	(142)	(1,580)	(1,722)	–	(1,722)
Due within one to two years	–	(1)	(1)	–	(1)
Due within two to five years	(32)	–	(32)	–	(32)
Due after more than five years	(192)	(136)	(328)	16	(312)
	(366)	(1,717)	(2,083)	16	(2,067)
Discount	–	16	16		
Carrying value	(366)	(1,701)	(2,067)		

+ Re-presented to exclude dividends relating to the Company's preference shares occuring after the balance sheet date.

Derivative financial liabilities gross maturity

Maturity profile of the Company's derivative financial liabilities at 31 December

	Payable 2015 £m	Receivable 2015 £m	Net receivable 2015 £m	Payable 2014 £m	Receivable 2014 £m	Net receivable 2014 £m
Due on demand or within one year	**(43)**	**43**	**–**	(151)	152	1
Due within one to two years	**(4)**	**4**	**–**	(12)	12	–
Due within two to five years	**–**	**–**	**–**	(3)	3	–
Due after more than five years	**–**	**–**	**–**	–	–	–
Total	**(47)**	**47**	**–**	(166)	167	1

Financial risk factors

(a) Market risk

(i) Foreign currency risk management

For the Company, there would be no material effect of any strengthening/weakening in US dollar, euro, Hong Kong dollar or United Arab Emirates dirham exchange rates against sterling. The Company's external forward foreign exchange contracts hedge the currency risk on foreign currency loans entered into with Group companies or are offset by forward foreign exchange contracts with the Group's operating companies where Group Treasury is hedging the exchange rate risk arising on trading activities on their behalf.

(ii) Interest rate risk management

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £4m (2014: £8m) increase/decrease in the Company's net finance cost. This is mainly attributable to the Company's exposure to UK interest rates on its cash and cash equivalents and term deposits and amounts due to and from its subsidiaries. There would be no effect on amounts taken directly by the Company to other comprehensive income.

(b) Credit risk

The Company bears credit risk in respect to trade and other receivables and payables due from/to subsidiaries. There were no amounts past due at the reporting date. The maximum exposure is the carrying value of the financial assets recorded in the financial statements.

39 Principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries	Country of incorporation or registration
Construction and Support Services	
Balfour Beatty Civil Engineering Ltd	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Construction, LP	Canada
Balfour Beatty Engineering Services Ltd	Scotland
Balfour Beatty Group Ltd	
Balfour Beatty Infrastructure Inc	US
Balfour Beatty Rail GmbH	Germany
Balfour Beatty Rail Inc	US
Balfour Beatty Rail Ltd	
Balfour Beatty Utility Solutions Ltd	
Infrastructure Investments (Note 39)	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Investments, LP	Canada
Balfour Beatty Communities, LP	Canada
Balfour Beatty Investments Ltd	
Other	
Balfour Beatty Holdings Inc.	US
Delphian Insurance Company Ltd*	Isle of Man

(b) Principal joint ventures and associates	Country of incorporation or registration	Ownership interest %
Construction and Support Services		
BK Gulf LLC	Dubai	49.0
Dutco Balfour Beatty LLC	Dubai	49.0
Gammon China Ltd	Hong Kong	50.0

(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.

South-East England Roads		65.0
Crossrail		26.7
M25 Maintenance		52.5
M25 LUS		50.0
Gotthard Base Tunnel	Switzerland	25.0
Carl R. Darnall Army Medical Center	US	50.0
Parkland Acute Care Hospital	US	40.0
DFW Terminal Development Program	US	60.0

Notes
(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.
(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.
* Indicates held directly by Balfour Beatty plc.

A full list of the Group's related undertakings is included in Note 41.

Notes to the Financial Statements continued

39 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK

Roads

Balfour Beatty is a promoter, developer and investor in 13 road and street lighting projects to construct new roads, to upgrade and maintain existing roads and to replace and maintain street lighting. The principal contract is the project agreement with the governmental highway authority. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Connect M1-A1 Ltd	30km road	290	50%	March 1996	30	1999
Connect A50 Ltd	57km road	42	25%	May 1996	30	1998
Connect A30/A35 Ltd	102km road	127	20%	July 1996	30	2000
Connect M77/GSO plc (ii)	25km road	167	85%	May 2003	32	2005
Connect Roads Sunderland Ltd	Street lighting	27	100%	August 2003	25	2008
Connect Roads South Tyneside Ltd	Street lighting	28	100%	December 2005	25	2010
Connect Roads Derby Ltd	Street lighting	36	100%	April 2007	25	2012
Connect Plus (M25) Ltd	J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	1,309	40%	May 2009	30	2012
Connect CNDR Ltd	Carlisle Northern Development Route	176	25%	July 2009	30	2012
Connect Roads Coventry Ltd	Street lighting	56	100%	August 2010	25	2015
Connect Roads Cambridgeshire Ltd	Street lighting	51	100%	April 2011	25	2016
Connect Roads Northamptonshire Ltd	Street lighting	64	100%	August 2011	25	2016
Aberdeen Roads Ltd	Aberdeen Western Peripheral Route	665	33.3%	December 2014	33	2018

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Connect M77/GSO plc and Aberdeen Roads Ltd which are registered in and conduct their principal operations in Scotland.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

Healthcare

Balfour Beatty is a promoter, developer and investor in three hospital projects to build hospital accommodation and to provide certain non-medical facilities management services over the concession period. The principal contract is the project agreement between the concession company and the NHS Trust. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	June 2006	40	2011
Consort Healthcare (Fife) Ltd	General hospital	170	50%	April 2009	30	2011
Woodland View Project Co Ltd	Mental health hospital in Irvine	58	100%	June 2014	27	2016

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Consort Healthcare (Fife) Ltd and Woodland View Project Co Ltd which are registered in and conduct their principal operations in Scotland.

39 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK continued

Schools

Balfour Beatty is a promoter, developer and investor in seven school projects to design, build or refurbish schools and to provide certain non-educational services over the concession period under the UK Government Building Schools for the Future (BSF) programme. The principal contract is the project agreement between the concession company and the local authority. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Transform Islington Ltd (ii)	BSF	77	80%	July 2008	26	2013
4 Futures Ltd (ii)	BSF	70	80%	May 2009	26	2014
Blackburn with Darwen and Bolton LEP Ltd (ii)	BSF	85	80%	January 2010	25	2011
Derby City BSF Partnership Ltd (ii)	BSF	39	80%	December 2010	25	2012
Future Ealing Ltd (ii)	BSF	36	80%	December 2010	25	2012
Oldham Education Partnership Ltd (ii)	BSF	40	90%	December 2010	25	2012
Hertfordshire Schools Building Partnership Ltd (ii)	BSF	55	80%	January 2011	25	2012

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.

Student accommodation

Balfour Beatty is a promoter, developer and investor in three student accommodation projects and provides maintenance services over the concession period. The Wollongong project involves the finance, design, construction and operation of new and existing student accommodation for the University of Wollongong, Australia. The principal contract in all cases is the project agreement between the concession company and the university. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Holyrood Student Accommodation SPV Ltd	Edinburgh	82	100%	July 2013	50	2016
Aberystwyth Student Accommodation Ltd	Aberystwyth	51	100%	July 2013	35	2015
Living and Learning Unit Trust	Wollongong	144	50%	December 2014	34	2017

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Holyrood Student Accommodation SPV Ltd and Living and Learning Unit Trust which are registered in and conduct their principal operations in Scotland and Australia respectively.

