

Balfour Beatty

ANNUAL REPORT AND ACCOUNTS 2020

Building New Futures



Building New Futures

We're driving the transformation of our industry to meet the challenges of the future

ABOUT US

Balfour Beatty is a leading international infrastructure group with 26,000 employees driving the delivery of powerful new solutions, shaping thinking, creating skylines and inspiring a new generation of talent to be the change-makers of tomorrow.

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



 Find out more at balfourbeatty.com

 Magic Moments

During 2020, our people and partners worked hard to keep the wheels of the economy turning, transport networks moving, communities connected and essential services running.

You'll find photos of our employees' magic moments throughout the report or by visiting:

[instagram.com/balfourbeatty](https://www.instagram.com/balfourbeatty)



Front cover: Katerina Itopoulou, Project Engineer. Ealing Common Depot track renewal, London

Our refreshed cultural framework, launched in December 2020, provides a simple and clear view of our purpose, values and behaviours under our Build to Last strategy. The framework reflects who we are now as an international group, who we want to be, what we value and what drives the way we work; always Lean, Expert, Trusted and Safe, and – if we are to remain a market leader – always Sustainable.

Our purpose – explains the clear and enduring reason our business exists

Building New Futures

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

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

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More about
our business
model

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

Build to Last

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



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More about
our strategy

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



 p12
More about
our values

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



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More about
building a
positive culture

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

Leading in our markets

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

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ABOVE

UK: Ealing Common Depot track renewal, Transport for London

Expert capabilities

Our three operating divisions outline their key achievements throughout 2020 and how they are delivering our Build to Last strategy. We also look at our Investments portfolio in more detail.

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p44 Directors' valuation of the Investments portfolio



ABOVE

US: Victory Commons 1 Office development, Hillwood Development

Building a positive culture

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

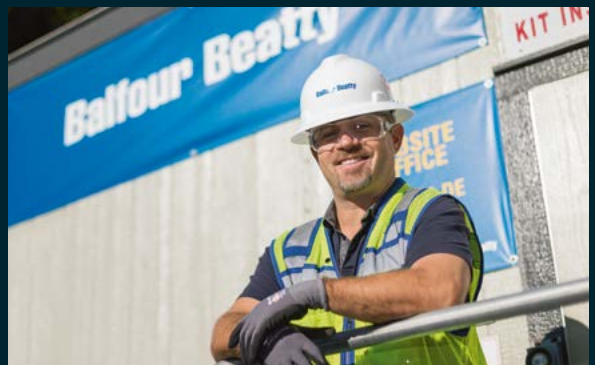
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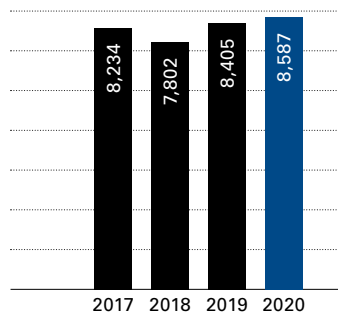
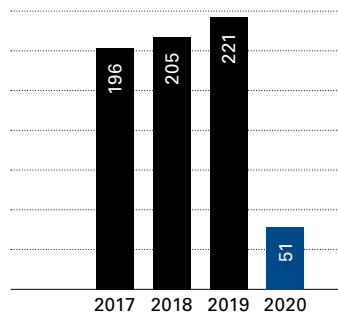
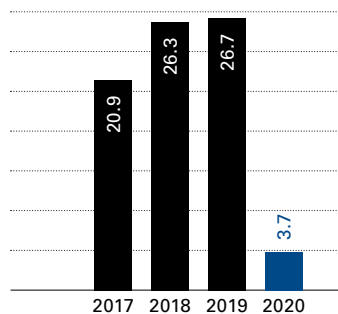
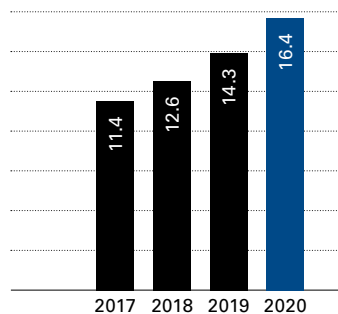
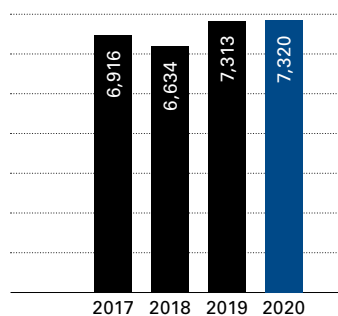
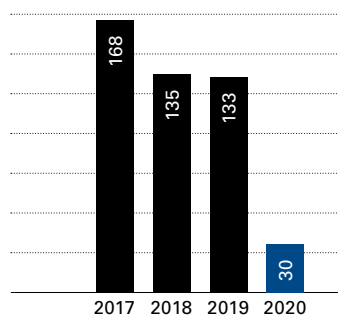
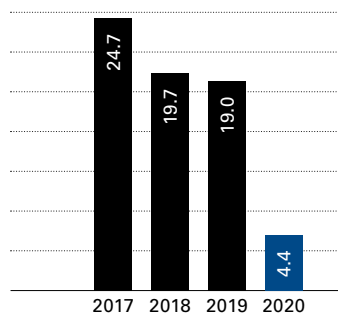
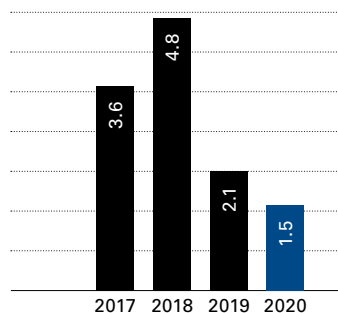
p88 Risk management



ABOVE

US: Renovation of Hoover High School, San Diego Unified School District

The Group has presented financial performance measures which are considered most relevant to the Group and used to manage the Group's performance. An explanation of these measures and appropriate reconciliations to statutory measures are provided on pages 12 and 13.

CONTINUING UNDERLYING REVENUE¹ £m

CONTINUING UNDERLYING PROFIT FROM OPERATIONS (PFO) £m

CONTINUING UNDERLYING EARNINGS PER SHARE (BASIC) Pence

ORDER BOOK¹ £bn

STATUTORY REVENUE £m

STATUTORY PROFIT FOR THE YEAR £m

STATUTORY EARNINGS PER SHARE (BASIC) Pence

DIVIDENDS PER SHARE Pence


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

BUILDING NEW FUTURES
STRATEGIC REPORT

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International infrastructure experts

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

Group highlights

UNDERLYING REVENUE¹

£8.6bn

NUMBER OF EMPLOYEES

26,000

UNDERLYING PROFIT BEFORE TAX

£36m

DIRECTORS' VALUATION INVESTMENTS PORTFOLIO

£1.09bn

ORDER BOOK¹

United Kingdom

£9.1bn

United States

£5.2bn

Hong Kong

£2.1bn

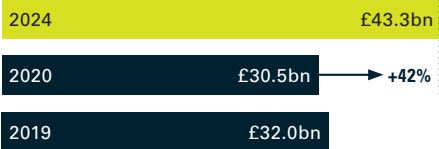


Focused on growing markets

The challenge of building a new and sustainable future requires an industrial transformation. We are leading the way, working together with governments, our customers and partners to reshape thinking, reinvent skylines and strengthen local communities. Together we deliver powerful new solutions improving lives, leaving a legacy we are proud of and inspiring the change-makers of tomorrow.

PROJECTED GROWTH OF BALFOUR BEATTY'S CHOSEN MARKETS

United Kingdom



Source: Infrastructure and public construction; Construction Products Association (Autumn 2020), BICS Quarterly Briefing (July 2020)

United States



Source: Infrastructure, buildings and multifamily housing construction in Balfour Beatty's chosen states; Dodge Market Forecast (August 2020)

Hong Kong

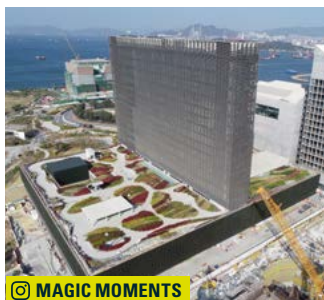


Source: Civils and public and private buildings construction, Construction Industry Council (April 2020)

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

Our divisions

Construction Services



MAGIC MOMENTS

Hong Kong: M+ Museum, West Kowloon Cultural District Authority.
Photo credit: Samson Tse

Support Services



MAGIC MOMENTS

UK: Love Lane Trams Track Renewal, Transport for London.
Photo credit: Owen Stratford

Infrastructure Investments



MAGIC MOMENTS

US: Los Angeles Airport Automated People Mover, Los Angeles International Airport. Photo credit: Paul England

Expert capabilities

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

- ▶ Our Construction Services businesses operate across infrastructure and buildings markets in the UK, the US and in joint venture in Hong Kong
- ▶ Their capabilities include civil engineering, building, ground engineering, M&E, refurbishment, fit-out and rail engineering
- ▶ Our Support Services businesses operate principally in the UK, designing, upgrading, managing and maintaining critical national infrastructure
- ▶ Their capabilities span water, gas and electricity networks, rail and highways
- ▶ Our Infrastructure Investments business develops and finances both public and private infrastructure projects in the UK and the US
- ▶ It operates and maintains infrastructure projects and a portfolio of military housing and student accommodation assets

Selective bidding for contracts

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

ORDER BOOK¹

£13.7bn

ORDER BOOK¹

£2.7bn

DIRECTORS' VALUATION

£1.09bn

Financial performance

UNDERLYING REVENUE¹

£6,964m

UNDERLYING REVENUE¹

£1,067m

UNDERLYING REVENUE¹

£556m

UNDERLYING PROFIT FROM OPERATIONS

£29m

UNDERLYING PROFIT FROM OPERATIONS

£46m

UNDERLYING PROFIT BEFORE TAX

£20m

STATUTORY PROFIT FROM OPERATIONS

£41m

STATUTORY PROFIT FROM OPERATIONS

£50m

STATUTORY PROFIT BEFORE TAX

£15m

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

Our response to COVID-19

Our experts have been helping keep the wheels of the economy turning, transport networks moving, communities connected and essential services running during COVID-19.

Whilst far reaching in its impact on the Group's operations, the COVID-19 pandemic has proven the resilience of Balfour Beatty's Build to Last strategy.

Throughout the pandemic we have protected our capabilities and strengths and balanced the needs of all our stakeholders.

Despite the initial disruption, 95% of our sites were open by the end of June with the Group safely executing projects and contracts for its customers. Through the second half of the year, Balfour Beatty's operations and productivity recovered steadily, and today all the Group's sites and operations are open and operating safely.

Our COVID-19 strategy

Across its US, UK and Hong Kong operations, the Group reacted swiftly and decisively to COVID-19 with a clear strategy to:



keep people safe



continue to build and maintain the infrastructure economies and the public rely on



keep cash flowing through the supply chain



support employees, whether on-site, working remotely or furloughed

Keeping people safe

The health, safety and wellbeing of all those who work with and for Balfour Beatty, as well as the general public, has remained the Group's priority.

Across the Group, office-based employees were encouraged to work from home, supported by the accelerated roll out of Office 365 including the adoption of Microsoft Teams to conduct virtual video meetings.

In the UK, we supported the Government's position to allow the construction and infrastructure industry to continue operating where it could do so safely. We developed COVID-19 Site Operating Procedures and these have been followed by all of our operations.

In the US, we supported the Federal Government's position to classify construction workers and residential rental industry professionals as essential workers operating in critical infrastructure sectors and fully adhered to COVID-19 regulations from federal, state and local authorities.

In Hong Kong, our 50:50 joint venture Gammon adhered to the COVID-19 guidance set out by the Government's Centre for Health Protection.



Read our paper 'Seizing the day: positive change from Lockdown for the industry'

Building and maintaining critical infrastructure

COVID-19 has brought about a welcome shift in understanding and recognition of what we as a society need and rely on: from the roads, rail network and drivers that deliver medical supplies to hospitals and food to supermarket shelves, to the Wi-Fi and power supplies that have kept businesses working – and the people which keep all of this going. This recognition has been why key worker status was granted to so many in our sector.



We're delighted at the way Balfour Beatty has responded to the COVID-19 crisis.

SHESQ Manager, National Grid



LEADING THE INDUSTRY

Balfour Beatty, in collaboration with other Tier One contractors and supply chain partners, published a COVID-19 industry research report, conducted by Loughborough University: "COVID-19 and construction: Early lessons for a new normal?" which explores the industry's health and safety response to the pandemic and potential medium to long-term benefits arising from extending and embedding these new working practices.



Scan here to read the paper.

Throughout the pandemic Balfour Beatty continued to construct and maintain this critical infrastructure at the backbone of economies and people's daily lives as well as projects at the heart of local communities, whilst also stepping up to rapidly provide critical facilities to support the fight against COVID-19.

In the UK, acting as principal contractor, Balfour Beatty, along with its local supply chain, converted Glasgow's Scottish Events Campus into the NHS Louisa Jordan hospital providing over 1,000 beds for patients requiring treatment for COVID-19. The team successfully completed the works in just 20 days.

In the US, the Pavilion at Penn Medicine project in Pennsylvania opened 120 patient rooms 15 months ahead of the facility's planned opening, with Balfour Beatty employees working around the clock for 17 days to deliver 122,000 square feet of space in the emergency department.

In Hong Kong, Gammon helped fast-track temporary COVID-19 quarantine facilities by providing project management and mechanical, electrical and plumbing services to construct 110 units at Penny's Bay in just 64 days. The team completed 95% of all works using modular integrated construction methods which reduced the amount of time the team were required on site.

Read more about how we innovated through the pandemic in our innovation section on page 29 or visit: bit.ly/bbcovidmicrosite

Keeping cash flowing through the supply chain

Ensuring the liquidity of our supply chain partners who are vital in everything we do, has never been more important.

Throughout the pandemic Balfour Beatty worked closely with its supply chain partners to ensure disruption caused by COVID-19 was minimised.

In the UK, our accounting services centre in Newcastle is responsible for the processing of all payments and effectively implemented its business continuity plan, resulting in an improvement in the percentage of invoices paid within 60 days from 89% in the first half of the year to 91% in the second half of the year.

In the US, the team developed a centralised supply chain insights resource to provide up to date prices and availability of key materials and commodities so that projects could find the materials they needed quickly from our supply chain partners to keep projects on programme.

Supporting employees

We ensured all of our 26,000 employees, thousands of them site-based and without easy access to IT, had the latest information on COVID-19 as it became available. We did this through a range of channels including:

Daily email bulletins with the latest COVID-19 news updates

Cascade 'toolbox talks' and site signage using centrally driven messaging

Health and wellbeing webinars and virtual conferences

Weekly site poster packs and videos accessible via QR codes to communicate safety messages and updates to site-based employees

A drumbeat of senior management blogs outlining key developments and helping to keep employees engaged and fully informed

A dedicated page on our corporate website hosting training and guidance for colleagues who were placed on furlough leave

A new intranet site to host guidance, toolkits and FAQs to support line managers and their teams, which has received 145,000 visits since launch

Balfour Beatty's employee engagement index score saw a significant increase to 75% (2019: 66%).

Through My Contribution, our employee-led change programme, we launched our 'Bouncing Back' campaign which generated more than 550 ideas from our employees for how we could bounce back from COVID-19. Read more on page 28.

In the US, a safety observation app was utilised enabling employees to access government checklists and guidance on outbreak planning, preventative and response measures, strategies and other best practices to help evaluate COVID-19 jobsite safety.

Continuing the focus on health and safety, the Group launched 'The Big Conversation' to connect employees from across the UK, US and Hong Kong – to encourage open and honest conversations about health and safety. More than 300 projects participated with teams collaborating across the globe.

In the UK, Balfour Beatty continued firm in its commitment, despite the pandemic, to developing its future workforce with a 30% increase in its intake of Graduates, Apprentices and Trainees in 2020.

Summary

The COVID-19 crisis has had a significant impact on the construction and infrastructure industry. But it has also provided an opportunity to reflect. It will act as an accelerant to the pace of change in some key areas. Balfour Beatty will play its significant part in strengthening and streamlining the industry to allow it to emerge stronger from the COVID-19 pandemic.



RIGHT

Laura McWilliams, Superintendent,
Victory Commons 1, Dallas



Watch our film which thanks our experts who have stepped up during COVID-19
bit.ly/bbsteppedup



Infrastructure investment will play a major role in the global post COVID-19 recovery

Dear shareholder,

In 2015 when I wrote to you for the first time as Chair of Balfour Beatty, I said that we were beginning the changes necessary to restore the business to strength. The Group had once again presented disappointing financial results, was plagued with legacy issues and had fought off a proposed merger with Carillion, a company which entered liquidation only three years later in 2018.

Six years on and having announced I will be stepping down this year, I write for the last time as your Chair. In doing so, I am able to reflect on the transformation that the business has undergone. Today, Balfour Beatty is focused on growth markets with improved governance and risk management; we have driven substantial employee engagement across the company; dramatically improved our customer satisfaction score to 95% in 2020; significantly reduced our carbon emissions and, most importantly, seen a 66% reduction in our Lost Time Injury Rate – all whilst building one of the strongest balance sheets in the sector, including an enviable cash position. These efforts have not been without recognition, with Balfour Beatty securing Britain's Most Admired Company in our sector for the second consecutive year; an award made even more notable as it represents the views of our peers, financial analysts and city commentators.

In my six years as Chair, I have been pleased to work alongside Leo Quinn and the executive team. It has been my role to guide, to support, to offer counsel, to challenge and to encourage. My time at Balfour Beatty has been in equal parts, energising and rewarding and I am immensely proud of what we have achieved together. I shall leave knowing that the Group is strong and well-positioned for the world in which it operates.

Navigating COVID-19

This resilience which has been developed and embedded over several years, was thoroughly tested by the unforeseen events of 2020. Throughout the last twelve months, our robust processes and the controls developed under Build to Last have helped Balfour Beatty to navigate a constantly changing and difficult environment. I applaud the collective effort of our 26,000 employees and our supply chain partners, who have enabled us to continue to deliver safely for our customers and communities. Indeed, they have been an inspiration throughout my tenure, but never more so than in the last year.

COVID-19 has cast a long financial shadow over the entire globe. Balfour Beatty has not been immune because, although we have kept the majority of our sites and contracts open and operating safely, in order to support economies and daily life, COVID-19 impacted productivity across all our geographies.

We took decisive action to protect the Group's financial strength and capabilities to ensure that, as more normal trading conditions return, we have the capability and expertise to deliver on our impressive order book. Working to balance the needs of all stakeholders, we cancelled the final 2019 dividend announced in March 2020 and did not declare an interim dividend in August 2020. The Board and Executive Committee volunteered to take a temporary 20% reduction in salary to relieve some of the cash flow pressures and to protect others elsewhere in the business. This, combined with a range of other actions including stopping all discretionary spend, helped us to maintain liquidity – critical in support of our thousands of supply chain partners.

Balfour Beatty has weathered many storms in its 111-year history to emerge stronger. This period will have been no exception.

As we worked carefully through the challenges of 2020, our earnings-based businesses recovered through the second half of the year. Our order book increased strongly, driven in part by the UK Government granting HS2 Notice to Proceed in April. I am proud that, due to Balfour Beatty's market-leading position, we and our joint venture partner VINCI will be helping to deliver such a transformational scheme to strengthen our national infrastructure.

Despite delays caused by COVID-19, in the second half of the year the Group continued to win significant infrastructure projects across all its geographies. Key successes included over £1 billion of work secured on the Third Runway project at Hong Kong Airport, the reconstruction and widening of Oak Hill Parkway, the interstate highway in the West of Texas in the US, and major contracts for the M25 and M3 in the UK. We are optimistic that output will rebound in 2021 and into 2022.

Now, with our operations seeing a path back to their performance levels of 2019, and then beyond, and given the strength of our financial position at the end of 2020, the Board has taken the decision to repay the £19 million claimed in 2020 from the UK Government's Job Retention Scheme.

Markets

Governments around the world – and across our core markets – are taking decisive action to invest in significant long-term fiscal stimuli to ignite their economies. That means that infrastructure investment will rightly play a major role in the global post-COVID-19 recovery, given its powerful multiplier effect on jobs and spending. Many of these plans have a specific focus on sustainable infrastructure, from which Balfour Beatty is well-positioned to benefit.

Sustainability

We decided that in 2020 it was timely to set out a new sustainability strategy. We know that global construction has a significant environmental footprint and, therefore, a key role to play in supporting decarbonisation, reducing waste and meeting international commitments on biodiversity. Having achieved our previous carbon emissions reduction target ahead of schedule, our new ambitions include going beyond net zero carbon by 2040. As part of this, in 2020, the Group continued to take great strides in reducing energy and fuel consumption and emissions. In 2020 our carbon intensity from our Scope 1 and 2 emissions reduced by 18.8 tonnes of CO₂e/£m revenue, 55% below our 2010 baseline. We will continue to work collaboratively with customers, industry and our supply chain to ensure that we meet our targets and ambitions.

Health, safety and wellbeing

The health, safety and wellbeing of our employees remains paramount in all we do. It is our number one priority.

Notwithstanding COVID-19's impact on working life and team interactions, continued improvement in our health and safety practices was reflected in a reduction in our lost time injury rate (excluding international joint ventures) to 0.10, a 66% reduction since 2014. In addition our UK and US employee survey revealed that 84% of our employees feel empowered to speak up in the workplace if they see anything potentially unsafe – contributing to over 200,000 health and safety observations made in 2020, including best practice, that are helping us take action before incidents happen and ensure that we continuously improve.

Despite our focus and drive for continuous health and safety improvement, tragically four colleagues lost their lives this year while working at or with Balfour Beatty. Three fatal incidents occurred in Hong Kong and one in the UK. Additionally, in the US a member of our joint venture partner's workforce was fatally injured. My heart goes out to their families, friends and colleagues. We have learnt from these terrible tragedies.

As we continue to strive for Zero Harm – meaning no injury, ill health or environmental incident caused by our work activities – we launched Balfour Beatty's 'Big Conversation' in November. This campaign leveraged our international footprint with hundreds of our teams across the UK, US and Hong Kong connecting and collaborating remotely to share best practice, experiences and expertise.

The Board

Last year I announced I would be stepping down from the Board at the 2021 AGM and the search is progressing for my successor. The new Chair and the Board will continue our commitment to building a diverse and inclusive workforce, attracting talented people with a broad range of skills and experience from all backgrounds into our Group, including the Board. Whilst we have made good progress over the last few years all of us recognise that this is a vital area and one where more needs to be done.

Capital returns

Balfour Beatty has announced a new sustainable capital allocation framework which provides a balanced approach to address the investment needs of the business, regular dividend payments and additional returns to shareholders.

The Group's profitability in 2020 was impacted significantly by COVID-19, but the strength of its financial position and its future prospects provides the Board with the confidence to reinstate the dividend by recommending a final dividend for 2020 and announce a £150 million share buyback programme for 2021.

Conclusion

Although 2020 was an unsettling and incredibly difficult year, it was also one which demonstrated the immense resilience Balfour Beatty has developed since the beginning of Build to Last, in creating a business able to maintain its disciplines, capability and financial strength, in a period of challenge, arguably unprecedented in our lifetimes.

I wish all those who work with and for Balfour Beatty the very best as the Company delivers on its undoubted capacity for success by capitalising on governments' infrastructure stimuli in its chosen markets in the next decade. It has been an honour and a privilege to play my part in the Company's history – I will leave confident in the knowledge that Balfour Beatty has a formidable future ahead.

Philip Aiken AM
Group Chair

9 March 2021

Section 172 statement

The Directors take their responsibilities to shareholders and stakeholders very seriously. During 2020, the Board reviewed the Group's main stakeholder groups and existing channels of engagement with each so that their views can be understood and considered in Board discussions and decision-making. In addition to having regard to the interests of the Group's stakeholders, Directors also consider the impact of the Group's activities on the communities within which it operates, the environment and the Group's reputation. The Directors seek to act in good faith in the way most likely to promote the success of the Company for the benefit of its shareholders in the long term and to act fairly between all of the Company's shareholders. Through the Board and its Committees, Directors have taken action to promote and support these objectives across the Group, details of which can be found throughout this Annual Report as set out here:

- The Company's purpose, values and behaviours in the front cover pull out.
- A description of key stakeholder groups and how the Board has engaged with stakeholders on pages 113 to 115.
- Broader Group engagement with stakeholders and an assessment of their priorities relating to sustainability matters on pages 24 and 25.
- The range of activities undertaken across the Group relating to sustainability matters on pages 55 to 70.
- Details of how high standards of integrity are maintained on pages 52 to 54.
- The proactive and pragmatic approach of the Group toward risk on pages 88 to 102.
- The framework of the Company's decision-making on pages 116 to 118.
- Details of the Company's governance processes and practice on pages 105 to 121.



Well positioned financially, operationally and culturally to deliver our goals

Capacity for enhanced returns

Balfour Beatty's goal throughout Build to Last has been to create a sustainable foundation for its next 100 years. Since 2015, the Group has continually upgraded its capability, processes and governance to ensure leadership in its chosen markets. It has underpinned this with a culture which encourages every employee to make a difference, consider all stakeholders and continually improve performance. At the end of 2020, the Group formalised its credentials in a future net zero world with a new sustainability strategy, Building New Futures.

The best measure of long-term business resilience is cash performance – and in delivering another year of positive cash flow the Group exceeded its external guidance with £527 million of average net cash. This performance was achieved despite the impact on profit from COVID-19, while maintaining Balfour Beatty's key strengths and delivering a record £16.4 billion order book at year end. With its strong balance sheet, medium term visibility and market outlook, the Group now has enhanced capacity to drive cash generation through earnings growth and restarting disposals of Investments assets.

Over the last four years, the Group has generated sufficient cash flows to pay down over £430 million of debt and preference

shares, while maintaining its Investments portfolio at £1.1 billion. Today, Balfour Beatty is announcing a new capital allocation framework which provides a balanced approach to address the investment needs of the business, regular dividend payments and additional returns to shareholders. In January 2021, the Group commenced a share buyback programme, which is today being increased to £150 million for 2021.

Supporting stakeholders through the crisis: maintaining strengths for the future

The wellbeing and safety of all those who work for and with Balfour Beatty, and of the public, remains the Group's priority. Since the start of the pandemic, Balfour Beatty's focus has been to manage the rapidly changing situation in order to balance the needs of its stakeholders while protecting the Group's capability and strength. In achieving this, the dedication of the Group's employees in supporting each other and the Group's customers has been outstanding. It is in large part due to them that Balfour Beatty has for the second year running won the coveted Britain's Most Admired Company award for our sector.

The first decision to minimise the impact of COVID-19 was keeping the Group's sites operational in line with government guidance, where it was safe to do so. Most sites

remained open for business as employees and partners continued to execute contracts for customers safely. At the same time, the Group maintained liquidity for its supply chain and put in place extensive support for employees – whether on-site, working remotely or furloughed. In achieving this, Build to Last's investments in upgraded systems, processes and leadership proved their value as Balfour Beatty demonstrated resilience against unforeseeable challenges.

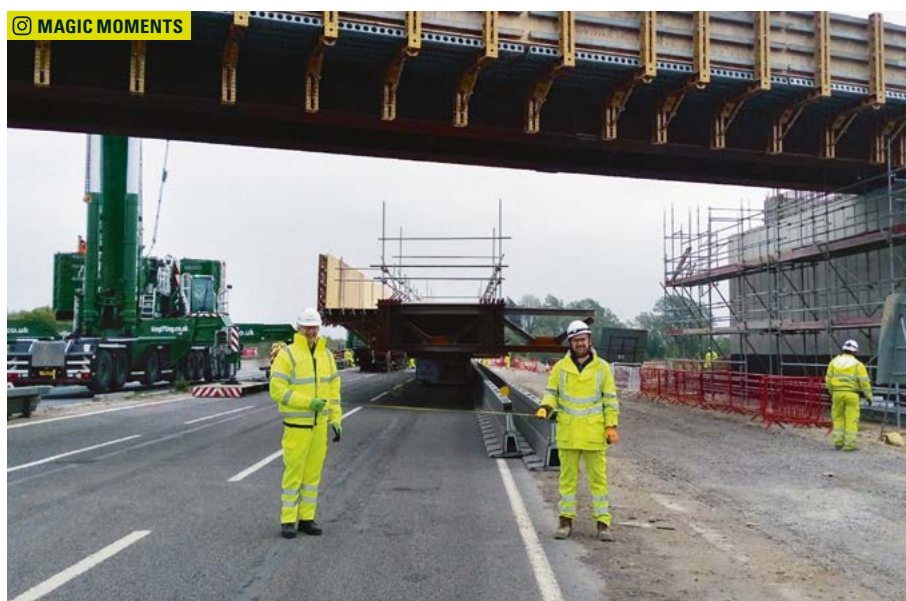
In response to the pandemic, all stakeholders played their part. Governments provided employee assistance schemes and tax deferrals. Senior employees voluntarily took temporary salary reductions, as did the Group's Board and Executive Committee. In addition, the final dividend for 2019 was cancelled.

Between April and October, the Group made use of the UK Government's Job Retention Scheme (JRS), and supplemented salaries for employees placed on the scheme. The scheme worked effectively as it allowed Balfour Beatty to retain employees during heightened uncertainty when sites were closed and to bring them back as sites re-opened. Given the strength and resilience of the Group's balance sheet, Balfour Beatty fully repaid the UK taxes it had deferred in 2020 during the year and will repay the £19 million that had been claimed under the JRS. In addition, the Board commenced a share buyback programme in January 2021 and has recommended a final dividend for 2020.

Financial summary: maintained strong cash performance

In 2020, for the fifth year running, the Group delivered positive cash flow with the year-end net cash balance at £581 million (2019: £512 million) and average net cash at £527 million (2019: £325 million). The strength of Balfour Beatty's balance sheet provides the flexibility to make the right long-term decisions and allowed the Group to repay US\$46 million of its US private placement notes in March 2020 and fully redeem its preference shares for £112 million in July 2020.

For the year ended 31 December 2020, the Group reported a significant reduction in profitability due to a combination of the impact of COVID-19, a reassessment of end of contract forecasts in Construction Services and the decision to defer any disposals from Infrastructure Investments given prevailing market conditions. For the first half of the year, the Group reported a loss from operations, then partially recovered in the second half of the year with all segments recording a profit resulting in a full year underlying profit from operations of £51 million (2019: £221 million).



UK: The installation of a new bridge at Marsh Lane on the M4, Highways England. Photo credit: Leo Quinn

Operations: impact of COVID-19

All the Group's businesses were impacted by COVID-19, although this varied according to geographic and operational footprint.

For the full year, UK Construction recorded an underlying loss as site closures, lower productivity, additional operating costs and lengthening site programmes triggered a reassessment of the Group's contract end forecast positions. After adjusting for the decision to repay the UK Job Retention Scheme, UK Construction did return to profitability in the second half of the year but specific sectors, such as aviation, have seen a material slowdown throughout the year. US Construction was also negatively impacted by COVID-19 as all geographies were affected, most notably Washington State where sites were closed in the second quarter and in Florida where the hospitality sector was materially impacted throughout the year.

At Gammon both revenue and profit increased in the year as the impact of COVID-19 in Hong Kong has been lower than in the UK and US, in part due to Hong Kong's experiences from previous viruses such as SARS. Given the timing of the spread of COVID-19, the Group was able to take learnings from Gammon, such as working safely and efficiently in enclosed spaces whilst maintaining social distancing, then apply them across the rest of the Group.

In Support Services, the business has been resilient with the Group's contracts generally designated as critical infrastructure and as such profit was broadly in line with the prior year. The Group was able to accelerate road and rail maintenance programmes for some customers due to lower volumes of traffic in the year, but this was offset by general disruption on projects and other customers reducing maintenance expenditure given the economic uncertainty.

Board of Directors: Group Chair succession

Having been the Group Chair since 2015, Philip Aiken notified the Board of Directors of his intention to step down at the next Annual General Meeting in May 2021. The Board would like to thank Philip for his tremendous leadership and stewardship of the business during the transformation of Balfour Beatty. The Nomination Committee is overseeing the externally supported search for a successor.

Order book: clear visibility over the medium term

The Group's order book at year end increased by 15% to £16.4 billion (2019: £14.3 billion). The order book now stands at around two years of revenue, providing clear medium-term visibility. The increase in 2020 was due to the addition of over £3 billion of contracts following the UK Government issuing Notice

to Proceed on HS2 in April, including Balfour Beatty's largest ever contract for the Area North main civils work. Additionally, Gammon, the Group's 50:50 joint venture based in Hong Kong, won its largest ever contract with, in total, c. HK\$20 billion worth of contracts from the Hong Kong Airport Authority – a significant existing customer.

Over the last three years, the order book has increased approximately 45%, driven by winning large public sector infrastructure projects in the UK, US and Hong Kong. In addition, the quality of the order book continues to improve. At year end, almost 90% of the UK Construction order book is with public or regulated customers and 80% is under target cost or cost reimbursable contracts (including the recent HS2 contracts). In the US, where the percentage of private customers is higher in the Buildings business, price risk is managed through construction management contracts. The increase in total order book value coupled with the shift towards lower risk contracts provides increasing confidence that the Group will deliver profitable managed growth on a sustainable basis.

Infrastructure: global fiscal stimuli

In November, the UK Government released details of its five-year plan, the National Infrastructure Strategy (NIS), to deploy infrastructure investment to drive economic recovery, level up and meet the UK's net zero emissions target by 2050. The £640 billion of funding announced for developments in roads, railways, power networks, schools, hospitals and telecommunications represents an increase of around £100 billion compared to previously announced plans.

In January 2021, Balfour Beatty was selected as one of 30 companies working in a new partnership with the UK Government to steer the COVID-19 economic recovery as part of the Build Back Better Business Council. The council will focus on innovation, infrastructure and skills, all key areas of focus for Balfour Beatty.

In the US, there is strong bipartisan support for accelerated infrastructure investment. The new President has announced a Build Back Better recovery plan proposing significant investment in infrastructure. Although nationwide forecasts show a decline in the overall construction market, Balfour Beatty is positioned in regions that are expected to perform better than the national forecast as demographic shifts continue to favour the Group's chosen states (Southern Smile) in the medium term.

Gammon has a material share of the Hong Kong market, which has historically benefited from significant public sector investment. This appears set to continue with the Government's recently announced ambition in its February 2021 budget to increase spend materially over the medium term.

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

Since 2015, the Group's Build to Last strategy has created a self-help culture based on four values: Lean, Expert, Trusted, Safe. The Group's progress is measured using cash flow and profit from operations, employee engagement, customer satisfaction and Zero Harm, respectively. In 2020, a fifth value was added to this framework – Sustainable, measured by CO₂ emissions.

Lean: The disciplines learnt during Build to Last have served the Group well in ensuring effective and efficient operations. In 2020, underlying net operating expenses reduced further to £226 million (2019: £267 million) – a reduction of more than 50% since the start of Build to Last (2014: £470 million, adjusted for foreign exchange movements).

The Group's successful focus on cash generation is evidenced by average net cash in 2020 at £527 million – ahead of previous guidance and over 60% higher than the prior year (2019: £325 million). As a key part of its strategy to create value by achieving market leadership, the Group has invested over £600 million since 2015 in equity assets (Infrastructure Investments), capex (IT, plant and fleet) and capability (training and development).

These disciplines in cash management and cost efficiencies have been fundamental to the Group's financial transformation and today's announcement of its new capital allocation framework.

Expert: Customers buy Balfour Beatty's services due to the expert capabilities of the Group and its employees. The key metric for Expert is employee engagement, and the challenges presented by COVID-19 have made this even more important. It is a powerful testament to the progress made since 2015 that employee engagement in the October 2020 survey rose to 75% (2019: 66%; 2015: 60%). The survey provides a clear tracker of progress in creating the kind of company where people want to build long-term fulfilling careers, which is of key importance given the strong order book and growth in chosen markets. The survey results are consistent with the reduction in the Group's voluntary attrition rate in the UK, with the twelve-month rolling average now at 10% (2019: 11%, 2014: 16%).

For the second year running, Balfour Beatty secured the accolade of Britain's Most Admired Company in the Heavy Construction category of the longest running annual survey of corporate reputation in the UK. Organised by leading specialists and academic partners, the awards represent a peer-review, considering views from board-level representatives, financial analysts and city commentators to identify Britain's best public companies and leading employers across 25 sectors. Balfour Beatty was scored against 13 criteria points, securing the highest marks in six categories. The Group was praised for its quality of products and services, long-term value potential, competitiveness and quality of marketing as well as its commitment to diversity & inclusion, inspirational leadership and driving forward world-class projects for multinational customers.

In October, Balfour Beatty signed an open letter to Audeless and INvolve committing to engaging and measuring long-term actions for black inclusion within its business. This UK based initiative saw Balfour Beatty become the first in its industry to commit to engaging and measuring long-term actions for black inclusion. This builds on the Group's 2018 Diversity and Inclusion strategy, with initiatives such as the reverse mentoring programme, focus groups with BAME colleagues, and Affinity Networks for under-represented groups raising awareness for diverse perspectives and experiences within the business.

In October, the Group announced a 30% rise in its UK graduate intake in 2020 compared to 2019, which contributed to an increase in the total percentage of Balfour Beatty's UK workforce in 'earn & learn' positions at year end to 6.0% (2019: 5.4%). This commitment is consistent with Balfour Beatty placing as the sixth most desirable company that students aspire to work for once they have completed their studies. More than 15,000 UK-based university students and graduates were surveyed, with Balfour Beatty the only construction and infrastructure company placed in the league table.

During the year, the Group received its 6,000th idea from its My Contribution programme which crowd sources ideas from employees who want to bring about positive business change. The milestone idea was from the HS2 team to improve the efficiency of concrete deliveries via innovative new technology.

Trusted: Balfour Beatty is trusted to "do what we say we will do" and is measured on this metric by customer satisfaction. In the year, around 2,000 customer satisfaction reviews were carried out with the Group customer satisfaction score at 95% (2019: 94%; 2014: 77%). The Group continues to focus on

active risk management underpinning strict adherence to the Build to Last values with investment in IT-based processes and controls. These include the Gated Business Lifecycle process, the Digital Briefcase and Project on a Page. Together, these provide management with a clear, consistent line of sight on all stages of work being bid and delivered, together with key tools for managing commercial risk and project execution.

The Group has achieved important successes in playing its part in the global response to COVID-19 through the determination and dedication of its workforce. Acting as principal contractor, Balfour Beatty converted Glasgow's Scottish Events Campus (SEC) into the NHS Louisa Jordan hospital providing over 1,000 beds for patients requiring treatment for COVID-19. In Pennsylvania, the Pavilion at Penn Medicine project opened 120 patient rooms 15 months ahead of the facility's planned opening, with Balfour Beatty employees working around the clock for 17 days to deliver 122,000 square feet of space in the emergency department. In Hong Kong, Gammon helped fast-track temporary COVID-19 quarantine facilities by providing project management and mechanical, electrical and plumbing services to construct 110 units at Penny's Bay in just 64 days.

In June 2019, allegations about the handling of certain work orders were publicised about a number of US military bases managed by Balfour Beatty Communities (BBC). Subsequently, the US Department of Justice (DoJ) commenced an investigation into the allegations of false claims. Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct its own investigation, and BBC proactively contacted the DoJ to notify them of the review. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ.

Balfour Beatty has made a provision in its 2020 year end results for an estimate of the historical incentive fees that its investigation was unable to fully verify and which BBC has proposed to be repaid. The Group's external counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

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

During 2020 four individuals working across the Group's operations have lost their lives, one in the UK and three in Hong Kong. Additionally, an individual working for a joint venture partner lost their life in the US. Full investigations have been undertaken to ensure learnings are shared and implemented quickly across Balfour Beatty. In remembering those lost, the Group will continue to strive for Zero Harm by making conditions as safe as possible on its sites.

In August, both the UK and US businesses recorded a whole month without a lost time injury – for the first time since 2016 – demonstrating Zero Harm in action. For the full year, the Group's lost time injury rate (excluding international joint ventures), calculated as the lost time injuries that occur per every 100,000 hours worked, reduced to 0.10 (2019: 0.14; 2014: 0.29). All other lagging indicators also showed improvement.

During the year safety assumed an even greater emphasis as Balfour Beatty developed new COVID-19 Site Operating Procedures to support safe working to government guidelines. Despite the challenges of adapting operations to maintain social distancing, Balfour Beatty has seen a positive and significant reduction in injury rates. In November, the Group launched a new safety engagement approach 'The Big Conversation' where projects partnered across the UK, US and Hong Kong to share learning on fatal risk controls and mental health.

Sustainable: In December, Balfour Beatty included a fifth Build to Last value and launched the Group's new sustainability strategy, Building New Futures. Sustainability has always been at the heart of Balfour Beatty. From reducing carbon emissions by over 50% in the past decade, to improving biodiversity, training the next generation, channelling spend through smaller businesses, and looking after employees. Balfour Beatty is currently rated AA by MSCI and medium risk by Sustainalytics.

As a key lever of economic growth, the construction and infrastructure industry will be central to a sustainable recovery. New, low carbon infrastructure (HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating growth. From the Green New Deal proposed by the US President, to the Green Industrial Revolution launched by the UK Prime Minister, governments are investing in ensuring that economies come back stronger from COVID-19 without the increase in carbon emissions that accompanied the last financial recovery.

The new sustainability strategy goes further and has been developed using a materiality assessment with input from key stakeholder groups in the UK, US and Hong Kong. It is

focused on the three areas most important to the Group's business – the environment, materials and communities. The strategy requires faster, more significant action setting out:

- 2030 targets, including a formal commitment to a science-based target to reduce carbon emissions; and
- 2040 ambitions to go beyond net zero carbon, to generate zero waste and to positively impact more than one million people.

Outlook: 2021 in line with 2019

Balfour Beatty's operations recovered steadily through the second half of 2020 and today, all the Group's sites are open and operating safely in accordance with local regulations.

Despite the continuing COVID-19 restrictions, the Board expects that the earnings-based businesses (Construction Services and Support Services) will deliver underlying profit from operations for 2021 in line with 2019 (£172 million).

As a result of market uncertainty caused by COVID-19, in 2020 Balfour Beatty did not dispose of any Investments assets. In 2021, the Group will re-commence the sale of Investments assets timed to optimise value to shareholders, as demand for high quality infrastructure assets in the secondary market is expected to exceed supply.

For 2022 and beyond, the strength of the Group's order book and positive infrastructure markets creates the capacity to drive profitable managed growth and sustainable cash generation.

Capital allocation framework: sustainable return of surplus capital

Over the last four years, Balfour Beatty has repaid over £400 million of debt and preference shares, principally from selling approximately £100 million per annum of Investments assets into the secondary market, whilst reinvesting approximately £50 million per annum in new Infrastructure Investments opportunities. The Group has established one of the strongest balance sheets in its sector, with average net cash over £500 million and an Investments portfolio valued at £1.1 billion. From this position of strength, Balfour Beatty commenced a share buyback programme in January 2021.

Balfour Beatty understands the importance of delivering attractive total cash returns to shareholders. The Group is therefore committed to maintaining an appropriate balance between investment in the business, maintaining a strong capital position and cash returns to shareholders. The new capital allocation framework comprises:

- continued investment in organic growth opportunities in Infrastructure Investments which meet the Group's return hurdles;
- active realisation of Investments assets with disposals timed to optimise value for shareholders;
- a strong but efficient balance sheet which provides the financial platform to make long-term business decisions, in response to both opportunities and periods of market dislocation;
- commitment to paying a sustainable ordinary dividend, targeted at a pay-out ratio of 40% of underlying profit after tax (excluding gain on disposal of Investments assets). The Board expects dividends to grow over time with underlying profit; and
- additional cash returns via share buybacks (or other mechanisms depending on market conditions) broadly based on surplus cash delivered from Investments disposals as well as surplus operating cash flows.

As part of this framework, Balfour Beatty is increasing its initial £50 million share buyback programme, commenced in January 2021, to £150 million for 2021, which it expects to complete by 31 December 2021.

Conclusion

Throughout the pandemic, Balfour Beatty has focused on balancing the needs of all stakeholders whilst protecting the Group's capability, disciplines and financial strength. The transformation delivered under the Build to Last strategy has enabled the Group to successfully navigate these challenges and from this platform Balfour Beatty has the capacity to deliver enhanced shareholder returns.

Leo Quinn
Group Chief Executive

9 March 2021

Delivering Build to Last

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

ABOUT BUILD TO LAST

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

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



We create value for our customers and drive continuous improvement

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



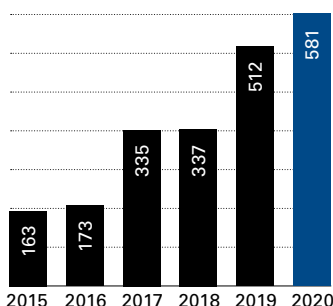
Our highly skilled colleagues and partners set us apart

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

OUR KPIs

Net cash (£m)

excluding non-recourse borrowings

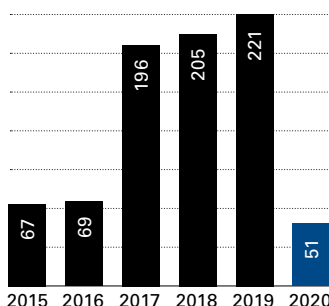


2020:

£581m

[p162](#)

Underlying profit from continuing operations (£m)

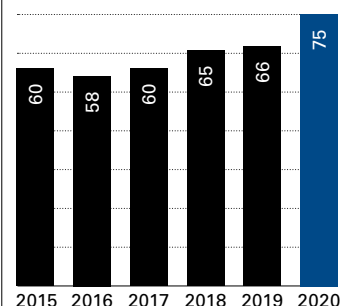


2020:

£51m

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Employee engagement index (%)

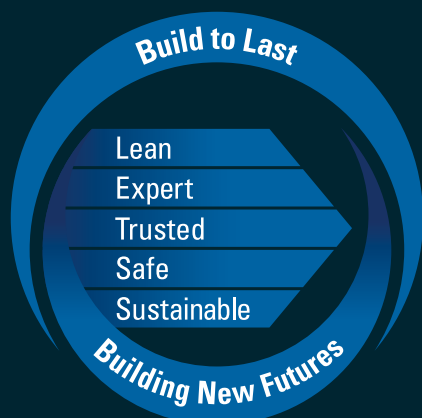


2020:

75%

[p71](#)

Whilst far reaching in its impact on the Group's operations, the COVID-19 pandemic has proven the resilience of the Group's Build to Last strategy.



In December 2020, Balfour Beatty included a fifth Build to Last value and launched the Group's new sustainability strategy, Building New Futures.