Notes to the Financial Statements continued

39 Principal subsidiaries, joint ventures and associates continued
(d) Balfour Beatty Investments UK continued
Other concessions
Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex. Gammon Capital (West) Pte Ltd has a contract with the Institute of Technical Education (ITE) College West of Singapore to design, build and finance the ITE and provide long-term facilities management services for the remainder of the 27-year project. Balfour Beatty Fire and Rescue NW Ltd is contracted by the local authority to design, construct, fund and provide facilities for 16 community firestations in Merseyside, Cumbria and Lancashire. UBB Waste (Essex) Ltd and UBB Waste (Gloucestershire) Ltd have contracts with the local authorities to design, build and operate new sustainable waste treatment facilities. Thanet involves the operation of transmission assets for the 300MW offshore wind farm project located off the Kent coast. Gwynt y Môr involves the operation of transmission assets for the 576MW offshore wind farm in the Irish sea. Both Thanet and Gwynt y Môr operate and maintain the transmission assets under the terms of a perpetual licence granted by Ofgem which contains the right to be paid a revenue stream over a 20-year period on an availability basis. Birmingham Bio Power involves the design, construction, financing, operation and maintenance of a 9.3MW waste wood gasifier located at Tyseley Energy Park, Birmingham. Welland Waste Bio Power involves the design, construction, financing, operation and maintenance of a 10.4MW waste wood gasifier located at Pebble Hall Farm, Thredingworth. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Financial close	Duration years	Construction completion
Pevensey Coastal Defence Ltd	Sea defences	3	25%	July 2000	25	n/a
Gammon Capital (West) Pte Ltd	Technical education college	100	50%	August 2008	27	2010
Balfour Beatty Fire and Rescue NW Ltd	Fire stations	55	100%	February 2011	25	2013
UBB Waste (Essex) Ltd	Waste processing plant	146	30%	May 2012	28	2015
UBB Waste (Gloucestershire) Ltd	Waste processing plant	194	49.5%	February 2013*	28	2017
Thanet OFTO Ltd	Offshore transmission	197	20%	December 2014	20	n/a
Gwynt y Môr OFTO Ltd (ii)	Offshore transmission	256	60%	February 2015	20	n/a
Birmingham Bio Power Ltd	Waste wood gasifier	53	37.5%	December 2013	20	2016
Welland Waste Bio Power Ltd	Waste wood gasifier	17	25%	March 2015	20	2017

Notes
(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Gammon Capital (West) Pte Ltd which is registered in and conducts its principal operations in Singapore.
(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.
* Due to delays in achieving planning, UBB Waste (Gloucestershire) Ltd reached a second financial close in January 2016.

(e) Balfour Beatty Investments North America
Military housing
Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 55 US government military bases which includes 55 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 42,800 housing units once development, construction and renovation are complete.

The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), seven projects with the United States Department of the Air Force (Air Force) and two projects with the United States Department of the Navy (Navy). In addition, there is one unaccompanied personnel housing (UPH) project with the Army at Fort Stewart.

Contractual arrangements The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, however it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC. On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, could potentially extend for up to an additional 25 years. The 50-year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the government.

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual minimum preferred rate of return. On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project. During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return. The unpaid amounts will generally accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the government in accordance with the terms of the project agreements.

39 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Military housing continued

Allocation of remaining operating cash flows Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service.

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the applicable military service.

Military concession company (i)(ii)	Projects	Total project funding £m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson Family Housing LLC	Army base	119	November 2003	46	2004
– Fort Carson expansion		88	November 2006	43	2010
– Fort Carson GTA expansion		67	April 2010	39	2013
Stewart Hunter Housing LLC	Two Army bases	253	November 2003	50	2012
Fort Hamilton Housing LLC	Army base	41	June 2004	50	2009
Fort Detrick/Walter Reed Army Medical Center Housing LLC	Two Army bases	75	July 2004	50	2008
Northeast Housing LLC	Seven Navy bases	335	November 2004	50	2010
Fort Eustis/Fort Story Housing LLC	Two Army bases	118	March 2005	50	2011
– Fort Eustis expansion		6	July 2010	45	2011
– Fort Eustis – Marseilles Village		18	March 2013	42	2015
Fort Bliss/White Sands Missile Range Housing LP	Two Army bases	289	July 2005	50	2011
– Fort Bliss expansion		33	December 2009	46	2011
– Fort Bliss GTA expansion phase I		110	July 2011	44	2014
– Fort Bliss GTA expansion phase II		100	November 2012	43	2016
Fort Gordon Housing LLC	Army base	74	May 2006	50	2012
Carlisle/Picatinny Family Housing LP	Two Army bases	57	July 2006	50	2011
– Carlisle Heritage Heights phase II		14	October 2012	44	2014
AETC Housing LP	Four Air Force bases	242	February 2007	50	2012
Southeast Housing LLC	11 Navy bases	377	November 2007	50	2013
Vandenberg Housing LP	Air Force base	105	November 2007	50	2012
Leonard Wood Family Communities LLC	Army base	156	Acquired June 2008	47	2014
AMC West Housing LP	Three Air Force bases	298	July 2008	50	2015
West Point Housing LLC	Army base	152	August 2008	50	2016
Fort Jackson Housing LLC	Army base	122	October 2008	50	2013
Lackland Family Housing LLC	Air Force base	71	Acquired December 2008	50	2013
Western Group Housing LP	Four Air Force bases	222	March 2012	50	2017
Northern Group Housing LP	Six Air Force bases	291	August 2013	50	2019
ACC Group Housing LLC	Two Air Force bases	39	June 2014	50	2018
Military unaccompanied personnel housing					
Stewart Hunter Housing LLC		24	January 2008	50	2010

Notes

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision making power over key facets of the contracts were evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects.

Notes to the Financial Statements continued

39 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Hospitals

Summary Balfour Beatty is a developer, operator and investor in two hospital projects in Canada.

Contractual arrangements The principal contract is the project agreement between the concession companies and the authorities. An inflation-indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. The construction services for the BC Children's and BC Women's Hospital project were subcontracted to a joint venture in which the Group has a 50% participation and the facilities maintenance services were subcontracted to a joint venture in which the Group also has a 50% participation. The soft facilities management services at North Island Hospital were subcontracted to a Group company and the hard facilities management services were subcontracted to a third party. The payments for the soft facilities management services, at both projects, are initially market adjusted after the third year of operations and then every six years thereafter. All assets transfer to the authorities at the end of the concession.

Hospitals (i)	Project	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
Affinity Partnerships (ii)	BC Children and BC Women's Hospital	219	70%	April 2014	33	2017
THP Partnerships	North Island Hospital	251	50%	June 2014	32	2017

Notes

(i) Registered in the Province of Manitoba in Canada and the principal operations of each project are conducted in British Columbia, Canada.

(ii) Balfour Beatty has joint control over the project through unanimous consent over all significant operating and financing decisions, and therefore does not consolidate the project.

Residential investments

Summary Balfour Beatty is a developer, operator and investor in four multifamily residential projects.

Contractual arrangements Balfour Beatty formed joint ventures to acquire residential apartment buildings for four multifamily residential projects. For the Carmendy Square, Townlake of Coppell and The Dallas 5 Portfolio projects, the joint ventures entered into agreements with Balfour Beatty Communities LLC to perform the operations and renovation work. For The Ranch at Pinnacle Point, the joint venture entered into an agreement with Balfour Beatty Communities LLC to perform the asset management services and renovation work.

Residential investments (i)	Total project funding £m	Shareholding	Financial close	Renovation completion
Carmendy Square	10	45%	September 2014	2016
Ranch at Pinnacle Point	29	50%	February 2015	2018
Dallas 5 Portfolio	115	10%	May 2015	2018
Townlake of Coppell	33	10%	May 2015	2018

Note

(i) Registered in the US and the principal operations of each project are conducted in Florida, US.

Student accommodation

Summary Through its subsidiary, Balfour Beatty Campus Solutions LLC, Balfour Beatty is a manager on one student accommodation project, where it also acted as a developer. Balfour Beatty is also a developer and owner of three additional student accommodation projects, and is a joint venture partner to develop one other student accommodation project.

Contractual arrangements The principal contract in the Florida Atlantic University project is the property management agreement with the state university setting out the obligations for the operation and maintenance of the student accommodation. The principal contracts in the other student accommodation projects where Balfour Beatty is an owner are the ground leases, development leases and operating agreements with the state universities setting out the obligations for the construction, operation and maintenance of the student accommodation including lifecycle replacement during the concession period.

Concession company (i)	Total project funding £m	Shareholding	Financial close	Duration years	Construction completion
CBBC Management/CBBC Development (Florida)	68	(ii)	March 2010	30	2011
Hawkeye Housing LLC (Iowa) Phase 1	21	100%	June 2013	41	2014
BCS UN Reno Housing LLC (Reno)	15	100%	August 2013	43	2014
University of Texas Dallas	36	50%	March 2015	61	2016
Hawkeye Housing LLC (Iowa) Phase 2	35	100%	May 2015	41	2016

Notes

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) 50% holding in the management company.

39 Principal subsidiaries, joint ventures and associates continued

(f) Balfour Beatty Investments UK and North America

Total future committed equity and debt funding for Infrastructure Investments' project companies

Concessions	2016 £m	2017 £m	2018 £m	2019 onwards £m	Total £m
UK					
Roads	11	–	20	–	31
Healthcare	5	–	7	–	12
Student accommodation	6	–	18	20	44
OFTOs+	4	–	–	–	4
Waste and biomass+	13	3	2	24	42
Other UK+	2	8	6	7	23
	41	11	53	51	156
North America					
Military housing	2	–	–	–	2
Social infrastructure	–	–	–	–	–
Hospitals	1	15	–	–	16
Student accommodation	–	2	–	–	2
	3	17	–	–	20
	44	28	53	51	176
Projects at financial close	33	20	23	24	100
Projects at preferred bidder stage	11	8	30	27	76
Total	44	28	53	51	176

+ These three categories have been presented within Other concessions in Note 39(d).

40 Audit exemptions taken for subsidiaries

The following subsidiaries are exempt from the requirements under the Companies Act 2006 relating to the audit of individual financial statements by virtue of Section 479A of the Act.

	Company registration number
Balfour Beatty Education Ltd	6863458
Balfour Beatty Engineering Solutions Ltd	1531651
Consort Healthcare Infrastructure Investments Ltd	6859623
Heery International Ltd	2759565
The Telegraph Construction and Maintenance Company Ltd	1147

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015

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 2015 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 2015 and are wholly owned, except where indicated. The percentage held by the Group is the ultimate economic interest of the Group in the entity.

Subsidiary undertakings incorporated in the United Kingdom

Name of undertaking	Principal activity
Aberdeen Construction Group Ltd	Dormant
Aberystwyth Student Accommodation Ltd	Infrastructure concession
Armpledge Ltd	Investment holding company
Avatar Ltd	Dormant
Balfour Beatty Australia Finance Ltd	Dormant – in liquidation
Balfour Beatty Build Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Building Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty CE Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civils Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Const Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Northern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Scottish & Southern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Education Ltd	Investment holding company
Balfour Beatty Engineering Services (CL) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Services (HY) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Services (LEL) Ltd	Dormant
Balfour Beatty Engineering Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Solutions Ltd	Dormant
Balfour Beatty Fire and Rescue NW Holdings Ltd	Investment holding company
Balfour Beatty Fire and Rescue NW Intermediate Ltd	Infrastructure concession
Balfour Beatty Fire and Rescue NW Ltd	Infrastructure concession
Balfour Beatty Ground Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Group Employment Ltd	Employer for UK workforce
Balfour Beatty Group Ltd	Construction and support services
Balfour Beatty Homes (South Western) Ltd	Dormant
Balfour Beatty Homes Ltd	Agent of Manring Homes Ltd
Balfour Beatty Infrastructure Investments Ltd (i)	Investment holding company
Balfour Beatty Infrastructure Partners LLP (v)	Infrastructure Fund
Balfour Beatty Infrastructure Partners Member Ltd	Infrastructure Fund
Balfour Beatty Infrastructure Projects Investments Ltd	Investment holding company
Balfour Beatty Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Investment Holdings Ltd (i)	Investment holding company
Balfour Beatty Investments Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Living Places Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Management Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Nominees Ltd	Nominee company
Balfour Beatty OFTO Holdings Ltd	Investment holding company
Balfour Beatty Overseas Investments Ltd	Investment holding company
Balfour Beatty Overseas Ltd	Investment holding company
Balfour Beatty Pension Trust Ltd (i)	Pension fund trustee
Balfour Beatty Plant & Fleet Services Ltd	Hire of plant and transport

Name of undertaking	Principal activity
Balfour Beatty Power Networks (Distribution Services) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Property Investments Ltd (i)	Investment holding company
Balfour Beatty Property Ltd (i)	Agent of Balfour Beatty plc
Balfour Beatty Rail Corporate Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Investments Ltd	Investment holding company
Balfour Beatty Rail Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Projects Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Residuary 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 Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Utility Solutions Ltd (iv)	Agent of Balfour Beatty Group Ltd
Balfour Beatty WorkSmart Ltd	Business services
Balfour Kilpatrick Ltd	Dormant
Balfour Kilpatrick Northern Ireland Ltd	Dormant
Balvac Ltd	Agent of Balfour Beatty Group Ltd
BB Indonesia Ltd	Support services
BBPF LLP (v)	Investment holding partnership
BBPFS LP (v)	Investment holding partnership
Bical Construction Ltd	Agent of Balfour Beatty Group Ltd
Bignell & Associates Ltd	Agent of Balfour Beatty Group Ltd
Birse Construction Ltd	Investment holding company
Birse Group Ltd	Investment holding company
Birse Group Services Ltd	Business services
Birse Integrated Solutions Ltd	Agent of Balfour Beatty Group Ltd
Birse Metro Ltd	Construction and support services
Birse Properties Ltd	Dormant
Birse Rail Ltd	Construction and support services
Blackpool Airport Ltd (ii)	Ceased trading – in liquidation
Blackpool Airport Properties Ltd (ii)	Property investment
Bnoms Ltd (i)	Nominee company
BPH Equipment Ltd	Hire of plant and transport
Branlow Ltd	Dormant
British Insulated Callender's Cables Ltd (i)	Dormant
Bruton Investments Ltd (i)	Investment holding company – in liquidation
Burnbank House Ltd (iii)	Property investment
Chris Britton Consultancy Ltd	Construction services
Clarke Securities Ltd (i)	Investment holding company
Connect Roads Cambridgeshire Holdings Ltd	Investment holding company
Connect Roads Cambridgeshire Intermediate Ltd	Infrastructure concession
Connect Roads Cambridgeshire Ltd	Infrastructure concession
Connect Roads Coventry Holdings Ltd	Investment holding company
Connect Roads Coventry Intermediate Ltd	Infrastructure concession
Connect Roads Coventry Ltd	Infrastructure concession
Connect Roads Derby Holdings Ltd	Investment holding company
Connect Roads Derby Ltd	Infrastructure concession
Connect Roads Infrastructure Investments Ltd	Investment holding company
Connect Roads Northamptonshire Holdings Ltd	Investment holding company