Leo Quinn, Group Chief Executive



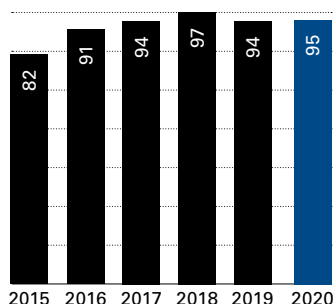
TRUSTED

We deliver on our promises and we do the right thing

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

OUR KPIs

Customer satisfaction average (%)



2020:

95%

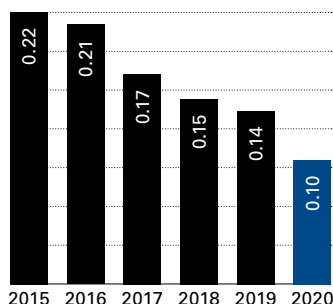
→ p52

SAFE

We make safety personal

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

Lost time injury rate (LTIR) excluding international joint ventures



2020:

0.10 LTIR

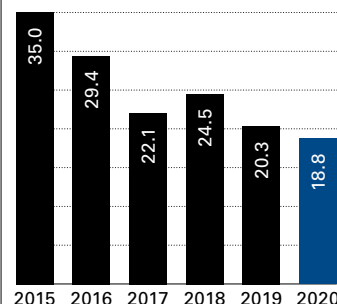
→ p48

SUSTAINABLE

We act responsibly to protect and enhance our planet and society

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

Total Scope 1 & 2 emissions (tCO₂e) per £m revenue



2020:

18.8 tCO₂e

→ p55

Leading in our markets

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

In this section

MARKET REVIEW

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

→ Read more on
p16

BUSINESS MODEL

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

→ Read more on
p22

STAKEHOLDER VALUE

In striving to achieve our purpose of Building New Futures, we touch the lives of many people. Working with our stakeholders across the industry and beyond, we continue to innovate, lead the market through driving change, shape the debate and inspire a new generation of talent to be the change-makers of tomorrow.

→ Read more on
p24

INNOVATION

We harness the power of digital and cutting-edge innovation to redefine the possible and drive productivity. Trusted by customers to deliver sustainable solutions and strengthen communities, we leave a legacy we are proud of.

→ Read more on
p26



Ealing Common Depot, London

Pictured here is our team working on the renewal and remodelling of the east end of the Ealing Common Depot as part of our ten-year, London Underground Track Renewals contract. Our works were successfully undertaken 24 hours a day during a six-week blockade using innovations such as a 3D excavator. The excavator draws information from a 3D model of the site to understand where it is, allowing the bucket to be controlled automatically, without input from the operator.

LEAN

One of the benefits of using the 3D excavator is that it removes the need for further machinery such as a dozer, saving additional hiring costs.

EXPERT

This type of excavator is the first of its kind in the UK, exclusively developed by Balfour Beatty's expert plant and fleet team and its supply chain partner, Trimble.

TRUSTED

The 3D excavator is one of many innovations the team use on site to deliver cost and programme efficiencies for Transport for London.

SAFE

The excavator's bucket level and grade can be controlled remotely by GPS, allowing a quicker, higher-quality installation, reducing the time the workforce need to spend on the network.

SUSTAINABLE

The use of the 3D excavator reduces the carbon impact of the project through the significant reduction in the number of diesel-powered large plant required on site.



Well positioned in our chosen markets

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

Macro trends

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

UK public sector spend

In both the short and long term, the infrastructure market outlook is positive and is boosted by the government's £640 billion National Infrastructure Strategy, providing the highest levels of investment in decades.

In the short term, buildings markets have been impacted by COVID-19, although this has been less severe in Balfour Beatty's focus area of public projects.

The completion of the UK's trade agreement with the European Union creates greater certainty in the market and enables the government to focus on its broader agenda, including build back better, driving opportunities for Balfour Beatty.

Strong infrastructure stimulus opportunities in the US

There is strong bipartisan support for infrastructure investment and, following his recent election victory, President Biden has announced a Build Back Better recovery plan providing "historic investments in infrastructure" and creating opportunities across the market for Balfour Beatty.

November's election also saw voters approve several state bonds earmarked for school construction, which will offset declines in other buildings markets.

Stable spend in Hong Kong

Underpinned by the government's HK\$100bn a year planned investment, Hong Kong continues to deliver a strong pipeline of infrastructure and construction projects. After short term uncertainty, private sector investment is expected to return over the medium term.

Strong market drivers

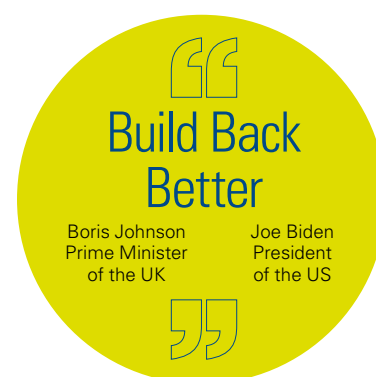
Through Build to Last, Balfour Beatty has focused its operations on markets with strong fundamental market drivers, underpinned by macro demographic and economic trends.

The first of these is public sector spend – as monetary policy stimulus reaches its limit, governments are increasingly turning to fiscal stimulus through infrastructure investment to drive employment and economic growth. As a trusted partner to public sector clients, the Group benefits from not only increasing spend, but also long-term certainty around that spend.

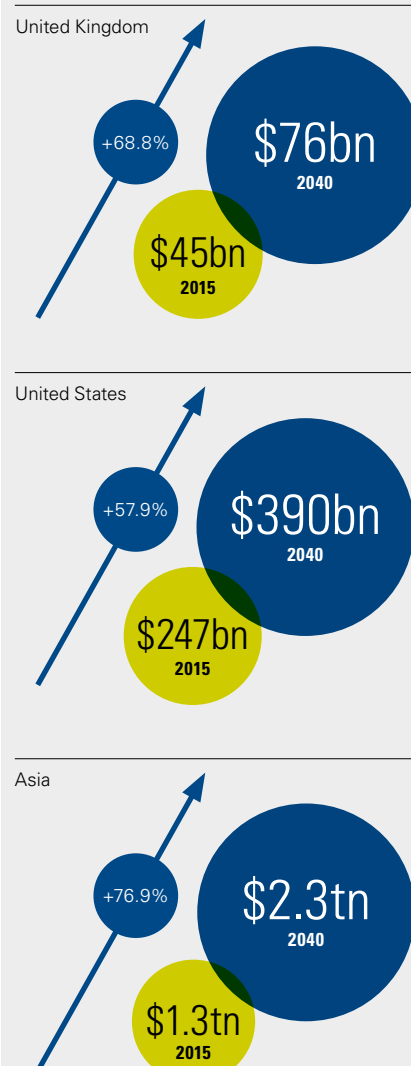
The second is growth, both in population and productivity – as infrastructure remains a critical pillar necessary to support population and economic growth. In the US, the Group continues to benefit from population migration to our chosen geographies, which necessitates increased investment in new and upgraded infrastructure, particularly within healthcare and transportation segments.

The third factor is increasing emphasis on decarbonisation and sustainability. In the UK, the government's target of reaching net zero carbon emissions by 2050 is driving an ever increasing demand for efficient, decarbonised infrastructure solutions able to meet the country's current and future needs. The same sentiment is echoed in the US, with the President promising to make historic investments in clean energy solutions and decarbonisation. Balfour Beatty's focus on being a sustainable contractor, as set out in our new sustainability strategy, Building New Futures, makes the Group a suitable partner to deliver this historic level of green infrastructure work.

The fourth factor is around increasing partnership in established infrastructure markets. As client organisations mature, Balfour Beatty is increasingly able to work collaboratively to develop mutually beneficial models of working, sharing risk and upside appropriately. This is exemplified by the UK Government's Construction Playbook which places a greater emphasis on creating social value and aims to make the government a more responsible buyer.



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



Source: Global Infrastructure Hub

UK: Construction and Support Services

Strong underlying growth

Highways England: unprecedented spend

Funding for the second Road Investment Strategy (RIS2) has been increased by a further £2 billion to deliver additional projects such as the Lower Thames Crossing.

The total spend of £27 billion over the 2020–2025 period is a significant increase over the £15 billion spent in RIS1 between 2015 and 2020.

Exciting local roads market

The local highways maintenance market is forecast to see significant investment with the announcement of an additional

£2.5 billion in funding, increasing local council budgets by 45% over the next five years. Further, over £700 million of outsourced contracts are up for renewal between 2021 and 2025. With long-term security from its ongoing contracts, Balfour Beatty is well positioned to capitalise, win new work and achieve sustainable growth.

Investment in rail maintenance

As the UK rail industry transitions from one Network Rail control period to the next (CP5 to CP6), the work focus is shifting, with maintenance and renewals receiving an extra £10bn of funding over the latest five-year period. Further, the formation of the Project Speed taskforce, to pull forward and accelerate infrastructure investment, and the ramp up of Transport for Wales' £700m Core Valley Lines programme are expected to

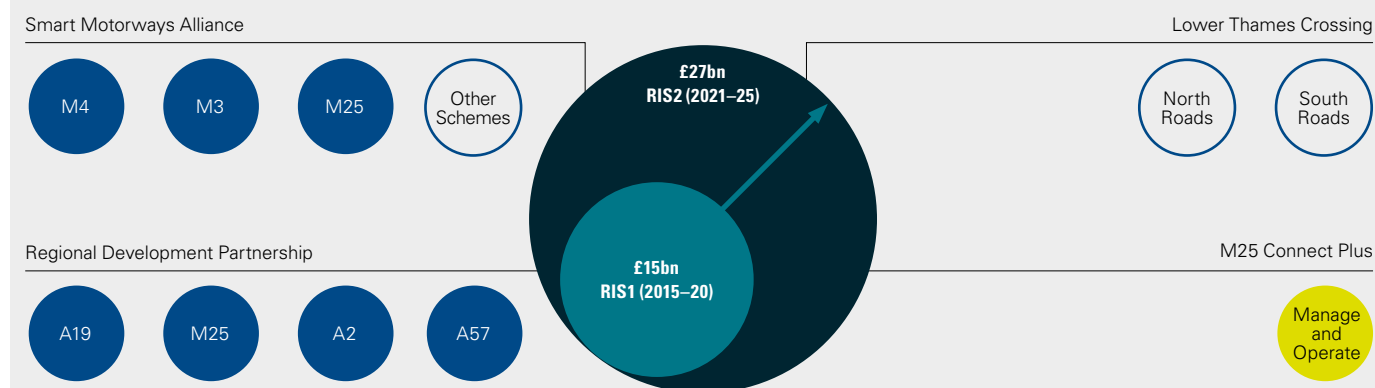
create a strong pipeline of construction work. As an agile operator offering a range of rail capabilities, Balfour Beatty is well placed to deliver both maintenance and core construction work.

Strong power pipeline

The power transmission and distribution industry is expected to see a wave of new demand as the UK plans for a green industrial revolution. Investments in renewable energy to become the Saudi Arabia of wind power and new nuclear generation capacity are pillars of these plans. Trusted and safe contractors such as Balfour Beatty are well placed to deliver these works and the associated infrastructure to enable the networks to support this influx of new, green power generation.

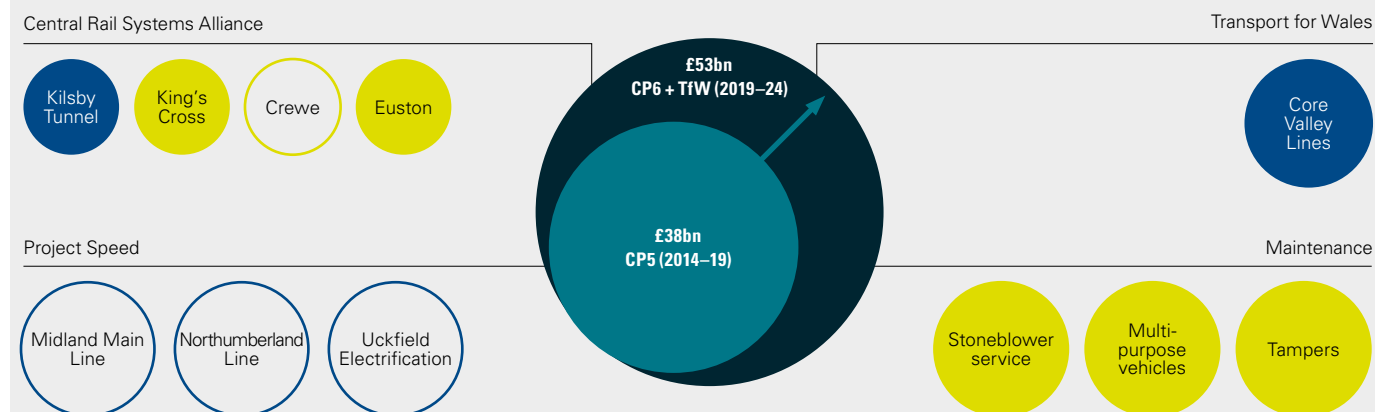
HIGHWAYS ENGLAND'S ROAD INVESTMENT STRATEGY

● Construction Services ● Support Services ● Secured work ○ Future opportunity



RAIL INFRASTRUCTURE SPEND

● Construction Services ● Support Services ● Secured work ○ Future opportunity



Smarter procurement

Construction Playbook

The implementation of the UK Government’s Construction Playbook aims to make the public sector a more responsible and sustainable buyer, emphasising the importance of creating value, both socially and in terms of work delivered. This new focus matches well with Balfour Beatty’s Build to Last values and given our strong track record and sustainability strategy, Balfour Beatty is well positioned to support these goals.

Growth of public sector frameworks

Construction procurement in the UK continues to evolve, presenting opportunities for progressive and collaborative contractors. Leading the way are innovative frameworks such as SCAPE, Crown Commercial Services (CCS) and NHS Shared Business Services (SBS), which are redefining how construction is procured nationwide, and Balfour Beatty is participating as a major contractor on all. This trend is set to continue with SCAPE announcing its planned £13 billion next generation construction framework in 2021.

Long term strategic alliances

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

Transformational green infrastructure agenda

The Government has prioritised the decarbonisation of the transport and energy sectors in order to meet the target of net zero carbon emissions by 2050. In order to make this ambition a reality, a generational investment in infrastructure is planned through the £640 billion National Infrastructure Strategy. With over 110 years of history building Britain’s infrastructure, Balfour Beatty is well positioned to capitalise and build the infrastructure of the future.

New nuclear

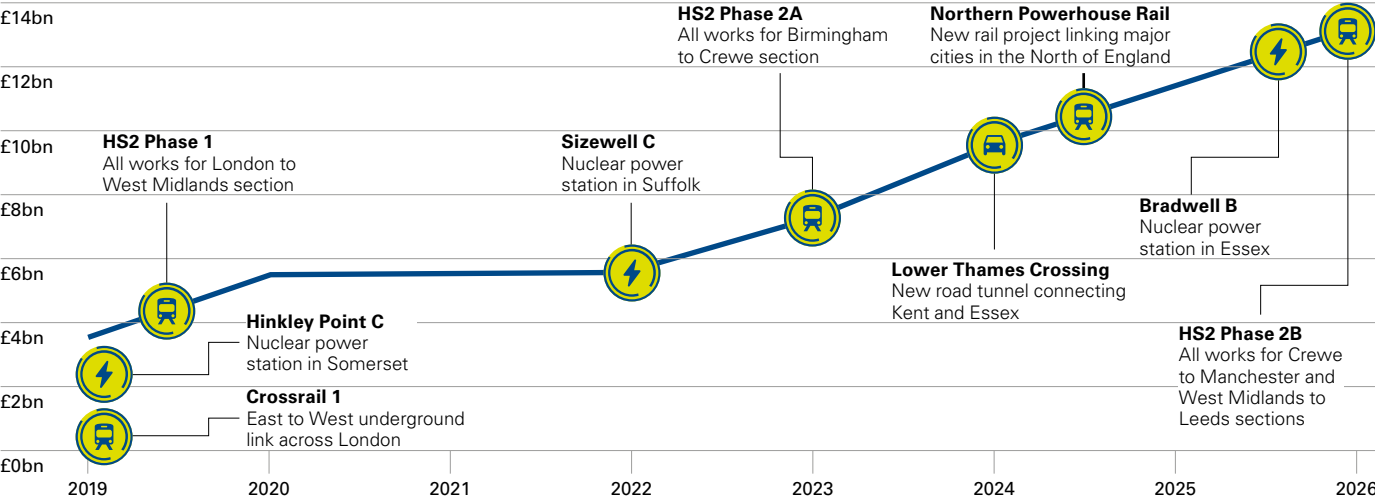
Nuclear has been identified as a key source of large scale, low carbon energy for the UK and the government is providing £525 million to bring forward the next generation of new nuclear power stations. Balfour Beatty is playing a critical role in constructing Hinkley Point C and is well placed for the proposed Sizewell C and Bradwell B nuclear plants.

Transportation

The confirmation of HS2 Phases 1 and 2A has reaffirmed the government’s commitment to rail, with this project set to transform connectivity in the UK. The authorisation of further phases and the proposed Northern Powerhouse Rail programme will continue this trend of generational investment in this sector for years to come. Balfour Beatty is already playing a pivotal part in this transformation through its work on both Old Oak Common station and the main civils works for Area North.

UK: TRANSFORMATIONAL PROJECTS GENERAL INVESTMENT IN TRANSPORT AND ENERGY INFRASTRUCTURE

Gross addressable client spend per year



ON TRACK TO NET ZERO: CORE VALLEY LINES ELECTRIFICATION

As a flagship project for Transport for Wales (TfW), the “once in a generation” Core Valley Lines investment aims to provide a faster, greener rail service and improve connectivity for over 1.5 million people within the Cardiff Capital Region. The £738m infrastructure investment includes electrifying over 170km of track, allowing electrified trains

to replace the carbon-heavy diesel stock currently in use, and is set to provide numerous economic and environmental benefits. TfW has a target for 100% of the traction load to come from renewable sources, with solar panels installed along the route set to provide a portion of the project’s energy needs.

US: Construction Services

Our chosen markets are well diversified. Change shown between 2019 and 2024

Transportation

Investment in transport infrastructure is expected to see strong growth, receiving bipartisan support at a federal level with investment packages up to US\$2 trillion currently in discussion.

⬆️ +26%

Education

Several recently approved state level education bonds, including US\$13 billion in California, are expected to drive strong spend on school building construction.

⬆️ +13%

Commercial

The commercial buildings market is projected to recover slowly over the coming years, recovering to pre-pandemic levels by 2024.

➡️ 0%

Health

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

⬆️ +28%

Multifamily housing

Although impacted by the COVID-19 pandemic, a strong economic recovery is expected to drive demand in the multifamily housing market as unemployment reduces to pre-pandemic levels and migration continues to Balfour Beatty's chosen states.

⬆️ +5%

Hospitality and leisure

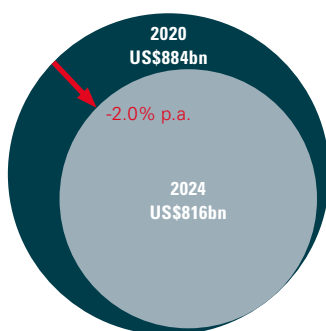
The hospitality and leisure sectors were substantially impacted by the COVID-19 pandemic. These sectors are expected to see slow recovery in the medium term.

⬇️ -11%

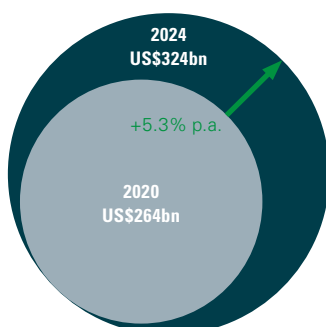
Our chosen states are the fastest growing in the US

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

NATIONWIDE

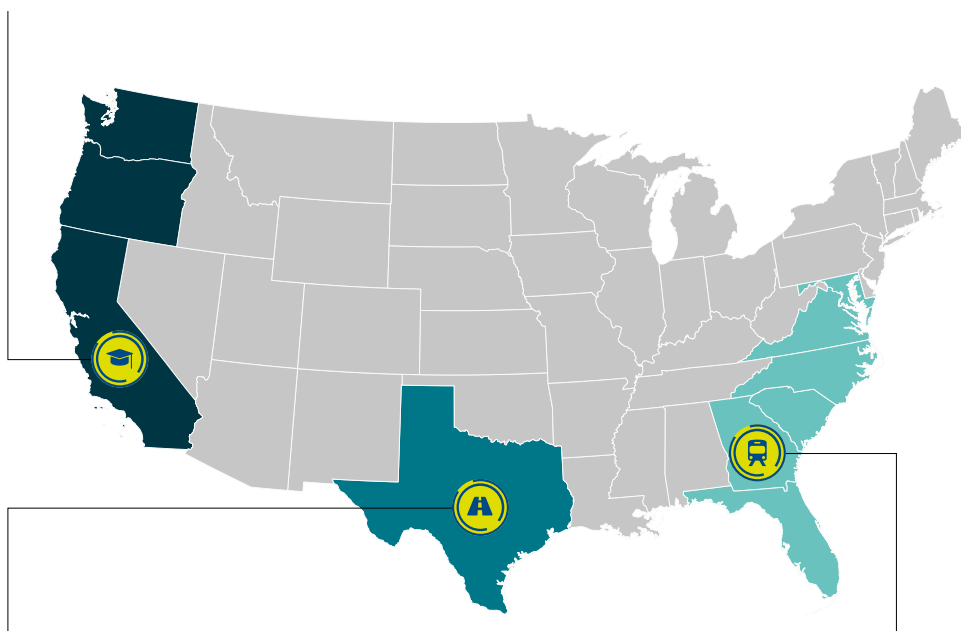


OUR CHOSEN STATES



California Schools Bonds

US\$13bn made available for construction of new schools.



Unified Transportation Program

10 year plan guiding the development of major transportation projects. Over US\$20bn of funding in 2020.

ATL Regional Transit Plan

Proposed US\$27bn mass transit expansion program in Georgia.

Sources: Dodge and FMI Market Forecast

Gammon

Stable core markets

Hong Kong

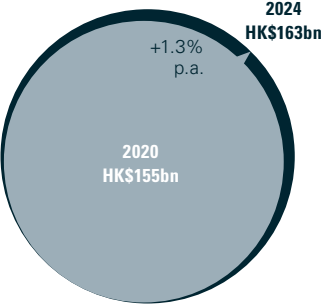
Significant investments in transportation and social infrastructure are expected to drive growth in Hong Kong. Investments into major expansions of Hong Kong Airport and the MTR subway system have started, bringing a strong pipeline of infrastructure projects which will be further supported by the government’s recent announcement to materially increase investment in the

medium term. This increase in public spend is set to offset a slowdown in the commercial construction sector.

Singapore

Project delays have materially impacted the Singapore market in the short term. However, these projects are scheduled to proceed in 2021, driving a quick recovery in this market as public spend commences on infrastructure works such as the Cross Island MRT line and the Jurong Lake district development.

CIVILS AND BUILDINGS CONSTRUCTION



Source: Construction Industry Council (April 2020)

Hospital Development Plans

Over HK\$500bn earmarked to expand, redevelop and construct new hospitals to serve 500,000 more patients by 2036.

Long Term Aviation Investment

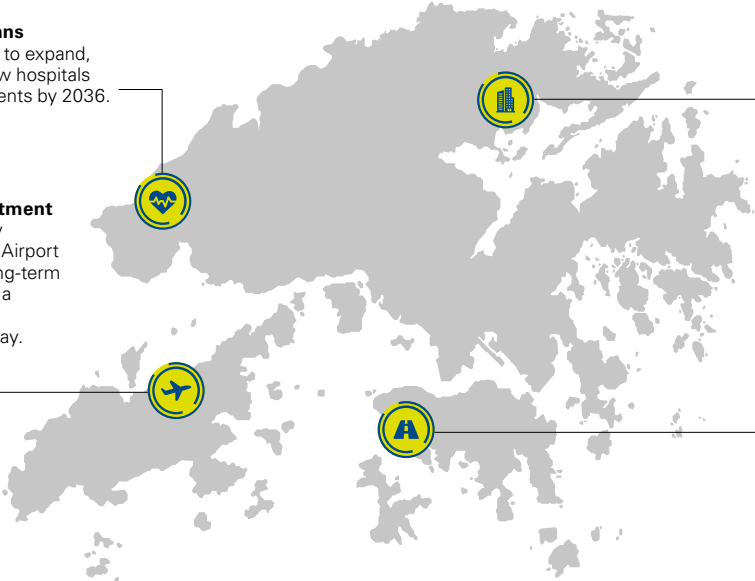
The HK\$144bn third runway development at Hong Kong Airport marks the beginning of a long-term investment in aviation, with a further HK\$9bn expansion programme already underway.

Residential and Rail Developments

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

HK\$1 Trillion Infrastructure Investment

Over the next decade, the Hong Kong government plans to invest over HK\$1 trillion in developing infrastructure.



GREEN GUARANTEES: A PIONEER IN ASIA-PACIFIC

As a market leader in sustainable construction Gammon has implemented one of the first green guarantees in the Asia-Pacific on a Kai Tak residential project which will cover nearly 40,000m² and will be built to a BEAM Plus Gold rating, one of the highest building sustainability certifications in Hong Kong. To achieve this Gammon is delivering the project using sustainable construction practices to reduce the environmental impacts of construction, improve environmental quality and prioritise end-user wellbeing. Gammon has also replaced diesel generators with a jointly developed battery power system, the Enertainer, to reduce noise and air pollution, increase energy efficiency and cut carbon emissions by 85% on site.



Investments: UK & US

Attractive range of opportunities continue to come to market

Student accommodation: strong US/UK demand

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

States, counties and cities using P3

The US has become an increasingly exciting market for public-private partnership and, to date, 37 states (plus D.C.) have passed legislation allowing P3 projects. The 2015 federal FAST Act helped to expedite P3 planning processes and led to some major local projects, such as the newly approved £9 billion Maryland I-270 project, one of the largest P3 projects in the country. Any future infrastructure stimulus package is expected to further support this growth.

Housing opportunities

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

TARGET SEGMENTS



UK



Student accommodation

University procured on-campus student housing and other buildings.



Residential/Regeneration

Urban regeneration in partnership with local councils.



US



Student accommodation

University procured on-campus student housing and other buildings.



P3 social and transport

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



Military housing

Unaccompanied personnel housing renovations and improvements.



Multifamily housing

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

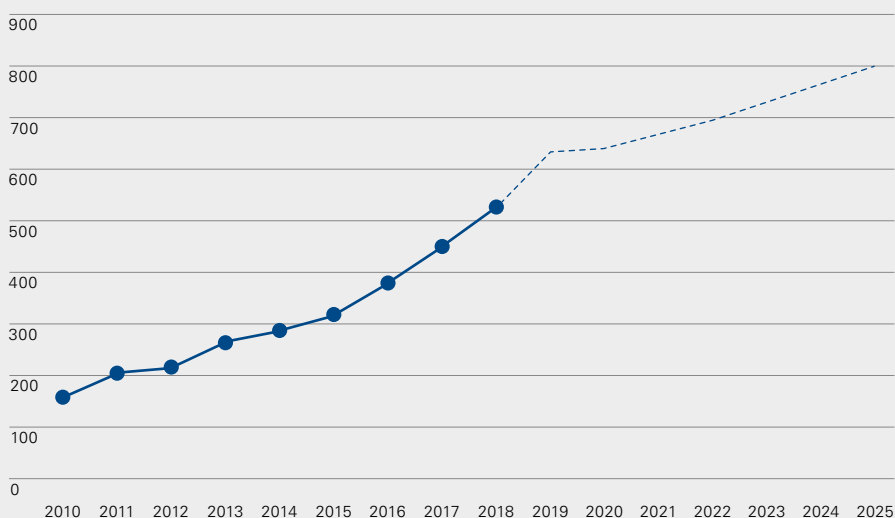
LOWER FOR LONGER RATES CONTINUES TO DRIVE DEMAND

The infrastructure asset market has undergone a significant shift in recent years. Low interest rates have increased the attractiveness of alternative, yield bearing assets such as infrastructure. This trend has been evident in the UK and US with investors attracted to infrastructure assets by solid fundamentals, strong returns and the perceived low risk nature. This rising demand and increased investor confidence has been reflected in the steady increase in valuations across the infrastructure asset class. With a well-established Investments portfolio Balfour Beatty is well placed to deliver strong, long term returns.

Source: Preqin

GLOBAL INFRASTRUCTURE ASSETS UNDER MANAGEMENT

US\$bn





Designed to deliver value

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

Why our customers choose us

World class track record

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

Expert people

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

Build to Last values

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

Financial stability

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

Innovation

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

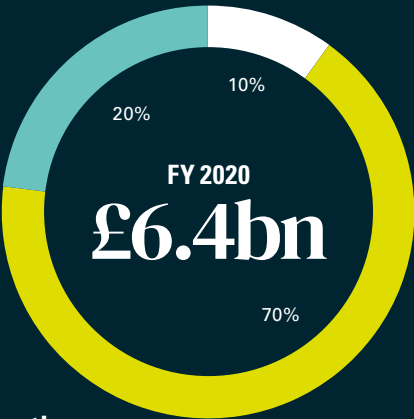
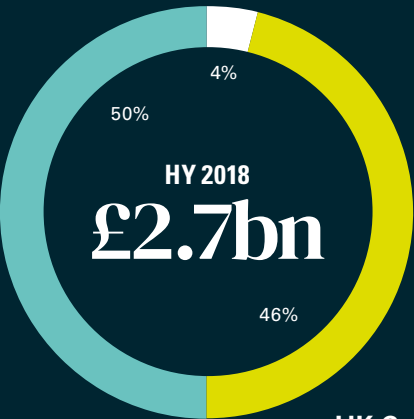
Sustainable focus

Balfour Beatty takes its responsibility as a custodian of the planet seriously and that it leaves a positive legacy in the communities it works in.

Reducing risk in our order book

As part of our Build to Last strategy, Balfour Beatty has strengthened its governance, focusing on reducing risk in its order book by selectively bidding for work it is best placed to deliver on terms that are attractive to the Group. This reduction has been most noticeable in the UK Construction Services business, where the proportion of fixed price work has fallen to 20% at the end of 2020, partly as a result of the HS2 Area North contract.

	HY2018	FY2020
● Fixed price	50%	20%
● Target cost	46%	70%
● Cost plus	4%	10%

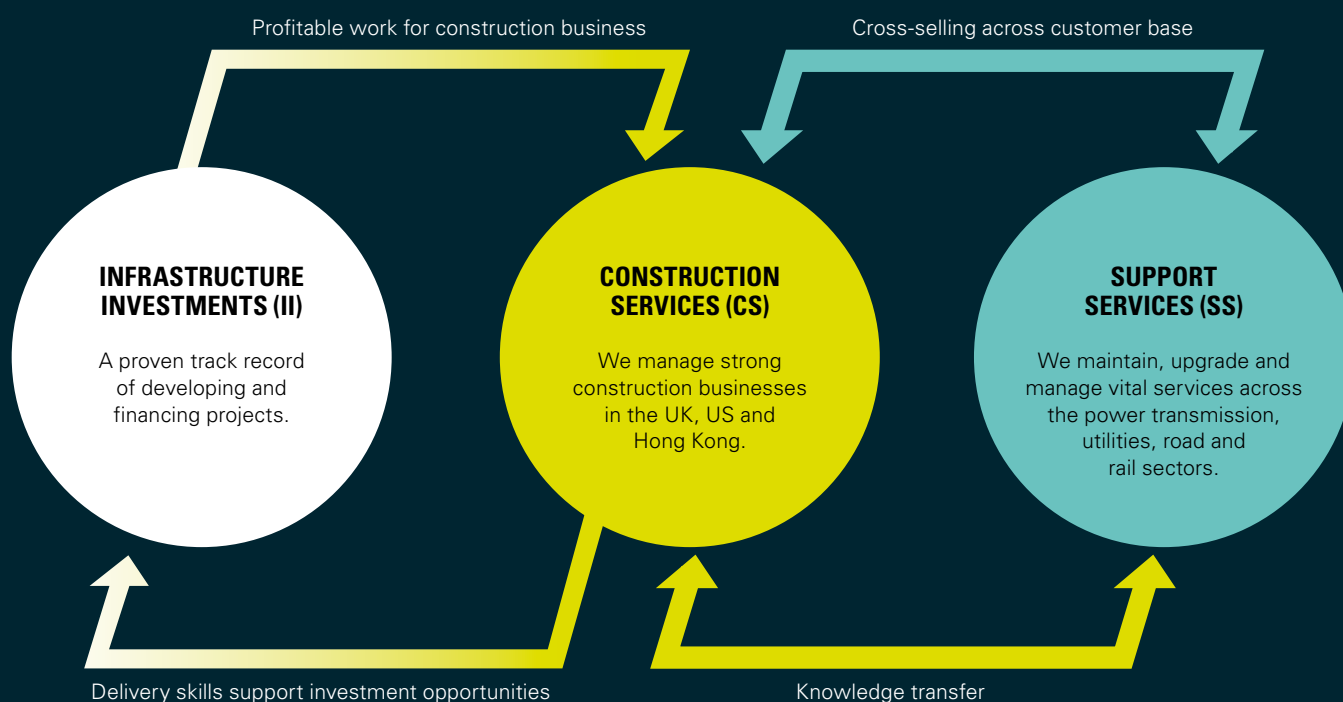


UK Construction order book



How our Group works together

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



Working collaboratively across the Group



East Slope Residences, UK

Balfour Beatty financed, constructed and is operating a new on-campus student accommodation development for University of Sussex, providing rooms for over 2,000 students.



Los Angeles Airport Automated People Mover, US

Balfour Beatty, with its joint venture partners, is financing and constructing the US\$1.95 billion project to develop a 2.25-mile above-ground airport transport system connecting passengers with airline terminals.



Littlebrook Substation, UK

As part of National Grid's transformation programme, Balfour Beatty is replacing the high voltage Littlebrook substation. This project combines multiple aspects of the Group's construction and support services capabilities, including ground engineering and power.



Sharing the value we create

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



Customers

Why are they important?

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

Our priorities

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

2020 engagement examples

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



Employees

Why are they important?

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

Our priorities

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

2020 engagement examples

- A refreshed cultural framework providing a simple and clear view of our purpose, values and behaviours under our Build to Last strategy
- Enhanced communications to keep our people well informed such as daily e-newsletters, health and wellbeing webinars, impactful toolbox talk material and virtual conferences
- Group-wide surveys to measure and understand employee engagement and identify improvement priorities
- My Contribution 'Bouncing Back' campaign to crowd source employee ideas for positive business change
- Employee-led affinity networks for under-represented groups to encourage and support diversity and inclusion
- Launch of the 'Big Conversation' to connect employees from across the UK, US and Hong Kong and encourage open and honest conversations about health and safety



Supply chain and strategic partners

Why are they important?

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

Our priorities

- Zero Harm – no injury, ill health or environmental incident caused by our work
- Be the partner of choice by delivering on our promises
- Digital technology implementation to enhance efficiency and consistency (UK Constructionline, e-catalogues, DocuSign)
- Keep cash flowing through the supply chain
- Develop a sustainable supply chain in collaboration with our suppliers

2020 engagement examples

- A dedicated supply chain webpage and regular newsletters during COVID-19 pandemic
- Local virtual 'Meet Balfour Beatty' supply chain events
- Membership of the UK Supply Chain Sustainability School
- Development of collaborative business partnership with our key partners in line with ISO 44001:2017

OUTCOMES

- Lean, Expert, Trusted, Safe and Sustainable solutions
- Collaborative relationships
- Improved customer satisfaction score
- Continued delivery of essential services and projects throughout the COVID-19 pandemic

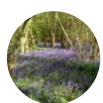
- Lean, Expert, Trusted, Safe and Sustainable solutions
- Improved employee retention rate
- Increased employee engagement index score
- 550+ My Contribution ideas raised to help us 'bounce back' from the COVID-19 pandemic

- Lean, Expert, Trusted, Safe and Sustainable solutions
- Local employment
- Collaborative and long-term relationships
- Over £1.1 million spent with SMEs in the UK
- Prompt payment of supply chain partners



The Balfour Beatty handling of the COVID-19 situation is impeccable and unsurpassed.

Niccolo Barattieri di San Pietro
Chief Executive Officer, Northacre



Communities

Why are they important?

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

Our priorities

- Delivering the Group's sustainability 2030 targets and 2040 ambitions to go Beyond Net Zero Carbon, Generate Zero Waste and Positively Impact More than 1 Million People
- Work in partnership with communities to understand and support local needs
- Establish relationships with key community stakeholders to develop a programme of impactful community investment activities
- Contribute to environmental wellbeing

2020 engagement examples

- Community engagement plans for projects through Involved in the UK and Green and Caring in Gammon as well as local initiatives in the US. This includes STEM activities with schools, colleges and universities, charity and volunteering activities, and promotion of local jobs and business opportunities for SMEs and minority owned businesses
- Communication with communities under the Considerate Constructors Scheme (UK)
- Developing training programmes such as apprenticeships, graduates and work experience as part of our commitment to The 5% Club in the UK
- Bringing construction to the classroom with virtual work experience, collaborating with SCAPE and Learn Live to encourage young people to consider a career in construction in the UK



Governments

Why are they important?

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

Our priorities

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

2020 engagement examples

- Meeting key public officials and their staff
- Response to government consultations, inquiries and hearings
- Published 'Seizing the day' thought paper, which outlines nine key points and recommendations and explores how change can be accelerated to allow the industry to thrive post lockdown
- Engagement with the UK Government's 'Acceleration Unit' aimed at removing barriers and speeding up the commissioning of key infrastructure schemes
- Briefing the Prime Minister's office in advance of the publication of our new sustainability strategy and receiving a public endorsement from the Prime Minister



Shareholders

Why are they important?

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

Our priorities

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

2020 engagement examples

- Delivering half year results virtually, for the first time in response to COVID-19
- Regular briefings via regulatory announcements, webcasts and presentations as well as annual and sustainability reporting
- Regular direct engagement via meetings and conferences
- Dedicated Investor Relations department
- Regular updates to the Investor Relations web pages

OUTCOMES

- The proportion of UK employees in earn and learn positions (graduates, apprentices, trainees and industrial placement students) increased to 6.0%
- Employees raised £721,939 in charitable donations
- Above industry average score for the UK's Considerate Constructors Scheme at 41.8 out of 50

- Trusted delivery partner for governments
- Publication of UK Government's Construction Playbook, which Balfour Beatty contributed to and helped to shape
- Infrastructure at the heart of plans for post-COVID-19 recovery in all of our key markets, and seen as a positive driver for economic growth

- Clear and consistent information for existing and potential shareholders
- Increased engagement on ESG matters

Cutting edge outcomes to benefit all our stakeholders

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

Using digital tools to deliver better outcomes

During 2020, Balfour Beatty continued to drive forward its digital transformation. The focus was particularly on increased digital integration between Balfour Beatty and its supply chain partners to streamline processes, improve accuracy, accelerate delivery and reduce costs. These developments have seen an increase in on-time delivery and improved customer engagement and outcomes.

- Balfour Beatty has been accredited to international Building Information Modelling (BIM) standard ISO 19650, an international standard which defines the collaborative processes for the effective management of information. Only a handful of Tier 1 contractors are certified to ISO 19650. This means that by following an international standardised way of managing information, we can work more productively and professionally, while clients benefit from more efficient and predictable outcomes. Gammon, our Hong Kong based joint venture, has also successfully received the ISO 19650 Kitemark certification – one of the few companies in Hong Kong and Asia to be recognised for their wider digital transformation.
- Balfour Beatty's Mid-Atlantic team has been using Twinmotion, a real-time rendering tool that allows users to quickly import 3D models and produce high-quality images, panoramas, and standard or 360-degree Virtual Reality (VR) videos. This powerful visualisation tool can also be used to create a 360-degree immersive VR experience of any space without a VR headset: it can be accessed as a 3D walkthrough on a

standard work computer. The team has used the technology to help design its new office space in Falls Church, Virginia.

- Balfour Beatty, in collaboration with construction workforce technology specialists MSite, has adopted an innovative mobile phone application. Downloaded directly onto employees' mobile phones, the app provides each employee with a digital identity, enabling contactless entry to site using biometrics. The technology also reduces the need for employees to touch surfaces when entering sites, as well as collecting data to accurately monitor site attendance levels.
- On the A63 road improvement scheme in Hull, the project is using three of the first JCB electric mini excavators to eliminate tailpipe emissions. These electric excavators need to be charged daily on a site that has no mains power. Previously a diesel generator would have run 24/7 to provide on-site power, but this would have eliminated the environmental benefits gained through the electric excavators. Innovating again, the team used a Prolectric ProPower Solar Hybrid Generator to reduce emissions, noise and fuel use and provide clean energy for the electric excavators.
- Balfour Beatty's US Buildings team have taken training out of the classroom and into a virtual environment. Due to COVID-19 and the cancelling of in-person safety training, the team recognised the need to provide another avenue for safety training. These are now provided online through Microsoft Teams. Colleagues can tune in for live presentations or catch up later, accessing programme materials such as playbooks and safety exhibits. This flexibility has seen a significant increase in attendee numbers.
- Connect Plus, a consortium comprising Balfour Beatty, Edge Orbital Holdings Ltd and Egis Investment Partners, which operates and manages the M25 and its key arterial routes on behalf of Highways England, has successfully digitally mapped all 120 miles of the M25 – together with strategic partners Connect Plus Services, Sensat and Osborne. This involved using drones to remotely capture physical photogrammetric survey data safely and efficiently, without the need for traffic management or lane closures. Over 30 days, the team undertook the largest drone mapping endeavour to have taken place in the UK to date. This resulted in the production of highly accurate, geo-referenced 2D and 3D representations of the UK's busiest motorway and its adjoining trunk and slip roads without disruptive closures. The data is being used to create a digital representation of the M25 environment which will become a key source of detailed information, supporting the team in planning and decision-making, ultimately reducing the need for physical surveys to be carried out in a live highways environment.
- Gammon established the Hong Kong construction industry's first on-site 5G Smart Control Centre to support the design and fabrication of 700 COVID-19 quarantine units in 87 days and the build of a dedicated quarantine facility at Penny's Bay, ahead of the 90-day contract period. Over 95% of the works were completed using Modular Integrated Construction (MiC) methods. The quarantine units were fully fitted out in mainland China while a 'flying factory' onsite was used to fabricate underground pipe modules. Manufacturing, logistics and testing and commissioning status such as those for quality checks, the location of the MiC unit deliveries and

testing results are available at the touch of a key, with data relayed from detection systems on the site – including those monitoring the wearing of safety helmets, demarcation of danger zones and the presence of fire or smoke.

- ▶ To improve site safety, Balfour Beatty VINCI (BBV) worked with HS2 Ltd and innovative software developer 3D Repo to develop advanced 4D learning technology that enables site teams to identify, record and resolve site hazards as part of their virtual construction sequence evaluation and training. The technology, SafetiBase4D, sees site workers enter the Mission Room, which creates a four dimensional, 360° virtual version of a BBV construction site on HS2's area north route. In the safety of an office environment workers can go on site and explore, discuss and agree the project's delivery sequence, and identify safety issues and agree how to resolve them. Teams inside the Mission Room and others joining remotely via the internet are able to virtually tag hazards at a specific place and time in the virtual build sequence.

THE WORLD'S FIRST DIGITAL TWIN OF SITE CONCRETING



Gammon has made significant concrete waste savings by integrating concrete sensor data with BIM in what we believe to be the world's first digital twin of site concreting. The new cellular gateway introduced in ConcreteDNA Pro, Converge Signal, automatically transmits sensor data (measuring the compressive strength of concrete as it cures) to the cloud in real time. ConcreteDNA Pro introduces concrete performance and temperature differential analytics, which means project teams can track and ensure concrete is meeting expected standards. Gammon has reduced by one third the amount of concrete used and saved more than 110 tonnes of concrete waste using this technique on its Hong Kong Science & Technology Parks Corporation's Advanced Manufacturing Centre project, significantly lowering the project's carbon footprint.

Energy efficiency

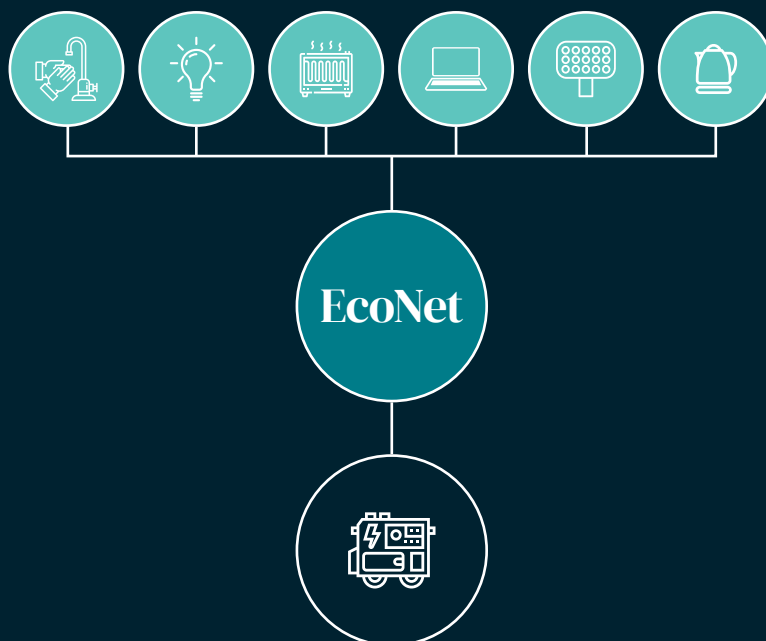


Scan the QR code to watch our EcoNet animation

Reducing carbon emissions with EcoNet technology

In the UK, Balfour Beatty, in collaboration with Sunbelt and Invisible Systems, has developed state-of-the-art technology to manage the power supply of site compounds and reduce carbon emissions across its construction sites by up to 80%. The system, known as EcoNet, works by controlling and reducing the energy output from key

appliances in cabins, such as those in kitchens, drying rooms and office spaces. Once fully embedded, it is expected that Balfour Beatty will save a minimum of 2,200 tonnes of CO₂ emissions every year, with individual sites reducing their carbon emissions by between 30% to 80% of their normal levels.





My Contribution (MyC)

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

My Contribution is an online collaboration platform which encourages and empowers everyone to be an innovator and for innovation to take place across every part of our business. It has played a key role in helping Balfour Beatty go from strength to strength over the past six years, and has proven its value most recently during the COVID-19 pandemic.