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015 continued

Subsidiary undertakings incorporated in the United Kingdom continued

Name of undertaking	Principal activity
Connect Roads Northamptonshire Intermediate Ltd	Infrastructure concession
Connect Roads Northamptonshire Ltd	Infrastructure concession
Connect Roads South Tyneside Holdings Ltd	Investment holding company
Connect Roads South Tyneside Ltd	Infrastructure concession
Connect Roads Sunderland Holdings Ltd	Investment holding company
Connect Roads Sunderland Ltd	Infrastructure concession
Consort Healthcare Infrastructure Investments Ltd	Investment holding company
Cowlin Group Ltd	Investment holding company
Cowlin Management Ltd	Investment holding company
Dean & Dyball Developments Ltd	Dormant
Dean & Dyball Investments Ltd	Investment holding company
Dean & Dyball Ltd	Investment holding company
Dean & Dyball Rail Ltd	Dormant
Dean & Dyball Workforce Ltd	Dormant – in liquidation
Eastern Infrastructure Maintenance Company Ltd	Property investment
Edgar Allen Engineering Ltd	Dormant – in liquidation
EIMCO Ltd	Investment holding company
Fielden & Ashworth Ltd	Dormant – in liquidation
Footprint Furniture Ltd	Construction services
G. N. Haden & Sons Ltd	Dormant
Glasgow Residences (Kennedy Street) Holdings Ltd	Investment holding company
Glasgow Residences (Kennedy Street) LLP (v)	Infrastructure concession
Glasgow Residences (Kennedy Street) SPV Ltd	Infrastructure concession
Guinea Investments Ltd	Investment holding company
Haden Building Services Ltd	Investment holding company
Haden Young Ltd (i)	Dormant
Hall & Tawse Ltd	Dormant
Hall & Tawse Western Ltd	Dormant
Heery Holdings Ltd (i)	Dormant
Heery International Ltd	Agent of Balfour Beatty Group Ltd
Holyrood Student Accommodation Holdings Ltd	Investment holding company
Holyrood Student Accommodation Intermediate Ltd	Infrastructure concession
Holyrood Student Accommodation plc	Infrastructure concession
Holyrood Student Accommodation SPV Ltd	Infrastructure concession
Initial Founder Partner GP1 Ltd	Investment holding company
Initial GP1 Ltd	Investment holding company
John Kennedy (Civil Engineering) Ltd (iv)	Dormant
John Kennedy (Holdings) Ltd	Investment holding company
Kenton Utility Service Management Ltd	Dormant
Kirby Maclean Ltd	Dormant
Laser Rail Ltd	Agent of Balfour Beatty Group Ltd
Lounsdale Electric Ltd	Dormant
Manring Homes Ltd	Property investment
Mansell North East Ltd	Dormant
Mansell plc	Investment holding company
Mayfair Place Investments Ltd	Investment holding company – in liquidation
Multibuild (Construction & Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Multibuild Hotels and Leisure Ltd	Construction services
Multibuild Interiors Ltd	Construction services
Network Plant Ltd	Agent of Balfour Beatty Group Ltd
Office Projects (Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Office Projects Group Ltd	Investment holding company
Office Projects Ltd	Construction services
Painter Brothers Ltd	Agent of Balfour Beatty Group Ltd

Name of undertaking	Principal activity
Pennine Vibropiling Ltd	Dormant – in liquidation
Raynesway Construction Ltd	Agent of Balfour Beatty Group Ltd
Regional & City Airports (Blackpool) Holdings Ltd	Investment holding company
Regional & City Airports (Blackpool) Ltd (ii)	Investment holding company
SEIMCO Ltd	Investment holding company
South East Infrastructure Maintenance Company Ltd	Property investment
Southern Track Renewals Company Ltd	Property investment
Squires Gate Airport Operations Ltd (ii)	Airport services
STAT 123 Ltd	Dormant
Strata Construction Ltd	Dormant
Sunderland Streetlighting Ltd	Agent of Balfour Beatty Group Ltd
Testing and Analysis Ltd	Agent of Balfour Beatty Group Ltd
The Telegraph Construction and Maintenance Company Ltd	Finance company
Traffic Flow Ltd	Construction services
W. T. Glover & Company Ltd (i)	Dormant
West Stratford Developments Ltd	Investment holding company
William Cowlin (Holdings) Ltd	Business services
Woodland View Holdings Co Ltd	Investment holding company
Woodland View Intermediate Co Ltd	Infrastructure concession
Woodland View Project Co Ltd	Infrastructure concession

Notes
(i) held directly by Balfour Beatty plc.
(ii) Regional & City Airports (Blackpool) Holdings Ltd holds an economic interest of 95% in Regional & City Airports (Blackpool) Ltd, which holds 100% of each of Blackpool Airport Ltd, Blackpool Airport Properties Ltd and Squires Gate Airport Operations Ltd.
(iii) 75% owned.
(iv) preference shares and/or deferred shares also held.
(v) partnership interests held.

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015 continued

Subsidiary undertakings incorporated outside the United Kingdom

Name of undertaking	Principal activity	Country of incorporation
Balfour Beatty Rail Argentina SA	Construction services	Argentina
Balfour Beatty Australian LP (iii)	Investment holding partnership	Australia
Balfour Beatty Australia Pty Ltd	Construction and support services	Australia
Balfour Beatty Holdings Australia Pty Ltd	Investment holding company	Australia
Balfour Beatty Investments Australia Pty Ltd	Investment holding company	Australia
Harvest Power Custodians Pty Ltd	Dormant	Australia
Harvest Power Holdings Custodians Pty Ltd	Investment holding company	Australia
Harvest Power Holdings Pty Ltd	Dormant	Australia
Harvest Power Pty Ltd	Dormant	Australia
RHA do Brasil Serviços de Infraestrutura Ltda	Construction services	Brazil
Balfour Beatty Communities GP, Inc	Investment holding company	Canada
Balfour Beatty Communities, LP (iii)	Infrastructure investment	Canada
Balfour Beatty Construction GP, Inc	Investment holding company	Canada
Balfour Beatty Construction LP (iii)	Investment holding partnership	Canada
Balfour Beatty CWH Holdings Inc	Investment holding company	Canada
Balfour Beatty Investments GP Inc	Infrastructure investment	Canada
Balfour Beatty Investments LP (iii)	Investment holding partnership	Canada
BB CWH GP, Inc	Infrastructure investment	Canada
BB CWH LP (iii)	Infrastructure investment	Canada
BB Group Canada Inc	Investment holding company	Canada
BB NIH GP, Inc	Infrastructure investment	Canada
BB NIH LP (iii)	Infrastructure investment	Canada
Balfour Beatty Chile SA	Construction services	Chile
Balfour Beatty Rail Electrification Equipment Trading (Beijing) Ltd	Construction services	China
Balfour Beatty Capital GmbH	Infrastructure investment	Germany
Balfour Beatty Offshore Transmission Germany GmbH	Dormant	Germany
Balfour Beatty Rail GmbH	Construction services	Germany
Balfour Beatty Rail Power Systems GmbH	Construction services	Germany
Balfour Beatty Rail Signal GmbH	Construction services	Germany
BICC Holdings GmbH	Investment holding company	Germany
Schreck-Mieves GmbH	Construction services	Germany
Balfour Beatty Infrastructure Partners GP Ltd	Infrastructure fund	Guernsey
BBIP Founder Partner LP (iii)	Infrastructure fund	Guernsey
BBPGP Member Ltd	Infrastructure fund	Guernsey
Balfour Beatty Hong Kong Ltd	Construction and support services	Hong Kong
Balfour Beatty India Pvt. Ltd	Construction and support services	India
Balfour Beatty Infrastructure India Pvt. Ltd	Construction and support services	India
Balfour Beatty Ireland Ltd (ii)	Investment holding company	Ireland
Kenton Utilities & Developments (Ireland) Ltd	Dormant	Ireland
Delphian Insurance Company Ltd (i)	Captive insurance company	Isle of Man
Balfour Beatty Employees Trustees Ltd (i)	Employee trust	Jersey
Balfour Beatty Finance No.2 Ltd (i)	Finance company	Jersey
Balfour Beatty Projects Sdn Bhd	Construction services	Malaysia
Balfour Beatty Rail Design International Sdn Bhd	Construction services	Malaysia
Balfour Beatty Transmission Sdn Bhd	Dormant – in liquidation	Malaysia
Balfour Beatty Rail Mexico SA de CV	Construction services	Mexico
Balfour Beatty Netherlands BV	Investment holding company	Netherlands
BICC Finance BV	Dormant	Netherlands
Balfour Beatty New Zealand Ltd	Construction and support services	New Zealand
SC Balfour Beatty Rail SRL	Construction services	Romania
Balfour Beatty Engineering Services Ceylon (Pvt.) Ltd	Construction services	Sri Lanka
Balfour Beatty Rail Schweiz GmbH	Construction services	Switzerland
Asia Trade Development Co Ltd	Construction services	Thailand
Balfour Beatty Construction (Thailand) Co Ltd	Construction services	Thailand
Balfour Beatty Holdings (Thailand) Co Ltd	Investment holding company	Thailand
Linwood Co Ltd	Investment holding company	Thailand
Balfour Beatty – Golden Construction Company	Construction services	United States
Balfour Beatty – Worthgroup, LLC	Construction services	United States
Balfour Beatty Campus Solutions, LLC	Infrastructure investment	United States
Balfour Beatty Capital Investments, LLC	Infrastructure investment	United States
Balfour Beatty Communities TRS, Inc	Infrastructure investment	United States
Balfour Beatty Communities, LLC	Infrastructure investment	United States

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015 continued
Subsidiary undertakings incorporated outside the United Kingdom continued

Name of undertaking	Principal activity	Country of incorporation
Balfour Beatty Construction Company, Inc	Construction services	United States
Balfour Beatty Construction D.C., LLC	Construction services	United States
Balfour Beatty Construction Group, Inc	Investment holding company	United States
Balfour Beatty Construction, LLC	Construction services	United States
Balfour Beatty Energy Solutions, LLC	Construction services	United States
Balfour Beatty Equipment, LLC	Construction services	United States
Balfour Beatty Holdings Inc	Investment holding company	United States
Balfour Beatty Infrastructure, Inc	Construction services	United States
Balfour Beatty Infrastructure Partners LLC	Infrastructure fund	United States
Balfour Beatty Investments, Inc	Infrastructure investment	United States
Balfour Beatty LLC	Investment holding company	United States
Balfour Beatty Management Inc	Business services	United States
Balfour Beatty Military Communities LLC	Infrastructure investment	United States
Balfour Beatty Military Housing Construction LLC	Infrastructure investment	United States
Balfour Beatty Military Housing Development LLC	Infrastructure investment	United States
Balfour Beatty Military Housing Investments LLC	Investment holding company	United States
Balfour Beatty Military Housing LLC	Infrastructure investment	United States
Balfour Beatty Military Housing Management LLC	Infrastructure investment	United States
BBC – D5 Investors, LLC (iv)	Infrastructure investment	United States
BBC AF Housing Construction LLC	Infrastructure investment	United States
BBC AF Management/Development LLC	Infrastructure investment	United States
BBC Independent Member I, Inc	Infrastructure fund	United States
BBC Independent Member II, Inc	Infrastructure fund	United States
BBC Military Housing – ACC Group, LLC	Infrastructure concession	United States
BBC Military Housing – AETC General Partner LLC	Infrastructure concession	United States
BBC Military Housing – AETC Limited Partner LLC	Infrastructure concession	United States
BBC Military Housing – AMC General Partner LLC	Infrastructure concession	United States
BBC Military Housing – AMC Limited Partner LLC	Infrastructure concession	United States
BBC Military Housing – Bliss/WSMR General Partner LLC	Infrastructure concession	United States
BBC Military Housing – Bliss/WSMR Limited Partner LLC	Infrastructure concession	United States
BBC Military Housing – Carlisle/Picatinny General Partner LLC	Infrastructure concession	United States
BBC Military Housing – Carlisle/Picatinny Limited Partner LLC	Infrastructure concession	United States
BBC Military Housing – FDWR LLC	Infrastructure concession	United States
BBC Military Housing – Fort Carson LLC	Infrastructure concession	United States
BBC Military Housing – Fort Gordon LLC	Infrastructure concession	United States
BBC Military Housing – Fort Hamilton LLC	Infrastructure concession	United States
BBC Military Housing – Fort Jackson LLC	Infrastructure concession	United States
BBC Military Housing – Hampton Roads LLC	Infrastructure concession	United States
BBC Military Housing – Lackland LLC	Infrastructure concession	United States
BBC Military Housing – Leonard Wood LLC	Infrastructure concession	United States
BBC Military Housing – Navy Northeast LLC	Infrastructure concession	United States
BBC Military Housing – Navy Southeast LLC	Infrastructure concession	United States
BBC Military Housing – Northern Group, LLC	Infrastructure concession	United States
BBC Military Housing – Stewart Hunter LLC	Infrastructure concession	United States
BBC Military Housing – Vandenberg General Partner LLC	Infrastructure concession	United States
BBC Military Housing – Vandenberg Limited Partner LLC	Infrastructure concession	United States
BBC Military Housing – West Point LLC	Infrastructure concession	United States
BBC Military Housing – Western General Partner, LLC	Infrastructure concession	United States
BBC Military Housing – Western Limited Partner, LLC	Infrastructure concession	United States
BBC Multifamily Holdings, LLC	Infrastructure concession	United States
BBC Northeast Housing Design/Build LLC	Infrastructure concession	United States
BBCS – Hawkeye Housing, LLC	Infrastructure concession	United States
BBCS – Northside Campus, LLC	Infrastructure concession	United States
BBCS – UN Reno Housing, LLC	Infrastructure concession	United States
BBCS Development, LLC	Infrastructure investment	United States
BBCS Management, LLC	Infrastructure investment	United States
BBI – Indy, LLC	Infrastructure investment	United States
BICC Cables Corporation	Dormant	United States
Columbia Plaza Investments, LLC	Construction services	United States
E3 2020, LLC	Construction services	United States
FLW Design/Build Management LLC	Construction services	United States
Heery Architects & Engineers, Inc	Dormant	United States

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015 continued

Subsidiary undertakings incorporated outside the United Kingdom continued

Name of undertaking	Principal activity	Country of incorporation
Heery Engineering, Inc	Dormant	United States
Heery International, Inc	Construction services	United States
Heery Program Management, Inc	Dormant	United States
Howard S Wright Construction Co	Construction services	United States
HSW Rock Springs, LLC	Construction services	United States
HSW, Inc	Construction services	United States
JCM Group	Dormant	United States
National Casualty and Assurance, Inc	Captive insurance company	United States
National Engineering & Contracting Company	Construction services	United States
Sequeira & Gavarrete, Inc	Construction services	United States

Notes
(i) held directly by Balfour Beatty plc.
(ii) in accordance with the provisions of Section 357 of the Irish Companies Act 2014, the Company, as the ultimate parent of Balfour Beatty Ireland Ltd (BBIL) having its registered office at City Junction Business Park, Northern Cross, Malahide Road, Dublin 17, Ireland, irrevocably guarantees in respect of the whole of the financial year of BBIL ended 31 December 2015, all of the liabilities of BBIL provided that this guarantee shall not extend to any liability or commitment of BBIL which shall not have arisen otherwise than in respect of that financial year or which shall not constitute a liability or loss.
(iii) partnership interests held.
(iv) 65% owned.