Measuring performance is a fundamental part of My Contribution. As part of the MyC upgrade in 2020, we launched a suite of new and improved dashboards providing complete transparency and real time reporting on the progress and delivery of ideas.

In December 2020, we ran our first annual My Contribution Kudos Awards – our opportunity to showcase and recognise the outstanding improvements and contributions across the UK business during the year, and the people who have made them happen. With a final showcase of 11 ideas each sponsored by an Executive Committee member, our winning entries were:

Employee Voted Winner: QR Code

Permits – This winning idea submitted by Leigh Clarke, Site Manager was to streamline the daily issuing of work permits, by using QR codes linked to BIM 360 Field this allowed project team members to check the permit request is completed correctly and is in order before work commences. This simple and effective use of existing technology was trialled on the Badenoch and Strathspey Community Hospital project in Aviemore, Scotland, and has huge potential to be deployed across the business. After sponsoring the idea during the Kudos Awards, the CEO for Balfour Beatty's US Operations saw its potential and has made a commitment to rolling it out to all US projects.

Group Chief Executive Kudos Award: Next Level Project Integration

– in a world where we have multiple digital systems, the concept of Common Coding builds a single language across all departments, meaning our data can be integrated across one powerful ecosystem. This idea should deliver cost savings of £15 million over five years on the HS2 Area North project alone and will be a game-changer across Balfour Beatty.

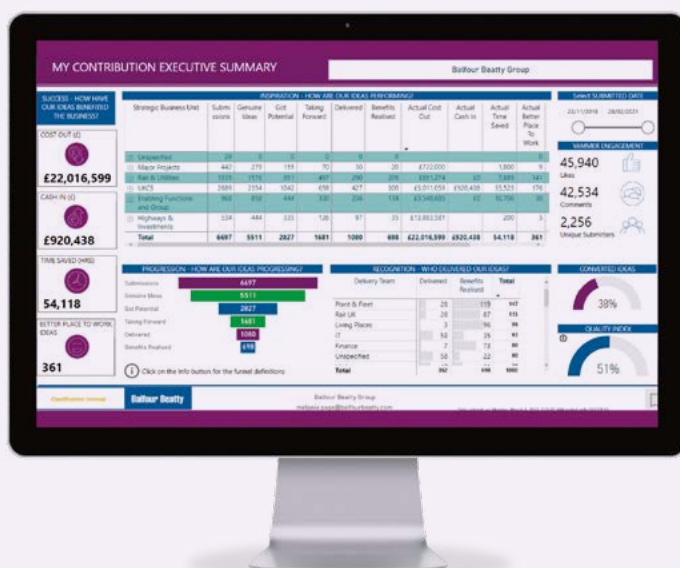
My Contribution and COVID-19: Bouncing Back campaign

In April 2020, the Group ran a My Contribution campaign called 'Bouncing Back'. The aim of the campaign was to make sure Balfour Beatty was in the best possible position to bounce back from COVID-19.

Over the course of the campaign, our workforce in the UK and US generated more than 550 ideas. These fell into four core themes:

- **A Great Place to Work:** This includes new ways of working from encouraging more flexible approaches to reducing travel and carbon emissions.
- **Digital Future:** Exploring how we can use technology to enhance how we operate as a business, reduce our carbon emissions, and deliver better for our customers.
- **Back to Business:** Considering how our sites can scale back up in the new normal, from embedding new approaches using technology to ongoing social distancing.
- **New Markets and Capabilities:** Examining opportunities for utilising our skills and expertise, in new and adjacent markets as well as optimising the use of internal capabilities from across the Group.

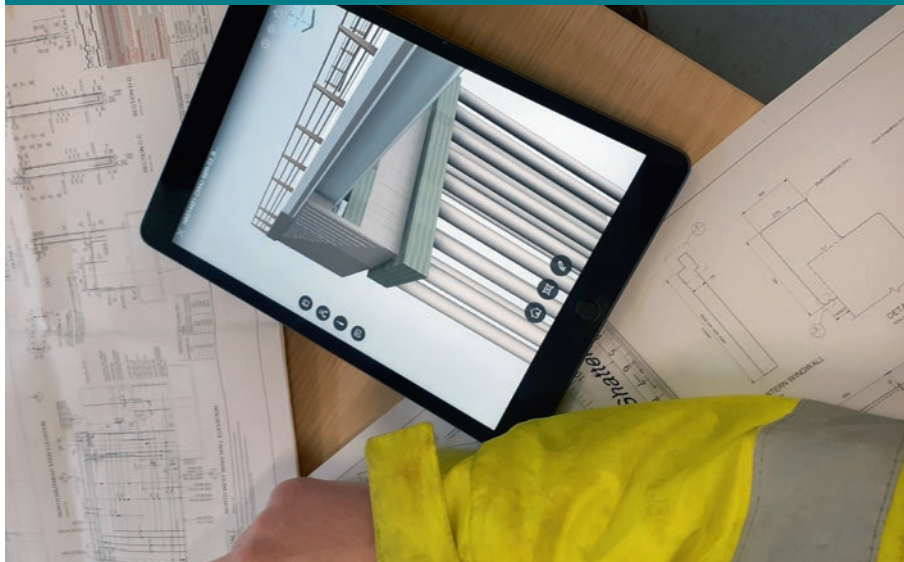
Combined, the ideas in these themes formed a strategic roadmap which is helping make sure that Balfour Beatty bounces back from COVID-19 even stronger.



LEFT

New and improved MyC dashboard

Innovating through the COVID-19 pandemic



ABOVE

4D modelling on the M4 J3-12 Motorway upgrade

Balfour Beatty has relied on its ability to innovate and to adopt new technologies, techniques and approaches throughout the COVID-19 pandemic to keep its workforce safe, keep sites open and continuing to deliver for its customers. In many cases we have had to entirely rethink how we carry out operations in order to meet social distancing requirements, reduce the number of our workers out on site and respond to more rigorous hygiene requirements.

- Balfour Beatty adapted its in-person tours which showcase the amazing work that's being carried out on schemes such as the Manchester Engineering Campus Development and the Midland Metropolitan University Hospital, by making tours virtual. This allows viewers to take a remote walk-through, and provided detail on key aspects including social value, mechanical and electrical works and design.
- Our team delivering the Hoover High School Theatre and Classroom Building Additions project in San Diego brought in QR codes to provide contactless access to vital information. By scanning the QR codes workers or visitors can access important materials, including Balfour Beatty's Zero Harm safety video, job site orientation documents, logistics plans and more. The QR codes also replace paper sign-in sheets by directing workers and visitors to an online check-in form, facilitating

compliance with local government mandates. With this technology in place, any person entering the job site has access to documents via mobile devices that would have previously been handled by multiple people.

- The M4 J3-12 Motorway team are using 4D modelling on the project to plan the large-scale weekend closures required to demolish and install the new motorway bridges. This modelling incorporate a two-metre bubble around each person to help the team plan socially distanced activities and identify specific tasks. Where these have been identified the team have found ways to change the way that task is undertaken.
- Balfour Beatty took part in Learning in Lockdown, a virtual work experience programme led by SCAPE and their partners, Class Of Your Own, Engineering Development Trust and Learn Live. The programme gave nearly 2,000 students in year 10/S4 from 300 secondary schools across England, Scotland and Wales the unique opportunity to complete a week of work experience during the COVID-19 lockdown, which would otherwise not have gone ahead.

Visit our COVID-19 microsite for more examples of innovations and best practice: bit.ly/bbcovidmicrosite

Leveraging technology to work collaboratively with supply chain partners

In 2020, Balfour Beatty focused on accelerating digital initiatives to improve the way it works with its supply chain, increase efficiency, digitise manual processes and create cost and time savings.

One of the most noteworthy components of the digital supplier journey is DocuSign – a digital tool for remote, online contract signing. Where contracts were once signed on paper and copied multiple times for relevant parties sent via the postal system, this has now been taken online, increasing the speed of completion and reducing paper waste. In 2020, 2,600 contracts were digitally signed with 82% signed within 48 hours and some even being returned within the hour. This significant improvement shows the true benefits of maintaining momentum around the digitisation of manual processes for advantages in time saving and efficiency as well as further developing our relationship with our supply chain partners.

Summary

This year has seen Balfour Beatty successfully continue its digital transformation, accelerate its adoption of new technology such as Microsoft Teams, and continuously innovate to adapt to new ways of working imposed by the COVID-19 pandemic to not only support our recovery but also to emerge stronger than before. We have worked with our customers, supply chain partners and with governments more closely than ever before, innovating at pace to ensure the industry could safely keep essential operations running, supporting jobs and economic growth at a time when this was desperately needed.

SCAN HERE TO WATCH VIDEOS OF OUR LATEST INNOVATIONS



Virtual Site
Tours



5G Smart
Control Centre



4D Modelling



Concrete
Sensors

Expert capabilities

Our three operating divisions; Construction Services, Support Services and Infrastructure Investments in our three chosen geographies – the UK, the US and Hong Kong, outline their key achievements throughout 2020 and how they are delivering our Build to Last strategy.

WHAT WE DO

In the UK, Balfour Beatty operates across construction and infrastructure support services. These projects range from generational projects like HS2 to long term maintenance contracts for local councils.

The Group's US and Hong Kong businesses operate across transport infrastructure and buildings construction segments with projects spanning social infrastructure such as hospitals and schools to heavy infrastructure projects such as the Los Angeles Airport automated people mover and the third runway at Hong Kong Airport.

		Construction Services		Support Services	Gammon	Infrastructure Investments
		UK	US			
INFRASTRUCTURE	ROADS	✓	✓	✓	✓	✓
	RAIL	✓	✓	✓	✓	✓
	ENERGY	✓	✗	✓	✗	✓
	BUILDINGS	✓	✓	✗	✓	✓
IN THIS SECTION		→ p34	→ p36	→ p39	→ p37	→ p42

Victory Commons 1, Dallas, Texas

This US\$101 million project involves the construction of a 375,000 square foot, 12-storey office building comprising 11 levels of office space and a seven-storey parking garage to be completed in 2021.

LEAN

The project utilises pull planning, a visual and collaborative lean construction practice, which allowed the team to complete the garage early and top-out the building on schedule, despite the challenges of the COVID-19 pandemic.

EXPERT

The team leveraged established and collaborative supply chain relationships to ensure a cost effective solution and timely project commencement in 2019.

TRUSTED

Balfour Beatty is the partner of choice for the customer, Hillwood Development, having worked with them for over 15 years and successfully delivered numerous projects including the 14-storey Perot Museum Nature of Science building.

SAFE

The team carefully planned project deliveries to the site coordinating with the City of Dallas and Dallas County to ensure the safety of visitors to the adjacent temporary COVID-19 testing facility.

SUSTAINABLE

Approximately 96% of all waste hauled from the Victory Commons 1 construction site is recyclable, befitting a project that is targeting LEED Silver certification, an internationally recognised green building certification accreditation.

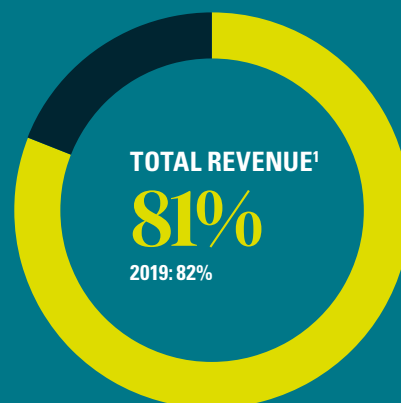
**VICTORY NORTH
PARKING GARAGE
COMPLETED
IN 2015**

**DALLAS HORSESHOE
ROAD IMPROVEMENT
SCHEME COMPLETED
IN 2017**

**LOWEST STEMMONS
ROAD IMPROVEMENT
PROJECT TO BE
COMPLETED IN 2021**

Construction Services

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



UNDERLYING REVENUE¹

£6,964m

2019: £6,858m

STATUTORY REVENUE

£5,968m

2019: £5,951m

UNDERLYING PROFIT FROM OPERATIONS

£29m

2019: £125m

STATUTORY PROFIT FROM OPERATIONS

£41m

2019: £126m

ORDER BOOK¹

£13.7bn

2019: £11.1bn

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



Discover more at
balfourbeatty.com

Key points

- Resilient revenue performance following 2019 order book increase
- Material impact on profit as a result of COVID-19
 - » UK Construction impacted by site closures, lower productivity, additional operating costs and contract re-assessments
 - » £8 million profit in H2 adjusting for repayment of UK Job Retention Scheme
 - » US Construction impacted by site closures, slowdown in hospitality sector and contract re-assessments
 - » Revenue and PFO up 10% at Gammon; Hong Kong less impacted due to lessons learnt from SARS experience

Financial review

COVID-19 had a material impact on the financial performance of Construction Services in 2020. The underlying revenue increased by 2% to £6,964 million (2019: £6,858 million), a 2% increase at CER, as a result of higher volumes at Gammon. Underlying profit from operations reduced to £29 million (2019: £125 million) with the UK particularly impacted by COVID-19. The order book increased to £13.7 billion (2019: £11.1 billion) following Notice to Proceed at HS2.

Revenue in the UK decreased by 1% to £2,190 million (2019: £2,213 million) as an expected increase given prior year order book growth was offset by site closures and other disruption caused by COVID-19. The national lockdown in the second quarter of the year, where Scotland was effectively closed and productivity in London was limited

due to public transport availability, led to a lengthening of site programmes which triggered a reassessment of the Group's contract end forecast positions.

UK Construction reported an underlying loss from operations of £23 million in the first half of the year. This increases to a £34 million loss after adjustment for the intended repayment of funds received through the UK Job Retention Scheme which together with a profit of £8 million for the second half resulted in a full year underlying loss from operations of £26 million (2019: £47 million profit). Specific sectors, such as aviation, have seen a material slowdown throughout the year.

The UK Construction order book more than doubled during the year to £6.4 billion (2019: £3.0 billion) following Notice to Proceed at HS2. Balfour Beatty, in joint venture with VINCI, will deliver Lots N1 and N2 south of Birmingham – comprising extensive earthworks, ground engineering, viaducts and tunnels along a 90-kilometre stretch – and the London hub station at Old Oak Common. The increase in order book occurred whilst maintaining the Group's policy of selective bidding. During Build to Last, there has also been a shift towards a lower risk contract portfolio in UK Construction, with a reduction in the number of fixed price contracts offset by an increase in target cost contracts and framework agreements. Both target cost contracts and framework agreements require early contract involvement with the customer to ensure greater clarity around scope, schedule and cost which, in combination, reduces delivery risk for all parties. As at December 2020, the UK order book was 80% target cost and cost reimbursable compared to 50% at June 2018.

Revenue in the US increased marginally by 1% (2% at CER) to £3,789 million (2019: £3,752 million) as an expected increase given prior year order book growth was broadly offset by site closures and other disruption. In part due to the impact of COVID-19, there were a number of civil infrastructure projects where operational developments led to contractual recoveries and end of contract forecast positions being re-assessed which contributed to the underlying profit from operations for the year reducing to £26 million (2019: £52 million). Following a 25% rise in 2019, the order book decreased 20% to £5.2 billion (17% at CER) following a slow down of orders in the second half of the year. Although nationwide forecasts show a decline in the overall construction market, Balfour Beatty is positioned in regions that are expected to perform better than the national forecast as demographic shifts continue to favour the Group's chosen states (Southern Smile) in the medium term.

At Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, the Group's share of revenue increased by 10% (10% at CER) to £985 million (2019: £893 million). Underlying profit increased to £29 million (2019: £26 million), as the impact of COVID-19 in Hong Kong has been lower than in the other geographies in which the Group operates and in response to the pandemic the Government provided an employee assistance scheme. This is partly due to Hong Kong's experiences from other viruses such as SARS which has meant that wearing face masks in public is part of the culture. Given the timing of the spread of COVID-19, the Group has been able to take learnings from Gammon, such as working safely and efficiently in enclosed spaces whilst maintaining social distancing, and apply them across the rest of the Group.

MAGIC MOMENTS



UK: Gedling Access Road, Nottinghamshire County Council. Photo credit: Paul Stephenson

MAGIC MOMENTS



UK: Regent Street bridge lift, Leeds City Council. Photo credit: Catherine Morgan

CONSTRUCTION SERVICES

	2020			2019		
	Revenue ¹ £m	PFO £m	Order book ¹ £bn	Revenue ¹ £m	PFO £m	Order book ¹ £bn
UK	2,190	(26)	6.4	2,213	47	3.0
US	3,789	26	5.2	3,752	52	6.5
Gammon	985	29	2.1	893	26	1.6
Underlying ²	6,964	29	13.7	6,858	125	11.1
Non-underlying	6	12	–	6	1	–
Total	6,970	41	13.7	6,864	126	11.1

¹ Including share of joint ventures and associates.

² Before non-underlying items (Note 10).

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

The order book at Gammon increased by 31% (31% at CER) to £2.1 billion (2019: £1.6 billion) following significant wins at Hong Kong Airport, which is expanding capacity by adding a third runway. Gammon has been awarded contracts for the expansion of the Terminal 2 building and to deliver tunnels and associated works for an automatic people mover and baggage handling system. In addition, Gammon won another Central Kowloon Route contract to deliver buildings, mechanical and electrical works for the Highways Department.

Operational review

UK Construction

In November, the UK Government released details of its five-year plan, the National Infrastructure Strategy (NIS), which sets out the UK Government's plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050. The £640 billion of funding for developments in roads, railways, power networks, schools, hospitals and telecommunications represents an increase of around £100 billion compared to the status quo.

Included within the NIS are budgets for some of the Group's key customers such as Highways England and Network Rail. At Highways England the second Road Investment Strategy (RIS2) has been increased by a further £2 billion for delivery of additional projects such as the Lower Thames Crossing. The total budget of

£27 billion over the 2020–2025 period is a significant increase over the £15 billion spent during RIS1 (2015–2020). At Network Rail the work focus is shifting with maintenance and renewals receiving an extra £10 billion of funding as part of the total CP6 budget at £53 billion (2019–2024) – materially higher than CP5 where £38 billion was spent in the period 2014–2019.

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

Balfour Beatty is one of 30 companies working in a new partnership with the Government to steer the COVID-19 economy recovery as part of the Build Back Better Business Council. The council will focus on innovation, infrastructure and skills – all key Balfour Beatty themes.

Whilst the infrastructure market, with the highest level of investment in decades, is positive the buildings market is more challenging. Balfour Beatty will continue to be selective in the work that it bids, through increased bid margin thresholds, improved risk frameworks and improved contract governance.

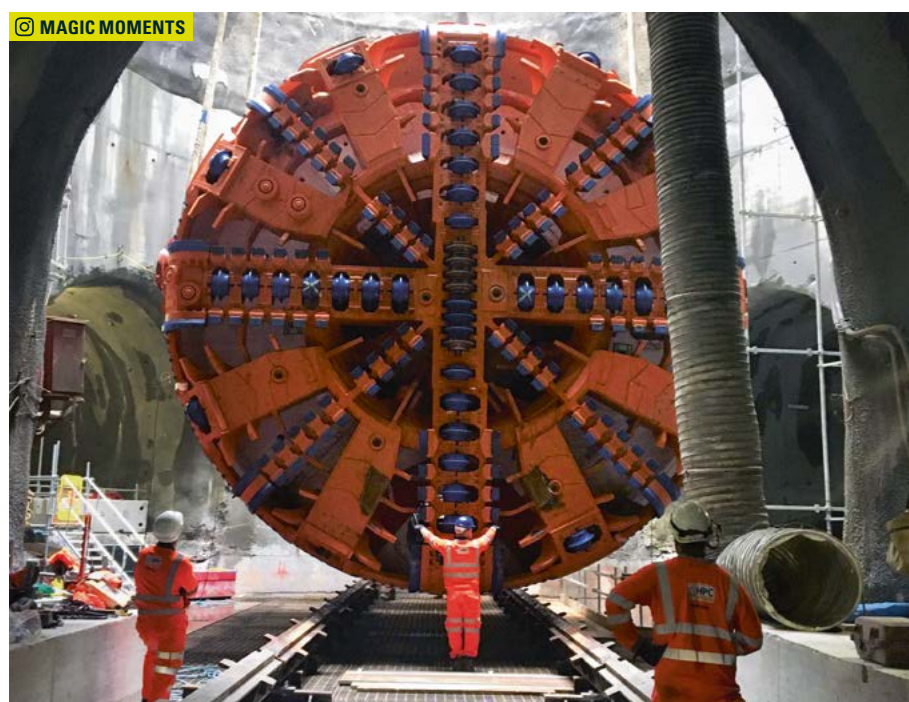
Following the Grenfell Tower tragedy in 2017, the Group mobilised a dedicated team to review its approach to building fire safety. This included expert advice, enhancing its training and development approach and establishing a Fire and Building Safety resource. The current landscape around building fire safety in the UK is complex, involves multiple stakeholders and is an industry-wide issue. In the UK, the Group is currently investigating a small number of completed building projects with cladding, alongside the building owners or the developers, to agree the right course of action.

The Brexit transition period between the EU and UK came to an end on 31 December 2020 and the Trade and Co-operation Agreement, which governs significant aspects of the trade relationship between the UK and EU, is now in force. Balfour Beatty's Group-wide committee continues to monitor developments and issue guidance, particularly in relation to the flow of goods and people across borders. Specific risks and mitigations continue to be monitored at a project level and controlled by individual business units.

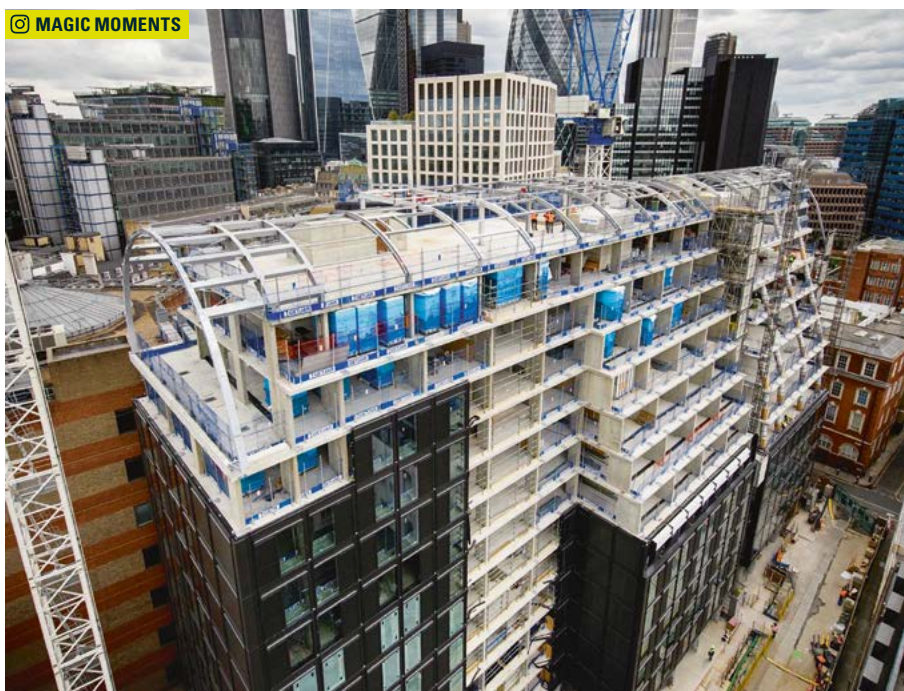
The UK Construction business is organised into two business units consisting of:

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

At Major Projects, the A14, Britain's largest road project, opened to traffic in May, eight months early. The Balfour Beatty joint venture upgraded the 21-mile stretch between Cambridge and Huntingdon from two to three lanes in each direction and built a new 12-mile bypass south of Huntingdon. To open the scheme early, the integrated delivery team focused on innovative and sustainable construction methods with the use of digital asset management and in-field visualisation software. In addition, the Group also opened the M6 Junction 2-4a Smart Motorway project on time in March 2020.



UK: Hinkley Point C, EDF Energy. Photo credit: Patrick Brady



UK: Vine Street student accommodation, Urbanest. Photo credit: Tim Moat

At the M4 Smart Motorway contract, a Balfour Beatty VINCI joint venture is converting the hard shoulder into an additional lane for traffic and introducing electronically policed variable speed restrictions between junctions 3 and 12. During the year, the scheme reached a major milestone by completing its final bridge demolition. The project has now passed the halfway point and remains on track for completion in 2022.

At the Hinkley Point C nuclear power plant, Balfour Beatty achieved two important milestones in the year, completing the tunnelling for intake tunnel 1 and the final concrete pour on the first intake head which will sit on the sea-bed. The project, to construct a pair of underwater tunnels to supply the nuclear power station with cooling water and a third tunnel to discharge heated water back into the Bristol Channel, is using three tunnel boring machines to excavate around nine kilometres of tunnel.

At HS2, Notice to Proceed was issued in April with the formal start of construction in September. Balfour Beatty, in joint venture with VINCI, will deliver the c. £5 billion Area North section south of Birmingham. Balfour Beatty's in-depth expertise in delivering critical major infrastructure across the UK will combine with and complement VINCI's global capability in high speed rail. Construction is already well underway, with over 250 Balfour Beatty employees transferred to the

project, as all four key dates required in 2020 were delivered to schedule.

HS2 also awarded a Balfour Beatty/VINCI/SYSTRA joint venture a c. £1 billion construction management contract for the Old Oak Common station in London. Balfour Beatty and VINCI each have a 41.75% share in that joint venture, with SYSTRA having the remaining 16.5%. Procurement processes continue across multiple HS2 workstreams. In December, a Balfour Beatty/VINCI/TSO joint venture was shortlisted for four lots of track systems contracts and a Balfour Beatty / NG Bailey joint venture was shortlisted for a tunnel and M&E systems contract. The Group will also tender for contracts on Phase 2a, which was approved by parliament in February 2021, as the line extends north of Birmingham to Crewe.

In addition to adding HS2 contracts to the order book, Balfour Beatty secured a place on Highways England's Smart Motorway Alliance (SMA). The Group was named as one of three contractor delivery partners in the SMA that will deliver the future smart motorway programme worth up to £4.5 billion over 10 years. Of the three delivery partners, Balfour Beatty will be predominantly responsible for Southern England where the Group will manage and deliver construction activity and associated engineering works, including the conversion of existing motorway infrastructure, reconstruction of bridges and installation of

roadside technology, to improve the safety and capacity of the strategic road network.

The Regional business comprises:

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

Construction procurement in the UK continues to evolve, presenting opportunities for progressive and collaborative contractors. Leading the way are innovative frameworks such as SCAPE, Crown Commercial Services (CCS) and NHS Shared Business Services (SBS) which are redefining how construction is procured nationwide, and Balfour Beatty is participating as a major contractor on all. The frameworks allow local authorities, local enterprise partnerships and other public sector bodies to commission works through a procurement process that provides the fastest route to market. In October 2018, it was announced that Balfour Beatty had been appointed as the sole contractor to SCAPE's second-generation civil engineering frameworks, valued at a combined total of up to £2.1 billion over four years (2019–2022). In December 2020, as part of the £10.5 billion NHS SBS, it was announced that Balfour Beatty had been selected as one of seven contractors on Lot 5: Public Sector (National) £35m+. As part of the UK Government's Build Back Better initiative these frameworks will become increasingly important to help kick start the UK economy.

In the year, the Regional business successfully completed the new temporary NHS Louisa Jordan hospital, at Glasgow's Scottish Events Campus (SEC), on behalf of the Scottish Government. Acting as principal contractor, Balfour Beatty, along with its local supply chain and partner contractors, completed the works in just 20 days. In addition, the Group is currently constructing a 'mega lab' in the Midlands which, when completed, will materially increase the UK's coronavirus testing capability.

Despite the impact of COVID-19, which led to delays on projects in the Regional business, good progress continues to be made on many of its contracts with a major milestone reached following completion of Eastern Gateway Phase 1, part of the Wokingham Major Highways programme which comprises 10 road projects that are being

delivered under the SCAPE framework for Wokingham Borough Council. Other material ongoing projects include: the seven-storey 'MEC Hall' building at the £287 million Manchester Engineering Campus Development (MECD) project; the £267 million contract to complete the Midland Metropolitan University Hospital in Birmingham; the £186 million contract to construct student accommodation at the University of Sussex; the £96 million Caernarfon bypass project in North Wales; the £83 million East Leeds Orbital Road project; and phase one of the East Wick and Sweetwater residential project at the Queen Elizabeth Olympic Park.

Although COVID-19 has delayed the contract signing of some large projects in the Regional pipeline the Group was awarded a £197 million contract to construct Phase Two of the Lewisham Gateway regeneration scheme on behalf of Lewisham Gateway Developments. The contract will see Balfour Beatty construct four mixed-use buildings, including 530 homes for rent, 119 co-living units, a cinema and gym, office facilities, as well as retail and restaurant areas. Included in awarded but not contracted (ABNC) at 31 December 2020, the Group has been selected as preferred bidder for a new Mayfield Riverside retirement complex.

US Construction

There is strong bi-partisan support for accelerated infrastructure investment in the US. The new President's economic recovery plan, called Build Back Better, includes investing in modern, sustainable infrastructure – from roads to bridges, to energy grids and schools. In the US approximately 80% of revenues are generated from the general building market (Buildings), with the civil infrastructure market (Civils) accounting for the remaining 20%.

The US Buildings business operates in specifically chosen growth regions. As the population further migrates south and west, it continues to drive urbanisation and demand for buildings and social infrastructure. The construction management business (lower risk contract with the contractor principally responsible for delivery risk) is focused on specific states, known internally as 'The Southern Smile'. This starts in the Pacific Northwest, runs through California, Texas, Florida and up through Georgia and the Carolinas to Washington D.C. The core markets remain as commercial, education, hospitality, residential and healthcare. Balfour Beatty was recently named the Southeast's No.1 contractor in the education sector for 2020 (Florida, North Carolina, South Carolina, Georgia, Alabama and Tennessee) and has long been one of the largest education contractors in California (ENR rank No.2).



US: The Atelier residential tower, Zom Living. Photo credit: Cameron Wahl

This diversified geographical and operational capability provides resilience against the recent slowdown in the Buildings market as a result of COVID-19. With blue-chip repeat customers and significant state-backed education bonds, including another US\$13 billion approved in California at the same time as the Presidential election in November, the Group's opportunities remain robust in the medium term.

In the year, Buildings completed several notable projects including:

- 1331 Maryland: In October, Balfour Beatty completed a 14-storey luxury apartment project providing residents with unrivalled views of Washington D.C. The project has won a number of awards, including being named 'Best Project' in the Speciality Construction category by ENR MidAtlantic;
- Jacksonville Regional Transportation Centre (JRTC): the 67,000 square foot project delivered 21 bus bays, seven bus staging bays and space for future micro and e-mobility solutions. The JRTC was awarded 'Project of the Year' by the Associated Builders and Contractors, Florida First Coast Chapter in the institutional US\$25-100 million category;
- Hoover High School: located in San Diego, California, Balfour Beatty demolished three buildings replacing them with new classrooms, administrative building, theatre and outdoor courtyard;
- Legacy Magnet Academy: located in Tustin, California, Balfour Beatty constructed this new 1,400 pupil school in time for the 2020/21 academic year. The project was built on a former Marine Corps Air Station and was designed to mimic aircraft hangers and incorporate elliptical glulam beams and trellis steel on a 32-acre site which also includes an outdoor amphitheatre;

- Capitol Crossing: located in Washington D.C., a 2.2 million square foot multi-phase development including two LEED Platinum certified 12-storey office buildings and a 700,000 square foot parking garage; and
- River Landing: located in Miami, Florida, Balfour Beatty delivered 360,000 square feet of commercial space, 118,000 square feet of office space, 528 apartments, more than 2,000 parking spaces and a landscaped riverwalk.

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

- Pavilion at Penn: in response to COVID-19, the Pavilion at Penn Medicine project in Pennsylvania fast-tracked 120 patient rooms 15 months ahead of the facility's planned opening, with Balfour Beatty employees working around the clock for 17 days to deliver 122,000 square feet of space in the emergency department as part of the project to deliver a 1.5 million square foot hospital with 47 operating rooms;
- The University of North Carolina at Wilmington: Balfour Beatty completed the first phase of the project with over 1,000 beds available for freshman students from August. The second phase of the project, providing a further 776 beds, will be delivered in August 2021;
- Bowie State University (BSU): construction of the BSU project commenced in February 2020 and in November, Balfour Beatty topped out the project in Maryland. Scheduled to open in August 2021, the 170,000 square foot housing community will bring 557 beds to the campus, as well as a variety of amenities; and

- Pacific Beach Middle School: in December, Balfour Beatty topped out work on a two-storey classroom hall. In addition, there will be three new classrooms in the library media centre, as well as renovation and expansion of other amenities.

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

- Microsoft Redmond Campus: in 2018, the Group was selected, in joint venture with Skanska, as general contractor on Microsoft's head office refresh in Redmond, Washington. The next phase of the project which in total will deliver 18 new buildings, clustered into four distinct villages to create a unified campus, was signed in March 2020;
- Broward County Convention Center: in 2019, Balfour Beatty signed a construction agreement for the expansion of the Broward County Convention Center and new construction of an 800-room hotel. In January 2020, the second phase (of five) of the US\$780 million project in Fort Lauderdale, Florida, was signed;
- Museum Place: Balfour Beatty has been awarded a US\$127 million contract for a redevelopment project that will renovate the historic Randall School creating a vibrant arts campus and new residential apartment building in Washington D.C.;
- Epic Phase II: having successfully completed Epic Phase I in 2019, Balfour Beatty has been selected to construct the next phase of the project in downtown Dallas, Texas which will include the largest Uber office outside of San Francisco; and
- Walter Tower: Balfour Beatty has been contracted to construct the US\$100 million Walter Tower, a premier luxury residential tower which will be one of the tallest residential buildings in Raleigh, North Carolina.

Included in ABNC at year end, US Buildings has been made preferred bidder for: a US\$160 million project for the Oxnard Union High School District, California; and a US\$110 million luxury apartment development featuring two 24-storey towers in West Palm Beach, Florida.

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

bonds (over US\$200 billion of multi-state transportation bonds). As part of the ongoing process to focus the business, Balfour Beatty has decided to exit the water sector.

In October, a Balfour Beatty joint venture team opened the US 183 South expressway to traffic in Austin, Texas. After four years of construction, over 95% of the US 183 corridor from US 290 to SH 71 is now operating as the primary route to and from the airport serving as an alternative to I-35 and providing significant improvements to the corridor, including new multi-modal transportation options, improved safety, system connectivity, travel times and congestion relief. In September, the North Metro Rail line project (known as the 'N line') officially opened to the public in Denver, Colorado, following completion of six new stations and 13 miles of track.

Significant progress has also been made on key projects with the following all now over half way through construction: the US\$625 million Southern Gateway (45% Balfour Beatty, 55% Fluor Corporation) project; the US\$1.08 billion Green Line extension (25% Balfour Beatty) project; and the Caltrain project, a US\$697 million contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose. Following the joint venture (Balfour Beatty 30%) breaking ground on the Los Angeles International Airport's (LAX) Automated People Mover (APM) project in 2019, the project took a significant step with the placing of concrete for the first segment of the 2.25 mile elevated guideway and completing structural steel erection activities for the Maintenance and Storage Facility (MSF). Once complete, the APM will transport travellers into and out of LAX. The APM electric train system will connect LAX passengers to airline terminals, a rental car facility, a parking facility and the Metro's regional transit system.

At IH-635 (45% Balfour Beatty, 55% Fluor Corporation) in Texas, the design is complete and construction activities have commenced. In August, Balfour Beatty was awarded, in joint venture with Fluor Corporation, a contract to deliver the Oak Hill Parkway infrastructure project for TxDOT. The project will reconstruct and widen approximately seven miles of interstate highway and improve long-term mobility for communities in Austin, Texas.

Gammon

Gammon has a material share of the Hong Kong market which continues to deliver a strong pipeline of infrastructure and construction projects. Historically the Hong Kong market has benefited from high public sector investment, which appears set to continue with the Government's recently announced ambition (budget speech in February 2021) to increase this spend significantly over the medium term. Major expansions of the Hong Kong Airport and MTR subway system have started and are expected to continue in the coming years, whilst social infrastructure programmes to develop hospitals and universities are well underway. This increase in public spend is set to offset a slowdown in the commercial construction sector.

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



US: Thunderbird flyover over the Pavilion Penn Medicine project. Photo credit: Joseph Ebert

During the year, the Buildings business helped fast-track temporary COVID-19 quarantine facilities by providing project management and mechanical, electrical and plumbing services to construct 110 units at Penny's Bay in just 64 days. Subsequently in June, Gammon was awarded a contract for Phase II of the temporary quarantine facilities including construction of a 5G Smart control centre giving the project management team control over all aspects of the works at all phases, whether on-site or off-site. The centre ensured all members of the team had access to the latest design and enhanced collaborative working such that over 700 units were installed in just one month. The business also designed and installed the heaviest DfMA thermal tanks in Hong Kong at the Global Switch Data Centre (Phase 2) project in Tseung Kwan O.

Work has continued on major Buildings projects including the construction of M+, a new 33 gallery museum in the West Kowloon Cultural District of Hong Kong and the Lohas Park project to deliver three 54-56 storey residential towers. Work has also continued on a number of Civils projects in Hong Kong, including Tuen Mun-Chek Lap Kok Link Northern Connection, where Gammon is providing electrical and mechanical facilitation to serve the newly constructed 5-kilometre tunnel, and the Sai Sha Road widening project.

In December 2019, Gammon moved into a new office it has constructed at Quayside. In 2020, the building achieved Gold level WELL Precertification, making Gammon the first construction company in Hong Kong to have been awarded this international designation. The WELL Building Standard is awarded by the International WELL Building Institute and has become a central certification in the growing importance of developing buildings that promote the health and wellbeing of its users. WELL focuses on seven categories of building performance: air, water, nourishment, light, fitness, comfort and mind.

In addition, Gammon's plant yard was awarded a top prize at the China Light and Power Smart Energy Awards. Gammon Technology Park which incorporates all plant and equipment operations, including design and development, maintenance, assembly and disassembly capabilities won the Grand Award in the category of best renewable energy for the installation of a new solar panel system on the roof of the main building. Gammon has also received the ISO 19650 Kitemark certification, making it one of the few companies in Hong Kong to be recognised for its wider digital transformation. The British Standards Institute (BSI) Kitemark for innovation management has been designed to help organisations improve their



Hong Kong: Central Kowloon Route - buildings, mechanical and electrical works, Highways Department, HKSAR Government. Photo Credit: Lee Ho Hang



Hong Kong: Central Kowloon Route - Kai Tak West, Highways Department, HKSAR Government. Photo credit: Lunggy Fung

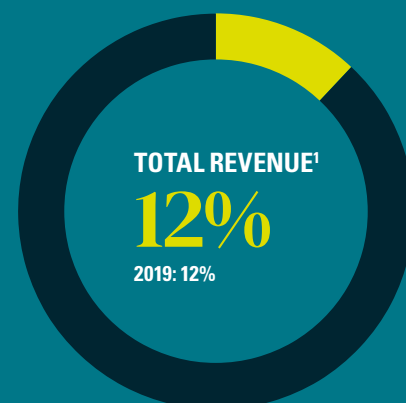
performance and demonstrate the value and impact of their innovation outcomes to stakeholders and customers.

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

- Hong Kong Airport Terminal 2 expansion: Gammon's largest ever award, a HK\$12.9 billion contract for Airport Authority Hong Kong to expand the main Terminal 2 building and construct interconnecting bridges, mechanical and electrical works as well as associated viaducts and roads. The expansion of Terminal 2 forms part of the three-runway system project, which on completion will allow for both arrivals and departures from one terminal and increase overall passenger capacity;
- Hong Kong Airport automatic people mover (APM): a HK\$7.2 billion contract for Airport Authority Hong Kong to construct tunnels and related works for an APM and baggage handling system (BHS). The scope of work includes combined 1.8 kilometre-long eight-cell tunnel structures for the APM and BHS systems, 19 ancillary buildings, as well as building services and airport systems; and
- Central Kowloon Route M&E: a HK\$5.7 billion contract by the Highways Department of the Government of the Hong Kong Special Administrative Region to construct buildings, mechanical and electrical works for the Central Kowloon Route (CKR). Gammon is also constructing the Kai Tak West Section of the CKR which includes underwater and cut-and-cover tunnels, as well as roads.

Support Services

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



Key points

- Revenue and profit demonstrate strong resilience
 - » Contracts generally designated as critical infrastructure
 - » Acceleration of some road and rail projects, offset by economic uncertainty
- Focus on power, road and rail maintenance
- Exiting UK gas and water markets

Financial review

Although impacted by COVID-19, Support Services has shown strong resilience in the year. The Group was able to accelerate road and rail maintenance programmes for some customers due to lower volumes of traffic in the year, but this was offset by other customers reducing maintenance expenditure given the economic uncertainty.

Support Services revenue increased by 4% to £1,067 million (2019: £1,023 million) as a result of higher volumes at power transmission and distribution, and transportation. Underlying profit from operations for the year was broadly in line at £46 million (2019: £47 million) as the increase in volume was offset by disruptions caused by COVID-19. The order book decreased to £2.7 billion (2019: £3.2 billion) following the Group's decision to withdraw from the gas and water sectors.

Operational review

The Support Services segment comprises utilities and transportation businesses. Utilities operates across power transmission and distribution and the gas and water sectors. Transportation operates across rail, highways and managed road schemes for local authorities. The overall market is positive with areas of growth in power, road and rail partially offset by areas of decline in gas and water where Balfour Beatty is withdrawing from the market as future opportunities do not meet the Group's selective bidding criteria.

The power transmission and distribution sector is likely to see a wave of new demand as the UK's Build Back Better initiative is underpinned by key environmental targets. Investments in renewable energy (wind power and new nuclear generation capacity) will provide the power business with material opportunities over the medium term. The highways maintenance market is forecast to see significant investment with the announcement of an additional £2.5 billion in funding, increasing local council budgets by 45% over the next five years. Further, over £700 million of outsourced contracts are up for renewal between 2021 and 2025. The rail maintenance market also has a positive trajectory with an additional £10 billion of funding for renewals as part of the latest Network Rail control period (CP6).

Utilities revenue increased by 3% to £565 million (2019: £551 million) whilst the order book decreased to £0.7 billion (2019: £1.0 billion), as the current regulatory cycles in gas and water reach the end of their periods in 2021 and 2020 respectively.

UNDERLYING REVENUE¹

£1,067m

2019: £1,023m

STATUTORY REVENUE

£1,037m

2019: £991m

UNDERLYING PROFIT FROM OPERATIONS

£46m

2019: £47m

STATUTORY PROFIT/(LOSS) FROM OPERATIONS

£50m

2019: £(11)m

ORDER BOOK¹

£2.7bn

2019: £3.2bn

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



Discover more at
balfourbeatty.com

Performance at power transmission and distribution continues to improve, with a clear plan to deliver key projects such as Hinkley Point C overhead cabling, Viking Link, Inveraray-Crossaig and the National Grid and SSE portfolios. During the year, work commenced at the Viking Link project, a £90 million contract to deliver the onshore civil works for the Viking Link interconnector project with National Grid Ventures. As part of the four-year contract Balfour Beatty will be responsible for the civil engineering and installation of 68 kilometres of high voltage cabling across Lincolnshire.

In December, the Group was awarded a £48 million contract to design and build a new 400 kilovolt (kV) substation in Peterhead, Scotland on behalf of SSEN Transmission. The contract for a 25,000 square metre substation with associated cabling and overhead line works, forms part of the East Coast Reinforcement programme, which will strengthen the network in the area and facilitate the connection of more renewable energy generation to the national grid.

In gas, Balfour Beatty delivers network maintenance and asset enhancements for the largest gas distribution companies in the UK and Ireland. The Group continues to manage two long term gas contracts in the RIIO-GD1 period (until second quarter 2021) which have historically underperformed. The gas market is no longer considered viable to the Group because of the unfavourable working capital and onerous terms and conditions.

The water business has completed the end of the current UK water regulatory cycle (AMP6 2015-2020). Under the new AMP7 regulatory period (2020-2025) contracts are generally being awarded on terms that are not acceptable to Balfour Beatty and therefore the Group has only retained one contract (Anglian Water).

MAGIC MOMENTS



UK: Easter egg donation, Balfour Beatty Living Places, Southampton City Council. Photo credit: Sarah Davies

MAGIC MOMENTS



UK: Hinkley Connection Project, EDF Energy. Photo credit: Michelle Collins

SUPPORT SERVICES

	2020	2019
Order book ¹ (£bn)	2.7	3.2
Revenue ¹ (£m)	1,067	1,023
Profit from operations ² (£m)	46	47
Non-underlying items (£m)	4	(58)
Statutory profit/(loss) from operations (£m)	50	(11)

¹ Including share of joint ventures and associates.

² Before non-underlying items (Note 10).

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

 MAGIC MOMENTS


UK: Inveraray to Crossaig project, Scottish Hydro Electric Transmission (SSEN). Photo credit: Adrian Smith

Transportation revenues increased by 6% to £502 million (2019: £472 million) whilst the order book decreased to £2.0 billion (2019: £2.2 billion).

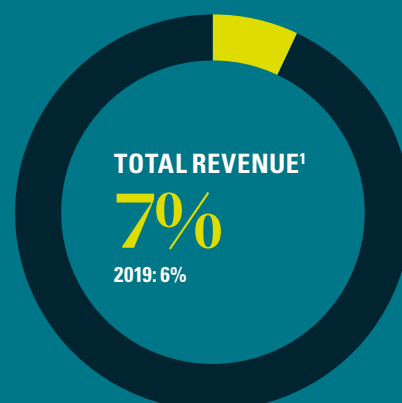
Balfour Beatty continues to maintain, manage and operate major highway and road networks across the UK. The largest contract, for M25 Connect Plus, will continue for another 20 years. During the year, the M25 Connect Plus team was awarded The Chartered Institution of Highways and Transportation (CIHT) UK Climate Change award 2020 for its innovative surfacing trial using 50% reclaimed asphalt.

The largest contract in rail maintenance is for Network Rail under a £1.5 billion Central Track Alliance contract. Balfour Beatty has

an 80% share in the ten-year alliance which is responsible for the development, design and delivery of track renewals and crossings, as well as associated infrastructure works across the London North West, London North East and East Midland routes. Performance has been good since contract inception in 2019, including during COVID-19 lockdowns, with safe delivery of the work ensuring that vital national rail infrastructure remains operational. Work has been accelerated where revised schedules allow renewal of the network that would be difficult to access under normal working conditions, such as the rapid mobilisation and execution of the Kilsby Tunnel project on the West Coast Main Line.

Infrastructure Investments

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



UNDERLYING REVENUE¹

£556m

2019: £524m

STATUTORY REVENUE

£315m

2019: £371m

UNDERLYING PROFIT BEFORE TAX

£20m

2019: £98m

STATUTORY PROFIT BEFORE TAX

£15m

2019: £93m

DIRECTORS' VALUATION

£1.09bn

2019: £1.07bn

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

Discover more at
balfourbeatty.com

Key points

- Pre-disposals operating profit includes provision for an estimate of historical military housing incentive fees which the Group has not been able to fully verify
 - » Continue to seek resolution on US Department of Justice investigation
- No disposals given market uncertainty caused by COVID-19
- Demand for high-quality infrastructure assets expected to exceed supply
- New investment opportunities in student accommodation, US PPP and multifamily housing

Financial review

Underlying pre-disposals operating profit in the year decreased to £8 million (2019: £13 million), primarily due to a provision for an estimate of historical military housing incentive fees which Balfour Beatty has proposed to repay. There were no Investments assets disposals in the year, therefore the underlying profit from operations was also £8 million (2019: £82 million).

As a result of the market uncertainty generated by COVID-19, and the strong liquidity position of the Group, Balfour Beatty did not dispose of any Investments assets in the year. In 2021, the Group will re-commence selling Investments assets timed to maximise value to shareholders as demand for high quality infrastructure assets in the secondary market is expected to exceed supply.

Net interest income reduced to £12 million (2019: £16 million), primarily as a result of the recognition of impairment losses on loans to joint ventures, contributing to an underlying profit before tax of £20 million (2019: £98 million).

Operational review

As a result of the market uncertainty generated by COVID-19, the number of transactions in 2020 was relatively low for the Infrastructure Investments business with only two new projects and no disposals.

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

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

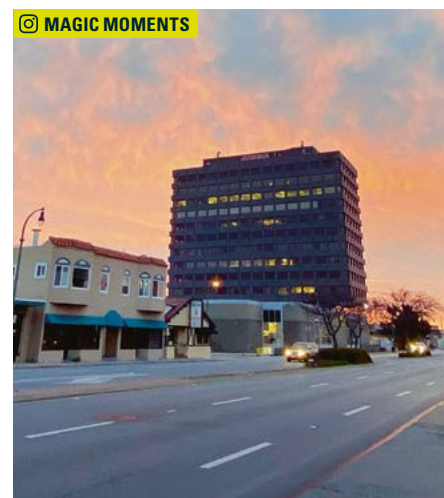
The Infrastructure Investments business strategy is to continue to invest in new opportunities whilst optimising value through the disposal of operational assets. The Group achieves enhanced returns when Infrastructure Investments, Construction Services and Support Services deliver as one, as currently evidenced at Sussex University in the UK and with the LAX people mover project in the US. There is an inherent advantage in bidding for projects when the Infrastructure Investments business utilises the expertise of Construction Services and Support Services. Additionally, the negative working capital generated in the Construction Services business provides opportunity for Infrastructure Investments. The business continues to see significant opportunities for future investment in its chosen geographic markets, particularly in the US where the focus is on student accommodation, multifamily housing and public-private partnership (PPP) opportunities.

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

In June 2019, allegations about the handling of certain work orders were publicised about a number of military bases managed by Balfour Beatty Communities (BBC). Subsequently, the US Department of Justice (DoJ) commenced an investigation into the allegations of false claims. Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct its own investigation, and BBC proactively contacted



US: Fort Bliss Family Homes.
Photo credit: Jennifer Adatao



US: Balfour Beatty's San Mateo office.
Photo credit: Robera Bilata

the DoJ to notify them of the review. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ.

Balfour Beatty has made a provision in its 2020 year end results for an estimate of the historical incentive fees that its investigation was unable to fully verify and which BBC has proposed to be repaid. The Group's external counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required BBC to develop a comprehensive Performance Improvement Plan (PIP). The plan, which includes a variety of objectives and performance metrics, was

agreed with the Air Force in February 2020. All initiatives set out in the plan have been completed, including implementing a significant management restructuring to better align technical support and resident services and appointing a Transformation Director. To date, 44 lines of effort have been signed off by the Air Force, whilst four remain under review.

There are opportunities for Infrastructure Investments in the military housing sector in connection with ongoing efforts by the US Army to refinance its military housing projects. Proceeds from any such refinancing of projects within Balfour Beatty's military housing portfolio would be used toward continued demolition of older housing and replacement with new construction homes, as well as for renovations of other homes across a number of Army bases.

INFRASTRUCTURE INVESTMENTS

	2020 £m	2019 £m
Pre-disposals operating profit ²	8	13
Gain on disposals ²	–	69
Profit from operations ²	8	82
Net investment income ⁺	12	16
Profit before tax ²	20	98
Non-underlying items	(5)	(5)
Statutory profit before tax	15	93

² Before non-underlying items (Note 10).

⁺ Subordinated debt interest receivable, net interest receivable on PPP financial assets and non-recourse borrowings, and impairment to subordinated debt receivable.

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

Strong track record of value creation

The Directors' valuation increased 2% to £1,086 million (2019: £1,068 million), primarily as a result of the unwind of discount in the year. The number of projects in the portfolio decreased to 67 (2019: 69).

The Group invested £46 million (2019: £64 million) in new and existing projects. The two new assets were both multifamily housing projects in the US: a 260-unit site at Chenal Point in Little Rock, Arkansas; and a 135-unit site named Moretti at Vulcan Park in Birmingham, Alabama. Material investment in existing projects included student accommodation projects at Sussex University in the UK and the University of Dallas, Texas.

Four projects that were all previously included at nil value in the Directors' valuation have now been removed from the project count. Two of these projects have been at preferred bidder stage for several years without progressing further and are no longer expected to reach financial close. The other two projects are no longer expected to generate a return and have accordingly been removed.

Cash yield from distributions amounted to £72 million (2019: £65 million) as the portfolio continued to generate cash flow to the Group net of investment. The continuing yield during COVID-19 demonstrates the essential nature of the Infrastructure Investments portfolio. Unwind of discount at £83 million (2019: £87 million) is a function of moving the valuation date forward by one year with the result that future cash flows are discounted by twelve months less. Negative foreign exchange movements were consistent with prior year at £19 million (2019: £19 million) whilst operational performance movements resulted in a £20 million decrease (2019: £86 million decrease).

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

PORTFOLIO VALUATION DECEMBER 2020

Value by sector

Sector	2020 No. projects	2019 No. projects	2020 £m	2019 £m
Roads	13	13	188	206
Healthcare	3	3	114	112
Student accommodation	4	4	88	59
OFTOs	3	3	44	53
Waste and biomass	2	4	51	60
Other	4	4	29	24
UK total	29	31	514	514
US military housing	21	21	446	453
Healthcare and other PPP	2	2	21	17
Student accommodation	3	5	52	40
Residential housing	12	10	53	44
North America total	38	38	572	554
Total	67	69	1,086	1,068

Value by phase

Phase	2020 No. projects	2019 No. projects	2020 £m	2019 £m
Operations	65	62	1,037	954
Construction	2	5	49	114
Preferred bidder	0	2	–	–
Total	67	69	1,086	1,068

Value by income type

Income type	2020 No. projects	2019 No. projects	2020 £m	2019 £m
Availability based	22	22	371	389
Demand – operationally proven (2+ years)	39	38	519	517
Demand – early stage (less than 2 years)	6	9	196	162
Total	67	69	1,086	1,068

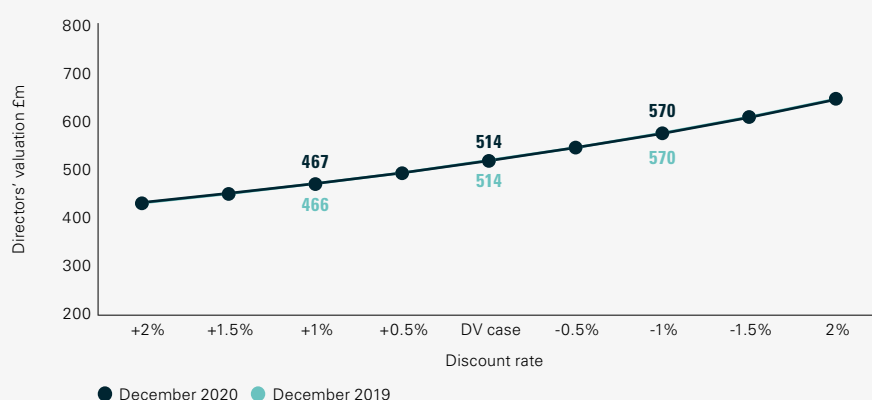
MOVEMENT IN VALUE 2019 TO 2020

£m	2019	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Operational performance	Forex movements	2020
UK	514	24	(33)	—	38	(29)	—	514
North America	554	22	(39)	—	45	9	(19)	572
Total	1,068	46	(72)	—	83	(20)	(19)	1,086

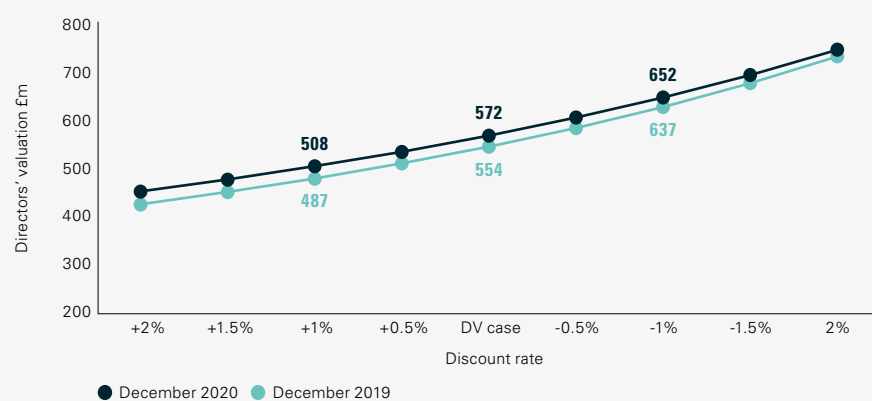
Cash flows for each project are forecast based on historical and present performance, future risks and macroeconomic forecasts and which also factor in secondary market assumptions. These cash flows are then discounted using different discount rates based on the risk and maturity of individual projects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

Discount rates applied to the UK portfolio range between 7% and 10.5% depending on project risk and maturity. The implied weighted average discount rate for the UK portfolio is 8.0% (2019: 8.3%). Discount rates applied to the North American portfolio range between 7.5% and 10.6%. The implied weighted average discount rate is 8.4% (2019: 8.3%). Consistent with other infrastructure funds, Balfour Beatty's experience is that there is limited correlation between the discount rates used to value PPP, and similar infrastructure investments, and long term interest rates. In the event that interest rates increase in response to rising inflation, the impact of any increase in discount rates would be mitigated by the positive correlation between the value of the UK portfolio and changes in inflation. A 1% change in the discount rate would change the value of the UK portfolio by approximately £51 million. A 1% change in the discount rate would change the value of the North American portfolio by approximately £72 million.

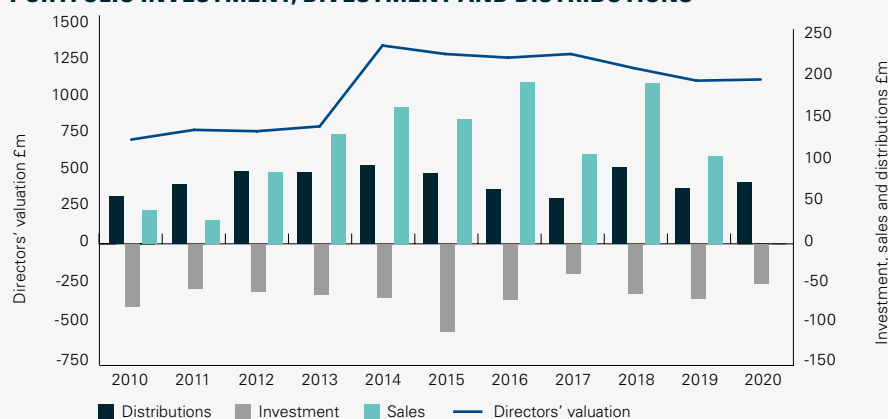
UK PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES



US PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES



PORTFOLIO INVESTMENT, DIVESTMENT AND DISTRIBUTIONS



Building a positive culture

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

In this section

HEALTH, SAFETY AND WELLBEING

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

 Read more on
p48

BUSINESS INTEGRITY

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

 Read more on
p52

SUSTAINABILITY

Our Building New Futures sustainability strategy guides our approach to help ensure the Group leaves a positive legacy for the people we work with, the communities we work in, and the world in which we operate.

 Read more on
p55

OUR PEOPLE

As part of our Build to Last strategy, our strategic people priorities include, enabling the business, building expert capability and creating a great place to work.

 Read more on
p71

RISK MANAGEMENT

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

 Read more on
p88

Our cultural framework refresh

As part of our cultural framework refresh in 2020, we introduced two new behaviours. 'Make a Difference' which reflects how our employees are a force for positive change – for the business, in their Balfour Beatty careers and for the customers and communities they serve. 'Value Everyone' which reflects our continuing journey to nurture a truly diverse and inclusive culture, and the value we place on different perspectives, new ideas and on giving everyone a voice. Our five behaviours are:

TALK POSITIVELY

We're passionate about what we do, talking with pride and enthusiasm about our business, our colleagues, our industry, and our future.

COLLABORATE RELENTLESSLY

We're at our best when we share ideas and expertise, build connections and work as a team to drive performance and strengthen relationships.

ENCOURAGE CONSTANTLY

We nurture a supportive environment, empowering, motivating and inspiring each other with regular and powerful feedback, giving credit where credit is due so we can all reach our potential.

MAKE A DIFFERENCE

We challenge ourselves to always have a positive impact, find solutions and stand up and be counted when it matters.

VALUE EVERYONE

We are inclusive, celebrating difference and respecting one another for who we are and the perspectives we bring to the table.



✓ **BELOW**

March Schull, Project Executive, renovation of Hoover High School, San Diego

Committed to creating a safe and healthy workplace

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

Our commitment to Zero Harm

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

The Group's safety culture is led by its senior leadership team, with the Board's Safety and Sustainability Committee reviewing the Health Safety Environment and Sustainability (HSES) Strategy, monitoring progress and ensuring accountability (see page 57 to 59 in the sustainability section for the governance structure). Site visits by executive leaders form one of the leading key performance indicators (KPIs) used to monitor performance; over 1,500 executive site visits for health and safety were recorded in 2020.

The strategy is based around 12 key areas, including leadership, behavioural safety, supply chain engagement and health and safety by design. Each of these key areas has three-year rolling action plans, designed to drive continual improvement.

Each year a calendar is produced, setting out central business-wide initiatives linked to Zero Harm. These are proactive initiatives based on evidence and risk profile, and include focused campaigns and Group-wide stand downs on key topics. Each individual site or project is encouraged to take ownership of the resources and make safety personal to their part of the business as well

SUPPORTING NHS SCOTLAND



As part of Scotland's rapid response to COVID-19, Balfour Beatty was commissioned to convert the Scottish Events Campus (SEC) exhibition arena into a field hospital, named NHS Louisa Jordan. The conversion required the entertainment venue to be transformed into a hospital for over 1,000 patients.

The project was mobilised incredibly quickly, and through relentless collaboration between different Balfour Beatty business units, alongside the Scottish Government, military and other contractors, the conversion was completed in just over two weeks. Observing strict COVID-19 regulations, as well as Making Safety Personal, 187,880 hours were worked on the project, achieving Zero Harm.

**DAYS TO
COMPLETE**

20

**HOURS WORKED
WITHOUT LOST
TIME INJURY**

187,880

ZERO HARM

as share their innovations, learning and successes. In 2020 focus areas included health, lifting, segregation of people and vehicles or plant and service strike avoidance.

Delivering excellence

The Group capitalises on its global capability, drawing on expertise from across its different geographies and networks to drive standards which exceed local regulatory requirements and push boundaries.

Balfour Beatty's target is Zero Harm, and each day hundreds of Balfour Beatty sites send their colleagues home safely. For example: in the US, the South East Civils team reached the milestone of over four million hours worked without a lost time incident over five years; in the UK the Thames Estuary Asset Management team achieved two million hours of Zero Harm; and all UK businesses worked the whole of August without a lost time injury (LTI). Elsewhere, Balfour Beatty drew praise from Minister for Transport Grant Shapps, after deploying Project Brock in just 12 hours – a 20km moveable concrete barrier on the M20 to segregate lorries due to the emergency COVID-19 travel clampdown – while maintaining a record of Zero Harm. Balfour Beatty continues to return industry-leading performance in its lagging indicators, such as incident rates. To continue to drive safety performance, the Company also sets challenging leading indicators. Leading indicators include, but are not limited to Fit for Role assessments, behavioural safety programme roll-out, observations and supervisor development plans.

Balfour Beatty won many awards in 2020 for its health and safety performance including 27 UK Considerate Constructors Awards, of which nine were Gold Awards. The Group's Hong Kong based joint venture Gammon also received 13 industry safety awards, including

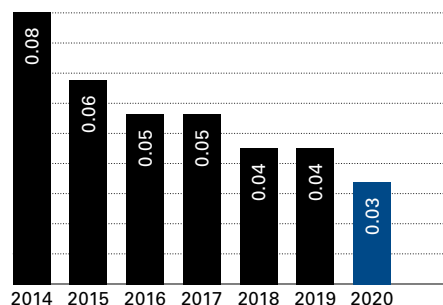
four Gold Considerate Constructor awards. Balfour Beatty also received client recognition, including four Blue Star awards for safety innovation from Highways England.

Risk management

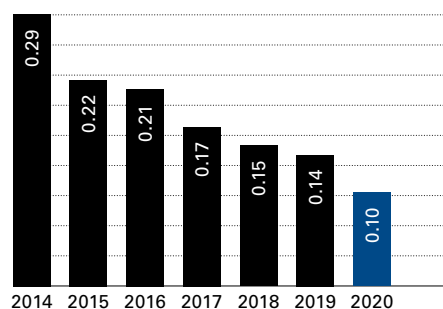
in response to incidents, including fatalities, both within and outside its operations in 2020 (see page 50), the Group redoubled its focus on Temporary Works, establishing a Temporary Works Group Forum; an international collaboration within Balfour Beatty, with experts in engineering and design, operations and HSES. The forum reviewed, revised and strengthened Balfour Beatty's policies and procedures around Temporary Works, including planning, training, competency levels, permits and hold points to enhance existing control measures.

The Group's Fatal Risk Working Groups (FRWG) continue. Led by operational managing directors and supported by HSES directors, these focus on Balfour Beatty's ten fatal risks and eliminating risk by design. The groups meet regularly and progress is reported at Board, Executive Committee and operational Safety Health, Environment & Sustainability Leadership Team meetings. The outputs and the ongoing work by each FRWG are published on Balfour Beatty's intranet pages, and made available to all Balfour Beatty personnel as well as shared wider. Examples include destructive testing of cabbed dumpers to ensure operators' safety prior to mandating cabbed dumpers on sites in October, adopting new mechanical planing and pothole filling equipment to remove the workforce from the roadside, and designing out hand-arm vibration as part of the Group's UK Zero hand-arm vibration syndrome by 2020 challenge.

MAJOR INJURY RATE*



LOST TIME INJURY RATE*

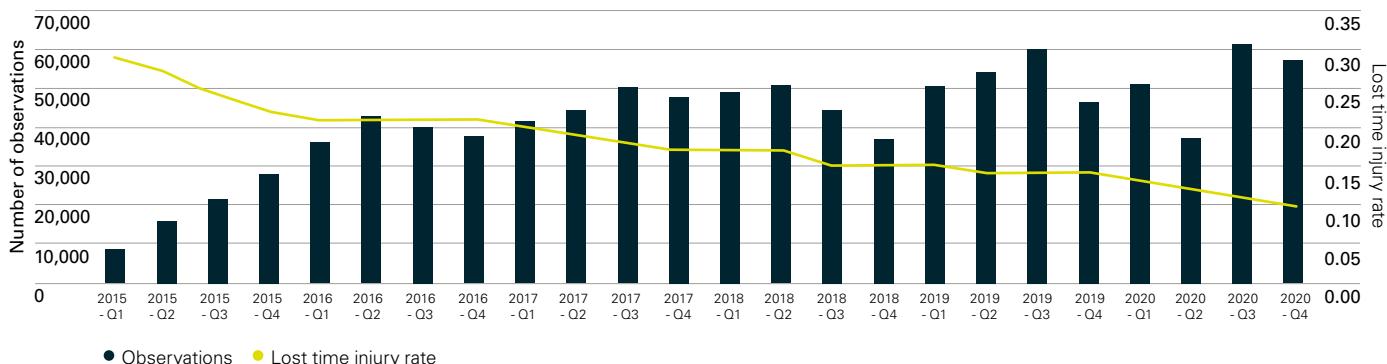


* Excluding international joint ventures.



Discover more at
balfourbeatty.com/safety

BALFOUR BEATTY GROUP LOST TIME INJURY RATE AND OBSERVATIONS*



● Observations ● Lost time injury rate

* Excluding international joint ventures.

Leading by example

The impact of COVID-19 on Balfour Beatty's activities in 2020 necessitated a robust, pragmatic, and risk-based response. The Group worked hard to keep sites open and safe. In the UK, Balfour Beatty representatives collaborated relentlessly with relevant industry groups to develop and update COVID-19 Site Operating Procedures. Along with five other companies, Balfour Beatty commissioned a report by Loughborough University 'COVID-19 and construction: Early lessons for a new normal?' on the impact and lessons of COVID-19 which was shared freely and well received by government and the industry.

Other examples of Balfour Beatty's leadership include its continued support and co-chairing of the Health in Construction Leadership Group and its work with Mates in Mind, the mental health charity for the construction industry. Representatives from Balfour Beatty also lead the 'Stamp it Out' campaign in conjunction with Safer Highways – a campaign that seeks to eliminate violence and aggression towards road workers.

Promoting a culture of safety

The 2020 Group employee survey results demonstrated consistently high engagement scores on health and safety. 88% of responders agreed or strongly agreed that they saw evidence of Zero Harm being applied at their workplace. 80% agreed or strongly agreed that they felt able to discuss their health, safety and wellbeing at work – an increase of 12% and 94% of employees said they felt cared for at Balfour Beatty.

The Group's four Golden Rules remain core. They comprise: be fit for work; always receive a briefing; report all unsafe events; and stop work if anything changes. Raising observations remains key to the Group's safety culture of reporting all unsafe events. Over 207,000 observations were recorded and actioned in 2020. Trials of the UK Observation App have been well received in the US prior to roll-out in 2021.

In November 2020, the Group launched a health and safety initiative called The Big Conversation. Projects from different geographies and areas of speciality were partnered together, to discuss fatal risks

and share lessons, advice and best practice. Using virtual meeting rooms over 1,000 employees across over 300 projects were linked. Topics included temporary works, lifting and people and plant interface as well as mental health. 80% of participants said the conversation was worthwhile and 53% reported a direct improvement to health and safety.

Safety performance

The Group's lost time injury rate (LTIR) improved for the sixth consecutive year from 0.14 to 0.10, excluding international joint ventures, and since the start of Build to Last in 2014 has reduced by 66%. Other health and safety lagging indicators also fell in 2020, including the number of high potential incidents (incidents that could have caused a significant injury). This fall in high potential incidents occurred in spite of the fact that the organisation has broadened its definition of high potential incidents to encompass a wider range of less-serious incident types, ensuring that the opportunity to learn from all incidents and near misses are maximised.

THE BIG CONVERSATION

> 1,000 employees
> 309 projects
> International collaboration



Key numbers

66%

IMPROVEMENT IN
LTIR SINCE 2014

207,335

OBSERVATIONS
RAISED

1,534

EXECUTIVE
SITE VISITS

588

MENTAL HEALTH
FIRST AIDERS

1,000

LINE MANAGERS RECEIVED
'MANAGING THE
CONVERSATION' MENTAL
HEALTH TRAINING

IN THE 2020 EMPLOYEE SURVEY:

97%

of employees feel
cared for

80%

felt able to discuss health,
safety and wellbeing

88%

agreed they saw evidence of
Zero Harm in their workplace

CORPORATE WELLBEING AWARD



Gammon secured the Gold award for Best Corporate Wellbeing Programme from Hong Kong publication Career Times Online for its health and wellbeing provision, and commitment to going the extra mile for its workforce. Gammon hired registered nurses to serve as the company's 'health ambassadors', conducting simple examinations, including blood pressure, blood sugar and cholesterol tests, and to provide health information for workers on site.

Working hours in remote locations can make access to clinics difficult, so as well as providing health checks, Gammon also hold on-site health seminars for workers to provide their workforce with basic health knowledge. Following the success of this scheme, Gammon aims to build on it, looking to provide workers with annual comprehensive physical examinations and vaccination programmes.

Sadly, despite the Group's continued focus on Zero Harm throughout the year, one subcontractor colleague in the UK lost his life during a lifting operation. Gammon recorded three fatal injuries in 2020: a subcontractor trapped by a partial wall collapse; a colleague working on a rebar base which collapsed; and a third party fall from height when the scaffold they were on was hit by a falling stanchion. Lessons learned from these four incidents, along with a fatal incident in the US involving a joint venture partner have been shared across both the Group and the industry. (See page 49).

Health and wellbeing

The Group has always acknowledged that a healthy workforce is a happier and more productive one, and aims to support its employees as much as possible. COVID-19 generated a great deal of uncertainty, and Balfour Beatty quickly produced a dedicated COVID-19 employee resource centre on its intranet with a wealth of support focused on employee health and wellbeing, ranging from homeworking to financial concerns to Balfour Beatty's independent employee assistance programme. Within the Group's internal virtual networking site, specific groups were created where employees can share tips and advice between peers to support each other and discuss challenges they are facing. The organisation was in a strong position, with a robust, mature structure already in

place to support the mental health and wellbeing of its employees, having trained 588 Mental Health First Aiders, and worked with Mates in Mind since 2017. The challenge was to adapt to new ways of working remotely and digitally without compromising on quality; upskilling managers and supporting good mental health and wellbeing throughout the business. Further collaboration with Mates in Mind enabled the digital rollout of bespoke 'Manage the conversation' training with great engagement and interaction from over 1,000 line managers who attended the course in 2020. As well as continuing the conversation around mental health, the Group focused on wider wellbeing, including a new Community Wellbeing site for employees on its intranet.

In 2021, the Group will continue its relentless focus and leadership on Zero Harm within the business and continue to remain industry leader on health, safety and wellbeing.

“

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

”

Ensuring integrity within the business

We work with the utmost integrity to ensure we are making the right choices.

Our Business Integrity programme

Balfour Beatty's values and behaviours define its culture and the way the Group works. The Business Integrity programme makes "Doing the Right Thing" the responsibility of all employees, to ensure Balfour Beatty operates with the upmost integrity, makes the right choices and is "Trusted".

The Business Integrity programme (the programme) is well established, implementing a framework of policies and standards to ensure the Company's commitment to working with integrity and assurance, but policies and rules are just one part of the programme.

The Code of Conduct (the Code) also requires employees and those who work within the supply chain to follow the principles and spirit of the Code and to always do what is right.

The Code covers many topics from anti-bribery, corruption and fraud to bullying, harassment and discrimination and is available to all employees online at: www.balfourbeattycodeofconduct.com and in printed form. This is supported by the Suppliers Code of Conduct: www.balfourbeatty.com/codeofconductsuppliers which sets out Balfour Beatty's commitment to work with companies whose standards are consistent with its own and these standards are reflected in the contractual terms required of its supply chain.

Training

In the UK, Code of Conduct training is undertaken by all new employees within 30 days of starting with Balfour Beatty. Thereafter, Code of Conduct training is assigned through the Learning and Development platform to all employees on a two-year cycle. The training module is in the form of an assessment which can be adapted to reflect current trends within the Group or wider industry and is supported by supplementary mini modules and in person materials.

Other specific elements of the Code of Conduct, such as Data Privacy, Competition Law, Sustainability and Diversity & Inclusion are the subject of separate training modules mandated to employees as appropriate.



In the US, Business Integrity training continues to be delivered in line with the Group and legal requirements. The Code of Conduct training has been tailored to align with US terminology and business requirements and like the UK this is supplemented with bespoke training on Anti-Trust, Data Privacy, Sustainability and Diversity & Inclusion.

In addition, the Business Integrity programme issues regular communication and guidance on integrity related subjects including (but not limited to) Conflicts of Interest, Gifts & Hospitality, Security and the Speak Up whistleblowing service.

Governance

Business Integrity reports are presented to the Board of Directors twice a year with issues considered higher risk reported directly to the Executive Committee and the Board as necessary. The Board retains ownership of the Business Integrity programme which is delivered through the Business Integrity and Security function, compliance officers and senior leadership across all business units.

Speak Up

The Company actively encourages the reporting of concerns about unethical conduct. Balfour Beatty is committed to supporting staff for doing “the right thing” and will not tolerate any retaliation or discrimination of any kind against anyone reporting concerns in good faith.

The Speak Up helpline is the Group’s independent and strictly confidential whistleblowing service which can be used anonymously if necessary. All submissions are reviewed and 100% of in scope cases submitted to Speak Up were investigated in 2020. The total number of cases reported in 2020 (292) has remained consistent with 2019 levels, despite the significant disruption and changes to working practices caused by COVID-19. The total number of cases represents 15.5 submissions per 1,000 employees which compares favourably to the global benchmark which reduced from 13.0 in 2019 to 11.5 in 2020. This demonstrates the continued confidence of employees that concerns they raise will be addressed.

Modern slavery

Balfour Beatty remains committed to addressing the risk of labour exploitation within its business and wider supply chain and as a member of the Modern Slavery Construction Protocol, works closely with the Gangmasters and Labour Abuse Authority (GLAA) to prevent the exploitation of workers. Balfour Beatty also requires all of its suppliers and subcontractors to demonstrate their awareness of, and take steps to mitigate, the threat of Modern Slavery in the industry and has published a guidance document, setting out the Group’s expectations and requirements for all suppliers.

Balfour Beatty also provides training to site personnel on how to spot signs of Modern Slavery and what to do if it is suspected.

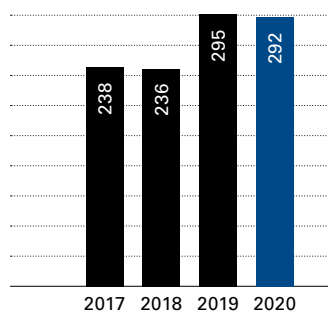
Balfour Beatty’s latest full Modern Slavery Act transparency statement can be accessed here: www.balfourbeatty.com/services/modern-slavery

Data protection

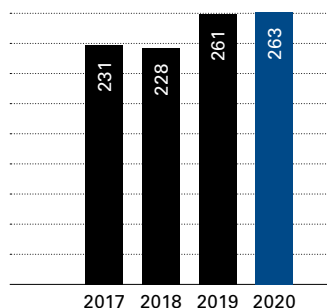
The General Data Protection Regulation (GDPR), Irish Data Protection Act 2018 and UK Data Protection Act 2018 have continued to apply. Balfour Beatty is regulated by the Information Commissioner’s Office (CIO for UK activities and the Irish Data Protection Commission for Irish processing. Notwithstanding Brexit, the GDPR principles remain in the UK Data Protection Act 2018 and Balfour Beatty is working to ensure that adequate provisions are in place in relation to cross-border transfers post-Brexit.

During 2020, the Data Privacy team adapted swiftly and robustly to the challenges of the COVID-19 pandemic and the additional personal data processing this gave rise to. This included conducting Data Protection Impact Assessments (DPIAs) on technologies such as thermal imaging, contact tracing and health data, amongst others. As Balfour Beatty’s office-based employees pivot towards more agile and remote working, this in turn brings Data Privacy challenges which are continually assessed via DPIAs and due diligence by the Group’s Data Privacy, Legal and Information Security teams.

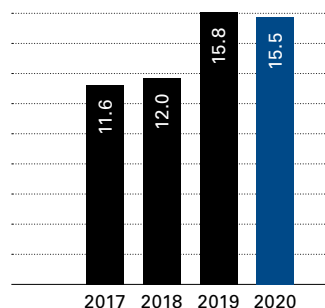
SPEAK UP HELPLINE CASES
Number



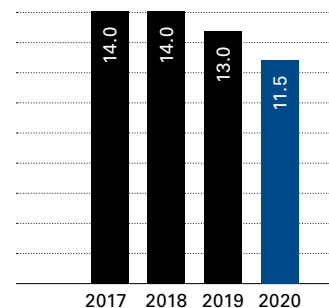
**SPEAK UP HELPLINE CASES
(EXCLUDING HR GRIEVANCES)**
Number



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



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



Balfour Beatty continues to use a dedicated privacy management tool. Throughout 2020 this system has been enhanced to include Data Subject Requests and a revised information assessment qualifier assessment process (including updates to the DPIA process). The Data Privacy team in 2020 has been working on delivering a Data Privacy 'Project Toolkit' designed to embed privacy standards on all UK and Ireland projects sites. This will be delivered with the help of Balfour Beatty's Data Privacy Champion Network in the first half of 2021.

Throughout 2020, Balfour Beatty assessed circa 54 data incidents, one of which was notified to the ICO, and processed circa 88 subject access requests. The Group Data Protection Officer is working on continued training and awareness programmes and rolling out a data privacy strategy for the Group. The Data Protection team continue to work with the US Legal team on readiness for the US California Consumer Protection Act compliance and the US California Privacy Rights Act, due to come into force 1 January 2023.



Doing the right thing is the responsibility of all employees to ensure we are trusted.



BEING A RESPONSIBLE TAXPAYER

Tax strategy

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

Being a responsible taxpayer

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

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

Tax governance

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

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

Tax risk appetite

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

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

Managing tax risk

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

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

Interaction with tax authorities

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

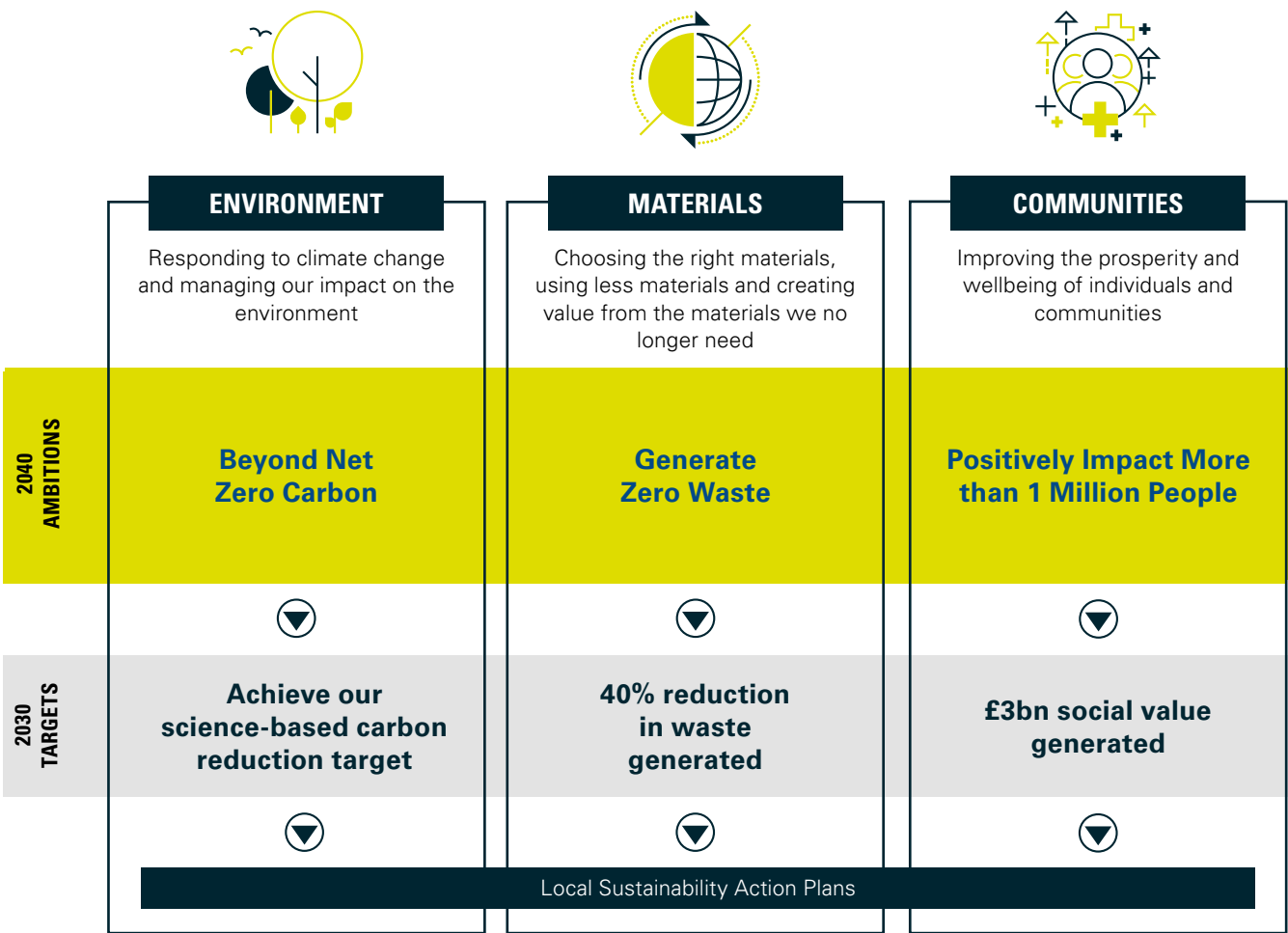
Building New Futures

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

At the end of 2020, the Group launched its new sustainability strategy, 'Building New Futures'. It has been developed with input from key stakeholder groups in the UK, US and Hong Kong, and is focused on the three areas most important to the Group's business – the environment, materials and communities. It sets firm 2030 targets,

including a formal commitment to set a science-based target to reduce carbon emissions, and outlines the Group's 2040 ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People. The 2040 ambitions have been identified as the most material to the business by key stakeholder

groups including the Group's customers, employees, shareholders and the communities in which the Group operates. For further information, see the Group's Materiality Assessment webpage: www.balfourbeatty.com/materialityassessment



UN Sustainable Development Goals



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

Building New Futures builds upon the significant progress the Group has made since the launch of its first sustainability strategy in 2009 and is fully aligned with the Group’s refreshed cultural framework. Progress against the strategy will be reported annually with the results for the 2021 reporting year being published in next year’s annual report.

Sustainability is an integral part of modern infrastructure projects – public sector customers require conformance to standards such as BREEAM, LEED®, BEAM, Green Mark, and CEEQUAL and these are important to planning authorities. In 2020, the total revenue of projects that related to green infrastructure was £2 billion.

The Group’s certifications in this area and its technical knowledge improve the whole-life performance of customers’ built assets.

Increasingly, customers are scoring against sustainability criteria as in the case of the HS2 civil engineering contracts awarded to

Balfour Beatty VINCI, a long-established joint venture between two global infrastructure leaders. 32% of the technical score of the bid was influenced by sustainability factors. The contract stipulates a 50% carbon reduction against the baseline design using the PAS 2080 standard.

In 2020, Balfour Beatty was awarded a total of £240 million worth of contracts on both SCAPE infrastructure frameworks which have a focus on social value, i.e. the economic, environmental and social benefits to local communities.

In 2020, Balfour Beatty was awarded a £47.5 million contract to design and build a new 400kV substation in Peterhead, Scotland on behalf of SSEN Transmission. This contract forms a critical part of SSEN Transmission’s East Coast Reinforcement programme, which will reinforce the network in the area and facilitate the connection of more renewable energy generation to the national grid, supporting the transition to net zero emissions.

The Group was also awarded Phase II of Inveraray Crossaig in Scotland worth approximately £90 million which involves reinforcing the existing transmission network to enable renewable energy projects to connect to the grid, and to ensure security of supply.

Improving access and reducing emissions from public transport are key opportunities for Balfour Beatty’s UK rail business. In December, the Rail business was awarded the Southern Region Buildings and Civils Framework for Network Rail for the next eight years which has an approximate value of £50 million. The business was also awarded £22 million of electrification work for Transport for Wales on the Core Valley Lines network to install 25kV overhead electrification equipment under its Early Contractor Involvement package.

In late 2020, the US\$2.3 billion extension of the Massachusetts Bay Transportation Authority’s (MBTA) Green Line achieved its halfway point. The US Civils business is part of GLX (Green Line Extension) Constructors, a consortium including Fluor Enterprises, the Middlesex Corporation, and Herzog Contracting Corporation working on the scheme. The extension expands the rail service for 4.7 miles along two lines into Somerville and Medford and will significantly improve access to public transport for local residents.

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

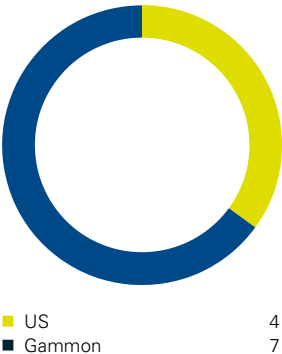
The US Buildings business completed four LEED® buildings in 2020, with a combined contract value of US\$666 million. Gammon, the Group’s joint venture based in Hong Kong, completed seven BEAM Plus buildings, two of which achieved LEED Platinum ratings.

The iconic Portland Building originally built in 1982 was refurbished by Balfour Beatty’s US Buildings business in 2020 and achieved LEED® Platinum status. It is also pursuing WELL building certification. The refurbished design significantly improves the amount of natural daylight that can enter the building. Aside from incorporating an array of sustainability features, the project team exceeded the City’s social equity subcontracting goals, achieving Minority, Women, and Disadvantaged Business Enterprise participation of 27% for professional, technical, and expert trades and 33% across all construction trades.



LEFT
The iconic Portland Building, US

BUILDINGS CREATED/REFURBISHED WITH CERTIFICATION



Governance

Balfour Beatty has a solid governance process that underpins everything it does to ensure that the business is being managed and run properly, effectively and ethically.

The Safety and Sustainability Committee reviews the Group's sustainability strategy and monitors progress on climate-related issues. This ensures governance and accountability for delivery and performance at Board level. The Group Chief Executive, Group Chair and two other non-executive Directors are members of the Safety and Sustainability Committee. The Group Chief Executive has overall responsibility for setting Balfour Beatty's sustainability policy and overseeing how ESG matters are managed.

The Executive Committee sets the Group's sustainability ambitions and targets, helping each business unit develop its own action plan.

Each business unit has a sustainability lead, who is responsible for cascading the sustainability strategy and developing bespoke sustainability action plans that are aligned to the Group's 2040 ambitions and 2030 targets. These plans have short-term milestones with clear action owners, communicating the priorities for the business unit. The sustainability action plans ensure that projects are managed sustainably and best practice is shared. The senior leadership of each business unit is responsible for agreeing its sustainability action plan and ensuring it is delivered and adequately resourced.

Internal audit teams review performance against the Group's sustainability strategy and PricewaterhouseCoopers LLP (PwC LLP) is engaged by Balfour Beatty to provide limited assurance over selected greenhouse gas performance data for annual reporting purposes.

In December 2020, six years on from the start of its Build to Last transformation programme, the Group refreshed its cultural

framework to include 'Sustainable' as one of its core values alongside Lean, Expert, Trusted and Safe to further drive a positive culture across the business and launched its new sustainability strategy, Building New Futures, to ensure that the business leaves a positive legacy for the people it works with, the communities it works in, and the world in which it operates. The focus of the strategy is to enhance the Group's impact on the environment, working with its supply chain partners, customers and communities to ensure its choices are sustainable. Making the right choices is embedded through the Group's operations and supported with a robust governance framework.

Environmental compliance

In 2020, one environmental incident resulted in a fine of S\$5,000 which was issued by Singapore's National Environment Agency as a result of mosquito breeding being detected within a construction site.

AWARD-WINNING SUSTAINABILITY AT ONE TAIKOO PLACE, HONG KONG

One Taikoo Place, a 41-storey triple Grade-A office tower, which forms part of Swire Properties HK\$15 billion Taikoo Place redevelopment project in Hong Kong, secured the LEED® platinum certification in 2020. In addition to meeting BEAM and LEED® platinum sustainability criteria, it was designed to address the seven concepts of the WELL building standard that focus on occupant health and productivity.

The office tower was built to the highest sustainability standards and includes a number of cutting-edge passive and active energy-saving design features to reduce annual energy consumption during operation by up to 30% against a typical building of this size as well as deliver excellent indoor environmental quality performance for the health and wellbeing of occupants.

Each floor offers occupants panoramic views of Victoria Harbour and an abundance of natural light through expansive glass walls, while an extensive open green space is provided for the community's enjoyment and to reduce the urban heat island effect. Two elevated air-conditioned walkways link it to the thriving interconnected campus of office buildings that make up Taikoo Place.

It was also built in the spirit of collaboration. Long before the tendering phase for One Taikoo Place had even begun, Gammon worked with Swire to carry out an independent buildability study to suggest a number of ideas that promoted sustainable construction, with Gammon leading its value chain to adopt modern methods of construction that are safer and leaner, including design for manufacture and assembly and virtual planning.

It was built with the support of Gammon's considerable in-house expertise, providing prize-winning innovative digital solutions for more efficient planning and management, through to award-winning mechanical solutions. And it was built with the use of building information modelling, 3D scanning and printing that underpinned the precision installation required for much of the works.

With this outstanding performance, One Taikoo Place obtained industry-wide recognition as the Winner of the CIC Sustainable Construction Award 2018, and Gammon's Director of Building Operation, Mr. Sammy Lai, also picked up the top Excellence award in the Construction Manager category for his leadership and efforts on sustainability.



How we manage sustainability

SAFETY AND SUSTAINABILITY COMMITTEE

Our Group Safety and Sustainability Committee reviews our sustainability strategy, monitoring progress and ensuring accountability at Board level.



EXECUTIVE COMMITTEE

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



BUSINESS UNITS

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



INTERNAL AND EXTERNAL AUDITS

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



Supporting global standards

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



FTSE4Good

In June 2020, Balfour Beatty achieved a FTSE4Good¹ ESG score of 3 on a scale from 0 of 5 (higher scores are better).



In February 2021, Balfour Beatty plc received an ESG Risk Rating of 26.1 from Sustainalytics² and was assessed to be at medium risk of experiencing material financial impacts from ESG.

MSCI ESG RATINGS



CCC B BB BBB A AA AAA

In January 2021, Balfour Beatty plc received a rating of AA (on a scale of AAA-CCC) in the MSCI³ ESG Ratings assessment. This MSCI ESG AA rating, which measures resilience to long-term industry material ESG risks, benchmarks Balfour Beatty as a leader in managing ESG risks.