Joint ventures incorporated in the United Kingdom

Name of undertaking	Principal activity	Percentage held by the Group
4 Futures Ltd (ii)	Investment holding company	80.0%
4 Futures Phase 1 Holdings Ltd (ii)	Infrastructure concession	80.0%
4 Futures Phase 1 Ltd (ii)	Infrastructure concession	80.0%
4 Futures Phase 2 Holdings Ltd (ii)	Infrastructure concession	80.0%
4 Futures Phase 2 Ltd (ii)	Infrastructure concession	80.0%
Aberdeen Roads (Finance) plc	Infrastructure concession	33.3%
Aberdeen Roads Holdings Ltd	Investment holding company	33.3%
Aberdeen Roads Ltd	Infrastructure concession	33.3%
Birmingham Bio Power Ltd	Infrastructure concession	37.5%
Blackburn with Darwen and Bolton Local Education Partnership Ltd (ii)	Investment holding company	80.0%
Blackburn with Darwen and Bolton Phase 1 Holdings Ltd (ii)	Infrastructure concession	80.0%
Blackburn with Darwen and Bolton Phase 1 Ltd (ii)	Infrastructure concession	80.0%
Blackburn with Darwen and Bolton Phase 2 Holdings Ltd (ii)	Infrastructure concession	80.0%
Blackburn with Darwen and Bolton Phase 2 Ltd (ii)	Infrastructure concession	80.0%
Connect A30/A35 Holdings Ltd	Investment holding company	20.0%
Connect A30/A35 Ltd	Infrastructure concession	20.0%
Connect A50 Ltd	Infrastructure concession	25.0%
Connect CNDR Holdings Ltd	Investment holding company	25.0%
Connect CNDR Intermediate Ltd	Infrastructure concession	25.0%
Connect CNDR Ltd	Infrastructure concession	25.0%
Connect M1-A1 Holdings Ltd (i)	Investment holding company	50.0%
Connect M1-A1 Ltd	Infrastructure concession	50.0%
Connect M77/GSO Holdings Ltd (ii)	Investment holding company	85.0%
Connect M77/GSO plc (ii)	Infrastructure concession	85.0%
Connect Plus (M25) Holdings Ltd	Investment holding company	40.0%
Connect Plus (M25) Intermediate Ltd	Infrastructure concession	40.0%
Connect Plus (M25) Ltd	Infrastructure concession	40.0%
Connect Roads Ltd	Investment holding company	25.0%
Consort Healthcare (Birmingham) Funding plc	Infrastructure concession	40.0%
Consort Healthcare (Birmingham) Holdings Ltd	Investment holding company	40.0%
Consort Healthcare (Birmingham) Intermediate Ltd	Infrastructure concession	40.0%
Consort Healthcare (Birmingham) Ltd	Infrastructure concession	40.0%
Consort Healthcare (Fife) Holdings Ltd	Investment holding company	50.0%
Consort Healthcare (Fife) Intermediate Ltd	Infrastructure concession	50.0%
Consort Healthcare (Fife) Ltd	Infrastructure concession	50.0%
Derby City BSF Holdings Ltd (ii)	Infrastructure concession	80.0%
Derby City BSF Ltd (ii)	Infrastructure concession	80.0%
Derby City BSF Partnership Ltd (ii)	Investment holding company	80.0%
East Wick and Sweetwater Projects (Holdings) Ltd	Infrastructure concession	50.0%
East Wick and Sweetwater Projects (Phase 1) Ltd	Infrastructure concession	50.0%
East Wick and Sweetwater Projects (Phase 2) Ltd	Infrastructure concession	50.0%
East Wick and Sweetwater Projects (Phase 3) Ltd	Infrastructure concession	50.0%
East Wick and Sweetwater Projects (Phase 4) Ltd	Infrastructure concession	50.0%

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015 continued

Joint ventures incorporated in the United Kingdom continued

Name of undertaking	Principal activity	Percentage held by the Group
East Wick and Sweetwater Projects (Phase 5) Ltd	Infrastructure concession	50.0%
East Wick and Sweetwater Projects (Phase 6) Ltd	Infrastructure concession	50.0%
East Wick and Sweetwater Projects (Phase 7) Ltd	Infrastructure concession	50.0%
Future Ealing Ltd (ii)	Investment holding company	80.0%
Future Ealing Phase 1 Holdings Ltd (ii)	Infrastructure concession	80.0%
Future Ealing Phase 1 Ltd (ii)	Infrastructure concession	80.0%
Gwynt y Mor OFTO Holdings Ltd (ii)	Investment holding company	60.0%
Gwynt y Mor OFTO Intermediate Ltd (ii)	Infrastructure concession	60.0%
Gwynt y Mor OFTO plc (ii)	Infrastructure concession	60.0%
Hertfordshire Schools Building Partnership Ltd (ii)	Investment holding company	80.0%
Hertfordshire Schools Building Partnership Phase 1 Holdings Ltd (ii)	Infrastructure concession	80.0%
Hertfordshire Schools Building Partnership Phase 1 Ltd (ii)	Infrastructure concession	80.0%
Oldham BSF Holdings Ltd (ii)	Infrastructure concession	90.0%
Oldham BSF Ltd (ii)	Infrastructure concession	90.0%
Oldham Education Partnership Ltd (ii)	Investment holding company	90.0%
Pebblehall Bio Power Ltd	Investment holding company	25.0%
Pevensey Coastal Defence Ltd	Infrastructure concession	25.0%
Regional & City Airports (Exeter) Holdings Ltd (ii)	Dormant – in liquidation	60.0%
Thanet OFTO Holdco Ltd	Investment holding company	20.0%
Thanet OFTO Intermediate Ltd	Infrastructure concession	20.0%
Thanet OFTO Ltd	Infrastructure concession	20.0%
Trans4m Ltd	Construction services	25.0%
Transform Islington (Phase 1) Holdings Ltd (ii)	Infrastructure concession	80.0%
Transform Islington (Phase 1) Ltd (ii)	Infrastructure concession	80.0%
Transform Islington (Phase 2) Holdings Ltd (ii)	Infrastructure concession	80.0%
Transform Islington (Phase 2) Ltd (ii)	Infrastructure concession	80.0%
Transform Islington Ltd (ii)	Investment holding company	80.0%
Tyseley Bio Power Ltd	Investment holding company	37.5%
Welland Bio Power Ltd	Infrastructure concession	25.0%
Woking Housing Partnership Ltd	Property management	50.0%

Notes

(i) held directly by Balfour Beatty plc.

(ii) due to the shareholders' agreeement 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.