In December 2020, Balfour Beatty achieved a CDP⁴ rating of B which demonstrates that it is taking coordinated action on climate issues.

- 1 FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that Balfour Beatty plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.
- 2 Copyright ©2020 Sustainalytics. All rights reserved. This publication contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at: www.sustainalytics.com/legal-disclaimers.
- 3 The use by Balfour Beatty plc of any MSCI ESG Research LLC or its Affiliates (MSCI) data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of Balfour Beatty plc by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.
- 4 CDP drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Over 9,600 companies with over 50% of global market capitalisation disclosed environmental data through CDP in 2020. This is in addition to the over 920 cities, states and regions who disclosed in 2019, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change.

DELIVERING SOCIAL VALUE AT EAST WICK & SWEETWATER, LONDON



Photo credit: ©East Wick and Sweetwater

East Wick and Sweetwater (EWS) forms part of the post-Olympic Games legacy development being delivered by the London Legacy Development Corporation (LLDC). In 2015, LLDC appointed East Wick and Sweetwater Projects, a joint venture between Balfour Beatty Investments and Places for People, as lead developer for the two new neighbourhoods. Over its lifetime, EWS will bring new schools, nurseries and community spaces to the area around the Queen Elizabeth Olympic Park, as well as creating a strong residential community with up to 1,800 new homes.

Following grant of planning consent the joint venture awarded to Balfour Beatty's UK Construction business the contract to design and build the first phase of the development. Phase 1 forms the heart of the scheme with a new neighbourhood centre comprising a mixture of 302 residential units across four blocks and circa 22,000 m² of non-residential uses including retail, workspace and community facilities.

The project has over 160 sustainability and social value targets driving high standards from the start. The non-residential units were designed to BREEAM 'Excellent' standards. The residential units were designed to 'Zero Carbon Homes' standard utilising a combination of a 'fabric first' approach, as well as being powered by the Queen Elizabeth Olympic Park district heating network and on-site renewable energy. So far one of the blocks has been completed, achieving final Code for Sustainable Homes Level 4 certification; with the remainder of phase one due to complete in spring 2021.

Using the National TOMs, a reporting standard for measuring social value, over £34 million of social value has been delivered to date. This has been achieved in collaboration with East Wick and Sweetwater Projects, supply chain partners, the LLDC, local schools, charities, social enterprises and other local organisations.

Key successes to date include:

- › attended three careers fairs advertising vacancies in the local boroughs
- › 42 work experience placements for students from local schools and organisations
- › 41 apprentices working throughout the project (7% of the workforce on average)
- › seven graduates employed
- › promoted a diverse and inclusive workforce by employing those from under-represented groups to achieve: 30% local; 70% BAME; 6% female; and 3% with a registered disability
- › delivered careers talks to 38 people with barriers to employment through organisations such as Newham Workplace and Bounceback
- › as a direct result of these careers talks, one person with mild to moderate disabilities and one youth ex-offender were successfully placed into full time employment on the project
- › delivered over 1,011 hours of volunteering:
 - » 660 hours delivered through ECHO, upskilling and mentoring local businesses and SMEs
 - » 261 hours of curriculum engagement through 37 activities
- › over £17,500 raised for local charities by the joint venture and Balfour Beatty since the beginning of the project
- › 33 local residents trained in accredited Mental Health First Aid
- › 26% reduction in embodied carbon in construction
- › 99.8% waste diverted from landfill
- › 100% of work packages advertised to local businesses
- › 18 SMEs employed within a 30-mile radius with a spend of over £32 million

ENVIRONMENT

Beyond Net Zero Carbon

Optimising environmental performance forms a key component of the Group’s new sustainability strategy and is essential for driving efficiencies and winning work. Balfour Beatty is fully committed to minimising its impact on climate change and mitigating the business risks that climate change presents. That is why Balfour Beatty has set out its ambition to go Beyond Net Zero Carbon by 2040 from its direct and indirect operations, by continuing to implement the Institute of Environmental Management and Assessment’s (IEMA) Greenhouse Gas Management Hierarchy¹.

The Group is collaborating with its supply chain partners and aiming for all products and materials it procures to be net zero carbon by 2040. In limited cases where it is not able to reduce emissions, it will invest in environmental projects, in the form of carbon offsets, to make sure it goes beyond net zero carbon by 2040.

In 2020, the Group committed to setting a carbon reduction target well below 2 degrees

centigrade pathway with the Science Based Targets initiative (SBTi).

At an operational level the Group has continued to take steps to reduce Scope 1 and 2 Greenhouse Gas (GHG) emissions and its reliance on fossil fuels through the use of technology and algorithms that have been developed in-house to assist decision making. Balfour Beatty has also continued to use data to monitor and drive sustainability performance.

Scope 1 and 2 GHG emissions

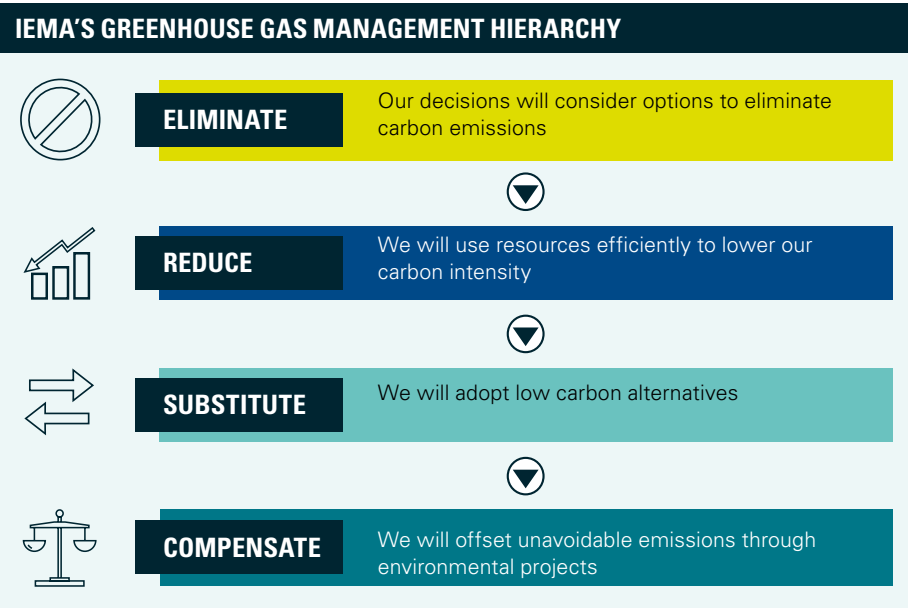
The Group has seen a reduction in carbon emissions intensity in 2020 compared to 2019 from 20.3 tonnes of CO₂ equivalent (CO₂e)/£m revenue to 18.8 tonnes of CO₂e/£m revenue when using a location-based approach. Using the market-based approach this drops further to 18.4 tonnes of CO₂e/£m.

Since establishing a baseline in 2010, the tonnes of CO₂e/£m revenue have dropped by 54.7% from 41.5 tonnes of CO₂e/£m revenue to 18.8 tonnes of CO₂e/£m revenue. The

Group has therefore exceeded its 2020 target of 50% reduction of Scope 1 and 2 emissions per £ million revenue against a 2010 baseline. Balfour Beatty’s 2025 goal is to achieve a 60% reduction in its Scope 1 and 2 emissions per £ million revenue against a 2010 baseline. The Group’s performance to date illustrates it is on track to meet this target.

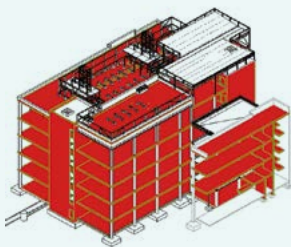
The Group’s total Scope 1 and 2 emissions also reduced by 2.4% from 210,632 tonnes of CO₂e in 2019 to 205,517 tonnes of CO₂e in 2020. These are the Group’s lowest Scope 1 and 2 absolute emissions since the 2010 baseline was established representing a reduction of 152,466 tonnes of CO₂e (42.6%).

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



1 www.iema.net/document-download/51806

USING BUILDING INFORMATION MODELLING TO IDENTIFY CARBON HOTSPOTS



In 2020, through Innovate UK funding, Balfour Beatty, Leeds Beckett University, University of Hertfordshire and industry partner White Frog Publishing developed a Carbon Calculator that fully integrates into Revit (a building information modelling software platform). The software automatically calculates the embodied carbon of the different structural elements of a building.

Through identifying carbon hotspots, it is possible to efficiently target areas where alternative construction solutions and/or materials may result in a carbon saving. The calculator provides a visual representation of the hotspots within the structural model.

Whilst initial trials were undertaken in 2020, the software is now being refined further.

BALFOUR BEATTY COMMUNITIES NAMED 2020 MOTILI CARBON REDUCTION CHAMPION



In 2020 Balfour Beatty Communities (BBC) partnered with Motili to provide routine HVAC maintenance, repair and replacement work across BBC's military housing portfolio. HVAC systems in 94% of the 44,000 home portfolio were serviced, cleaned and maintained by Motili at regular intervals throughout the year. As part of this preventive maintenance work, BBC replaced HVAC systems in more than 1,200 military housing units, improving system performance for residents while driving operational efficiencies. Specifically, the highly efficient HVAC replacements are expected to reduce system energy use by almost 25% and significantly cut the carbon emissions from each unit. The total carbon emission reduction per year equates to 2,500 tonnes. It is estimated that these upgrades will result in US\$4m of energy savings over the next 10 years. As a result, BBC was named a 2020 Motili Carbon Reduction Champion.

The requirements for reducing Scope 1 and 2 emissions are well understood and controlled. In 2020, the Group has continued to: improve the fuel efficiency of its fleet; introduce fully electric cars; install electric vehicle charging points; expand electric plant options; optimise the sizing of generators and the power profile of projects; improve the energy efficiency of site cabins; undertake energy efficiency improvements to properties; optimise grid connections; and launch EcoNet. In the UK many of these energy efficiency improvements have been driven by Balfour Beatty's Plant and Fleet business that is certified to ISO 50001, the 'Energy Management System' standard. Gammon is also certified to that standard.

Since launching the Enertainer in 2019 with Hong Kong start-up, Ampd Energy, to replace noisy, polluting diesel generators on construction sites, Gammon has procured four of these battery units for use on its sites. It has also rented one unit. The units use small grid supplies to charge up, but are able to power large pieces of equipment when in use and vary in size from 250kVA to 400kVA. The combined carbon saving in 2020 from these units was 546 tonnes of CO₂.

As illustrated, the UK accounts for 43% of the Group's Scope 1 and 2 emissions, the US 17%, Ireland 1% and the Rest of the World 39%, when using the market-based approach. Gammon is certified to ISO 14064-1, the international standard for

quantifying and reporting greenhouse gas (GHG) emissions. Its Scope 1 and 2 GHG emissions are independently verified by SGS.

GHG reporting and assurance

Balfour Beatty's GHG emissions are reported in accordance with the UK Government's GHG reporting requirements covering all seven UNFCCC/Kyoto gases. The Group uses the operational control approach under the GHG Protocol Corporate Accounting and Reporting Standard as at 31 December 2020 to report emissions from its operations around the world.

In 2020 alongside the location-based method, Balfour Beatty adopted the GHG Protocol Scope 2 market-based reporting methodology. This method allows the application of an emissions factor of zero tonnes of CO₂e equivalent per kWh to supply contracts from suppliers of purchased electricity from renewable sources with a guarantee of origin certificate. For example, in 2020 in the UK 12 MWh of Renewable Electricity Guarantees of Origin (REGO) certificates for electricity were procured for electricity purchased through the Group utility procurement contract. A residual mix² emission factor is applied to electricity where a REGO is not available. For electricity which does not come from a renewable source and a country specific residual mix emission factor is not available, Balfour Beatty has applied either the appropriate supplier factor based on the supplier's published fuel mix

where it is known and can be evidenced, or the country average electricity emission factor provided by the IEA, EPA or Defra (as appropriate). Balfour Beatty's total energy consumption in MWh is shown on page 62 to allow readers to make more informed comparisons of the Group's energy use.

Although Balfour Beatty's Scope 1 and 2 CO₂e emissions reduced by 2.4% (5,115 tonnes) from 2019 to 2020, energy use measured in MWh dropped by 3.2% (25,292 MWh). This difference can be explained by the fact that different fuels have different carbon intensities, with some fuels attracting greater carbon conversion factors than others. Furthermore, the MWh table does not include fugitive emissions.

The energy use table illustrates that there has been a 41% reduction in 5% biodiesel blend since 2019 which can be explained by the reduced amount of travel undertaken during the COVID-19 pandemic and a greater switch to hybrid vehicles. However, the use of gas oil (red diesel) increased over the same period as a result of large infrastructure projects in the US. Overall fuel usage for most fuel types has reduced, except for industrial gas and boiler fuel. Since 2015, the energy intensity of the Group's operations has dropped by 43.1% from 122.88 MWh/£m revenue to 69.89 MWh/£m.

² The residual mix is defined by the GHG Protocol for Scope 2 reporting as, "default emission factors representing the untracked or unclaimed energy and emissions if a company does not have other contractual information that meets the Scope 2 Quality Criteria".

Balfour Beatty's Scope 1 and 2 CO₂ emissions include emissions from assets that are otherwise not referred to across the rest of the financial statements such as energy provided by landlords or customers that Balfour Beatty does not pay for. In 2020, the Group generated 35,141 kWh of renewable electricity from solar cabins, solar tower lights and solar powered charged points for electric vehicles, compounds and plant.

The Group has determined and reported the emissions it is responsible for within this boundary and does not believe there are any material omissions. The Group uses the UK Government's carbon conversion factors, updated in 2020, to calculate its emissions into equivalent tonnes of carbon dioxide (CO₂e) and the IEA's 2020 international conversion factors for electricity (Scope 2) except for the UK and the US where the UK Government and the US EPA conversion factors were applied as they more accurately reflect geographical carbon intensities of local grids.

PwC LLP was engaged to undertake an independent limited assurance engagement

of the Group's Scope 1 and 2 emissions, reporting to Balfour Beatty plc, using the assurance standards ISAE 3000 and ISAE 3410 over the GHG data that has been highlighted in this report with the symbol ⊕. PwC LLP's full statement is available at: www.balfourbeatty.com/ILA

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

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

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



Since establishing a baseline in 2010, the Group's Scope 1 & 2 emissions / £m revenue have dropped by 54.7%.



Scope 1 and 2 GHG emissions

	Absolute tonnes of CO ₂ e					2020
	Base year 2010	2016	2017	2018	2019	
Scope 1	283,821	220,355	170,937	175,065	167,071	162,816⊕
Scope 2 (location-based)	74,162	77,943	71,170	49,365	43,561	42,701⊕
Scope 2 (market-based)	n/a	n/a	n/a	n/a	n/a	38,596⊕
Total Scope 1 and 2 carbon emissions (location-based)	357,983	298,298	242,107	224,430	210,632	205,517
Total Scope 1 and 2 carbon emissions per £m revenue (location-based)	41.5	29.4	22.1	24.5	20.3	18.8
Total Scope 1 and 2 carbon emissions per £m revenue (market-based)	n/a	n/a	n/a	n/a	n/a	18.4

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

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

⊕ Included within PwC LLP's limited assurance scope.

Energy use in MWh

Fuel	2018	2019	2020
Electricity	100,333	88,061	89,555
Heat and steam	14	—	—
Natural gas	15,242	8,691	8,147
Industrial gases	3,013	4,095	4,687
5% biodiesel blend	434,524	414,387	245,452
5% biofuel petrol blend	72,190	63,305	54,799
Biodiesel different blend	67	104	53
E85 petrol	603	1,278	188
Gas oil (red diesel)	191,374	197,590	344,754
100% mineral diesel	15,372	13,298	14,071
100% mineral petrol	6,076	—	3,701
LPG	261	187	57
CNG	—	—	—
Boiler fuel	653	214	454
Global total	839,722	791,210	765,918
UK energy use % of total	36.2%	45.4%	50.0%

Climate disclosure

The Group is committed to addressing climate change risk and reducing the lifetime emissions of the assets it builds, as evidenced by its performance in the global evaluation standard, the Climate Disclosure Project (CDP), where a B rating was achieved in 2020, which is an improvement on the previous year's C rating (see page 58). The annual rating is based on CDP's evaluation of the Group's strategy, goals and actual emissions reductions, as well as transparency and verification of reported data. It assesses the completeness and quality of Balfour Beatty's measurement and management of carbon footprint, climate change strategy, risk management processes and outcomes. The score's purpose is to provide a summary of the extent to which companies have answered these questions in a structured format.

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

- infrastructure is deemed to be incompatible with the UK's net zero carbon targets;
- climate change increasing the intensity and frequency of extreme weather events, including flooding and high winds which could impact sites negatively;
- large fluctuations in energy costs;
- sustainability performance failing to keep pace with demands;
- sudden tightening of environmental legislation and/or Environmental Social Governance reporting requirements; and

- changes in temperature extremes can have an impact on the resilience of building materials and therefore determine the materials we are able to use.

The opportunities identified include:

- energy savings;
- increased demand for climate change mitigation measures by customers; and
- improved reputation and ability to win work through the Group's capability.

The Group is preparing for the Taskforce on Climate-related Financial Disclosures (TCFD) reporting requirements for 2022. Whilst the Group has started its journey on TCFD reporting, more work is required in 2021 to address the disclosure requirements. These will be shared in the Annual Report and Accounts 2021.

TRANSPLANTATION OF TREES, HONG KONG



In November 2019, Gammon successfully transplanted giant native 'twin' trees at Shap Sze Heung, using a novel method not seen before in Hong Kong. In 2020, we continued to look after the trees during their establishment period in their new home and monitor their health using wireless motion sensors for real-time health and stability monitoring, as well as capturing motion data in a hybrid reality platform for data analysis in a 3D model alongside an i-Tree app.

Consisting of two *Ficus microcarpa* trees that have merged into one root system, the trees are over 50 years old and weigh more than 170 tonnes. Originally standing as a landmark near Nai Chung Public Transport Interchange (PTI), they were moved to a location near the new PTI to provide a better area to grow and to minimise impact from nearby construction activities. They are now living in an enlarged planter to allow the root system to spread and encourage vigorous growth.

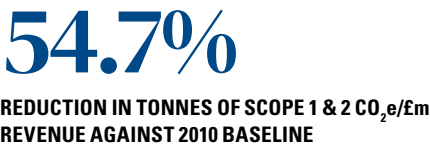
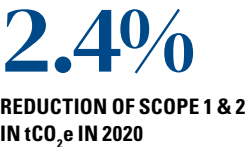
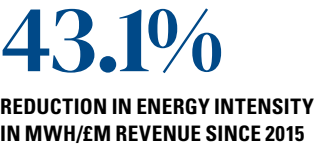
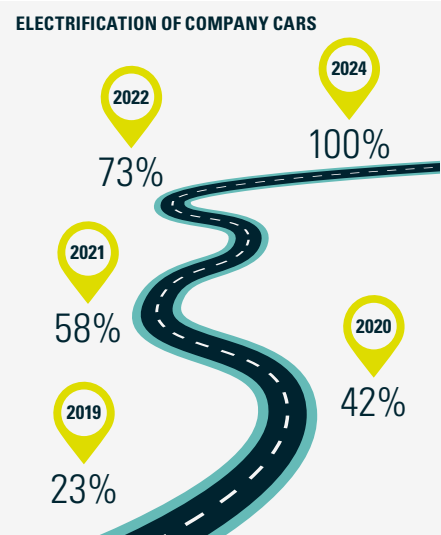
Improving air quality

Construction equipment that runs on diesel is known to produce particulates and nitrous oxides that are harmful to human health. HS2 and the Greater London Authority have strict air quality emission standards for construction equipment that projects have to comply with.

In addition to the innovative retrofit project on the Junttan PM20 piling rig (see pages 66 and 67), the Group supported the Centre for Low Emission Construction and Datatag in developing an Emission Compliance Verification Portal with HS2 that links to Datatag’s Emission Compliance Labelling Scheme to simplify reporting on construction sites and demonstrate compliance.

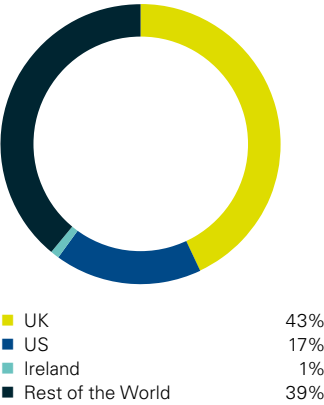
The Group released a further update to its power profiler that accurately predicts the power demand of its project compounds allowing generators to be sized efficiently and accurately rather than being over-specified and launched EcoNet, the energy demand-side response technology. (See page 27 for more information on EcoNet). Both solutions not only cut carbon but also improve air quality in comparison to traditional set-ups.

The Group invested in solar powered plant such as tower lights to reduce the need for diesel-powered equipment and commenced a number of innovation projects to reduce nitrous oxides and particulate emissions.

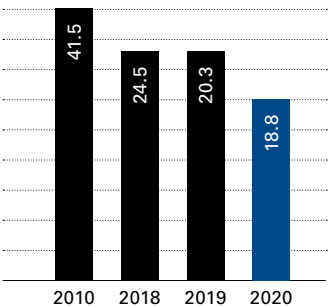


ABOVE
New electric LCV

SCOPE 1 & 2 CO₂e (MARKET BASED)
BY COUNTRY



TONNES OF SCOPE 1 & 2
CO₂e/£m REVENUE



MATERIALS



Generate Zero Waste

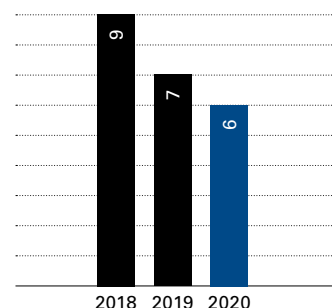
In the UK, the Group continues to decarbonise its company car and light commercial vehicles (LCV) fleet by switching to electric and plug-in hybrid options where possible and using more electric and hybrid powered solutions for plant operations, which will improve air quality. The Group continued to make progress on its roadmap to phase out diesel company cars with 42% of its current UK vehicles being electric, plug-in hybrid and hybrid in 2020. The Group also continued to trial several fully electric LCV solutions for operations where drivers do not have to transport heavy loads.

As part of the Group's new sustainability strategy, the Group has set itself a 2040 ambition to generate zero waste from its

operations and a 2030 target to reduce the amount of waste it generates per £1 million of revenue by 40%. The 2030 target excludes hazardous wastes that cannot be diverted.

Whilst the Group has good waste data for the UK, Ireland and Gammon, there are limitations on the completeness of Balfour Beatty's waste data for the US, making like-for-like comparisons of its annual data difficult. The Group's aim is to establish a baseline across all its geographies in 2021 to allow for comparisons and progress reporting. Comparing waste data year on year will also vary depending on the type of projects the Group undertakes and the stage that the projects are at. Balfour Beatty is working with its operating businesses to improve this data.

TONNES OF WASTE LANDFILLED PER £M REVENUE



89% REDUCTION IN MATERIALS DELIVERED THROUGH INNOVATION, LONDON



In 2020, our signalling renewals teams working at Hither Green, London developed a new anchor post system to support elevated cable routes. The new anchor post foundation uses steel micro-piles that are driven into the ground, removing the need to use cast in-situ posts. Use of this system was approved by Network Rail and has delivered:

- 73% embodied carbon reduction on materials;
- 89% material saving;
- 60% time saving on foundation installation;
- 40% cost saving;
- zero on-track plant and zero water consumption; and
- reduced safety risk.

The project won the 2020 International Green Apple Award for Environmental Best Practice Category Building & Construction/Rail and received a National Green Apple GOLD award.

In 2020, 3,455,954 tonnes of waste that Balfour Beatty produced were avoided from landfill. This equates to 98.15% of the total amount of waste that Balfour Beatty produced in 2020, but does not include materials that were reused directly without entering the waste stream. Although these figures are impressive, the Group is working on circular economy solutions to reduce waste in the first place and has a 2040 ambition to generate zero waste from its construction activities. This will mean a greater shift towards Design for Manufacture and Assembly (DfMA) techniques which are inherently more resource efficient. The Group's 2030 target is to reduce the amount of waste generated by 40% against a 2021 baseline.

Balfour Beatty has steadily reduced the tonnes of waste it produced per £ million revenue from 9 tonnes/£m revenue in 2018 to 6 tonnes/£m revenue in 2020.

To make sure the Group delivers its 2040 ambition, it will work with its partners right from the start of every new scheme to ensure solutions to Generate Zero Waste are considered through design and construction, and through applying the waste management hierarchy. Where this is not possible, the Group's priority will be to maximise the value of materials throughout their lifecycle.

Bringing all of the parties – customer, designer, contractors and supply chain partners – to the table from the outset will allow projects to be developed in a manner that eliminates waste by design and enables circular economy initiatives such as take back schemes for packaging and unused materials to be utilised. Increased demand for materials and dwindling natural resources will help drive the development of innovative new ways of working that will help Balfour Beatty achieve its ambition to Generate Zero Waste by 2040. Modern methods of construction, such as off-site manufacturing and modularisation, will also help to streamline operations, helping to reduce waste and activity on-site and delivering significant quality, productivity and safety benefits.

Modern tools and construction methodologies such as virtual and augmented reality and scanning technologies will also help to reduce waste, with smart material selection and management leading to a high percentage of an infrastructure asset being recycled at the end of its lifecycle. Balfour Beatty has delivered significant value to its customers by applying this approach and recycling aggregates and clay on highways projects.

As the demand for low carbon solutions increases, Gammon has increased the number of concrete mixes that carry the Construction Industry Council (CIC) Green Product Certification (GPC) scheme 'Platinum' and 'Gold' certification (the highest two certifications) to 300 across its three concrete batching plants. Under the scheme, the life cycle carbon footprint of the different concrete mixes is measured and benchmarked to help users identify those with a low-carbon profile. Gammon was the first construction company to pioneer and have products certified to the scheme in Hong Kong. In 2020, 25% of concrete quantity produced was certified or equivalent to the 'Outstanding / Platinum' grade of the CIC GPC scheme.

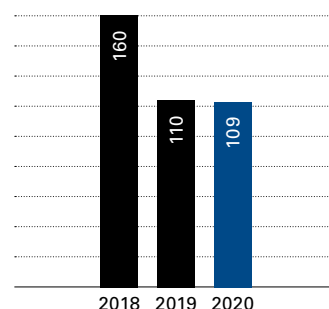
Water intensity

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

The Group has seen a decrease in its water intensity in the areas of its business where water is monitored from 110m³/£m revenue in 2019 to 109m³/£m revenue in 2020.

The Group continues to identify opportunities to reduce mains water use through dry wheel washes, water efficient appliances, and

**CUBIC METRES OF WATER
PER £M REVENUE**



ABOVE

First EU Stage V equivalent retrofit project on a Junttan piling rig

rainwater systems. A recent example of this is a rainwater harvesting system installed on a salt dome in the depot on the Aberdeen Western Peripheral Route that will be used to make brine during the winter months for road maintenance. The system also uses drainage water from the fuel storage and vehicle wash bay that is treated. In 2020, this system saved 668m³ of mains water.

Supply chain and collaboration

Balfour Beatty recognises the critical role of its supply chain partners in helping to make it a more sustainable business. The Group has continued to improve its approach to sustainable procurement in 2020 by working with its supply chain partners and customers to deliver social value outcomes and agree improvement plans across key categories. Much of the Group's work is undertaken collaboratively.

For instance, in 2020 Balfour Beatty worked with HS2, the Centre for Low Emission Construction, Eminox, and Emissions Analytics to develop a retrofit solution for construction plant to improve air quality. The trial that uses EMxS5 technology was conducted on a Junttan PM20 piling rig, was successful and has been approved by the Energy Saving Trust. This retrofit is the first

of its kind in the UK. Whilst engine standards are improving and new electric, hybrid and hydrogen solutions are starting to enter the market, there is a lot of plant and machinery that still runs on Stage IIIA and IIIB engines. This solution reduces exhausts of nitrous oxides, hydrocarbons, carbon monoxide and particulate emissions and brings them within Stage V standards. This solution can now be used by the wider construction industry and offers a practical and cost-effective solution to improve emissions from construction sites.

The Group has worked with its supply chain partners to improve their low carbon product offering as technology and solutions evolve. 2020 saw the roll out of the EcoNet solution that it developed with Invisible Systems and Sunbelt Rentals across 25 of its compounds on larger construction sites. (For more information see page 27.) It also saw the trial of its first B-rated site accommodation cabins on Viking Link that it developed with Sunbelt Rentals. These reduce energy consumption and associated carbon emissions by 27%.

In the UK, the Group is a member of the Supply Chain Sustainability School (SCSS)'s Climate Action Group. The aim of the group is to drive a reduction in carbon emissions from the built environment value chain through the products,

works and services procured. During 2020 the Group engaged a number of its suppliers to trial the Carbon Tool developed by the SCSS. This reporting tool supports businesses who have never reported their carbon emissions before to do so quickly and easily.

In 2017, the Group became the first company to implement and be assessed against ISO 20400:2017 the international standard for sustainable procurement for its UK operations. Since then it has improved its processes and approach to sustainable procurement. In its most recent assessment in 2020 by Action Sustainability, the Group's scores increased by 30%, moving its sustainable procurement maturity practices from a level 3 to a level 4 (out of 5). Its approach is described as 'Mature'.

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

For more information visit:
www.gammonconstruction.com/en/sustainability-report.php

WELL PRECERTIFICATION GOLD FOR GAMMON'S HEAD OFFICE



In 2020, Gammon's new head office achieved WELL Precertification at the Gold level, making it the first construction company in Hong Kong to have been awarded this international designation. The new office follows the WELL Building Standard (ver. 1) for interiors, a performance-based system for built environments that integrates health and wellbeing considerations in the design and fit-out. The project team considered every aspect from air and water quality to light, comfort and mental wellbeing.

Take a tour of
the new office:



COMMUNITIES



Positively impact more than 1 million people

As part of the Group's new sustainability strategy, the Group has set itself a 2040 ambition to positively impact more than 1 million people and a 2030 target to generate £3 billion of social value using the Social Value National TOMS framework.

Whilst infrastructure already has a hugely positive impact on people's lives, markets now require the Group to demonstrate the social value of its operations in economic terms. To benefit local areas, the Group uses local supply chain partners, employees and materials wherever possible, and invests in future talent through apprenticeship schemes and work placement opportunities. Involved (Balfour Beatty's community investment programme in the UK) was established in 2015 and focuses on three key areas where the Group can add value to its customers and the local community:

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

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

All employees have the opportunity to volunteer up to two days per year to give something back to local communities. Unfortunately, due to COVID-19, and the risk of infection, many of the volunteering

activities that had been planned in 2020 had to be cancelled. This has had a negative impact on the number of volunteering hours the Group was able to record and has also impacted on fundraising activities, with many fundraising events being cancelled. In some cases, projects were still able to provide virtual volunteering to support communities such as supporting NHS programmes.

This impact was reflected in the October 2020 employee engagement survey with only 58% of the Group's UK and US employees responding that "At Balfour Beatty, I am able to give something back to the community", a drop of 15% from the previous year. However, the score for "Balfour Beatty genuinely cares about having a positive impact on the environment and local communities" went up from 75% to 78%, demonstrating that there is a will to

GREEN APPLE DAY OF SERVICE, SAN DIEGO

Balfour Beatty Construction in partnership with the San Diego Green Building Council hosts its 9th annual Green Apple Day of Service

Balfour Beatty's California team and the San Diego Green Building Council, partnered with Poway Unified School District (Poway USD) to host their ninth annual Green Apple Day of Service. The international day of service takes place every year at different schools around the world. This year, Poway USD's Garden Road Elementary School was selected to receive an outdoor interactive learning classroom, accommodating students upon return to campus. One of the aims of the project was to provide students with a safer learning environment during the COVID-19 pandemic.

Over 100 eager volunteers, including students, employees, families, and supporting community and trade partners, willingly dedicated their Saturday to one common goal: creating an Outdoor Learning Classroom for students to learn and engage in a healthy, connective way.

Additional measures to transform and enhance the school included several painted murals, picnic tables, an owl box, walkways, a new shed, mulch, weeding, pavers, student-decorated rocks, instalment of outdoor dry-erase boards for the teachers, and a new shared library for students.

The effort supports and enhances Garden Road Elementary School, providing students and teachers with the opportunity to become further engaged and inspired by outdoor learning.



2020 CCS SCHEME NATIONAL SITE AWARDS



■ Gold
■ Silver
■ Bronze

9
13
5

support the environment and communities which the Group operates in.

The focus areas for the Group's charitable work have been on:

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

In the UK Balfour Beatty has continued to support the Considerate Constructors Scheme (CCS). The CCS is a non-profit-making, independent organisation founded in 1997 by the construction industry to improve its image. In 2020, 109 of the Group's UK sites were assessed against the scheme, with an average score of 41.8 out of 50 against an industry average of 37.8.

The Group won 27 National Site Awards under the CCS scheme in 2020.

Community investment through charitable fundraising

The Balfour Beatty Shaping Better Futures (SBF) Charitable Trust was formed in 2009 to help the most disadvantaged young people in society. In 2020, COVID-19 restrictions greatly restricted the ability of employees to raise funds with many events being cancelled or indefinitely postponed. SBF donated a total of £50,000 to The Prince's Trust.

The Group has worked closely with The Prince's Trust since the beginning of the partnership and has raised over £1.59 million

for the charity. This includes funds raised by employees and matched by SBF, direct donations from SBF, as well as funds raised by the Group directly. Through The Prince's Trust, the funding from 2020 will support 50 young people into positive outcomes in employment, education and training, transforming their life chances and developing their confidence and employability skills. With more than half a million young people already unemployed and youth joblessness predicted to increase as a result of the COVID-19 pandemic, the programmes that The Prince's Trust runs are vital to provide young people with the skills and opportunities needed to stabilise their lives and start something new. In the UK, a further £176,024 was raised by employees for charitable purposes. A total of £113,255 was provided in direct donations. £114,813 was made in in-kind donations.

The US construction business contributed over US\$341,914 to charitable causes in 2020. Some of the organisations receiving donations were:

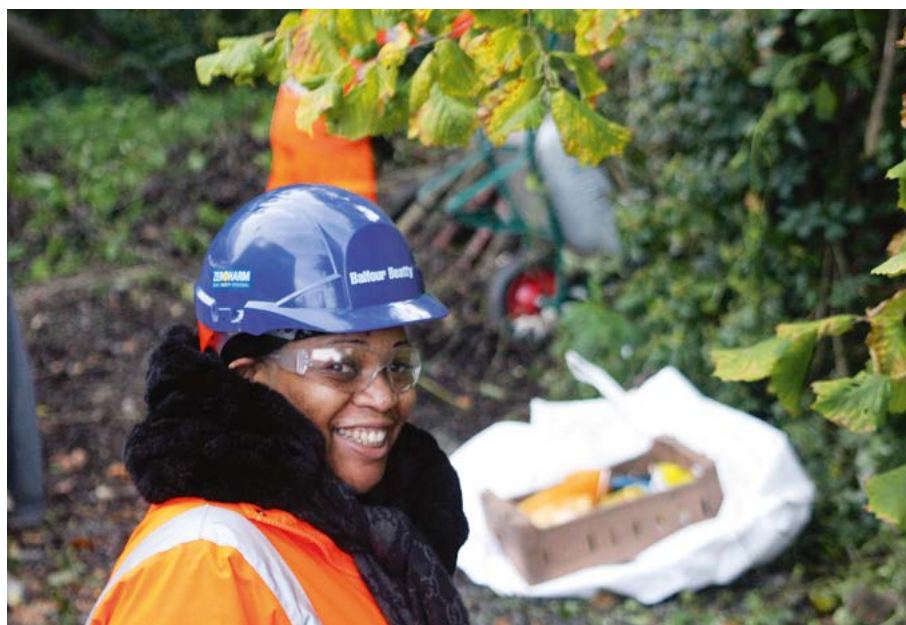
- Feeding America
- American Heart Association
- Canine Companions
- North Texas Food Bank
- San Diego Green Building
- ACE-Mentor Program
- Make-A-Wish® Foundation
- Boys and Girls Club of the Austin Area
- Oregon Trail of Hope
- Ronald McDonald House Charities of San Diego
- Sharefest Community Development
- Los Angeles Sustainability Coalition

While 2020 presented challenges for employees being able to volunteer their time in large groups or raise funds with many signature charitable events being cancelled, the US construction business still found ways to give back to communities, by volunteering in smaller groups and raising funds locally.

Some highlights of 2020, include the California team's Green Apple Day of Service at Garden Road Elementary School in POWAY (see page 68) and the Sharefest fundraiser for the Southbay area of Los Angeles. Balfour Beatty donated US\$5,000 and helped raise an additional US\$195,000 through vendors and suppliers and volunteers, with the funds used to empower youth and transform communities in some of Los Angeles' most deprived neighbourhoods.

BELOW

Volunteers planting bulbs at the side of Blackheath's station to enhance biodiversity.



Balfour Beatty sponsored and chaired the COVID Safe – NO SHOW 2020 for the Ronald McDonald House charity donating US\$8,000 and helping raise another US\$284,000 in additional donations from trade partners.

A further US\$90,000 was raised by employees for Rebuilding Together Seattle, the American Heart Association, Oregon Trail of Hope, the Oregon Community Association and other charities in the Northwest area which the business has longstanding relationships with.

In Texas employees were able to come together this year and host an outdoor social distanced golf and sporting clay shoot benefiting Texas Health Resource, 22Kill, Children's Health, Elizabeth Toons, Make-A-Wish and many other charities. The total charitable contributions of these events amounted to US\$147,340.

In order to support the University of North Carolina at Wilmington (UNCW), Balfour Beatty made a commitment to sponsor two junior merit-based scholarships in Coastal Engineering worth US\$5,000 per year with the first two students receiving their grants in 2020. Additionally, through the Balfour Beatty US\$50,000 Support Fund in Coastal Engineering, UNCW will advance the mission of its new degree programme to address issues affecting coastal communities around the world. UNCW continues to emerge as a leader in coastal research and is the first university in the US to offer a Bachelor of Science degree focused on coastal engineering.

Balfour Beatty Communities donated US\$30,000 to the Balfour Beatty Communities Foundation. The Foundation is a non-profit organisation committed to supporting the post-secondary educational goals of residents living in a community managed by Balfour Beatty Communities, as well as to organisations that support military personnel and their families. Balfour Beatty Communities Foundation awarded US\$139,000 in academic scholarships to residents of Balfour Beatty managed properties over the same period. A total of 68 scholarships were awarded. Furthermore, a US\$10,000 charitable donation to the Jacksonville chapter of Blue Star families, an armed forces charity, was provided.

The US Civils team donated US\$10,000 to the Carolinas Association of General Contractors (CAGC) Build Your Career (BYC). The CAGC BYC's mission is to help fight the skilled labour shortage by raising awareness of viable career opportunities within construction through local education efforts at middle and high school levels, as well as in community colleges and with individuals wanting to change careers through apprenticeship opportunities.

In 2020, Gammon, its employees and partners contributed to over 30 activities and community events in Hong Kong and provided over HK\$2 million in charity donations. Employees and subcontractors on four building projects raised over HK\$280,000 to support an initiative that helps students and families facing hardship and financial difficulties due to the COVID-19 pandemic.

Gammon ran a number of programmes during the year to supply free face coverings and bottles of sanitiser to employees and workers on its construction sites during the COVID-19 pandemic. Colleagues and their families also joined with a number of NGOs in Hong Kong to support low-income families and the elderly by distributing over 70,000 face coverings.

Across the Group's operations, employees volunteered 13,467 hours for charitable causes and raised £721,939 for charitable purposes. The Group donated £626,105 and made in-kind donations of £153,422. This has brought multiple social value benefits to the communities in which Balfour Beatty operates.



Balfour Beatty Communities Foundation awarded 68 scholarships in 2020.



DIRECT DONATIONS BY GEOGRAPHY



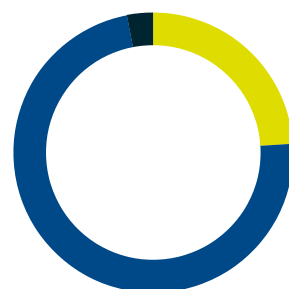
UK	£113,255
US	£279,790
Gammon	£233,060
Total	£626,105

IN-KIND DONATIONS BY GEOGRAPHY



UK	£114,813
US	£-
Gammon	£38,609
Total	£153,422

AMOUNTS RAISED BY EMPLOYEES



UK	£176,024
US	£524,791
Gammon	£21,124
Total	£721,939

Our people

Leadership and talent development

Balfour Beatty has continued its commitment to investing in employees' capability despite the challenges presented throughout the pandemic. We have shown innovation to remotely deliver programmes and initiatives that support the transfer of knowledge and collaboration for our employees.

Across the UK, US and Gammon, many training courses were switched to virtual delivery. Webinars were provided across several leadership topics, with an additional focus on promoting mental health and supporting employees through the crisis. In the UK, 170 webinars reached 7,500 people.

In the UK, Balfour Beatty has mature, well established leadership and talent programmes at various levels within the business, including the Future Leaders programme, which launched its fourth cohort with 25 leaders at the end of 2020 and the Aspiring Leaders programmes, which supported leadership readiness for 102 employees. Internal coaching and mentoring arrangements continue to be developed and embedded to support the UK business. Internal coaches have been trained to support talent programmes, performance and career coaching requirements, with 380 coaching hours being recorded in 2020.

In 2020, work continued with senior leaders in the US business to create networks, solve business challenges, and share lessons learned and best practice.

WAYNE'S JOURNEY FROM LINEMAN TO GENERAL SUPERINTENDENT



Wayne Kibee developed his love of construction from watching his dad work as a lineman. Upon graduation, Wayne began his first full-time role working for Balfour Beatty in the field.

Working his way up through the company, Wayne established himself as a high achiever and quickly moved from skilled labourer to carpenter, then from assistant superintendent to now general superintendent, where he continues to thrive.

Wayne enjoys the opportunity to successfully deliver top-notch projects for many education clients and school programmes throughout California. With more than 32 years of experience working in the industry, Wayne's work ethic and personal drive to succeed emanates on the jobsite, inspiring those around him to continue working towards greatness. When you step foot onto one of Wayne's projects, there is an overwhelming sense of pride carried by every team member. (Photo taken prior to COVID-19 pandemic).

Our people priority strategic pillars



1. Enabling the business

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



2. Building expert capability

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



3. Creating a great place to work

Grow an innovative, inclusive, and collaborative culture that is technology enabled, creating an existing and successful future for our employees, customers and shareholders.

3,209

TRAINING DAYS FOR
2,482 DELEGATES

360+

DELEGATES ON LEADERSHIP
MASTERCLASSES IN THE UK

38,000+

HOURS OF TRAINING
COMPLETED IN GAMMON

BEST LEARNING AND DEVELOPMENT TECHNOLOGY IMPLEMENTATION AWARD



Many training programmes in Gammon were forced to suspend following restrictions due to the pandemic. The Learning & Development team built a new online learning platform to allow employees to learn and add value while maintaining social distancing. Adjustments have been made to course content, with text materials now being delivered through videos and animations to continue delivering content in an engaging way while face-to-face training isn't an option. (Photo taken prior to COVID-19 pandemic).

Monthly virtual meetings occur for the vice presidents of operations with the goal of addressing important business topics such as the Gated Business Lifecycle, lean construction practices, and improving operational standards.

Across Balfour Beatty, learning is made accessible and development is facilitated across all aspects of a person's role, including technical; professional; leadership and personal development; health, safety and wellbeing, all to develop the best that our people can be.

Engagement

Employee engagement remains a key focus to support and enhance business performance, in 2020 employee wellbeing has been more important than ever and at the heart of the Group's engagement strategy. Work has continued in pursuit of nurturing our great place to work, a place where everyone feels included and supported and continuous listening is the norm.

With the COVID-19 pandemic meaning that many employees in the UK, US and Gammon

needed to work differently, the opportunity was taken to look at working arrangements. Employees were supported through new ways of working productively, with flexibility to balance work with other commitments, where possible through greater use of technology. In 2021 and beyond, the lessons learnt in 2020 from the pandemic will inform how to adopt these practices into new ways of working. A range of COVID-19 guides for employees was developed, including best practice for remote working, furlough, financial wellbeing and domestic abuse.

Balfour Beatty continues to conduct employee engagement surveys, providing immediate feedback on the results and ensuring complete transparency to build trust in the survey and the organisation. The 2020 survey results showed increased levels of engagement across the business and the contribution that the enhanced communications and additional levels of support provided to employees played in achieving these results. The Group's engagement score increased to 75% from 66% in 2019.

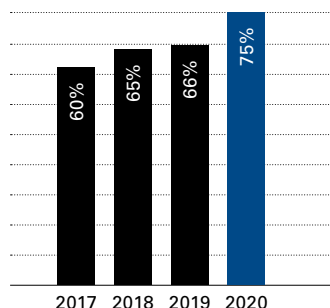
The UK engagement index score increased from 63% to 73%. Each of the four questions comprising the score (satisfaction, motivation, advocacy, retention) increased between 5% and 10%. An increase of 10% was achieved for employees recommending Balfour Beatty as a great place to work. There was a great increase of 13% in the score for graduates and under-represented groups responded very positively with female colleagues at 79% and BAME employees having the highest engagement score of 83%.

The 2020 US Buildings engagement index score was 89%, with 87% of people feeling a strong connection with their team, 88% of people saying the culture is inclusive to all people, 90% of people saying that they feel comfortable they can be themselves and accepted at work and 91% of people saying they can see themselves working at Balfour Beatty in 12 months' time.

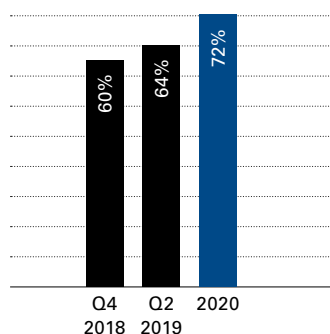
Another indication of positive engagement in the Group's workforce is the voluntary employee turnover rate, decreasing year on year, to 9.8% in the UK. Voluntary turnover within Gammon is currently 12.3% in 2020.

Employee survey results

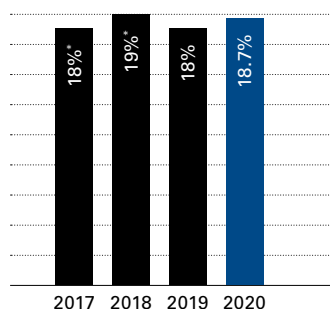
ENGAGEMENT INDEX SCORES %*



RECOMMEND AS A GREAT PLACE TO WORK %*



FEMALE EMPLOYEES ACROSS THE WORKFORCE %*



* Excluding international joint ventures.

Gammon continue to implement their action plan that incorporates a health and wellbeing programme. This included initiatives such as online Sunday Live stretching exercise, virtual Tai Chi workshop and health talks.

Many development activities have been enhanced through the non-executive Directors meeting and engaging with employees through site visits and attendance at virtual development events. This provides additional insight and benefit to participants and a great opportunity for Board members to gain an in-depth view of engagement throughout the business. As part of its employee engagement activities, Balfour Beatty continues to develop strong relationships through collective bargaining agreements across the UK and US, recognising multiple arrangements with trade unions in different part of the business. Appropriate employment practices and policies are applied for each market within the national collective agreements that are applicable to the Group's operations.

Balfour Beatty recognises the need to retain skills and expertise and therefore employees may be eligible for enhanced family friendly benefits whilst on, for example, maternity, adoption, or shared parental leave. Employees in the UK can also invest in Balfour Beatty through the Share Incentive Plan, and access lifestyle, health and wellbeing benefits and discounts.

In addition, the Group aims to make a positive difference in the community. UK employees can apply for paid volunteer leave to support local communities. Business units also operate schemes to recognise colleagues for their achievements locally as well as UK-wide employee referral schemes to incentivise employees for referring great new colleagues to the company.

Diversity and inclusion

To reflect the importance to Balfour Beatty of embedding a truly inclusive culture, in 2020 'value everyone' was adopted as one of our behaviours in the Group's Cultural Framework refresh to demonstrate its importance to the business. The Group Chief Executive is the Board-level sponsor for diversity and inclusion (D&I).

Supported by a Steering Committee that sets the direction for D&I, and a working party that leads and co-ordinates diversity initiatives, the UK business has a rolling three-year 'value Everyone' D&I action plan which drives activity to nurture a culture of inclusion and improve diversity and includes actions to address barriers for all under-represented groups. In the UK in 2020 Balfour Beatty was Highly Commended for the RIDI Awards for Making a Difference in the Private Sector and was recognised as a Top Ten Employee Network Group in The Ethnicity Awards for a second year. Furthermore, there were fantastic



UK: Virtual leadership conference. Photo credit: Graham Thorley

BALFOUR BEATTY SIGNS THE AUDELISS AND INVOLVE OPEN LETTER



Hear from Aaron Reid, Head of Sustainability and Steering Group Member of the Fairness, Inclusion and Respect Programme.

In the summer of 2020, demonstrations in the UK and US in support of Black Lives Matter shone a light on the remaining inequalities within black inclusion and Balfour Beatty realised that it needed to take more action.

Balfour Beatty has become the first construction and infrastructure company to sign the Audeliss and Involve Open Letter committing to engaging and measuring long-term actions for black inclusion within our UK businesses.

As there was significant interest and some lack of awareness across the business around many of the issues, we worked with diversity experts IODA and our Multi Cultural Affinity Network, to design an awareness raising webinar which was attended by over 600 people in the UK and many more have watched the recording. This was then developed into a series of 'Let's Talk About Race' workshops which were attended by 158 leaders across the business. These workshops and webinars have helped to build the level of understanding and have galvanised a real desire across the business to make a difference by developing and implementing local action plans to address barriers that exist and make Balfour Beatty a more inclusive workplace.

individual successes with two Women In Construction & Engineering award winners and Best New Female Chartered Engineer.

The US business has a five-year strategic plan that focuses on three areas of opportunity and growth: gender; race/ethnicity; and veterans. In the US, Balfour Beatty is working to recognise, promote and advance the business on Diversity, Equality & Inclusion (DEI) and build a foundation for the future. In the US, there were virtual conferences to highlight issues relating to discrimination due to race, ethnicity and sexual preference. Furthermore, as part of the DEI effort, the Learning and Development team rolled out Conscious Inclusion training focusing on how to create an environment where curiosity about differences is encouraged and where inclusion is the mutual responsibility of all employees.

Gammon has launched a Diversity and Inclusion Council with cross-discipline membership from directors, senior managers, Diversity & Inclusion champions and employee network representatives. The council has gathered views on creating a more inclusive company and initiated training for senior staff to raise awareness and understanding amongst project and department leaders.

Diversity initiatives

- The Leading Inclusively programme was launched in the UK, providing senior leadership teams with a safe space to explore the subject matter and focus on leadership behaviours and mindset. More than 150 leaders participated virtually in 2020. All colleagues were supported to understand and champion inclusivity behaviours in the workplace with the rollout of a new e-learning module – Value Everyone – during National Inclusion Week.
- Despite the pandemic, in the UK 'Empower' development programme a record 87 female employees participated during 2020. Over 300 women have attended this programme since 2016 and 42% of delegates have had a new role or promotion since participation.
- In the US, Black History Month was celebrated, and Martin Luther King Day is now recognised as a paid holiday in the US business, and the recruiting strategy revamp will include Historical Black Colleges and Universities to increase Balfour Beatty's African American employee base.
- In the US, two new affinity networks were launched in 2020, informed by the success of the strong Women in Construction. National and local affinity groups have been established under the Network of Black Leaders and Executives (NOBLE), and the business has prioritised DEI

workflows around NOBLE. The other affinity group created in 2020 is Building PRIDE which recognises and supports employees that represent the LGBTQ+ community within Balfour Beatty.

- To complement the well-established affinity networks in the UK and US, Gammon created its first affinity network, Women in Gammon and Allies Group (WinG); to recognise and support employees representing the LGBTQ+ community.

Emerging talent

As a member of The 5% Club in the UK, a dynamic movement of employers committed to 'earn and learn' skills training opportunities as part of ensuring Britain's social mobility and shared prosperity, Balfour Beatty already exceeds its target of 5% of its employee numbers earn and learn positions.

At the end of 2020, the proportion of UK employees in earn and learn positions (graduates, apprentices, trainees and industrial placement students) was 6.0%.

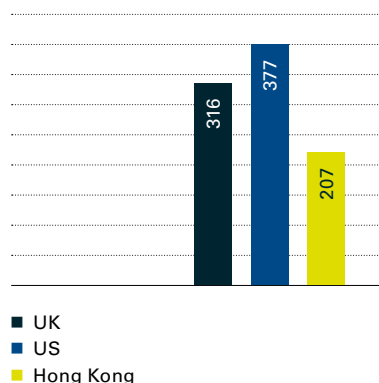
Despite the pandemic, Balfour Beatty continued to recruit new entrants and increased its UK intake of graduates, apprentices, trainees and industrial placement students by over 35% compared to 2019. The UK held firm in its commitment to developing its future workforce with a 30% increase in its intake of graduates, apprentices and trainees in 2020.

6.0%

UK EARN AND LEARN
WORKFORCE



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



Balfour Beatty's commitment to graduate development was recognised with sixth place in the 2020 National Graduate Week league table of most desirable companies to work for, and it was the only construction and infrastructure company in the table.

Gammon and the US businesses also showed another year of strong performance in emerging talent hires. Gammon is revamping its career website to include video sharing from existing employees to attract future talent, and encourage existing employees to further their studies, with over 7% of colleagues in earn and learn positions at the end of 2020.

It is important that the Group engages with education and young people to raise awareness of the opportunities available in infrastructure and leverage engagement to diversify new entries. As part of the new sustainability strategy, Balfour Beatty has pledged to increase its STEM Ambassadors from 218 to 1,000 by 2025 in the UK. In addition, partnerships have been created with several educational, STEM and community charities to work with them and young people to improve life chances.

The Graduate and Apprentice programmes in the UK support STEM and outreach activity through their Shaping Better Futures projects and the annual Balfour Beatty Brathay Apprentice Challenge. Balfour Beatty has recently renewed its pledge to increase apprentice diversity with the UK Government-led Apprenticeships Diversity Champions Network and has signed the Social Mobility Pledge and has also committed to the Tomorrow's Engineers Code.

Balfour Beatty is also a supporter of the new UK T-levels and will be offering industry placements to students studying the new Construction and Building Services T-levels and is working with University Technical Colleges across the country.

Balfour Beatty's US team based in Raleigh participated in Summer STEM with Wake County Public Schools. The two-day immersion activity with K-12 public school teachers is a collaboration between WakeEd Partnership, the Wake County Public School System (WCPSS), and STEM businesses and organisations in North Carolina. The programme exists to enrich the educator's understanding of the knowledge and skills necessary to succeed in STEM careers.

Members of the US team based in Charlotte actively participate in the ACE Mentor Program, an afterschool programme designed to attract high school students into pursuing careers in the Architecture, Construction and Engineering industry, including skilled trades. The mentorship programme gives students exposure through activities, guest speakers, jobsite tours and more.

Summary

As a result of Brexit, the Group will closely monitor issues surrounding skills shortages and the ability to attract people within Balfour Beatty and the wider supply chain.

The Company's Build to Last strategy for continuous improvement is the platform for inclusive talent which will set the Group apart. Throughout the pandemic, Balfour Beatty responded quickly, adapting its policies to support employees in a new way of working, enabling the Group to continue its commitment to build a workforce of industry-leading people by providing a strong development offering, fostering employee engagement and providing exciting career opportunities for its people through the future pipeline of work.

GENDER BREAKDOWN

At 31 December 2020	Male	Female	Total	% Male	% Female
Board	6	2	8	75.0%	25.0%
Senior managers ¹	91	33	124	73.4%	26.6%
Directors of subsidiaries not included above ²	34	10	44	77.3%	22.7%
Employees ³	20,870	4,814	25,684	81.3%	18.7%

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

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

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

NON-FINANCIAL INFORMATION STATEMENT

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

Reporting requirement	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes	
Environmental	Our sustainability strategy – Building New Futures Sustainability policy Sustainable procurement policy Environmental policy ISO 14001:2014 & ISO 20400:2017	Sustainability	page 55
Employees	Health and safety policy Code of Conduct	Health, safety and wellbeing Business integrity Our people	page 48 page 52 page 71
Social and community matters	Social value policy Code of Conduct	Sustainability Business integrity	page 55 page 52
Respect for human rights	Modern slavery statement Code of Conduct	Business integrity	page 53
Anti-corruption and bribery matters	Supplier Code of Conduct Code of Conduct	Business integrity	page 52
Innovation		Innovation	page 26
Description of the business model		Balfour Beatty at a glance Our strategy: Build to Last Market review Business model	page 2 page 12 page 16 page 22
Stakeholders		Stakeholder value	page 24
Description of principal risks and impact of business activity		Risk management Principal risks	page 88 page 94
Non-financial key performance indicators		Our strategy: Build to Last Health, safety and wellbeing Business integrity Sustainability Our people	page 12 page 48 page 52 page 55 page 71



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

Providing clarity on the Group's alternative performance measures

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

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

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

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

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

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

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

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

Performance measures used to assess the Group's operations

Underlying profit from operations (PFO)

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

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

Underlying profit before tax (PBT)

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

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

Operating cash flow (OCF)

The Group uses an internally defined measure of OCF to measure the performance of its earnings-based businesses and subsequently to determine the amount of incentive awarded to employees in these businesses under the Group's Annual Incentive Plan (AIP). This measure also aligns to one of the vesting conditions attributable to the Group's 2018, 2019 and 2020 PSP awards. Refer to pages 144 to 146.

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

Measuring the Group's performance

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

Statutory measures

Statutory measures are derived from the Group's reported financial statements, which are prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRSs) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 171 to 176.

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

Performance measures

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

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

a) Order book

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

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

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

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

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

b) Underlying performance

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

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

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

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

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

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

A reconciliation has been provided on page 79 to show how the Group's statutory results are adjusted to exclude non-underlying items and their impact on its statutory financial information, both as a whole and in respect of specific line items.

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

	2020 £m	2019 £m
Order book (performance measure)	16,392	14,339
Less: Share of orders included within the Group's joint ventures and associates	(2,443)	(1,987)
Less: Estimated orders under framework agreements included in the order book disclosure	(367)	(114)
Add: Transaction price allocated to remaining performance obligations in Infrastructure Investments*	1,656	1,866
Transaction price allocated to remaining performance obligations for the Group* (statutory measure)	15,238	14,104

* Refer to Note 4.3.

Reconciliation of 2020 statutory results to performance measures

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

Reconciliation of 2020 statutory results to performance measures by segment

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

Measuring the Group's performance continued

Performance measures continued

Reconciliation of 2019 statutory results to performance measures

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

Reconciliation of 2019 statutory results to performance measures by segment

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

c) Underlying profit before tax

As mentioned on page 77, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

	2020 £m	2019 £m
Underlying profit from operations (section (b) and Note 5)	8	82
Add: Subordinated debt interest receivable*	25	20
Add: Interest receivable on PPP financial assets*	8	9
Less: Non-recourse borrowings finance cost*	(11)	(13)
Less: Impairment of subordinated debt receivable*	(10)	–
Underlying profit before tax (performance)	20	98
Non-underlying items (section (b) and Note 5)	(5)	(5)
Statutory profit before tax	15	93

* Refer to Note 8 and Note 9.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2020 pence	2019 pence
Statutory basic earnings per ordinary share	4.4	19.0
Amortisation of acquired intangible assets net of tax	0.5	0.9
Other non-underlying items net of tax	(1.2)	6.8
Underlying basic earnings per ordinary share (performance)	3.7	26.7

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

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

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

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

f) Operating cash flow (OCF)

The table below reconciles the Group's internal performance measure of OCF to the statutory measure of cash generated from operating activities as reported in the Group's Statement of Cash Flows (page 168).

Reconciliation from statutory cash generated from operations to OCF

	2020 £m	2019 £m
Cash generated from operating activities (statutory)	274	211
Add back: Pension payments including deficit funding (Note 30.2)	18	33
Less: Repayment of lease liabilities (including lease interest payments) (Note 28)	(64)	(51)
Add: Operational dividends received from joint ventures and associates (Note 19.5)	50	54
Add back: Cash flow movements relating to non-operating items	5	3
Less: Operating cash flows relating to non-recourse activities	(3)	(7)
Operating cash flow (OCF) (performance)	280	243

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

Pension payments including deficit funding (£18 million): the Group has excluded pension payments which are included in the Group's statutory measure of cash flows from operating activities from its internal OCF measure as these primarily relate to deficit funding of the Group's main pension fund, Balfour Beatty Pension Fund (BBPF). The payments made for the deficit funding are in accordance with an agreed journey plan with the trustees of the BBPF and are not directly linked to the operational performance of the Group.

Repayment of lease liabilities (including lease interest payments) (£64 million outflow): the payments made for the Group's leasing arrangements are included in the Group's OCF measure as these payments are made to third-party suppliers for the lease of assets that are used to deliver services to the Group's customers, and hence to generate revenue. Under IFRS, these payments are excluded from the Group's statutory measure of cash flows from operating activities as these are considered debt in nature under accounting standards.

Operational dividends received from joint ventures and associates (£50 million inflow): dividends received from joint ventures and associates which are generated from non-disposal activities are included in the Group's OCF measure as these are cash returns to the Group from cash flows generated from operating activities within joint ventures and associates. Under IFRS, these returns are classified as investing activities.

Cash flow movements relating to non-operating items (£5 million): the Group's OCF measure excludes certain working capital movements that are not directly attributable to the Group's operating activities.

Operating cash flows relating to non-recourse activities (£3 million): the Group's OCF measure is specifically targeted to drive performance improvement in the Group's earnings-based businesses and therefore any operating cash flows relating to non-recourse activities are removed from this measure. Under IFRS, there is no distinction between recourse and non-recourse cash flows.

Measuring the Group's performance continued
Performance measures continued
g) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the year end. This is analysed using only elements that are recourse to the Group and excludes the liability component of the Company's preference shares, which is debt in nature according to statutory measures. These shares were redeemed in the year. Non-recourse elements are cash and debt that are ringfenced within certain infrastructure concession project companies. In addition, lease liabilities recognised on the Group's balance sheet, are deemed to be debt in nature under statutory measures.

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

Net cash/borrowings reconciliation

	2020 statutory £m	Adjustment £m	2020 performance £m	2019 statutory £m	Adjustment £m	2019 performance £m
Total cash within the Group	792	(22)	770	778	(35)	743
Cash and cash equivalents – infrastructure concessions	22	(22)	–	35	(35)	–
– other	770	–	770	743	–	743
Total debt within the Group	(653)	464	(189)	(798)	567	(231)
Borrowings – non-recourse loans	(339)	339	–	(337)	337	–
– other	(189)	–	(189)	(231)	–	(231)
Liability component of preference shares	–	–	–	(110)	110	–
Lease liabilities	(125)	125	–	(120)	120	–
Net cash/(borrowings)	139	442	581	(20)	532	512

h) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt, the liability component of the Company's preference shares and lease liabilities recognised. This performance measure shows average net cash of £527 million for 2020 (2019: £325 million).

Using a statutory measure (inclusive of non-recourse elements, the liability component of the Company's preference shares and the lease liabilities recognised) gives average net cash of £71 million for 2020 (2019: net borrowings of £49 million).

i) Directors' valuation of the Investments portfolio

The Group uses a different methodology to assess the value of its Investments portfolio. As described on pages 44 and 45, the Directors' valuation has been undertaken using forecast cash flows for each project based on progress to date and market expectations of future performance. These cash flows have been discounted using different discount rates depending on project risk and maturity, reflecting secondary market transaction experience. As such, the Board believes that this measure better reflects the potential returns to the Group from this portfolio.

The Directors have valued the Investments portfolio at £1.09 billion at year end (2019: £1.07 billion).

The Directors' valuation will differ from the statutory carrying value of these investments, which are accounted for using the relevant standards in accordance with IFRS rather than a discounted cash flow approach.

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

	2020 £m	2019 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	706	676
Less: Net assets not included within the Directors' valuation – Housing division	(27)	(30)
Comparable statutory measure of the Investments portfolio under IFRS	679	646

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

	2020 £m	2019 £m
Statutory measure of the Investments portfolio (as above)	679	646
Difference arising from the Directors' valuation being measured on a discounted cash flow basis compared to the statutory measure primarily derived using a combination of the following IFRS bases:		
– historical cost		
– amortised cost		
– fair value	407	422
Directors' valuation (performance measure)	1,086	1,068

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

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

As referred to in the Strategic report on page 45, the Directors' valuation is calculated using discounted cash flows. In deriving these cash flows, assumptions have been made and different discount rates used which are updated at each valuation date.

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

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

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

j) Constant exchange rates (CER)

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

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

2020 statutory growth compared to performance growth

	Construction Services				Support Services	Infrastructure Investments	Total
	UK	US	Gammon	Total			
Revenue (£m)							
2020 statutory	2,192	3,776	–	5,968	1,037	315	7,320
2019 statutory	2,214	3,737	–	5,951	991	371	7,313
Statutory growth (%)	(1)%	1%	–	–	5%	(15)%	–
2020 performance*	2,190	3,789	985	6,964	1,067	556	8,587
2019 performance retranslated*	2,213	3,721	894	6,828	1,023	521	8,372
Performance CER growth (%)	(1)%	2%	10%	2%	4%	7%	3%
Order book (£bn)							
2020	6.4	5.2	2.1	13.7	2.7	–	16.4
2019	3.0	6.5	1.6	11.1	3.2	–	14.3
Growth (%)	113%	(20)%	31%	23%	(16)%	–	15%
2020	6.4	5.2	2.1	13.7	2.7	–	16.4
2019 retranslated	3.0	6.3	1.6	10.9	3.2	–	14.1
CER growth (%)	113%	(17)%	31%	26%	(16)%	–	16%

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



Balfour Beatty's operations recovered steadily through the second half of 2020

Group financial summary

The Group reported a loss from operations in the first half of 2020 but as new working practices developed and sites reopened, operations recovered through the second half of 2020 so that for the full year, Balfour Beatty reported underlying profit from operations of £51 million (2019: £221 million).

Despite the reduction in profit, the Group demonstrated its resilience delivering positive operating cash flow as the year end net cash balance increased to £581 million (2019: £512 million) with average net cash ahead of previous guidance at £527 million (2019: £325 million). The Group's year end order book also increased by 15% to £16.4 billion (2019: £14.3 billion).

Underlying revenue was up 2% (3% at CER) at £8,587 million (2019: £8,405 million). Statutory revenue, which excludes joint ventures and associates, was £7,320 million (2019: £7,313 million). Construction Services revenue was up 2% (2% at CER) at £6,964 million (2019: £6,858 million) as a result of higher volumes at Gammon. Support Services revenue increased by 4% to £1,067 million (2019: £1,023 million) following higher volumes in power and transportation.

Results for the year	2020 £m		2019 £m	
	Underlying ²	Total	Underlying ²	Total
Revenue ¹	8,587	8,593	8,405	8,411
Profit from operations	51	63	221	159
Pre-tax profit	36	48	200	138
Profit for the year	25	30	186	133
Basic earnings per share	3.7p	4.4p	26.7p	19.0p
Dividends per share		1.5p		2.1p

Underlying profit from operations ²	2020 £m		2019 £m	
	Underlying ²	Total	Underlying ²	Total
UK Construction	(26)		47	
US Construction	26		52	
Gammon	29		26	
Construction Services	29		125	
Support Services	46		47	
Earnings-based businesses	75		172	
Infrastructure Investments pre-disposal operating profit	8		13	
Infrastructure Investments gain on disposals	—		69	
Corporate activities	(32)		(33)	
Total	51		221	

1 Including share of joint ventures and associates.

2 Before non-underlying items (Note 10).

Construction Services was materially impacted by COVID-19 as underlying profit from operations decreased to £29 million (2019: £125 million). Throughout the year, the Group worked hard to minimise the impact of the pandemic as the majority of its projects remained operational. Site closures, particularly in the second quarter, combined with a reduction in productivity and the cost of implementing new operating procedures, led to a material reduction in margin. In addition, COVID-19 has led to lengthened site programmes triggering a reassessment of the Group's contract end forecast positions which also contributed to the decrease in profit.

Support Services was resilient with underlying profit from operations of £46 million (2019: £47 million), whilst the decision to defer disposals from Infrastructure Investments led to a significant reduction in underlying profit at £8 million (2019: £82 million). In total, after including corporate costs, the Group reported underlying profit from operations of £51 million (2019: £221 million).

During the year, the Group received grant income of £19 million in relation to the UK Government's Job Retention Scheme (JRS). This income was recognised as a non-underlying item in the Group's results in 2020. The scheme provided welcome and timely

support but the Group has made the decision post 31 December 2020 to voluntarily refund this income. Due to the timing of the decision to repay the JRS, there was no liability recognised at 31 December 2020 and the cost of the refund will be recognised as a non-underlying item within the Group's 2021 results. Statutory profit from operations was £63 million (2019: £159 million).

Net finance costs decreased to £15 million (2019: £21 million) as a result of lower interest costs as Balfour Beatty fully redeemed its preference shares for £112 million in July 2020. Underlying pre-tax profit was £36 million (2019: £200 million).

The taxation charge on underlying profits at £11 million (2019: £14 million), relating primarily to the derecognition of UK tax losses, led to an underlying profit after tax of £25 million (2019: £186 million). Total statutory profit after tax for the year was £30 million (2019: £133 million), as a result of the net effect of non-underlying items. The underlying basic earnings per share was 3.7 pence (2019: 26.7 pence), which, along with a non-underlying gain per share of 0.7 pence per share (2019: 7.7 pence loss), gave a total basic earnings per share of 4.4 pence (2019: 19.0 pence).

Non-underlying items

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

Non-underlying items after taxation were a net credit of £5 million for the year (2019: £53 million net charge). This includes a £19 million credit for amounts received under the UK Job Retention Scheme in 2020, which will be reversed as a non-underlying charge in the Group's 2021 accounts following the Board's decision to fully repay the £19 million. A tax charge of £6 million was also recognised as a result of movements in retirement benefit assets and the effect of tax rate changes.



UK: Merrick Road Foot and Cycle Bridge, Ealing Council. Photo credit: Georgina Kalogeraki

Cash flow performance

	2020 £m	2019 £m
Operating cash flows	127	213
Working capital inflow	167	32
Pension deficit payments ⁺	(18)	(33)
Cash from operations	276	212
Lease payments (including interest paid)	(64)	(51)
Dividends from joint ventures and associates [∞]	50	54
Capital expenditure	(34)	(24)
Ordinary dividends	–	(36)
Redemption of preference shares	(112)	–
Infrastructure Investments		
– disposal proceeds	–	102
– new investments	(46)	(64)
Other	(1)	(18)
Net cash movement	69	175
Opening net cash [*]	512	337
Closing net cash [*]	581	512

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

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

+ Including £3 million (2019: £3 million) of regular funding.

Cash flow performance

The total cash movement in the year resulted in a £69 million increase (2019: £175 million) in the Group's year end net cash position to £581 million (2019: £512 million) excluding non-recourse net borrowings. The strong performance was driven by positive operating cash flows and significant working capital inflows, partially offset by the redemption of the preference shares, lease payments, investment in Infrastructure Investments and capital expenditure.

Working capital

In the year, the Group's working capital position resulted in an inflow of £167 million (2019: £32 million). The strong performance was underpinned by movements in net contract assets which benefited from a number of settlements during the year, both in the US and the UK (including the Aberdeen Western Peripheral Route (AWPR) contract) and the mobilisation of a number of highways projects in the US. The working capital outflow from trade and other payables, partly offset by an inflow from trade and other receivables, was a result of the timing of payments at year end.

Working capital flows[^]

	2020 £m	2019 £m
Inventories	(14)	(18)
Net contract assets	154	(30)
Trade and other receivables	42	(56)
Trade and other payables	(69)	157
Provisions	54	(21)
Working capital inflow [^]	167	32

[^] Excluding impact of foreign exchange and disposals.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £887 million (2019: £725 million). The Group expects negative working capital as a percentage of revenue to be between 10-12% (2020: 12.1%) with the range dependent on contract mix and the timing of project starts and completions.

Prompt Payment Code

Balfour Beatty was reinstated to the Prompt Payment Code (PPC) in the UK on 22 January 2020. In the first six months of 2020 the percentage of invoices paid within 60 days reduced to 89% as a result of disruption at the start of the year following an internal change to systems to improve and standardise the Group's approach. In the second half of the year, this contributed to an improvement in the percentage of invoices paid within 60 days to 91%.

	Percentage of invoices paid within 60 days	Average days to pay invoices
Jan–Jun 2018	77%	54
Jul–Dec 2018	82%	50
Jan–Jun 2019	86%	40
Jul–Dec 2019	90%	38
Jan–Jun 2020	89%	41
Jul–Dec 2020	91%	40

Whilst Balfour Beatty remains focused on measures which ensure continued improvement in its payment performance, it operates in a sector where supply chains and contractual terms are complex, and prompt payment is often materially impacted by resolution of disputes and alignment to agreed contractual processes. On 1 March 2021 the UK's new VAT Domestic Reverse Charge regulations for construction services came into effect, which may impact the ability of the Group's supply chain to accurately invoice Balfour Beatty.

Net cash/borrowings

The Group's average net cash in 2020 improved substantially to £527 million (2019: £325 million). The Group's net cash position at 31 December 2020, excluding non-recourse net borrowings, was £581 million (2019: £512 million).

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

Non-recourse net borrowings, held in Infrastructure Investments entities consolidated by the Group, were £317 million (2019: £302 million). The balance sheet also included £125 million for lease liabilities (2019: £120 million). Statutory net cash at 31 December 2020 was £139 million (2019: £20 million net debt).

Banking facilities

The Group's £375 million committed bank facility has been extended to October 2023 following the exercise of an extension option during the year. The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. The agreement includes a further one-year extension option, to take final maturity to October 2024, with the agreement of the lending banks. During the year this facility remained undrawn. The Group does not undertake supply chain financing arrangements.

Going concern

In light of the COVID-19 pandemic and the impact on the Group's performance in 2020, the Directors have reconsidered the Group's medium-term cash forecasts and conducted stress-test analysis on these projections in order to assess the Group's ability to continue as a going concern. Having also made appropriate enquiries, the Directors consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the Group financial statements. Further detail is provided in Note 1 Going Concern.

Pensions

In January 2020, the Group concluded negotiations with the trustees of the Balfour Beatty Pension Fund (BBPF) on the formal triennial funding valuation as at 31 March 2019. Under this agreement Balfour Beatty and the trustees re-confirmed their commitment to a journey plan approach to managing the BBPF with the Group agreeing to make total cash deficit contributions of £64 million from 2021 to 2023, whereby the BBPF is aiming to reach self-sufficiency by 2027. There is an agreed mechanism for accelerating the payment of contributions set out above if the earnings cover for total shareholder returns (both dividends and other capital returns) falls below 2x. The Group remains committed to meeting its obligations to its pension schemes and this forms part of its commitment to maintaining an appropriate balance between investment in the business, maintaining a strong capital position and cash returns to shareholders.

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

The Group's balance sheet includes net retirement benefit assets of £89 million (2019: £133 million) as measured on an IAS 19 basis, with the surplus on the BBPF partially offset by deficits on the RPS and other schemes. The accounting for the BBPF in 2020 has been impacted by a reduction in the discount rate and an increase in the life expectancy assumption. Refer to Note 30.

Dividend

The Board is committed to a sustainable ordinary dividend which is expected to grow over time, targeted at a pay-out ratio of 40% of underlying profit after tax excluding gain on disposal of Investments assets.

The Board has therefore recommended a final dividend of 1.5 pence per share for the year ended 31 December 2020. There was no interim dividend, so the total dividend for the year is also 1.5 pence per share.

Philip Harrison

Chief Financial Officer

9 March 2021

The heart of decision-making

A consistent risk process.

Introduction

Balfour Beatty continues its commitment to embedding risk management across the organisation and has continued to develop and refine existing processes and broaden the enterprise risk management (ERM) framework roll out throughout 2020. The Group's simple risk process remains at the core of the ERM framework to ensure consistency in the application across all parts of the organisation. The Risk Management function ensures the Group adheres to regulatory requirements and adopts good practice in its approach to identifying, assessing, responding to and monitoring risk.

Our risk management process

Balfour Beatty's simple four-step process continues to ensure the consistent identification, assessment, response and monitoring of risk across the organisation. Standardising both the process and ERM system from project operations up to Group level ensures risks are understood and communicated clearly at each level of the organisation. This ensures that the capture and assessment of risk and opportunity remain at the heart of decision making at Balfour Beatty, allowing targeted and effective management.

Managing risk helps preserve value through control and mitigation of potential exposures.

1. Identify

Objective-based risk assessment remains a core component of the identify step. Clearly defining the risk event in relation to what the Group is trying to achieve ensures risk remains directly linked to project outcomes and strategic business plans. Conducting a detailed analysis of both the causes (drivers)

of the risk and the potential consequences (outcomes) aids in understanding the conditions surrounding the risk, which can be mapped to the existing control environment to identify any gaps. Documenting the current control environment and its effectiveness forms part of this.

2. Assess

Each risk and opportunity is assessed based on the likelihood of the risk occurring and the potential impact should the risk occur, allowing risks and opportunities to be prioritised. This assessment is based on the effectiveness of the current control environment – controls that are in place at the time of assessment. This gives a clearer picture of the current risk exposure in real time and can drive the required response. A probability and impact matrix is used for assessment and is discussed further on page 93.

3. Respond

A response class is determined for each risk and opportunity dependent on its current assessment: accept or manage further. Actions are developed for those risks requiring further management, with clear ownership and implementation timeframes in relation to the current risk assessment.

4. Monitor

All risks undergo regular review to ensure the information captured remains relevant, accurate and up to date, including the status tracking of outstanding actions. Conditions for risks may change from time to time, with the emergence of additional causes or impacts resulting in a requirement to further manage a previously 'accepted' risk. Further detail on the policy, process and accountability for risk management is contained on page 126 to 133.



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



Circles of Risk

Balfour Beatty's Circles of Risk guidance continues to be central to the Work Winning phase of the Gated Business Lifecycle to ensure high-level risk profiles are understood early on in the pursuit of an opportunity and are aligned to the Group's risk appetite, ensuring prospects do not proceed to the next gate without an awareness of their potential risk profile and appropriate management actions.

The guidance remains reflective of experience and lessons learned from delivering a comprehensive range of projects for a wide range of customers and contains examples of specific risks and mitigations aligned to the Group's operating and commercial principles.

The Circles of Risk frame a discussion early on in the Gateway Review process to ensure proper consideration of risks associated with the project such as location, customer, supply chain, project scope and contractual terms.

If the Group does not have previous successful delivery experience across more than two categories in the Circles of Risk, the project will not proceed before further risk analysis has been undertaken, potential mitigations strategies identified and an informed decision made on how to proceed.

This approach allows Balfour Beatty to make decisions in the context of its risk appetite and stay ahead of potential exposures by ensuring:

- alignment to Group objectives, business growth strategies and acceptable risk profiles;
- all opportunities are assessed in a consistent and robust way so that potential opportunities that do not fit with approved business objectives are qualified out; and
- the early identification of mitigation strategies in order to pursue the opportunity in line with the Group's operating and commercial principles.

COVID-19 risk profile

COVID-19 has undoubtedly had an impact on the business. With the evolution of the pandemic generating a rapidly changing operating environment, a COVID-19 risk profile was developed early in March 2020 to track the potential impact on day-to-day operations, understand exposures and how these were being managed across the organisation, and to monitor any movement as the crisis developed.

Group crisis management and business continuity plans were activated and led by the Executive Committee. A specific COVID-19 category was created in the ERM risk system allowing risks to be identified and monitored and consistent controls to be applied by projects.

The COVID-19 risk profile was monitored continuously throughout 2020 alongside the deployment of business continuity plans with oversight by the Executive Committee.

The early COVID-19 risk themes related largely to the scale of the uncertainty COVID-19 brought to business operations in the short term, and included:

- maintaining safe on-site project delivery;
- consequences of disruption to the supply chain and availability of materials;
- managing site security;
- enabling effective remote working to continue business processes; and
- understanding and managing any contractual impacts.

During the second half of 2020, the COVID-19 risk profile evolved, reflecting exposure to the 'second wave' in the UK during the winter period and varied impacts of the pandemic in different regions of the US.

The relentless application of controls and revised operating processes established in the early stages of the pandemic across the entire business meant the exposure to disruption or suspension of delivery was significantly reduced.

CIRCLES OF RISK



SUPPLY
CHAIN



GEOGRAPHY



CONTRACT



CUSTOMER

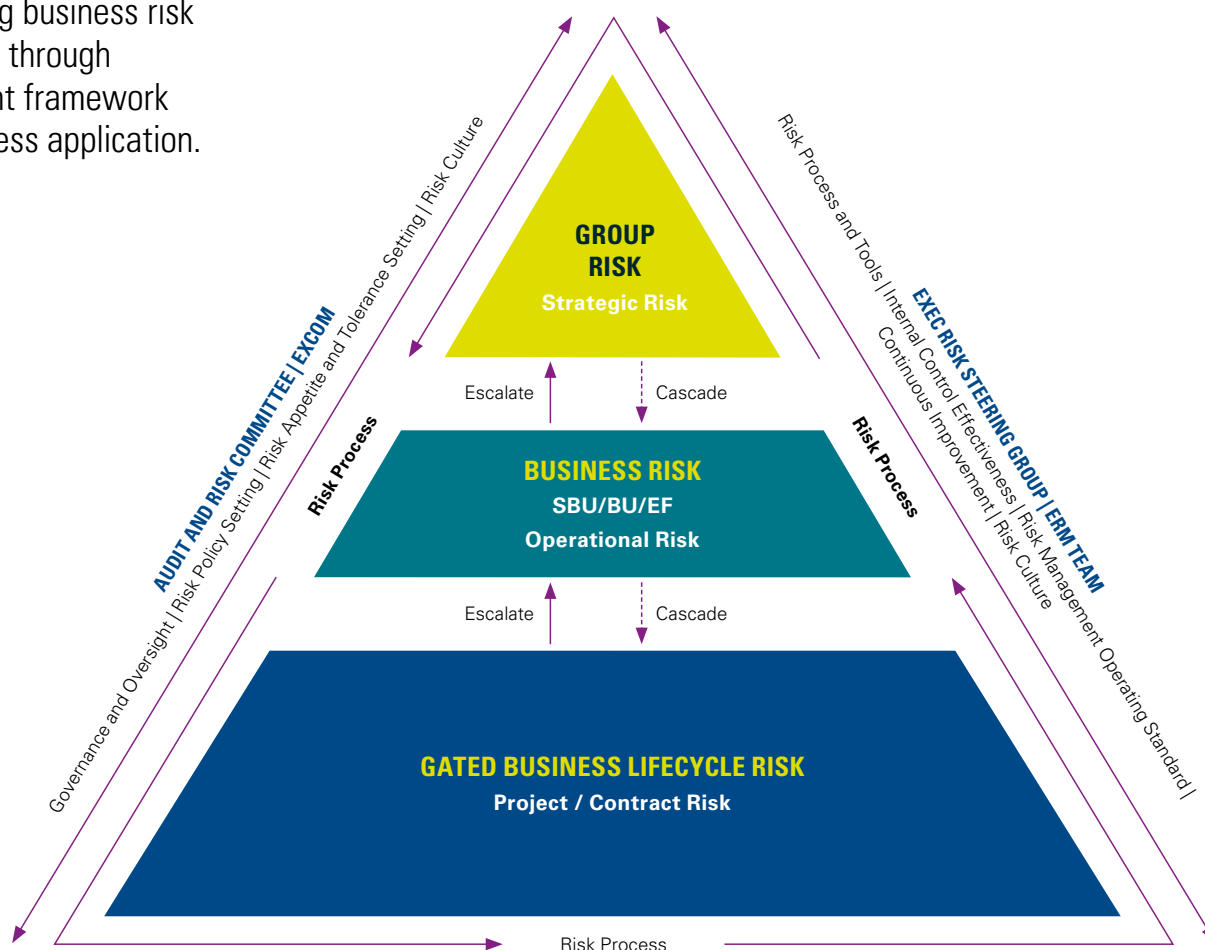


TEAM



PROJECT

Enhancing business risk oversight through consistent framework and process application.



Governance and oversight

The Board accepts overall responsibility for risk management and has established procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its longer-term strategic objectives. The Directors continue to undertake a full assessment bi-annually of the emerging and principal risks faced by the Group, and review the effectiveness of the risk management framework and internal control systems, including the financial, operational and compliance processes and controls that are in place to prevent the occurrence or limit the impacts of risks. The Audit and Risk Committee provides independent oversight of the effectiveness of the Group's risk management and associated internal control environment.



Group risk management

The dynamic structure of the Group's risk management process allows the Group Chief Executive to monitor the risk profile of the business via the Executive Risk Steering Group (ERSG). Members of the ERSG act as executive sponsors for risk management and provide valuable input to Group risk themes based on profiles within their respective businesses and functions. The incorporation of the Group risk register into the Group's bespoke risk management software, IRIS (Intelligent Risk Information System), has enabled greater visibility of core and common themes and linkage of these themes between the Group and business risk profiles to better inform half and full year reviews.



Business risk management

Risk management at the business level is critical to informing the Group's risk profile. In 2020 the implementation of IRIS into the US business has enabled greater oversight of both project and business risk profiles and an improved and more efficient roll up to Group level. The comprehensive adoption of the ERM system by strategic business units has increased transparency of operational and business risk profiles as well as increased the support for businesses in making risk-based decisions. Pragmatic interaction between operational delivery and enterprise risk teams, alongside increased risk reporting (through Power BI) has evolved to provide early risk indicators that continue to be monitored in line with business and Group risk appetite.



Gated business lifecycle risk management

The Gated Business Lifecycle remains at the centre of Balfour Beatty's internal control environment. The assessment of risk, as aligned to appetite, is made at each review gate to ensure risk-based decision making remains at the heart of future prospect and live project reviews. This has been supported via increased project risk reporting developed in 2020 that provides key risk indicators across project portfolios, enhancing the timely escalation of project risk to respective business levels. Processes to increase alignment with internal audit activities have driven an improvement in the quality of risk information and accelerated improvement initiatives to support business delivery. The roll out of IRIS into the US business has increased consistency in how the risk process is applied, allowing the greater sharing of good practice across the UK and the US businesses to manage delivery risk.

Risk attitude and appetite

The risks that the Group remains exposed to throughout its day-to-day delivery and longer-term pursuit of strategic objectives continues to be monitored in line with appetite – and decisions taken in line with the organisation's attitude to risk. Understanding current and emerging risks continues to be integral to Balfour Beatty's decision-making process.

Balfour Beatty's approach to measuring the Group's risk appetite remains aligned to its Build to Last strategy, which ensures that risk-based decision making on whether to accept or tolerate risk supports the pursuit of objectives whilst keeping loyal to the Company's culture, values and behaviours, and drives a consistent philosophy that can be adopted by all business areas and geographies. The strength and ongoing effectiveness of the internal control environment within the risk structure outlined on pages 126 to 133 has been considered in setting out the below.

Throughout 2020 and into 2021 the Board and its Committees and working groups measured the nature and extent of those current and emerging risks faced by the Group in achieving its long-term strategic objectives. This required a thorough review of the effectiveness of its internal control environment within the risk management structure outlined on pages 126 to 133. The outcome of this assessment represents the Group's risk appetite and can be set out in the context of the Group's values as shown below.

LEAN	EXPERT	TRUSTED	SAFE	SUSTAINABLE
We create value for our customers and drive continuous improvement	Our highly skilled colleagues and partners set us apart	We deliver on our promises and we do the right thing	We make safety personal	We act responsibly to protect and enhance our planet and society
Risk appetite Balfour Beatty is committed to challenging its ways of working to improve outcomes and become more competitive. In delivering better for less, the Group is prepared to accept a level of operational risk. Such risks must not be at the expense of meeting customer requirements. The Group's risk appetite for efficiency remains moderate.	Risk appetite Balfour Beatty continues to develop its expertise in engineering, computer science, robotics, data analytics, electronics and electrical and mechanical engineering to deliver the very best solutions to its customers. This drive for sustained innovation is undertaken with industry experts in managed and safe environments to minimise risk. The Group continues to have a moderate appetite for expert risk.	Risk appetite Balfour Beatty must deliver on its promises to stakeholders. Aligning delivery objectives to those of the customer is critical to ensuring successful outcomes – the Group strives for 'right first time' delivery. Ensuring integrity is embedded throughout the Group and its supply chain partners is key to "doing the right thing". The Group retains a low appetite for risks around meeting customer expectations.	Risk appetite Conducting business in a safe way and providing a Zero Harm environment for Balfour Beatty's people and stakeholders is paramount. The Group's appetite for health and safety risk continues to be zero.	Risk appetite Balfour Beatty is committed to leaving a positive legacy for the society and communities it serves. The Group seeks to minimise its impact on the environment, working with supply chain partners, customers and communities to ensure its choices are sustainable, whilst delivering customer objectives, and pursuing new initiatives and technologies to achieve this. The Group's appetite for risk around sustainability risk is moderate.

RELATED PRINCIPAL RISKS				
Sustaining focus on Build to Last strategy Read more → p98 Supply chain Read more → p99 Legacy pensions liabilities Read more → p101	Managing commercial terms Read more → p94 People and talent Read more → p97 Sustaining focus on Build to Last strategy Read more → p98 Economic uncertainty Read more → p101 Project delivery Read more → p95	Managing commercial terms Read more → p94 Project delivery Read more → p95 Joint ventures Read more → p95 Data protection Read more → p96 Cybersecurity Read more → p96 Sustaining focus on Build to Last strategy Read more → p98 Financial strength Read more → p98 Code of conduct compliance Read more → p100 Legal and regulatory Read more → p100	Health and safety Read more → p94 Sustaining focus on Build to Last strategy Read more → p98	Sustaining focus on Build to Last strategy Read more → p98 Project delivery Read more → p95 Managing commercial terms Read more → p94

Emerging risks

The requirement to identify emerging risks faced by the business and an explanation of how these are being managed or mitigated is now embedded within the Group's bi-annual risk management reporting process and, in parallel with the day-to-day management of risk, each strategic business unit (SBU) and enabling function (EF) includes specific reference to its emerging risks in its half year and full year risk submission. These risks form part of the discussion between the Group and the SBU or enabling function and relevant emerging risks are escalated to the Executive Risk Steering Group for further analysis and validation.

Balfour Beatty considers emerging risks in relation to their longer-term impact and shorter-term risk velocity and examines them in the context of its viability statement. The Group has defined emerging risks as those risks faced by the business that:

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

The discussion and review of emerging risks includes 'horizon scanning' activities around potential uncertainties that are not sufficiently defined or developed to enable an informed assessment to be made on their impact to the ongoing viability of the Group and whether they pose a threat or an opportunity. The review of emerging risks considers:

- economic and political factors (e.g. government or policy change in areas of operation);
- environmental and social factors (e.g. change in people or organisation behaviours);
- legal and regulatory risks (e.g. introduction to or significant change in the regulations which govern how the Group operates); and
- technological risks (e.g. development of innovative solutions and new technologies).

Our risk matrix

In common with many organisations and reflecting good practice, Balfour Beatty uses a probability and impact matrix (PI matrix) to enable the consistent assessment and prioritisation of risks faced across the business.

Each risk impact is assessed across three main themes: delivery; health, safety and sustainability; and financial.