Notes to the Financial Statements continued

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015 continued

Joint ventures incorporated outside the United Kingdom

Name of undertaking	Principal activity	Country of incorporation	Percentage held by the Group
Living & Learning Custodians Pty Ltd	Infrastructure concession	Australia	50.0%
Living & Learning Holdings Custodians Pty Ltd	Investment holding company	Australia	50.0%
Gammon Asia Ltd	Investment holding company	British Virgin Islands	50.0%
Gammon Construction Holdings Ltd	Investment holding company	British Virgin Islands	50.0%
Affinity LP (i)(iv)	Infrastructure concession	Canada	70.0%
CWH Design Build GP (iv)	Construction services	Canada	50.0%
CWH Facilities Management, LP (iv)	Infrastructure investment	Canada	50.0%
CWH FM GP Inc	Infrastructure investment	Canada	50.0%
THP LP (iv)	Infrastructure concession	Canada	50.0%
Balfour Beatty Mendes Junior Ltda	Construction services	Chile	50.0%
Tianjin BB Electric JV Ltd	Construction services	China	49.0%
InoSig GmbH	Construction services	Germany	50.0%
Gammon China Ltd	Investment holding company	Hong Kong	50.0%
Gammon Construction Ltd (iii)	Construction services	Hong Kong	50.0%
PT Balfour Beatty Sakti Indonesia	Construction services	Indonesia	49.0%
Balfour Beatty CLG Ltd	Support services	Ireland	50.0%
Balfour Beatty Ansaldo Systems JV Sdn Bhd (ii)	Construction services	Malaysia	60.0%
Balfour Beatty – Maju Sdn Bhd	Dormant – in liquidation	Malaysia	49.0%
Balfour Beatty Rail Sdn Bhd (ii)	Construction services	Malaysia	70.0%
Gammon Capital (West) Holdings Pte. Ltd	Infrastructure concession	Singapore	50.0%
Gammon Capital (West) Pte. Ltd	Infrastructure concession	Singapore	50.0%
Gammon Investments Pte. Ltd	Investment holding company	Singapore	50.0%
Balfour Beatty Abu Dhabi LLC	Construction services	United Arab Emirates	49.0%
BK Gulf LLC	Construction services	United Arab Emirates	49.0%
BK Gulf – Nass Contracting WLL	Construction services	United Arab Emirates	30.0%
Dutco Balfour Beatty LLC	Construction services	United Arab Emirates	49.0%
Dutco Construction Company LLC	Construction services	United Arab Emirates	49.0%
Dutco Tunnelling LLC	Construction services	United Arab Emirates	49.0%
Middle East Scaffolding Company LLC	Construction services	United Arab Emirates	49.0%
Power Transmission Gulf LLC	Construction services	United Arab Emirates	49.0%
Balfour Beatty/Benham Military Communities LLC (i)	Infrastructure investment	United States	90.0%
Balfour Beatty/PHELPS Military Communities LLC (i)	Infrastructure investment	United States	90.0%
Balfour Concord GP (iv)	Construction services	United States	50.0%
Balfour Concord Property Management, LLC	Construction services	United States	50.0%
BBC – Apexone Holdings, LLC	Infrastructure investment	United States	45.0%
Carmendy Square Properties, LLC	Infrastructure investment	United States	45.0%
C-BB Management, LLC	Infrastructure investment	United States	50.0%
C-BBC Development, LLC	Infrastructure investment	United States	50.0%
New Energy Alliance LLC	Construction and support services	United States	50.0%
Northside Campus General Partner, LLC	Infrastructure investment	United States	50.0%
Northside Campus Limited Partner, LLC (i)	Infrastructure investment	United States	90.0%
Northside Campus Partners, LP (iv)	Infrastructure investment	United States	50.0%
Structure Tone/Dooley Construction, LLC (i)	Construction services	United States	70.0%
University Hotel Partners, LLC	Construction services	United States	49.0%

Notes

[i] due to the shareholders' agreeement 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 in the Company also held.

[iv] partnership interests held.

41 Details of related undertakings of Balfour Beatty plc as at 31 December 2015 continued

Associated undertakings incorporated in the United Kingdom

Name of undertaking	Principal activity	Percentage held by the Group
Power Asset Development Company Ltd	Infrastructure concession	25.0%
UBB Waste (Essex) Holdings Ltd	Investment holding company	30.0%
UBB Waste (Essex) Intermediate Ltd	Infrastructure concession	30.0%
UBB Waste (Essex) Ltd	Infrastructure concession	49.5%
UBB Waste (Gloucestershire) Holdings Ltd	Investment holding company	49.5%
UBB Waste (Gloucestershire) Intermediate Ltd	Infrastructure concession	49.5%
UBB Waste (Gloucestershire) Ltd	Infrastructure concession	49.5%
UK Power Networks Services Powerlink Ltd	Infrastructure concession	10.0%

Associated undertakings incorporated outside the United Kingdom

Name of undertaking	Principal activity	Country of incorporation	Percentage held by the Group
Balfour Beatty Infrastructure Partners LP (ii)	Infrastructure fund	Guernsey	17.8%
ACC Group Housing, LLC (i)	Infrastructure concession	United States	100.0%
AETC Housing LP (i)(ii)	Infrastructure concession	United States	100.0%
AMC West Housing LP (i)(ii)	Infrastructure concession	United States	100.0%
Lackland Family Housing, LLC (i)	Infrastructure investment	United States	100.0%
Leonard Wood Family Communities, LLC	Infrastructure investment	United States	10.0%
Northern Group Housing, LLC (i)	Infrastructure investment	United States	100.0%
Vandenberg Housing LP (i)(ii)	Infrastructure investment	United States	100.0%
Western Group Housing, LP (i)(ii)	Infrastructure investment	United States	100.0%

Notes

(i) the Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision making power over key facets of the contracts were evaluated when determining which party or parties had control over the activities that most signficantly 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 have control and therefore the entities have been accounted for as joint ventures.

(ii) partnership interests held.

Unaudited Group five-year summary

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Income					
Revenue including share of joint ventures and associates	**8,444**	8,793	8,852	8,681	8,842
Share of revenue of joint ventures and associates	**(1,489)**	(1,529)	(1,364)	(1,301)	(1,420)
Group revenue from continuing operations	**6,955**	7,264	7,488	7,380	7,422
Underlying (loss)/profit from continuing operations	**(106)**	(58)	146	188	212
Underlying net finance costs	**(17)**	(22)	(15)	(6)	(14)
Underlying (loss)/profit before taxation	**(123)**	(80)	131	182	198
Amortisation of acquired intangible assets	**(10)**	(11)	(17)	(20)	(27)
Other non-underlying items	**(66)**	(213)	(163)	(159)	(21)
(Loss)/profit from continuing operations before taxation	**(199)**	(304)	(49)	3	150
Taxation on (loss)/profit from continuing operations	**(7)**	3	(4)	(6)	(30)
(Loss)/profit from continuing operations after taxation	**(206)**	(301)	(53)	(3)	120
Profit from discontinued operations after taxation	**–**	242	18	38	53
(Loss)/profit for the year attributable to equity holders	**(206)**	(59)	(35)	35	173
Capital employed					
Equity holders' funds	**826**	1,227	1,033	1,310	1,259
Liability component of preference shares	**98**	96	94	92	91
Net non-recourse borrowings – infrastructure concessions	**365**	445	354	368	332
Net (cash)/borrowings – other	**(163)**	(219)	66	(35)	(340)
	1,126	1,549	1,547	1,735	1,342

	2015 Pence	2014 Pence	2013 Pence	2012 Pence	2011 Pence
Statistics					
Underlying (loss)/earnings per ordinary share from continuing operations*	**(19.7)**	(11.5)	15.3	23.6	22.0
Basic (loss)/earnings per ordinary share from continuing operations	**(30.2)**	(43.9)	(7.5)	(0.3)	17.5
Diluted (loss)/earnings per ordinary share from continuing operations	**(30.2)**	(43.9)	(7.5)	(0.3)	17.5
Proposed dividends per ordinary share	**–**	5.6	14.1	14.1	13.8
Underlying (loss)/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	**(1.3)%**	(0.7)%	1.6%	2.2%	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.

Shareholder information

Financial calendar

	2016
19 May	Annual General Meeting
19 May	Ex-dividend date for July 2016 preference dividend
20 May	July 2016 preference dividend record date
1 July	Preference dividend payable
17 August*	Announcement of 2016 half-year results

* Provisional date.

Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state your registered address and, if available, your shareholder reference number. Please write to:

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone: 0871 664 0300 from the UK (calls cost 12p per minute plus your phone company's access charge) and +44 20 8639 3399 from outside the UK (Monday to Friday 9.00 am to 5.30 pm, UK time). Alternatively, you can email: Shareholderenquiries@capita.co.uk.

They can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; record the death of a shareholder.

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). The Registrars can provide a dividend mandate form. A dividend reinvestment plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at www.balfourbeatty-shares.com.

International payment service

Shareholders outside the UK may elect to receive dividends direct into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars on +44 20 8639 3405 (from outside the UK) or 0871 664 0385 from the UK (calls cost 12p per minute plus your phone company's access charge). Lines are open Monday to Friday 9.00 am to 5.30 pm, UK time. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

Shareholder information on the internet and electronic communications

Our website www.balfourbeatty.com provides a range of information about the Company, our people and businesses and our policies on corporate governance and corporate responsibility. It should be regarded as your first point of reference for information on any of these matters. The share price can also be found there.

You can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to: view your holdings and indicative share price and valuation; view movements on your holdings and your dividend payment history; register a dividend mandate to have your dividends paid directly into your bank account; change your registered address; sign up to receive e-communications or access the online proxy voting facility; and download and print shareholder forms.

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: shareportal@capita.co.uk.

Unsolicited telephone calls

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports on the Company.

If you receive any unsolicited investment advice:

– always ensure the firm is on the Financial Conduct Authority (FCA) Register and is allowed to give financial advice before handing over your money. You can check via www.fsa.gov.uk/register/home.do
– double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. If there are no contact details on the FCA Register or you are told that they are out of date, or if you have any other doubts, call the FCA Consumer Helpline on 0800 111 6768
– check the FCA's list of known unauthorised overseas firms at www.fca.org.uk. However, these firms change names regularly, so even if a firm is not listed, it does not mean they are legitimate. Always check that they are listed on the FCA Register
– if you are approached about a share scam, you should inform the FCA using the share fraud reporting form at www.fca.org.uk/consumers/scams/ report-scam/share-fraud-form, where you can also find out about the latest investment scams or alternatively, you can call the FCA Consumer Helpline (see above). If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong
– you should also report any approach to Action Fraud, who are the UK's national fraud reporting centre at www.actionfraud.police.uk, or by calling 0300 123 2040.

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £20m has been given to more than 2,000 charities.

The relevant share transfer form may be obtained from the Registrars. For more information visit www.sharegift.org.

Shareholder information continued

Share dealing services
Capita Share Dealing Services (a trading name of Capita IRG Trustees Limited) provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, telephone: 0371 664 0445. Calls cost 12p per minute plus your phone company's access charge. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00 am to 5.30 pm, UK time, Monday to Friday, excluding bank holidays in England and Wales. Alternatively, you can log on to www.capitadeal.com.

Capita IRG Trustees Limited is authorised and regulated by the Financial Conduct Authority and is also authorised to conduct cross-border business within the EEA under the provisions of the EU Markets in Financial Instruments Directive.

London Stock Exchange Codes
The London Stock Exchange Daily Official List (SEDOL) codes are: Ordinary shares: 0096162. Preference shares: 0097820.

The London Stock Exchange ticker codes are: Ordinary shares: BBY; Preference shares: BBYB.

Capital gains tax (CGT)
For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

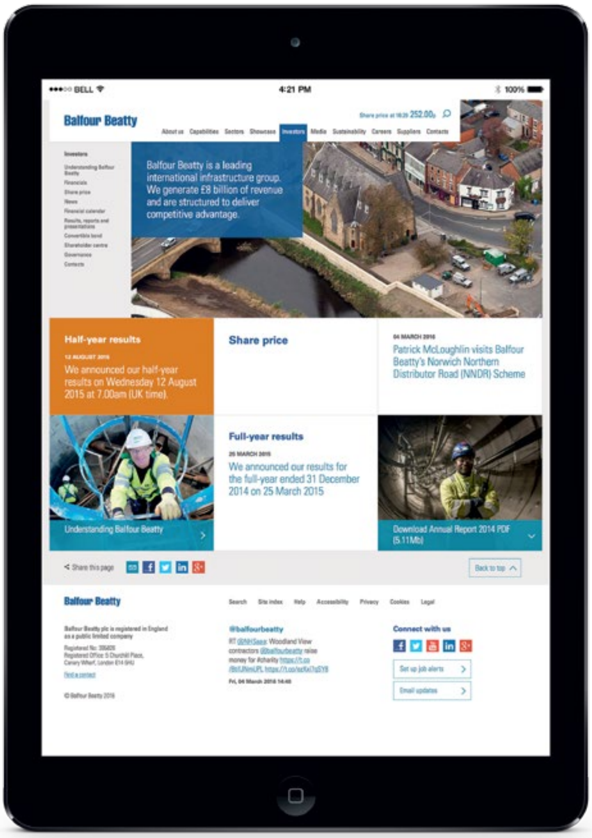
Consolidated tax vouchers
Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank accounts. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars. A copy of the consolidated tax voucher may be downloaded from the Share Portal at www.balfourbeatty-shares.com.

Enquiries
Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

Balfour Beatty plc Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU. Registered in England Number 395826.

Forward-looking statements
This document may include certain forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty plc's business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'plans', 'anticipates', 'targets', 'aims', 'continues', 'expects', 'intends', 'hopes', 'may', 'will', 'would', 'could' or 'should' or in each case, their negative or other various or comparable terminology. These statements are made by the Balfour Beatty plc Directors in good faith-based on the information available to them at the date of this report and reflect the Balfour Beatty plc Directors' beliefs and expectations. By their nature, these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under 'Principal risks' on pages 44 to 50 of this document.

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



Find out more about our investor relations at:
www.balfourbeatty.com/investors

Follow us on:

Twitter
@balfourbeatty

LinkedIn
linkedin.com/company/balfour-beatty-plc

Facebook
facebook.com/balfourbeatty

YouTube
youtube.com/BalfourBeattyPlc

Designed and produced by Radley Yeldar

Printed in England by Pureprint

RECYCLED
Paper made from recycled material
FSC® C022913
FSC www.fsc.org

The paper used in the report contains 100% recycled content, of which 100% is de-inked post-consumer waste. All of the pulp is bleached using an elemental chlorine free process (ECF). Printed in the UK by Pureprint using its *alcofree*® and *pureprint*® environmental printing technology, with vegetable inks used throughout. Pureprint is a CarbonNeutral® company. Both the manufacturing mill and printer are registered to the Environmental Management System ISO 14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

Balfour Beatty
5 Churchill Place
Canary Wharf
London E14 5HU

Telephone: +44(0) 20 7216 6800
Facsimile: +44(0) 20 7216 6950
www.balfourbeatty.com