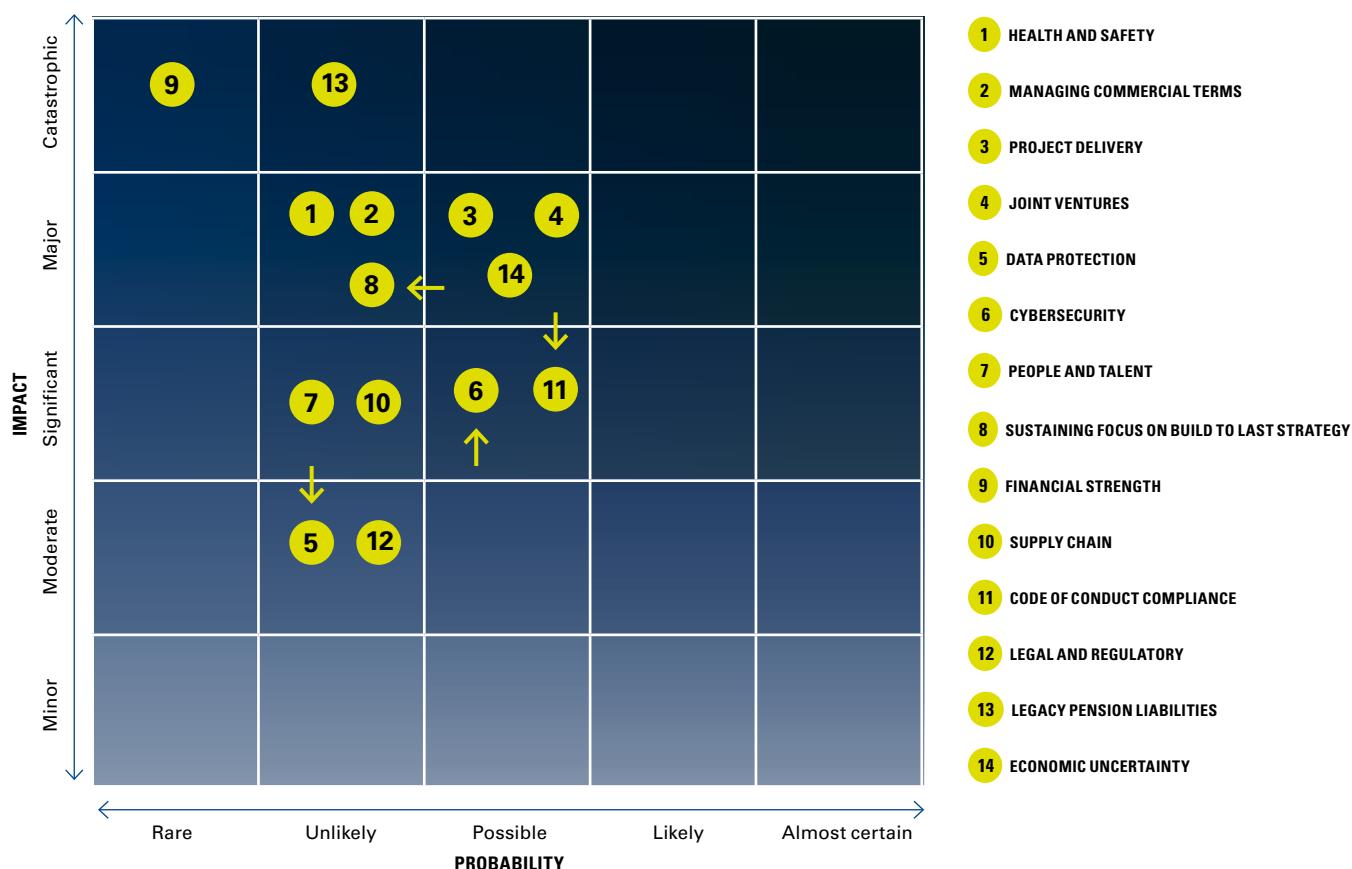
The assessment focuses on the 'current' exposure – that is, the probability of the risk occurring and the potential impact it may have based on the current controls that have already been implemented to manage the risk. This provides a more accurate insight into the potential exposure being faced by Balfour Beatty at that point in time and better positions the Group to make a decision on how to respond to the risk in line with risk appetite.

This PI matrix and its detailed associated impact descriptors is built into Balfour Beatty's risk management system (IRIS) to ensure consistency in the assessment of risks across the Group for delivery and health, safety and sustainability. For financial impacts, the matrix has been calibrated to cater for financial impacts across the three tiers of the risk management framework: Gated Business Lifecycle, business risk and Group risk. This allows the same matrix to be utilised for common assessment whilst providing a flexible, tailored approach for risks to be measured in the context of project or business financial objectives, whilst catering for adjustment on roll up to Group level.

The Group's principal risks have been mapped onto the PI matrix to show both current potential impacts and the movement from year end 2019 to year end 2020 in terms of likelihood and impact.

Probability and impact

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



Removing uncertainty through understanding

Balfour Beatty's decision-making is centred on a comprehensive and detailed understanding of the exposures faced by the organisation. The identification of risks to achieving business and strategic objectives, alongside the use of detailed analysis to inform and prioritise responses, remains key to balancing risk taken in line with risk appetite. The principal and emerging risks are mapped to strategic business plans to ensure a comprehensive coverage of risks, allowing the Board to undertake a robust assessment of the potential exposures faced by the Group and whether these represent new, increased or decreased threats and the level of response required to manage them. The risk profile comprises both interconnected and discrete risks at strategic, operational and project level and focuses on understanding the worst-case scenarios that could threaten the Group's strategy and business model. As a result, changes in the Group's risk profile and movements in some of the principal risks have been identified and are described on pages 94 to 101.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
1 HEALTH AND SAFETY			
The Group works on and delivers significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks. What impact it might have Failure to manage these risks presents the potential for significant harm, including fatal or life-changing injuries to employees, subcontractor staff, third parties or members of the public. It also presents the threat of potential criminal prosecutions, significant fines, debarring from contract bidding and reputational damage. For more information please see 'Health, safety and wellbeing' on pages 48 to 51	Some common themes which could drive health and safety risks include: ➤ inadequate risk identification/assessment; ➤ lack of competence; ➤ processes that fail to deliver risk elimination or mitigation; ➤ lack of clear safety leadership, impacting broader safety culture; ➤ ineffective management of subcontractors, JV partners and other third parties; ➤ failure to cascade and follow Health and Safety procedures; and/or ➤ lack of focus on the wellbeing and mental health of staff faced by daily work and life pressures.	Balfour Beatty's Zero Harm Strategy and its supporting policies and procedures remain embedded and act as a key control in managing the risk. The strategy and associated action plans are reviewed and monitored by management and external accreditation bodies. Experienced and competent health and safety professionals provide advice and support, monitor culture and undertake regular reviews. The Safety and Sustainability Committee of the Board and business Health and Safety executive leadership teams, meet regularly throughout the year to capture lessons learned and develop a consistent approach to health and safety best practice. Training programmes (including behavioural) are in operation across the business.	Owner Safety and Sustainability Committee Risk movement  No movement Well-established controls and mitigations continue to remain in place throughout the Group and represent a stable control environment. Multiple failures within this environment would be required for the risk to be realised.
2 MANAGING COMMERCIAL TERMS			
The Group delivers high profile, complex projects that can often carry specialised deliverables together with intricate, multifaceted and sometimes onerous commercial terms. Delivering contract obligations alongside the supply chain, for Balfour Beatty's customers, whilst protecting the interests of all parties, maintaining a profitable and sustainable order book, and delivering stakeholder value, can pose an element of risk. What impact it might have Failure to fully understand or manage the application of commercial terms across contracts can result in the use of valued time and associated cost of resource to manage any disputes, potential losses or reduction in profits and damage to relationships with key customers and supply chain partners. Failure to effectively engage and collaborate with customers and supply chain around managing terms could also result in the Group opting out of certain works or even may limit access to targeted markets in the future.	Key causes that could drive this risk include: ➤ lack of clearly defined bid strategy; ➤ misalignment between Balfour Beatty and client approach; ➤ working with a new or unknown customer with no known established relationship; ➤ supply chain lacking the capability to accept and manage back-to-back terms, resulting in increased risk carried by Balfour Beatty; ➤ failure to engage in an early collaborative approach with the customer; ➤ lack of balanced approach to allocation or sharing of risk; and/or ➤ lack of early identification of a contracting strategy between all parties.	The Group Tender and Investment Committee reviews and challenges all proposals in line with minimum commercial expectations. Defined delegated authority levels are in place for approving all tenders and infrastructure investments. Customer adoption of the UK Government Construction Playbook steers an approach towards increased collaboration, which results in reduced risk, and an increased focus on quality of bid rather than being solely cost focused. A 'getting left early' approach adopted prior to the procurement process enables influence over contracting and procurement model to two-stage tender, supports an early collaborative, solution-based approach with customers and minimises risk on both sides. A wide and ongoing range of work winning initiatives (including Cash is our Compass, High Value Selling and the Win Business Leadership community of practice) are in place across the Group to drive increased commercial and customer awareness and further embed an understanding of expectations on margins and cost. The Gateway review process highlights key commercial risks closely aligned to Group Circles of Risk to ensure adequate qualification and mitigation of key exposures. Monthly business reviews pick up any early indicators with potential for disputes arising on contracts, including across the subcontractor base.	Owner Group Tender and Investment Committee Risk movement  No movement Current controls champion a more collaborative approach with customers to manage the risk. Controls to mitigate the likelihood and impact by preventing the Group from bidding for unsustainable work and therefore limiting any potential exposure, remain key. Following a review of the Work Winning risk, this has now been refocused on understanding and managing commercial terms.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
3 PROJECT DELIVERY			
Failure to deliver projects in line with customer expectations and required specifications, on time and on budget and minimise the risk of increased costs, delay related damages and defect liabilities. What impact it might have Failure to manage and/or deliver against customer expectations, scope specifications and key deliverables in line with schedule and budget could result in issues such as design issues, contract disputes, rejected claims, liquidated damages, cost overruns and failure to achieve anticipated customer savings which in turn could reduce the Group's profitability and damage its reputation. The Group may also be exposed to long-term obligations including litigation and costs to rectify defective or unsafe work. Delivery failure on a high-profile project could result in significant reputational damage, debarring from future work and significant associated costs of rectification or dispute resolution.	Failure to implement, maintain and challenge operational and commercial controls (as detailed within checklists at Gateway reviews) allowing: ➤ unrealistic programming targets; ➤ inadequate resource (people, plant and materials) or competency of resource; ➤ lack of comprehensive understanding of contract obligations; ➤ unrealistic progress assessments and cost to complete judgements which could arise due to poor training, lack of supervision, lack of accountability or fear of reporting bad news; ➤ overly optimistic claim recovery assumptions; ➤ incomplete visibility and appreciation of scale of commercial judgements; ➤ failings in administering the contract terms to safeguard or protect future claims, change orders and extensions of time (EOTs); and/or ➤ poor management and selection of subcontractors. Customer intervention and additional pressure to complete a project may also contribute to realisation of this risk.	A continued focus on identifying and reporting risks, including planning, programme accuracy of cost and cash forecasting and resource reviews is maintained through the Gated Business Lifecycle. Early engagement of integrated work winning and project delivery teams across the Gateway processes to ensure customer expectations are understood and realistic. Deployment and ongoing monitoring of strong commercial management and contract administration processes through the project lifecycle. Optimal scheduling of key staff and associated competencies within project delivery teams and senior management, with ongoing and focused training. The site mobilisation hub facilitates early and effective start-up on site. Use of innovative and cost-effective engineering and technical solutions (including the vision for 25% offsite fabrication by 2025). Drive for defect-free delivery including digital progressive assurance of project delivery. Professional indemnity cover in place to provide further financial safeguards. Prequalification and competency/capacity verification of supply chain partners, with performance of subcontractors and suppliers monitored closely throughout the project lifecycle.	Owner Group management Risk movement  No movement Consistent application of the Group's reporting systems and diligent use of short interval control processes remain in place across all stages of project delivery, providing greater certainty of operational outcomes. However it is acknowledged that continued verification of the effectiveness of controls remains key to managing this risk, hence no reduction in risk exposure.
4 JOINT VENTURES			
Failure to implement robust controls around the selection of joint venture (JV) partners, define a clear governance structure or establish a 'one team' culture may result in failure to deliver expected returns and minimise the risk of unexpected liabilities. What impact it might have Not selecting the right JV partner who aligns to Balfour Beatty's culture and values could result in a mismatch of partner objectives, which flows through to ineffective delivery of contract requirements and a misalignment in approach resulting in a significant impact to profitability and reputational damage. The failure of a JV partner may expose the Group to increased resourcing costs and ongoing liability, warranty and insurance risks. Disputes with JV partners could impact the Group's ability to operate successfully and/or expand within its chosen markets. Failure to share and meet the Group's health and safety management expectations could result in increased potential for injury and/or fatality.	The risk could be realised through: ➤ ineffective assessment of potential JV partners including liquidity, capacity and capability; ➤ failure to ensure 'fit for purpose' terms with the right JV partner; ➤ lack of clarity of the delegated levels of authority between partners; ➤ delayed and fettered decision-making process between partners; ➤ segregation of management systems (financial and operational); ➤ lack of understanding of contract requirements and expectations; ➤ lack of oversight over JV reporting and application of processes implemented across the project; and/or ➤ failure to align Balfour Beatty and JV partner cultures, values and practices.	The Group Tender and Investment Committee process also applies to all joint venture proposals. The Group's primary course is to self-deliver projects where possible rather than as part of a JV, whilst recognising that establishing the right partnership can be an opportunity to deliver work. Appointment of an appropriately constituted JV Board to act as the main governance vehicle for the Group. The Gated Business Lifecycle provides governance over the selection of JV partners, and highlights partner related risks, closely aligned to Group Circles of Risk including those related to capacity, capability, previous experience with the Group and liquidity. Experienced project directors are appointed to manage the JV and provide an ongoing assessment of operational delivery risk. Good practice, including the use of joint reporting systems where appropriate, is shared between all partners to embed the Group's expectations and culture throughout JV delivery teams. Balfour Beatty monitors the performance of its JV partners throughout the lifecycle of a project.	Owner Group Tender and Investment Committee Risk movement  No movement Whilst there has been significant improvement in the process for entering JVs, the longer-term effect of this on the risk remains to be seen – ongoing exposure continues.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
5 DATA PROTECTION			
The Group is exposed to a significant data breach that results in a breach of the General Data Protection Regulation (GDPR). What impact it might have Crystallisation of this risk has the potential for: ➤ legal and regulatory proceedings, investigations or disputes and associated costs; ➤ operational impact (disruption to business as usual); ➤ costs and losses, fines and penalties; ➤ reputational harm and potential debarment; and ➤ data subject rights process failure.  For more information please see 'Business integrity' on pages 52 to 54	A data breach may be experienced due to: ➤ ineffective training/lack of competency; ➤ third-party error; ➤ system failure, lack of system capability or system breach; ➤ malicious act (internal/external); ➤ lack of awareness; ➤ unforeseen or sudden increase in data handling; ➤ human error; and/or ➤ lack of corporate accountability.	HR Data Protection Coordinators and Data Privacy Champions remain embedded throughout the business to ensure breaches are reported promptly and risks are appropriately escalated to the Group Data Protection Officer (GDPO) for consideration and assessment. Senior Information Risk Officer acts as Executive Committee representative for data protection. All employees undertake annual training in data protection and information security management. Implementation of standardised systems (including One Trust for managing data subject access requests (DSAR) and incidents) and appropriate policies, procedures and standard templates driving a culture of privacy across the organisation. Increased engagement with Site of the Future teams allows for early involvement in IT initiatives from a privacy and data governance perspective.	Owner Group management Risk movement  Decreased Implementation of increased controls since the introduction of GDPR has reduced overall exposure.
6 CYBERSECURITY			
A failure to protect key Company and employee data or other confidential information resulting from a breach of system security. What impact it might have Realisation of this risk could result in: ➤ reputational harm (loss of market and customer confidence); ➤ potential fines and prosecution; ➤ loss of intellectual property and competitive advantage; and ➤ operational impact restricting ability to carry out business critical activities (disruption to business as usual).	Several internal and external factors could contribute to the realisation of this risk such as: ➤ poor internal governance; ➤ failure to embed preventative culture; ➤ increased exposure to phishing attacks and ransomware due to increased use of personal devices and remote working; ➤ lack of retention policy applied to data; ➤ operational failure. ➤ inconsistent approach to data security with joint venture / external partners; ➤ increased use of cloud services without equivalent investment in modern threat prevention; and/or ➤ cyber attack.	The risk is managed via the following controls: ➤ network and endpoint protection, encryption, patching and data back-up; ➤ awareness training with mandated annual refresher in place across all users; ➤ employee vetting; ➤ data governance framework regularly reviewed, and supported by policies and certifications; ➤ incident management feedback mechanism (embeds lessons learned); ➤ partner and supplier controls in place including vendor risk management assessments and established relationships with external security authorities; ➤ roll out of One Drive to all users across the estate, enabling secure data storage in Microsoft cloud; ➤ infoSec actively monitoring for security incidents and remediating where necessary; ➤ privileged access to all core systems subject to multi-factor authentication; ➤ systems run security agents for additional (24x7) monitoring; and ➤ legacy operating systems removed or minimised, including upgrade and removal of employee legacy mobile devices.	Owner Group management Risk movement  No movement Whilst a potential impact increase in line with increased attempts is being seen more broadly across other sectors and organisations, increased resilience as a result of improved controls and ongoing governance has meant no material change to this risk.

DESCRIPTION AND IMPACT

CAUSES

MITIGATION

7 PEOPLE AND TALENT

Inability to attract and retain the required levels of skilled and competent staff and key talent to deliver project commitments and meet the Group's objectives.

What impact it might have

Failure to recruit and retain appropriately skilled people or grow in-house talent could harm the Group's ability to win or perform specific contracts, manage delivery cost increases, grow business and/or meet strategic objectives including acquisition of future order book.

A high level of staff turnover or low employee engagement could result in a loss of competency, reducing business confidence within the market, a loss of stakeholder confidence and an inability to drive business growth or improvements.

 For more information please see 'Our people' on pages 71 to 75

A failure to effectively mitigate the Group's people risks may arise through:

- overbidding or ineffective workload and location scheduling;
- overheating of market causing significant increase in demand or competition for people, specifically in certain sectors and regions;
- lack of visibility of long-term pipeline or perceived career progression resulting in existing workforce leaving the Group or sector;
- inability to recruit and retain strong performers;
- failure to maintain a culture of pride and advocacy across the workforce;
- ineffective and or lack of adequate investment and decision making in the development of existing skills and capabilities;
- lack of a diverse workforce; and/or
- issues throughout labour supply chain including impact of Brexit/onerous immigration controls.

Providing a positive working environment to support the development of its employees has been central to Build to Last.

Specific controls to mitigate this risk include:

- implementation of HR strategy and plan and associated measurement of KPIs to inform decision making against budgets;
- a focus on strategic workforce planning protocol to prevent resource conflicts;
- work winning and project delivery aligned to internal and external recruitment activities, with early review of people and resourcing needs via GBL to ensure adequate capability and capacity to deliver work prior to bidding;
- competency frameworks within core job families identify and support the development of key knowledge, skills and expertise;
- recruitment and retention rates are measured and regularly reviewed across all parts of the business, with succession plans identified for core disciplines;
- annual PPR (people and talent reviews), with regular reviews of remuneration and incentive arrangements to ensure they are appropriate to help the Group attract, motivate and retain key employees;
- Group-wide employee engagement surveys are undertaken to measure engagement and appropriate actions are developed and communicated;
- the Balfour Beatty Academy has been established in the UK to support professional and personal development in line with role requirements;
- Training Needs Analysis and competency tools (COME) identifies role capability requirements and highlights development gaps to inform investment decision making;
- strong employee communication channels are in place celebrating individual, business and Group-level successes and increasing visibility of future pipeline and opportunities;
- affinity networks established to create a diverse and inclusive working environment; and
- emerging talent is supported by strong graduate, apprenticeship, trainee and industrial placement/internship schemes.

Owner

The Board

Risk movement



No movement

Through Build to Last, Balfour Beatty has created a culture with strong people policies and processes which continue to mitigate this risk.

The Group will monitor the impact that any delays to strategic projects has on the availability of skilled resource.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
8 SUSTAINING FOCUS ON BUILD TO LAST STRATEGY			
The Group does not sustain and build upon the strong foundation and culture created through its Build to Last strategy. What impact it might have Inconsistency in working practices and siloed cultures could drive inefficiencies including increased costs and operational errors resulting in reputational harm impacting all of the Group's stakeholders as well as an impact on the Group's ability to deliver sustainable profitable growth.  For more information please see 'Our strategy: Build to Last' on pages 12 and 13	Failure to deliver and/or demonstrate sustained focus and momentum could arise from: ➤ complacency and/or localised adaptations within core disciplines or siloed cultures; ➤ ineffective communication and reinforcement of messaging through a lack of leadership; ➤ inadequate resourcing (financial, physical assets and people); ➤ new systems and processes being used without appropriate controls being in place and/or tested; and/or ➤ new people joining the organisation (including in leadership roles).	Ensuring Build to Last continues to deliver and demonstrate value is a strategic priority for the Group and is led by the Group Chief Executive. Controls include: ➤ continuous measurement and reporting of KPIs aligned to Lean (cash flow and profit from operations), Expert (employee engagement), Trusted (customer satisfaction), Safe (Zero Harm) and Sustainable (carbon emissions) within each business unit; ➤ refreshed cultural framework under Build to Last with associated engagement and embedment in systems and processes aligning the UK and US under one unified cultural framework and reinforcing expected values and behaviours ➤ senior leadership team well experienced in delivering business transformation successfully with clear and frequent senior leadership engagement across the businesses; ➤ upskilling, training and development initiatives at key levels throughout the business to reinforce Build to Last principles in key job families i.e. commercial, project management, engineering etc; and ➤ induction, recognition and PDR approach heavily weighted around Build to Last principles and culture including expected values and behaviours.	Owner The Board Risk movement  Decreased The recent launch of the refreshed Cultural framework and associated values and behaviours has strengthened and reinforced Build to Last principles and disciplines across the business – improved oversight via regular reporting and discussion around KPIs has reduced risk overall. Continuous messaging and reinforcement across all employee touch points remains key.
9 FINANCIAL STRENGTH			
The Group's inability to maintain the financial strength required to operate its business and deliver its objectives. What impact it might have Failure to protect and effectively deliver the required financial strength will mean the Group: ➤ fails to meet financial covenant tests, as set out in its financing facility agreements, leading to a default event if not remedied within a specific grace period; ➤ fails to pass the required tests that allow it to continue to use the going concern basis of accounting in preparing its financial statements; ➤ loses the confidence of its chosen markets; and/or ➤ loses the ability to compete for key long-term contracts that are critical to its viability and delivery of its long-term objectives.	Failure to manage financial risks, including forecasting material exposures, and the financial resources of the Group that underpin its ability to: ➤ meet ongoing liquidity obligations so that it remains a going concern; and/or ➤ meet financial covenants as set out in financing facility agreements.	The Group continues to operate within a low financial risk environment. On 1 July 2020 the Group redeemed in full its preference shares for £112m, reflecting its continued strong liquidity position. The Group operates with a centralised Treasury function that is responsible for managing key financial risks, cash resources and the availability of liquidity and credit capacity. The Group maintains significant undrawn term committed bank facilities with a banking group of high credit quality to underpin the liquidity requirements of the Group. The Group maintains significant bank and surety bonding facilities to deliver trade finance requirements of the Group on an ongoing basis. The Group operates standardised reporting, forecasting and budgeting financial processes. This allows monitoring of the impact of business decisions on financial performance over future time horizons. Assets from the Investments portfolio can be sold to generate cash.	Owner The Board Risk movement  No movement Controls within Finance and Treasury functions continue to demonstrate a clear ability to manage existing and anticipated risk.

DESCRIPTION AND IMPACT

CAUSES

MITIGATION

10 SUPPLY CHAIN

Supply chain partners fail to meet the Group's operational expectations and requirements in relation to capacity, competency, quality, financial stability, safety, environmental, social and ethical.

What impact it might have

Failure in delivery by, or management of a subcontractor or supplier, would result in the Group becoming involved in disputes, having to find a replacement or undertaking the task itself. This could result in delays, business disruption, additional costs or a reduction in quality/increased defects owing to lack of expertise or competency.

Mistreatment of suppliers, subcontractors and their staff, or poor ethical standards in the supply chain, could lead to legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and debarment.

Crystallisation of capacity, competency and stability risks to the Group's supply chain may arise through:

- lack of capacity or failing to retain subcontractors in a buoyant market\over-reliance on a limited number of suppliers or a failure of key supplier relationships;
- failure to embed the Group's expectations within the procurement process;
- inadequate assessment of supply chain partner capabilities, capacity and process (including liquidity, quality, safety, ethics, materials stewardship, child labour, forced labour and modern slavery);
- lack of supplier resilience (due to economic uncertainty including Brexit or any lagging effects seen as a result of COVID-19 and artificial 'propping up' from the furlough scheme);
- failure to accurately assess project resource requirements and key deliverables;
- impact from Brexit including increased tariffs and delays;
- lack of adequate oversight, supervision or management during delivery; and/or
- unethical treatment of the supply chain.

The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations and dependencies. This includes relationship mapping with strategic suppliers, lessons learned from previous projects together and briefing on order book requirements.

The Group has undertaken significant work to identify and understand who its key supply chain partners are, reducing the number to 40 known core partnerships.

The risk management framework and the Gateway review process allow for early (Gates 1–4) and ongoing (Gate 6) assessment of the appropriateness of resource allocation and dependencies and development of procurement strategies.

Pre-qualification accreditation in place for core suppliers (validated in Gates 1–3), with oversight of supplier metrics and overall 'health'.

Contingency plans address potential subcontractor failure, including replacement supplier list.

A central database tracks individual subcontractor scoring in relation to capacity, compliance, performance and financial health.

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

Suppliers and subcontractors reviewed for third-party suitability compliance via PAS 91 Assessment (Industry Standard).

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

Owner

Group management

Risk movement



No movement

The Group continues to be diligent in its assessment of its supply chain. The reduction in the number of active suppliers and increased system solutions to track performance and metrics throughout operational delivery improve oversight.

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
11 CODE OF CONDUCT COMPLIANCE			
Failure to comply with the Code of Conduct across the Group including employees, JV partners, and within the supply chain. What impact it might have Failure to comply with the Code of Conduct and Balfour Beatty values could leave the Group exposed to: - instances of bribery and corruption; - fraud, deception, false claims or false accounting; - unfair competition practices; - human rights abuses, such as child and other labour standards generally, illegal workers, human trafficking and modern slavery; - unethical treatment of and by the supply chain; and/or - ethics and values being compromised as a result of commercial pressures. Failures could result in legal proceedings (including prosecution under the UK Bribery Act), investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and debarment.  For more information please see 'Business integrity' on pages 52 to 54	Failure to comply with the Code of Conduct and Balfour Beatty values could arise from: - failure to adopt a risk-based approach; - failure to establish appropriate corporate culture; - failure to embed the Company's values and behaviours through the organisation; - lack of effective training programme and compliance monitoring; - failure to have a robust testing and monitoring programme in place; - lack of appropriate whistle blowing processes including ensuring awareness of such outlets across the organisation; and/or - deliberate or reckless non-compliance.	A Group-wide Code of Conduct and Supplier Code of Conduct, and related policies, procedures and training are in place, promoted, monitored and assessed by the Business Integrity function. The function provides business integrity reports to the Board biannually and has its full support. Each business unit, supported by the Business Integrity function, is responsible for embedding the Code of Conduct and the Company's values and behaviours within its operations. The Group has a range of operational controls (commercial, including procurement, due diligence and risk assessment) that are designed to identify and manage risks internally and with third parties. An independent third-party whistleblowing helpline and dedicated email contact are in place and actively promoted. All in-scope complaints are independently investigated by the Business Integrity function and appropriate action is taken, where necessary. Balfour Beatty works with a limited number of agents, all of whom are, in addition to the Group's due diligence and approval process, subject to specific contractual clauses, policies and agreements. Use of a central database to track supplier and subcontractor performance history providing insight into their internal operating processes, governance and values.	Owner The Board Risk movement  Decreased The Business Integrity function continues to actively promote the required behaviours and learning tools to comprehensively support the Group's conduct and compliance objectives. The risk is assessed as having reduced due to the consistent application of these controls.
12 LEGAL AND REGULATORY			
The Group does not respond to any change in relevant legal, tax and regulatory requirements in a timely manner. What impact it might have The Group could face legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and exclusion from bidding. Such action could also impact upon the valuation of assets within the affected territory as well as have an impact on shareholder confidence.	A failure to recognise or adapt to potential impacts arising from changes in applicable laws affecting the Group's businesses may result from: - lack of awareness of any changes in law or regulations made; - ineffective communication of the requirements across relevant business units; and/or - entering into new markets and/or sections with limited expertise and due diligence.	The Group monitors and responds to tax, legal and regulatory developments and requirements in the territories in which it operates. Changes in the law and the requirements of them are clearly cascaded to all affected businesses. Local legal and regulatory frameworks are considered as part of any decision to conduct business in a new territory. Appropriate and responsive policies, procedures, training and risk management processes are in place throughout the business.	Owner The Board Risk movement  No movement Unforeseen exposure to legal and regulatory change is considered extremely unlikely- the controls embedded across the Group are considered effective in managing this risk.

DESCRIPTION AND IMPACT

CAUSES

MITIGATION

13 LEGACY PENSION LIABILITIES

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

What impact it might have

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

This has the potential to affect the ongoing sustainability of the Group as well as incur reputational harm.

The Group is unable to ensure that the trustees of the pension funds react effectively to or manage:

- changes in interest rates or outlook for inflation;
- an increase in life expectancies;
- regulatory intervention or legislative change;
- prudent funding assumptions; and/or
- investment performance of the funds' assets.

The Group constructively and regularly engages with the trustees of the pension funds to ensure that they are taking appropriate advice and the funds' assets and liabilities are being managed appropriately. This includes quarterly performance reporting and investment committee meetings in which the Company is represented.

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

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

Owner

The Board

Risk movement



No movement

Triennial funding review of the main UK fund was completed in January 2020. Diverse investment portfolio remains in place, with regular review on the trade off between risk and cost. No change in risk.

14 ECONOMIC UNCERTAINTY

The effects of national or market trends including political or regulatory change, may cause customers to re-evaluate existing or future infrastructure expenditure and the procurement of services. It may also lead to changes in the price and availability of labour and products.

What impact it might have

Any significant delay or reduction in the level of customer spending or investment plans could adversely impact the Group's strategy and order book, reduce revenue or profitability in the near or medium term, and negatively impact the longer-term viability of the Group.

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

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

Potentially negative impacts related to the effects of:

- customers postponing, reducing or changing expenditure plans including any delays in funding or planning associated with COVID-19;
- wider than expected fluctuations in inflation;
- lagging effects from Brexit – e.g. inflation, exits from market or lack of UK investment having a knock-on effect;
- increased competition (e.g. in the UK from foreign investors acquiring competitors);
- political change in both the UK and the US (new US administration may have potential impact on Federal spend);
- increased supply chain risks (e.g. solvency, people and materials); and/or
- reduced revenue or pressure on margins.

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

The Group continues to actively monitor market trends and potential impacts. A well-established cross-functional Brexit working group remains in place following the end of the transition period.

The financial solvency and strength of counterparties is always considered before contracts are signed and assessments are updated and reviewed whenever possible during the project lifecycle. The business also seeks to ensure that it is not over-reliant on any one counterparty.

The annual review of market forecasts continues to remain a core part of the Group's Budget and Plan processes, and a focus on medium-term market outlook is considered and presented by each Strategic Business Unit.

Owner

The Board

Risk movement



No movement

Whilst there has been some shorter-term movement seen, including opportunities associated with government infrastructure spend, the longer-term outlook remains uncertain.

Other risks

Climate change

Whilst climate change is not currently considered to be a principal risk to the business, it has been included as a risk on the Group Risk Register in 2020. The establishment of a sustainability specific functional risk register ensures the identification and management of climate related risks at a granular level to inform any movement or assessment at Group level.

Climate change increasing the intensity and frequency of weather events, infrastructure being deemed incompatible with targets and tightening of environmental legislation are identified as some the key drivers of the risk. It is acknowledged that whilst there remains risk associated with climate change to the Group's business, it also presents a significant opportunity as Balfour Beatty works alongside clients to be part of the solution.

Further commentary on the potential impacts of climate change and Balfour Beatty's approach to managing them is set out in the sustainability section on pages 55 to 70. Climate change risk is on pages 63 and 64.

Brexit

Following the end of the UK's transition period on 31 December 2020, which ended previous exposures associated with the prolonged uncertainty around the terms of exit, the Group risk register no longer captures Brexit as a stand-alone risk. Any ongoing potential impacts or factors associated with Brexit are reflected as part of broader Group risks around supply chain and economic uncertainty.

Common industry-wide risks

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

In accordance with the requirements of the Code, the Directors have assessed the Group's long-term prospects and its viability over a three-year period to 31 December 2023.

Assessing the Group's long-term prospects

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

The Group has many elements necessary for future business success – expertise in technology and innovation, strong customer relationships and a talented workforce.

The Group seeks to build on these strong foundations with continued investment in technological advances, not only to ensure that projects are delivered on time and as efficiently as possible whilst maintaining the upmost focus on safety, but also to remain market leaders in the way construction is conducted and to push the boundaries of innovation in line with achieving industry leading margins.

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

Assessing the Group's viability

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

The Directors and the Executive Risk Steering Group continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, its business model, future performance, solvency and liquidity. As part of assessing the Group's future viability, the Directors have considered these principal risks and the mitigations available to the Group. These principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 93 to 102.

In their assessment of the Group's viability, the Directors have also considered the need to be successful in focusing on the Group's values of Lean, Expert, Trusted, Safe and Sustainable detailed on pages 10 to 13.

The Group has continued to exploit opportunities to re-engineer processes, reducing cost whilst maintaining or improving efficiencies. The Group's Build to Last values for continuous improvement remains critical to future success, although success is also dependent on the Group's ability to selectively win new contracts which will be partly impacted by political changes.

The Directors have assessed the Group's viability in conjunction with its current position as well as its projections of its various debt facilities and associated covenants. These financial projections are based on the Group's Three Year Plan, which has been built on a bottom-up basis with a Group overlay to provide a more top-down view and align to the Group's strategic objectives. These projections indicate that the projected headroom, provided by the Group's strong liquidity position, including its net cash position and under the debt facilities currently in place, is adequate to support the Group over the next three years, whilst still enabling the Group to repay the third tranche of its US private placement loan of US\$209 million in March 2023. The Group does not have any other debt repayment obligations in the viability assessment period. In testing the headroom available under the key sensitivities modelled, the Group has assumed that this repayment will not be replaced with another form of debt.

The Group has access to its £375m committed bank facility, which was undrawn throughout the year to 31 December 2020 and remains fully available to the Group until October 2023, with a one-year extension option through to October 2024 available to the Group subject to lenders' consent.

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

- failure to manage effectively any lagging effects caused by Britain's exit from the European Union;
- an inability to collect recoverable amounts;
- an operating event that damages the Group's reputation and results in significant penalty;
- more onerous payment terms demanded from suppliers leading to a reduction in creditor payment days; and
- failure to maintain the values of Build to Last.

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

In light of the COVID-19 pandemic and the impact it has had on the Group's results, the Directors have also sensitised its projections against severe but plausible downside scenarios which could materialise. Further details of this can be found in the Group's going concern disclosures on pages 128 and 170.

The Directors also assessed a 'perfect storm' scenario by combining multiple scenarios (including COVID-19 downside scenarios as described in the Group's Going Concern disclosure in Note 1) and modelling the resulting downside to stress-test the Group's viability if these cash flows were to immediately and simultaneously come under severe threat. This scenario is aimed to test the viability of the Group if it was to experience a catastrophic failure and to allow the Directors to assess the mitigations available to avoid this.

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

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

Based on the assessment undertaken to stress-test the Group's viability against severe but plausible scenarios, and taking into account the strength of mitigations that are immediately available to the Group, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period until 31 December 2023.

Our 2020 Strategic report, from pages 1 to 103, was approved by the Board on 9 March 2021.

Philip Harrison
Chief Financial Officer

9 March 2021

Promoting the long-term, sustainable success of the Company

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Group Chair's introduction

Dear Shareholder

On behalf of the Board, I am delighted to present Balfour Beatty's corporate governance report for 2020.

The Board provides effective leadership in promoting the long-term sustainable success of the Company. It establishes the Group's purpose, values and strategy, ensuring that these are aligned to the culture of the business. In shaping the Group's strategic direction, the Board has sought to ensure that good governance standards are embedded throughout the organisation to support Balfour Beatty's purpose of Building New Futures.

The financial year under review has proved to be challenging as a consequence of COVID-19. It has become more apparent that a strong corporate governance framework and a positive culture are the foundations of a resilient business. The Board acted quickly and decisively in response to the impact of COVID-19, leading the business from temporary site and office closures through to the re-opening of sites and offices where possible, having full regard to Balfour Beatty's COVID-19 Site Operating Procedures.

As announced earlier this year, I will be stepping down from the Board of Directors at the AGM, after an orderly handover of my responsibilities.

UK Corporate Governance Code

The Company is subject to the Financial Reporting Council's (FRC) 2018 UK Corporate Governance Code (the Code), being the accepted standard of good governance practice in the UK. A copy of the Code can be found on the FRC's website at: www.frc.org.uk. This report, together with the reports from the Audit and Risk, Nomination, Remuneration and Safety and Sustainability Committees provides details of how the Company has applied the principles of the Code (pages 105 to 153).

During 2020, we have sought to refine some of our existing practices to enhance our approach to governance. We have reviewed the terms of reference for each main Board Committee, to ensure that they are fit for purpose and fully reflect the current ways of working, which led to improvements being made to increase efficiency.

Our culture

The Board recognises its role in setting the Group's purpose, values and strategy. During the year, a UK Wellbeing survey and the Group Employee Engagement survey were carried out, the results of which were shared with the Board. In addition, the site visits that members of the Board were able to undertake in accordance with COVID-19 protocols, provided an insight into the Company's culture and enabled the Board to understand the views of employees on matters of significance to them.

“

The Board acted quickly and decisively in response to the challenges posed by the COVID-19 pandemic, ensuring decisions and actions were taken to promote the long-term sustainable success of the Company.

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Board composition

The Board regularly reviews its composition to ensure it retains a balance of skills, experience, independence and knowledge, which enables it to discharge its duties and responsibilities effectively. I can report that there have been no changes to the composition of the Board in 2020.

As in previous years, all Directors will stand for re-election by shareholders at the 2021 Annual General Meeting. Further information on matters relating to the composition of the Board can be found on pages 119 to 121.

Succession planning

During 2020, the Board continued to assess the talent pipeline and identify the skills needed to support our Build to Last strategy. For example, Mark Bullock was appointed as Chief Executive Officer for UK Construction Services, Matthew Steele was appointed to the Executive Committee as Managing Director, Rail & Utilities, and Tracey Wood was appointed to the Executive Committee as Group General Counsel and Company Secretary.

During the Board's UK strategy session in July, the Board met remotely with a range of the Executive Committee's direct reports from each of the strategic business units.

Further information on succession planning can be found on page 120.

Relations with stakeholders

The Board and I continue to recognise the responsibility that we have to the Group's full range of stakeholders, including employees, shareholders, supply chain and strategic partners, governments, and the environment and communities in which it operates, and this forms an integral part of the Board's discussions and decision-making.

Safety and sustainability

Tragically during 2020, there were four fatalities across the Group – three within Gammon, Balfour Beatty's 50:50 joint venture based in Hong Kong, and one in the UK. The Safety and Sustainability Committee received reports setting out details of each incident and subsequent investigations, including an analysis of safety measures and improvements and learnings for the future. Such incidents are a sad reminder of the risks that our colleagues and partners face in

delivering projects for the Group's customers. The Board remains determined to drive industry-wide improvements in such areas to better protect all who work on Balfour Beatty's sites.

Remuneration

Our remuneration policy was approved by shareholders at the 2020 AGM. The new policy is designed to support the delivery of the Group's strategy and promote its long-term sustainable success, by ensuring that Balfour Beatty is able to attract and retain talented individuals with the requisite skills and experience to lead the Group. Details of how we are operating that policy can be found in the Remuneration Report on pages 134 to 150.

Evaluation

In 2020, an internally facilitated review of the performance of the Board, its main Committees and individual Directors was completed. Useful opportunities for improvement on specific aspects of our governance practices were highlighted and are set out on pages 120 and 121.

Overall, the results confirmed that the Board and its Committees continue to function effectively and in accordance with their respective constitutions.

Looking forward

The Board will continue to respond to the challenges brought about by the ongoing COVID-19 pandemic and is confident that its commitment to the Company's culture will result in the right decisions and actions being taken to promote the sustainable success of the Company over the long-term.

It has been a pleasure serving as your Group Chair and I am proud of what we have achieved during my tenure and of the executive leadership team's efforts in implementing the Build to Last strategy. I look forward to handing over to my successor once they have been identified.

Philip Aiken AM
Group Chair

9 March 2021

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It has been a pleasure serving as your Group Chair and I am proud of what we have achieved during my tenure and of the executive leadership team's efforts in implementing the Build to Last strategy.

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BOARD OVERVIEW

BOARD MEMBERS BY GENDER



■ Male 6
■ Female 2

BALANCE OF THE BOARD



■ Non-executive 6
■ Executive 2

NON-EXECUTIVE DIRECTORS' TENURE



■ 0-3 years 1
■ 3-6 years 5

BOARD & COMMITTEE MEETING ATTENDANCE AT SCHEDULED MEETINGS DURING THE YEAR

KEY ● Attended

DIRECTOR	B BOARD	A AUDIT AND RISK	N NOMINATION	R REMUNERATION	S SAFETY AND SUSTAINABILITY
Philip Aiken	●●●●●●●●		●	●●●●	●●●●
Leo Quinn	●●●●●●●●		●		●●●●
Philip Harrison	●●●●●●●●				
Stephen Billingham	●●●●●●●●	●●●●	●		
Anne Drinkwater	●●●●●●●●			●●●●	●●●●
Stuart Doughty	●●●●●●●●	●●●●	●		●●●●
Barbara Moorhouse	●●●●●●●●	●●●●	●	●●●●	
Michael Lucki	●●●●●●●●	●●●●		●●●●	

BOARD & COMMITTEE SCHEDULED MEETINGS DURING THE YEAR

	B	B A N R S		B A		B S	B A	B		B A R S	B
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

Board of Directors

The Directors have skills and experience relevant to the sector in which the Group operates in order to effectively set the strategic direction and purpose of the Group.



PHILIP AIKEN AM

Non-executive Group Chair



Appointed
26 March 2015

Nationality
Australian

Independent
On appointment

Experience

Philip has 50 years of board-level experience including extensive international business expertise, principally in the resources sectors. Philip was a non-executive director of National Grid plc, chairman of Robert Walters plc, a non-executive (and senior independent) director of Kazakhmys plc and Essar Energy plc, and a senior adviser at Macquarie Bank Ltd. Prior to that, he was group president energy at BHP Billiton, president at BHP Petroleum and chief executive of BTR Nylex, and held senior roles in BOC Group.

Philip was awarded a Member of the Order of Australia in June 2013. Philip serves as a non-executive director of Gammon China Ltd, the 50:50 joint venture between Balfour Beatty and Jardine Matheson, and its subsidiary Gammon Construction Holdings Ltd.

Key external appointments

Philip is non-executive chairman of Aveva Group plc, a non-executive director of Newcrest Mining Limited and a director of Australia Day Foundation.



LEO QUINN

Group Chief Executive



Appointed
1 January 2015

Nationality
British

Independent
No

Experience

Leo has strong leadership expertise and has significant experience of successfully delivering transformation strategies for large multi-national companies. Leo is a civil engineer and began his career at Balfour Beatty. He was educated at Portsmouth University and Imperial College, London, where he completed his MSc in Management Science. Before being appointed as Group Chief Executive at Balfour Beatty, Leo spent five years as group chief executive of QinetiQ Group plc and, prior to that, five years as chief executive officer of De La Rue plc. Before this, he spent almost four years as chief operating officer of Invensys plc's production management business, headquartered in the US and 16 years with Honeywell Inc. in senior management roles across the UK, Europe, the Middle East and Africa, including global president of H&BC Enterprise Solutions. Leo was previously a non-executive director of Betfair Group plc and Tomkins plc.

Key external appointments

Leo is the founder of The 5% Club, a UK employer led initiative focused on reducing youth unemployment by creating momentum behind the recruitment of apprentices and graduates into the workforce and a member of the Build Back Better Council.



PHILIP HARRISON

Chief Financial Officer

Appointed
1 June 2015

Nationality
British

Independent
No

Experience

Philip has considerable financial expertise and extensive experience of working in large multi-national manufacturing and services businesses. Philip was appointed as Chief Financial Officer in June 2015, having previously served as group finance director at Hogg Robinson Group plc, and as group finance director at VT Group plc. Prior to that, he was VP finance at Hewlett-Packard (Europe, Middle East and Africa regions) and was a member of the EMEA board.

Philip's earlier career included senior international finance roles at Compaq, Rank Xerox and Texas Instruments. Philip is a fellow of the Chartered Institute of Management Accountants.

Key external appointments

Philip does not hold any external appointments.



DR STEPHEN BILLINGHAM CBE

Non-executive Director and Senior Independent Director



Appointed
1 June 2015

Nationality
British

Independent
Yes

Experience

Stephen has significant recent and relevant financial experience and has worked in the construction, infrastructure and support services industries for over 30 years. Stephen was the chief financial officer of British Energy Group plc (a FTSE 100 company and the UK's largest electricity generator) and the group finance director of the FTSE 250 company, WS Atkins plc. He was also executive chairman at Punch Taverns plc, the UK's second largest pub owner and non-executive chairman of Anglian Water Group. He played instrumental roles in the financial and operational transformation of all companies. Stephen also spent 11 years with Balfour Beatty, when it was named BICC plc, in corporate finance and other roles. He is a fellow of the Association of Corporate Treasurers. He was awarded a CBE by the Queen in 2019 for services to Government owned, public and regulated businesses.

Key external appointments

Stephen is currently non-executive chairman of Urenco Ltd. He chaired the Urenco Ltd Audit Committee from 2009 to 2015.

COMMITTEES KEY

- Chair
- Member
- Ⓐ Audit and Risk
- Ⓝ Nomination
- Ⓡ Remuneration
- Ⓢ Safety and Sustainability



ANNE DRINKWATER
Non-executive Director

Ⓡ Ⓢ

Appointed
1 December
2018

Nationality
British

Independent
Yes

Experience

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

Key external appointments

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



STUART DOUGHTY CMG
Non-executive Director

Ⓢ Ⓐ Ⓝ

Appointed
8 April 2015

Nationality
British

Independent
Yes

Experience

Stuart has over 54 years experience in the civil engineering, construction and infrastructure sectors. Stuart was chief executive of Costain Group plc between 2001 and 2005. This followed executive positions in Welsh multi-utility Hyder plc, Alfred McAlpine plc and Tarmac Construction, where he represented the company on the Channel Tunnel board, following 21 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, and as chairman of Alstec Ltd, Somero plc and Beck and Pollitzer Limited. He is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and the Institute of Highway Engineers. Stuart was honoured by the Queen with a CMG in 2004 and received an honorary doctorate from Aston University in 2018.

Key external appointments

Stuart is a non-executive director representing AustralianSuper (the largest pension fund in Australia) on the Board of King's Cross Development Partnership LLP.



BARBARA MOORHOUSE
Non-executive Director

Ⓐ Ⓝ Ⓡ

Appointed
1 June 2017

Nationality
British

Independent
Yes

Experience

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

Key external appointments

Barbara is chair of the Rail Safety Standards Board and a non-executive director at Aptitude Software Group plc and Agility Trains East (Holdings) Limited. Additionally, she is a director at Heartgood Ltd and at Kipling House Management Right to Manage Company Limited.



MICHAEL LUCKI
Non-executive Director

Ⓐ Ⓡ

Appointed
1 July 2017

Nationality:
American

Independent:
Yes

Experience:

Michael has over 40 years of business and leadership experience in the US and internationally in the engineering and construction sector. He has held a number of leadership and finance roles, including that of chief financial officer, executive vice president and board member at CH2M HILL. He was formerly an audit partner at Ernst & Young LLP and as its global industry leader for infrastructure, construction and engineering practices. He has recently acted as a strategic adviser to companies and private equity firms in the engineering and construction industry.

Key external appointments:

Michael is a board member of Pankow Management Services, Psomas and Pankow Management Inc. and also serves as an advisory board member of Anchor QEA, LLC. He is a trustee of the California State University Foundation Board and a member of the Investment Advisory Committee of The California State University System.

Board activities

The Board met sufficiently frequently throughout the year to fully discharge its duties. There were eight scheduled meetings held, the majority of which took place via video conference as a result of the restrictions imposed following the outbreak of the COVID-19 virus.

Sub-committees were established and met on an ad hoc basis in order to deal with matters arising outside the formal schedule of meetings.

Meetings were attended by all Board members and attendance details can be found on page 107. There were additional ad hoc Board & Committee meetings that took place within the year relating to COVID-19 and Group Chair succession.

The Group Chair sets agendas, with support from the Company Secretary, and ensures sufficient time is allocated to promote effective debate and to support sound decision-making.

The Company Secretary supports the Group Chair in annual agenda planning, ensuring that matters are scheduled for the appropriate meetings based on the business cycle and an even distribution of matters throughout the year.

In addition, the Board holds 'Focus' sessions, which are deep-dive presentations covering specific topics, such as individual key projects and other matters of strategic significance.

A full schedule of Board activities can be found opposite and further detail on key actions below.

Capital allocation

In March 2020, the Company announced the postponement of its final dividend as a result of the postponement of the AGM at which the final dividend was to be approved. In June 2020, the Board decided that no final dividend for 2019 would be paid given the uncertain economic climate due to COVID-19.

In July 2020, the Company's cumulative convertible redeemable preference shares were redeemed in full.

The Board is committed to a sustainable ordinary dividend which is expected to grow over time, targeted at a pay-out ratio of 40% of underlying profit after tax excluding gain on disposal of Investment assets. The Board has therefore recommended a final dividend of 1.5 pence per share for the year ended 31 December 2020. There was no interim dividend, so the total dividend for the year is also 1.5 pence per share.

Balfour Beatty understands the importance of delivering attractive total cash returns to shareholders. The Group is therefore committed to maintaining an appropriate balance between investment in the business, maintaining a strong capital position and cash returns to shareholders. In March 2021 the Company announced a new capital allocation framework which can be read in full on page 11.

COVID-19

The COVID-19 pandemic has had a devastating impact on the global population, changing society dramatically within a short space of time. The effects of the pandemic have been far reaching, bringing about social and economic uncertainty. The pandemic has therefore been at the forefront of the Board's agenda, shaping its conversations around risk, internal control, resourcing and strategy.

The UK Government declared the construction and infrastructure sector as a key player in keeping the country operating and supporting sectors and employers. Whilst far reaching in its impact on the Group's operations, the COVID-19 pandemic has proven the resilience of the Group's Build to Last strategy. Further information on how the Group has responded to COVID-19 can be found on pages 4 and 5.

The Board met on an ad hoc basis throughout 2020 to discuss the impact of the pandemic and to receive updates from management regarding how the business was adapting to the ever-changing environment.

Strategy

The Board held a UK-focused strategy session in July and a US-focused strategy session in September. During these sessions, various senior leaders from each area of the business presented on the following matters:

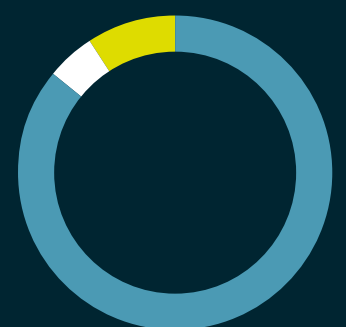
- recent operational and financial performance, including risk and safety;
- key strategic issues and actions;
- market overview and future pipeline of opportunities; and
- stakeholder engagement.

Speak Up

The Group operates a confidential and anonymous Speak Up service, which enables colleagues to report any concerns related to unethical conduct in any area of the business. The Board receives biannual reports from the Business Integrity and Security function which include updates on the operation of the Speak Up platform and details of cases raised and instances where a proportionate and independent investigation has been conducted. Biannual updates also include detail on progress against any follow-up actions. Further detail on the Speak Up service can be found on page 53.

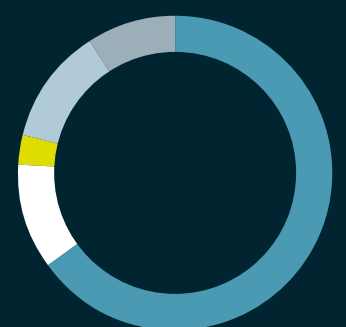
HOW THE BOARD SPENT ITS TIME DURING 2020

INDICATION OF TIME SPENT IN BOARD MEETINGS



- Strategy, performance and operations
- Committee matters
- Governance and other matters

INDICATION OF RELATIVE TIME SPENT ON BOARD AND COMMITTEE MEETINGS



- Board
- Remuneration Committee
- Nomination Committee
- Audit and Risk Committee
- Safety and Sustainability Committee

BOARD ACTIVITIES IN 2020

	LINK TO VALUES	LINK TO PRINCIPAL RISKS
PERFORMANCE		
- Reviewed routine reports from the executive Directors on performance - Reviewed Group strategy and approved the Group's budget - Approved the Company's annual report and accounts, financial results, trading updates and ancillary documents relating to the Annual General Meeting, including the Notice of Meeting - Reviewed the capital allocation policy - Approved certain significant contracts and bid submissions where thresholds relating to value or complexity were reached (as set out in the matters reserved for the Board) - Received 'deep-dive' presentations and reports on significant matters, key contracts and projects - Received updates on the investigation into the US military housing business (further details on page 128 and 156) - Reviewed reports from the Group's brokers	1 LEAN 2 EXPERT	1 2 3 4 8 9 10 14
HEALTH, SAFETY, ENVIRONMENT & SUSTAINABILITY		
- Received verbal updates from the Safety and Sustainability Committee following each Committee meeting - Received routine Group health, safety, environment and sustainability reports at each Board meeting where a Safety and Sustainability Committee meeting was not scheduled in the same cycle of meetings	1 LEAN 4 SAFE 5 SUSTAINABLE	1 2 3 4 11 12
AUDIT AND RISK		
- Received verbal updates from the Audit and Risk Committee following each Committee meeting - Received reports on financial and accounting issues and contract and commercial issues - Approved the going concern statement and assessment of viability, the Directors' valuation of the Investments portfolio and principal and emerging risks as disclosed in the annual report and accounts - Approved recommendations from the Audit and Risk Committee relating to the fee and appointment of the external auditor - Received reports from the external auditor in respect of full and half year results - Received regular reports on meetings of the Group Tender and Investment Committee and its significant projects pipeline - Received general updates on meetings of the Finance and General Purposes Committee	1 LEAN 3 TRUSTED	2 3 9 12
CULTURE		
- Monitored the Company's purpose, vision, values and behaviours - Monitored engagement with key stakeholder groups - Received reports from Directors on engagement activity with the Group's workforce undertaken in accordance with the Stakeholder Voice initiative (further details can be found on page 113) - Received biannual updates on business integrity including reports on Speak Up, the Group's whistleblowing service - Approved the Group's 2020 Modern Slavery Statement	3 TRUSTED 4 SAFE	5 6 7 8 11 12 14
PEOPLE		
- Received verbal updates from the Remuneration Committee following each Committee meeting - Received an annual update on pensions - Supported workforce diversity and inclusion	2 EXPERT 3 TRUSTED 5 SUSTAINABLE	7 11 13
GOVERNANCE		
- Internally evaluated the performance of the Board, its main Committees and individual Directors - Reviewed conflicts of interest of Directors - Reviewed the formal matters reserved for the Board and terms of reference for each of the main Board Committees - Approved changes relating to the office of the Company Secretary - Convened sub-committees of the Board to deal with specific matters	3 TRUSTED	7 12



Reference to the Principal Risks in this table can be found on pages 93 to 102

Promoting a positive culture

The Board is responsible for instilling throughout the Group a culture of integrity and openness that values diversity and is responsive to the views of its shareholders and wider stakeholders. This is achieved through the establishment of the Company’s strategy, values and purpose which were reviewed and refreshed by the Board during the year. Further detail on the new cultural framework can be found in the front cover pull out.

Culture is monitored and assessed by the Board to ensure alignment with Group strategy and is reinforced through its decision-making.

Positive health, safety, environment and sustainability performance are key indicators of an underlying culture reflective of the Company’s values. Details of the Safety and Sustainability Committee’s oversight of HSES performance can be found on pages 124 and 125.

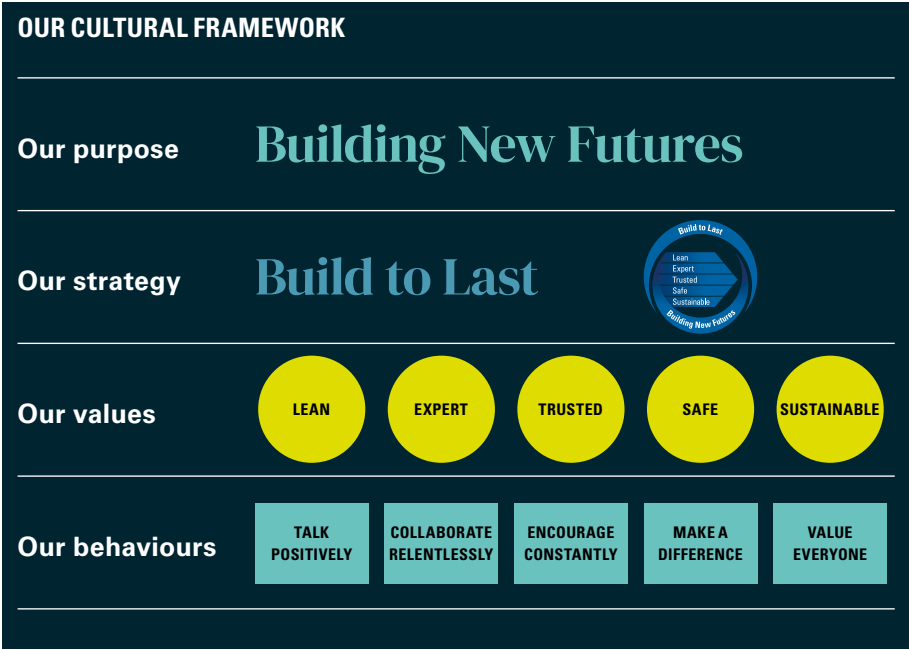
Feedback gathered from members of the Board on their engagement with stakeholder groups gives the Board and its Directors, collectively and individually, a better understanding of the points of view of stakeholders which ensures that decisions taken are more rounded and based on actual, rather than perceived, stakeholder views.

The actions taken throughout the year gave the Board a first-hand experience of culture within the business to gauge the extent to which the Company’s values are embedded and to experience real time examples of its behaviours in action. Having monitored culture through regular site visits, individual Directors were able to report back to the Board and management where they witnessed positive or negative examples of values and behaviours.

Supporting structures

The Balfour Beatty Code of Conduct helps aid the understanding and embodiment of behaviours that align employees with the culture as set by the Board. The Code of Conduct is accessible on the Company’s intranet and is circulated to employees upon joining the Group. Employees are also required to undertake e-training modules, as part of their induction programme, on the Code of Conduct and other topics including anti-bribery, conflicts of interest and whistleblowing. Regular refresher training is carried out by all employees on a two-year cycle, and new e-Learning modules are developed.

The Board’s role in setting the purpose, vision and long-term strategy of the Group is key in supporting a healthy culture. The Employee Voice initiative helps the Board to understand the views of the workforce which are taken into consideration when reviewing and setting the Company’s strategy, further details of which can be found on pages 12 and 13.



HOW THE BOARD MONITORED CULTURE IN 2020

ACTION TAKEN	LINK TO CULTURE
Undertook visits to sites and employee events	Provided direct insights into workforce working environments, their behaviours and practices, their attitudes and approaches to other stakeholders, and the practical application of policies and standards
Provided verbal feedback on visits to sites and employee events to the rest of the Board	Sharing experiences of visits and discussing these as a Board assisted in creating a broader exposure for each Director than would otherwise be possible due to the range and scale of the Group’s operations across different sectors and geographies
Reviewed whistleblowing statistics, details of cases raised through the Speak Up service and related independent investigations	Provided a perspective on the nature of employee concerns and trends in the behaviours of the workforce generally
Updated on a broad range of business integrity matters including approaches to combatting modern slavery	Provided the Board with a broad understanding of practices and behaviours and how these align with the purpose, values, vision and strategy of the Group
Reviewed statistics and trends of lost time injury rates	Enabled Directors to assess the effectiveness of safety practices and behaviours
Reviewed metrics on safety observations reported by employees	Allowed further insight into safety behaviours by evidencing the extent of individual responsibility taken by employees with regard to proactively reporting safety concerns
Reviewed details of the outcomes of internal audits judged to be less than satisfactory (undertaken by the Audit and Risk Committee with details available to all Board members)	Supplied the Board with a direct view of areas of practice, policy and behaviours that were not at the desired standard and provided details of the corrective action being taken
Reviewed and approved the Group’s Modern Slavery Statement	Provided oversight of steps taken to prevent modern slavery and human trafficking within the Group and its supply chain

Stakeholder engagement

The Board takes responsibility for considering stakeholder needs and interests in its decision-making.

As has been set out earlier in the report, there are many different ways in which the Group engages with its key stakeholders. The Board itself has a robust programme of stakeholder engagement, aimed at identifying and understanding the interests of the Group's customers, workforce, supply chain and strategic partners, communities, governments and investors so that the interests of these key stakeholders can be taken into consideration when decisions need to be taken.

The Board receives reports on relationships with each of the Group's key stakeholder groups and there are opportunities for individual Directors to attend sites and meetings (both in-person and virtually), providing an opportunity for direct engagement. Findings from engagement activities help to inform the Board's decision making, which in turn helps to mould the strategic direction of the Group set by the Board.

In compliance with Section 172 of the Companies Act 2006, a statement regarding consideration of concerns for each of the key stakeholder groups can be found in the Strategic report on page 7.

Customers

The Company's aim, set by the Board, is to be the partner of choice for customers. The Group is structured to focus on customers in core markets. The Group is selective in the work it wants to win, which plays to its strengths so the Company is always the best at what it does. As a result of engagement with customers the Board defines the Company's drivers of value for customers as:

- **Lean** – customers want the Company to target inefficiency across the business and supply chain.
- **Safe** – customers want to ensure that the Company's workspaces are healthy and safe places.
- **Trusted** – customers want confidence that the Company will always be able to deliver on our commitments, be they a two-year building project or a ten-year framework.
- **Expert** – customers want the Company to be at the cutting edge.
- **Sustainable** – customers want the Company to work sustainably.

Workforce

The Company complies with the UK Corporate Governance Code requirement to formally engage with its workforce through a bespoke arrangement, which is summarised below. The Board believes that the workforce is central to the business and its long-term success. The Board prioritises engagement with the breadth of the employee population through its Stakeholder Voice initiative. Stakeholder Voice is supported by reports on key performance indicators, including an 'engagement index' figure (as measured by employee surveys), voluntary attrition rates, safety observations and participation rates for the My Contribution initiative, where employees are encouraged to propose and develop innovative ideas to drive improvements in the Group's operations.

In addition to the Stakeholder Voice Initiative, non-executive Directors are kept abreast of engagement opportunities throughout the year, for example through training workshops, talent activities, site visits, town halls, contract award meetings and more. Care is taken to ensure each non-executive Director

SENTOSA ISLAND REDEVELOPMENT

Philip Aiken, Group Chair, visited a Gammon project site on Sentosa Island, Singapore in February 2020, where the redevelopment of the North-South Link Precinct is underway. Facilitated by a Gammon Director, the Group Chair met with Gammon employees and received a briefing on the Singapore division of the business. Employees then had the opportunity to chat informally with the Group Chair and ask questions.

The Sentosa Island project site is in an active pleasure destination. The Group Chair was able to gain insight into the impacts of the business on key stakeholders and review initiatives employed to reduce disruption to the ongoing tourism activities. The trip provided a valuable opportunity to discuss the sustainability agenda with the senior management responsible for its implementation.

➤ RIGHT

Philip Aiken, Group Chair, meeting with the local management team and on-site workers at the Sentosa Island project site. (Photo taken before the introduction of social distancing measures).

"The team I met were passionate about the sustainability agenda they were working to."

Philip Aiken, Group Chair



has a broad exposure across the workforce and areas of the business.

Non-executive Directors are encouraged to carry out site visits and are provided with a form to be completed, which helps provide a template for discussions and engagement activities. Topics that Directors are asked to report back on include:

- health, safety, environment and sustainability;
- leadership;
- engagement and morale;
- resources and tools for the job;
- understanding of Group strategy, values and behaviours;
- diversity and inclusion;
- future, change and innovation; and
- director remuneration.

All site visits undertaken by Directors are reported back to the full Board at each meeting, allowing for further discussion and the identification of any gaps in the engagement programme. Due to COVID-19, fewer site visits were undertaken in the year however, Board members carried out some site visits before the first national lockdown and were able to carry out a reduced number of visits during lockdown within the guidelines set by the UK Government.

During lockdown, a significant number of employees were required to work from home at short notice. The Board was updated on engagement activities that were undertaken during this time and, as a result of feedback received, a range of COVID guides for

employees were introduced, including best practice for remote working, financial wellbeing and domestic abuse.

The Board closely monitored the impact that COVID-19 had on the Group's performance and made the difficult decision to furlough some of its employees. The Board and senior leaders within the Group also decided to take a 20% pay cut for two months.

Following feedback from employees about the need to better leverage our international footprint, in November 2020, the Group launched a health and safety initiative called The Big Conversation. Over 300 projects from different geographies and areas of speciality were partnered together, to discuss fatal risks and share lessons, advice and best practice. 80% of participants said the conversation was worthwhile and 53% reported a direct improvement to health and safety.

The following pages detail case studies of site visits undertaken by non-executive Directors during the year, before social distancing restrictions were imposed.

Supply chain and strategic partners

The Board receives updates on relationships with supply chain and strategic partners within the context of routine business updates and presentations. The Board also receives updates on the Group's 50:50 Gammon joint venture together with updates on the Group's relationship with its key joint venture partner, Jardine Matheson. The Group Chair is a member of the Gammon board, and as such engages closely with the Gammon team and Jardine Matheson. Below is a case study of one of the Group Chair's visits to a Gammon

project site. The Group Chair reports back to the Board following any Gammon board meeting or visit and a more detailed update on Gammon is provided to the Board at least every 12 months.

During the year under review, there were three fatalities in the Gammon business, more details concerning which are reported on page 51. The circumstances that resulted in the fatalities were all reviewed by the Safety and Sustainability Committee, which was able to hear from the Gammon team directly concerning the fatalities. As a result of this engagement, the Safety and Sustainability Committee was able to ensure that learnings were taken in both the Gammon and the Balfour Beatty businesses to further mitigate the relevant risks.

Communities

The Board is responsible for promoting the sustainable success of the Company, with regard to the impact of the Company's operations on the community and the environment. Individual Directors have taken up opportunities to learn more about engagement with community stakeholders on specific projects during site visits. Through engagement, it is clear that local communities are interested in individual projects and the impacts on them. The impact on communities is recognised as an important factor to consider in the delivery of operational projects and is referenced where appropriate in reports to the Board throughout the year.

The environment is a topic in which all stakeholders are interested and as such sustainability is high up on the Board's agenda. As a result of input received from key

PALACE STREET AND VINE STREET

In February 2020, Anne Drinkwater attended and toured the Palace Street and Vine Street construction sites.

These site tours provided an invaluable opportunity to meet with site employees and suppliers. Anne met employees from a wide range of backgrounds, including recent graduates, apprentices and career switchers as well as long-term construction workers.

During Anne's tour, she was able to engage with site workers and ascertain a sense of the engagement and morale of the project teams, who were observed to be motivated and energetic.

Insights into the health, safety, environment and sustainability practices of the site were gathered, with the site seen to be clean and well-managed with a proactive approach to safety.

Anne met for lunch with some senior members of the UK Construction leadership team, providing an opportunity for open feedback to be provided.

"The team I met represented a diverse range of backgrounds and were optimistic about the future of Balfour Beatty."

Anne Drinkwater, non-executive Director



stakeholder groups in the UK, US and Hong Kong, the Board launched its new sustainability strategy in December 2020, focusing on the three most important areas to the business – the environment, materials and communities. More information can be found on page 55 of this report and the sustainability strategy can be found on the Company's website. Members of the Health Safety Environment and Sustainability (HSES) team presented to the Safety and Sustainability Committee on key performance metrics related to HSES and provided updates on sustainability initiatives launched by the Group. Further detail can be found within the Safety and Sustainability Committee report on pages 124 and 125.

Governments

National and local governments are both customers, in shaping the regulatory landscape within which the Group operates, and key stakeholders, in setting the conditions for investment in large infrastructure projects. The Board receives regular updates on new contract negotiations and the performance of existing contracts with national and local government as appropriate. In addition, the Board will receive updates from the General Counsel and Company Secretary on any changes in legislation that are material to the business.

The Group Chief Executive had direct engagement with the UK Government in relation to the continued operation of the construction sector and its supply chain during the COVID-19 pandemic. As a result of this engagement, the Board determined that contracts should continue to operate as much as possible in a manner that followed the COVID-19 restrictions and as a result the negative impact of COVID-19 was reduced.

Investors

Investors play a valuable role in the corporate governance of the Company. The Board is committed to maintaining an open dialogue with its investors, which is achieved through a programme of structured engagement. A selection of investor events that took place in the year can be found within the investor calendar on the right. A similar programme is anticipated to be followed in 2021.

Institutional investors

One-to-one meetings between the Group Chair, Group Chief Executive, Chief Financial Officer and individual institutional investors continued throughout 2020, taking place electronically from March 2020, including virtual UK and US roadshows, in order to comply with strict social distancing measures. The executive Directors also conducted analyst presentations following financial results announcements. Each Committee Chair seeks regular engagement with

investors on matters related to their areas of responsibility and reports back to the full Board in order to keep them cognizant of all shareholder views. The Senior Independent Director is also available to shareholders. In addition, the Company will consult with proxy advisory firms to support such firms in their reporting to their members.

The Head of Investor Relations reports to the Board biannually and provides summaries of analyst research briefings and share price movements on an ad hoc basis.

Retail investors

Full year and half year results presentation materials, including transcripts, are made available on the Company's website so that retail investors receive the same information as institutional investors. Retail investors are also encouraged to raise any questions they may have concerning the company through the Company Secretary who will arrange for an appropriate response to be provided. In October, the Group Chair met with the UK Shareholders Association via virtual video conference call.

Annual General Meeting (AGM)

The AGM would normally provide an opportunity for investors to engage in person with the board. As a consequence of the COVID-19 pandemic, investor attendance at the 2020 AGM was discouraged. A dedicated email address was set up and used by shareholders, giving them the opportunity to exercise their right to ask questions and engage with the Company and the Board on matters relating to the AGM.

Corporate website

The Company's website: www.balfourbeatty.com, has a section dedicated to investors where a range of valuable information can be found, including:

- published annual reports and results announcements;
- a financial calendar of events;
- detail on the Company's corporate governance arrangements;
- board and Executive Committee profiles;
- the Group's enhanced sustainability strategy; and
- regulatory announcements.

Investors are consulted on an ongoing basis to ensure that the Group has a full and clear understanding of their requirements. An example of this is the Board's assessment of the optimal balance sheet structure for the Group, a sustainable dividend policy and future capital return programme, which was announced in December 2020.

CALENDAR OF VIRTUAL SHAREHOLDER EVENTS

MARCH 2020

- Full year results presentation
- London roadshow
- US roadshow
- COVID-19 update

APRIL 2020

- Edinburgh roadshow

MAY 2020

- UBS Pan European Small and Mid-Cap Conference
- Jefferies Structural Winners Conference

JUNE 2020

- COVID-19 trading update
- Annual General Meeting

AUGUST 2020

- Half year results presentation
- Virtual UK roadshow

SEPTEMBER 2020

- UK roadshow
- US roadshow
- Bank of America Infrastructure Field Trip

OCTOBER 2020

- Peel Hunt Buildings, Industrials and Support Services Conference
- Jefferies UK Industrials Conference
- UK Shareholders' Association Meeting
- Continental Europe roadshow

NOVEMBER 2020

- Investec Best Ideas Conference
- Goldman Sachs Industrials Conference

DECEMBER 2020

- Bank of America Materials and Infrastructure Conference
- Berenberg European Conference
- Trading update

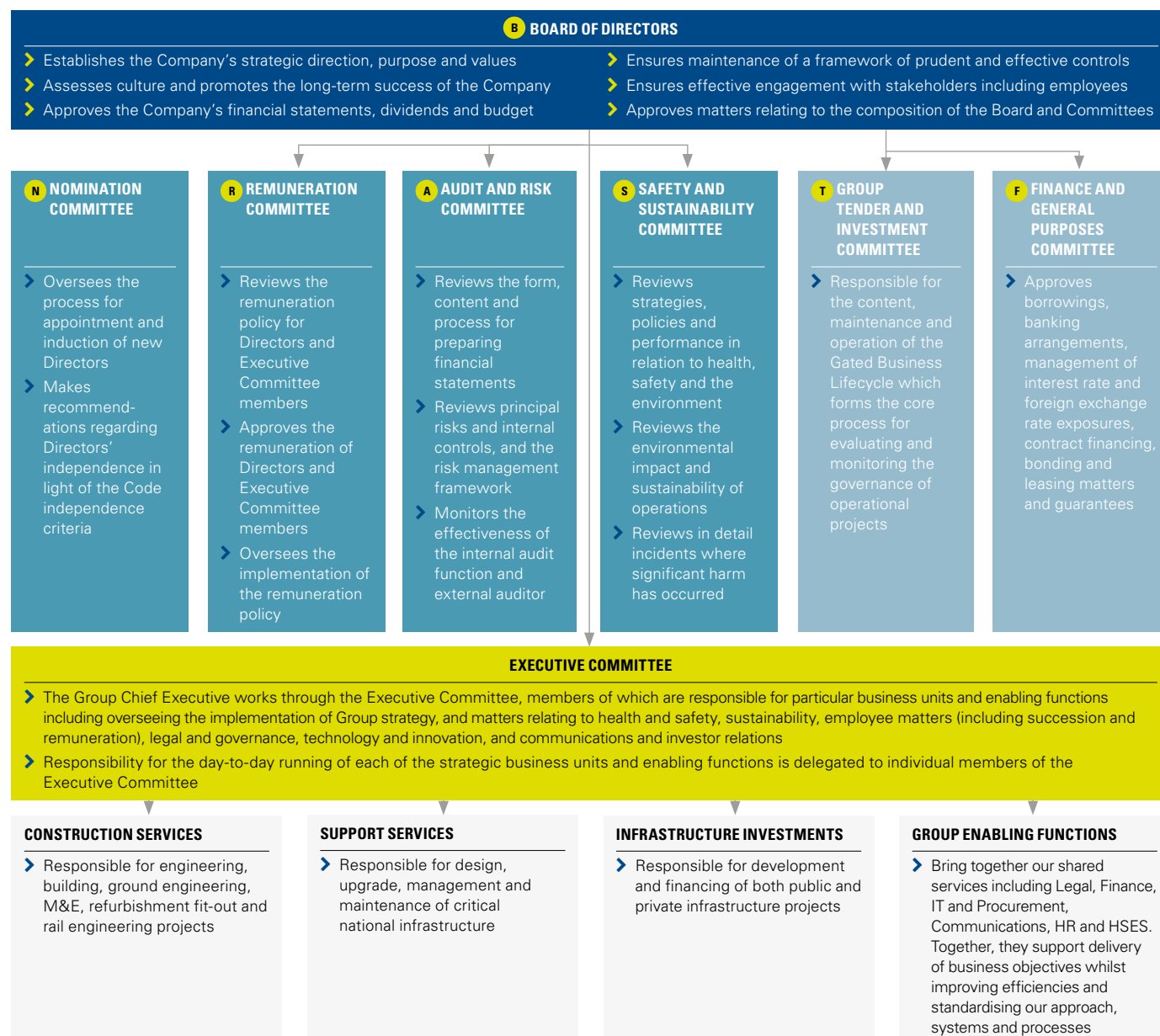
A robust framework of governance

Authority for taking certain decisions is formally delegated by the Board and flows through the Group to ensure an appropriate and consistent approach across all parts of the business.

The Board is the principal decision-making body of the Company with authority for specific matters being delegated to Committees of the Board. Responsibility for the day-to-day operation of the Group is formally delegated by the Board to the Group Chief Executive who manages the running of the business through the Executive Committee. The members of the Executive Committee each have responsibilities for particular functions with authority being further

delegated to appropriate individuals throughout the Group based on their role and seniority.

The framework set out below provides a high-level summary of matters within scope at each level of the Group's governance framework and illustrates the flow of authority as it is delegated throughout the Group.



This section sets out the roles, and effective division of responsibilities between the Group Chair, Group Chief Executive and non-executive Directors, and outlines the support the Directors receive to assist them in meeting their responsibilities under the UK Corporate Governance Code and discharging their duties, both individually and collectively.

Leadership

GROUP CHAIR

- Leads the Board and demonstrates objective judgement
- Encourages high standards of corporate governance
- Sets the Board agenda and drives Board effectiveness
- Promotes a culture of constructive debate and openness
- Ensures that Directors receive accurate, timely and clear information
- Engages with stakeholders, including shareholders

GROUP CHIEF EXECUTIVE

- Responsible for the day-to-day management of the Group and the Group's performance
- Leads the Group
- Enables planning and execution of the Company's strategy, objectives and values set by the Board
- Drives the cultural tone of the Group

Oversight

NON-EXECUTIVE DIRECTORS

- Oversee the Company's strategy and provide strategic guidance to management
- Monitor Group performance against objectives
- Review management proposals
- Provide effective challenge to management
- Serve on Board Committees which are responsible for specified governance roles

SENIOR INDEPENDENT DIRECTOR

- Sounding board for the Group Chair
- An intermediary for the Group Chief Executive, non-executive Directors and shareholders as required
- Leads review of the Group Chair's performance
- Chairs the Nomination Committee when the Group Chair's succession is considered
- Available to meet with shareholders

NON-EXECUTIVE DIRECTOR MEETINGS

The non-executive Directors, led by the Group Chair, without the executive Directors present, hold regular scheduled meetings prior to or following Board meetings.

The executive and non-executive Directors meet annually, led by the Senior Independent Director and without the Group Chair present, to discuss the Group Chair's performance.

Governance

COMPANY SECRETARY

The Board is supported by the Company Secretary who ensures that the Board is able to function effectively and efficiently. The Company Secretary is available to all Directors and maintains dialogue with each of them on an individual basis.

In addition to making all logistical arrangements for meetings, the Company Secretary is responsible for advising the Board on all governance matters, managing the policies and processes related to the Board and ensuring that the Directors receive information in a timely manner.

Role of the Board

The role of the Board is to be effective and entrepreneurial and to promote the long-term sustainable success of the Company, whilst having regard to interests of stakeholders and ensuring high standards of business conduct. The division of responsibilities across the Board is clear, with each Director having a defined role with individual duties. A distinction is made between the leadership, which is the Group Chair's responsibility, and the

executive leadership of the Company's business, which is the Group Chief Executive's role. The counter balance of responsibilities at Board level is set out above and demonstrates that no one individual has unfettered powers of decision-making.

Time commitment of Directors

The Board recognises the importance of individual members having sufficient time to discharge their duties effectively. On an

annual basis, each Director declares their external appointments and commitments to the Board as part of the conflicts of interest declaration. The Directors' significant commitments are set out in their biographies and remained unchanged throughout 2020 with the exception of Stephen Billingham who resigned as chairman of Anglian Water in March 2020. Neither of the executive Directors hold any non-executive board positions at a FTSE 100 company.

Corporate governance framework

The Company's governance framework operates to support the delivery of its strategy by ensuring that business is conducted within a framework of robust principles and procedures and in an orderly way.

The Company has a premium listing on the London Stock Exchange and is therefore subject to the Code. A copy of the Code can be found on the FRC's website at www.frc.org.uk.

The Company's compliance with the Code is set out in the Directors' report on page 151.

The Board

The Board establishes the strategic direction of the Group and assesses the basis upon which the Company generates and preserves value over the long-term. The Board sets the culture for the business which sets the tone as to how the Company will achieve its strategic goals and purpose – further details on the Board's oversight of the Company's culture can be found on page 112. The Board ensures that its decision-making is long term in its nature and takes into account the desirability for maintaining high standards of business conduct and the need to act fairly between members.

The Board determines the Group's key policies and reviews management and financial performance. The Group's governance framework is designed to facilitate a combination of effective, resilient and prudent management of the business.

One of the primary responsibilities of the Board is to ensure that the Company preserves value over the long term in a sustainable manner, taking into consideration both value derived for the Company's stakeholders and the Company's contribution to wider society. In setting, reviewing and ensuring the implementation of the Group's Build to Last strategy, the Board ensures that these objectives are met while taking into account risks and opportunities facing the Group.

Primary Board responsibilities include:

- Group strategy and ensuring resources are in place to meet objectives;
- setting Group performance objectives and monitoring performance;
- significant corporate activities;
- approval of the annual Group budget;
- risk management and internal control; and
- board, Executive Committee and Company Secretary appointments and succession;

- approval of the annual accounts and financial reports to shareholders;
- setting of dividend policy;
- bid and contract updates;
- legacy contract out-turns;
- pipeline of significant projects;
- engagement with shareholders, employees and wider stakeholders;
- review and monitoring of culture and its alignment with Group purpose, values and strategy;
- results of employee engagement surveys; and
- control of the Company's share capital structure.

Board and Committee meetings

In order to discharge its responsibilities, the Board held eight scheduled meetings during 2020, plus a number of ad hoc Board meetings in order to deal with specific matters which arose outside the formal schedule of meetings. Details of attendance by all Board members at scheduled meetings, can be found on page 107.

The Group Chair sets a structured agenda for each meeting in consultation with the Group Chief Executive and Company Secretary. Capacity is maintained on the agenda for each meeting to allow for the timely consideration of matters as they arise during the year. The Group Chair seeks a consensus at Board meetings, but, if necessary, decisions are taken by majority. If any Director has concerns on any issues that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2020.

The key activities of the Board in 2020 are detailed on page 111. These activities are discussed under the value pillars of Lean, Expert, Trusted, Safe and Sustainable and these underpin the Board's decision-making process.

During the year, the Board devoted considerable attention to dealing with the impact of COVID-19 and internal control and compliance matters. Regular deep dive presentations form part of the annual meeting cycle focusing on particular business areas or major projects of strategic importance to the Group.

The Board has a formal schedule of matters reserved for its decision and has delegated certain responsibilities to the Board Committees, each with separate terms of reference. There are four main Board Committees (Audit and Risk, Nomination, Remuneration and Safety and Sustainability). The principal activities of each committee during the year are set out in the Committee reports on pages 122, 125, 127 and 134.

The Group Chair encourages all Directors to attend all Committee meetings unless conflicted e.g. where an individual's performance or remuneration is being considered. Additional attendees are invited to attend Board and Committee meetings at the discretion of the relevant chair e.g. the Group Financial Controller and Group Head of Internal Audit are invited to attend the Audit and Risk Committee together with representatives of the Company's auditor KPMG LLP.

As part of the internal controls framework, the Board has delegated responsibility for overseeing the implementation of Group strategy and policies set by the Board, to the Executive Committee. The Executive Committee is chaired by the Group Chief Executive and comprises the Chief Financial Officer and nine senior Group executives.

Primary Executive Committee responsibilities include:

- developing Group strategy for approval by the Board;
- ensuring Group, regional and functional strategies and resources are effective and aligned;
- monitoring Group operating performance;
- managing the Group enabling functions;
- overseeing the management and development of Group talent;
- monitoring communication to Group employees and external stakeholders; and
- responsibilities for matters relating to health and safety, sustainability and employees.

Board composition

Processes and procedures are in place to ensure that there is an appropriate balance of Board members who have the skills, experience and independence to discharge their duties as Directors.

The Board consists of eight members, comprising the non-executive Group Chair, the Group Chief Executive, the Chief Financial Officer, the senior independent non-executive Director and four independent non-executive Directors. Biographies of the Board members are set out on pages 108 and 109. The Board considers that it is an appropriate size and the Directors have an appropriate balance of skills and experience to manage the requirements of the business.

Independence of Directors

In accordance with the provisions set out in the Code, the Group Chair was independent at the time of his appointment. The Board considers that all non-executive Directors are independent including Stephen Billingham who is a member of the Company's pension scheme resulting from his employment with the Group over 20 years ago. Stephen Billingham was also chairman of Anglian

Water until 31 March 2020. Anglian Water has had business relations with the Group, the value of which are considered to be immaterial in the context of the Group (more detail relating to value is set out in Note 38 on page 219).

Conflicts of interests

The Board has formal procedures for the declaration, review and authorisation of conflicts of interest of Board members. Conflicts are considered and where appropriate authorised by the Board on an annual basis. In addition, Directors are requested to declare any conflicts at the start of all Board meetings. The Board was satisfied that none of the Directors had any conflict of interest during the year which could not be authorised by the Board. There is a formal process in place for the approval of all new external appointments of Directors.



Directors have an appropriate balance of skills and experience to manage the requirements of the business.



KEY SKILLS AND EXPERIENCE OF DIRECTORS

SKILLS AND EXPERIENCE		NUMBER OF DIRECTORS							
£	Corporate governance	●	●	●	●	●	●	●	●
🧠	Culture and values	●	●	●	●	●	●	●	●
🏢	Financial management	●	●	●	●	●	●	●	●
🏥	Health/safety/sustainability	●	●	●	●	●	●	●	●
🗣️	Public/government	●	●	●	●	●	●	●	●
🔍	Risk and regulation	●	●	●	●	●	●	●	●
🎯	Strategy	●	●	●	●	●	●	●	●
🌏	Hong Kong and Far East experience	●	●	●	●	●	●	●	●
🇺🇸	US experience	●	●	●	●	●	●	●	●
🏗️	Construction sector experience	●	●	●	●	●	●	●	●
⚙️	Major complex projects experience	●	●	●	●	●	●	●	●

Board succession

In 2020, the Board commenced the process for searching for a successor for the Group Chair, further details of which can be found on page 123. Succession plans are based on merit and assessed against objective criteria with the promotion of diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Further information is set out in the Nomination Committee report on pages 122 and 123.

All Directors are subject to annual re-election by shareholders at the Annual General Meeting where letters of appointment for each non-executive Director are available for inspection. Set out in the Notice of Annual General Meeting is information on the skills and experience of each Director seeking re-election, as well as details regarding their individual contributions to the long-term success of the Company.

Set out below is the current length of tenure for the Group Chair and each of the non-executive Directors as at 31 December 2020.

Training and development

Non-executive Directors receive a full programme of briefings annually across all areas of the Company’s business from the executive Directors, members of the Executive Committee, senior executives and representatives of external professional bodies.

Focus areas in 2020 included an update on the progress of the UK Government’s review and consultations in relation to the UK audit market and proposed reform of the Financial Reporting Council (FRC). These briefings were provided in the context of the Board’s review of key business stakeholders. The Board was also updated on the implementation of revisions to the Group’s governance framework to align with the UK Corporate Governance Code.

Throughout the year, the Group Chair maintains dialogue with individual Directors to identify any specific training needs. Where appropriate, such training is delivered by the topic being included at a Board meeting so that all Directors can benefit. Alternatively, training is delivered by way of formal presentations, individual meetings and site visits in order to learn more about a particular initiative or project.

Information and support

During the year, the Company Secretary advised the Board on matters related to governance, ensuring Board procedures were followed and relevant statutory and regulatory requirements were complied with. The Company Secretary has responsibility for facilitating the timely distribution of information between the Board and its Committees and the executive and non-executive Directors.

The Directors have direct access for advice to the Company Secretary who is able to arrange, at the Company’s expense, for the Directors to receive independent professional advice where appropriate.

Board evaluation

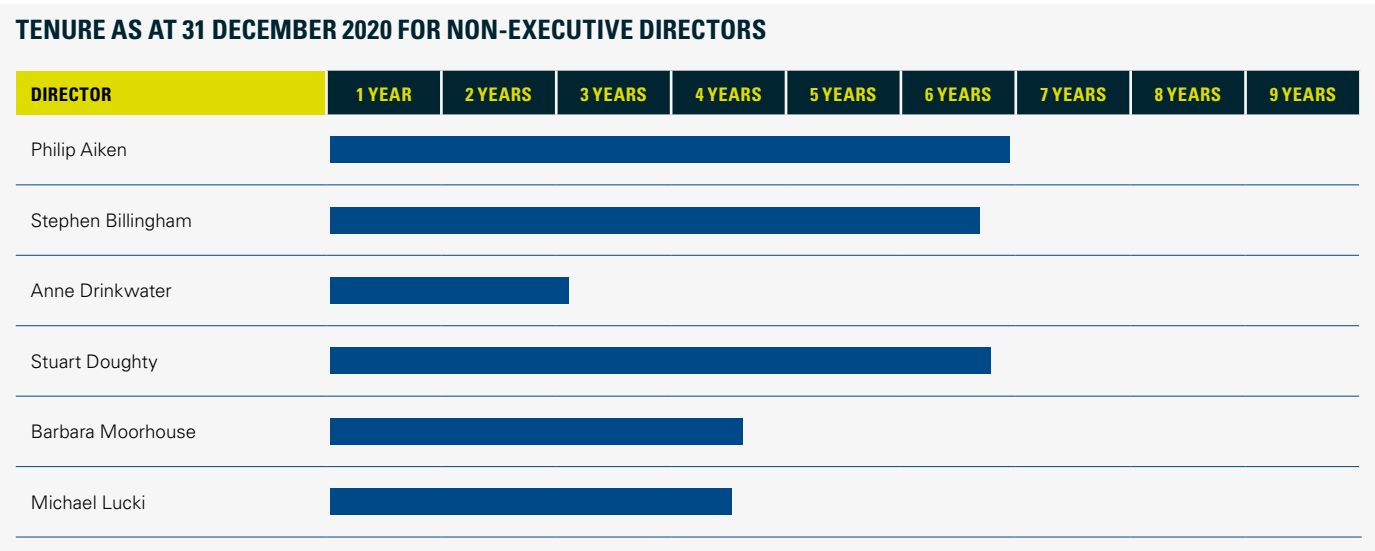
Reviews of the effectiveness of the Board, its principal Committees, the Group Chair and individual Directors are carried out on an annual basis. This process is externally facilitated every three years, allowing for a fresh and independent perspective to be brought to the review. The last externally facilitated review took place in 2018, with the next due to take place in 2021.

Process

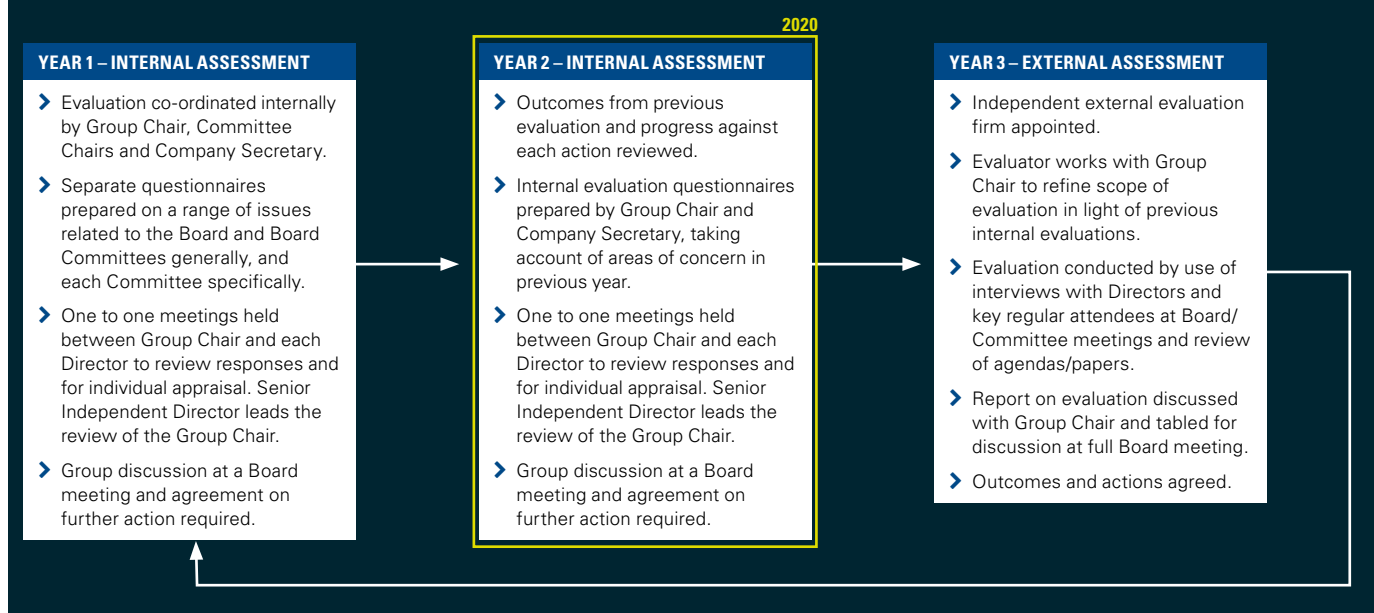
The 2020 evaluation process was internally facilitated and entailed issuing questionnaires to all Board members. Questionnaires covered a range of topics including:

- Board leadership;
- Board effectiveness;
- Board behaviours; and
- risk management and internal controls.

Questionnaires are developed by the Company Secretary in conjunction with the Group Chair and Committee Chairs, according to the principles of the UK Corporate Governance Code and supporting FRC Guidance on Board Effectiveness. Where possible, questionnaires remain the same from one year to the next so that progress can be monitored. The process is designed to illicit open and honest feedback. In order to facilitate transparent feedback, questionnaires are anonymised when shared with the Group Chair, Board and Committees.



BOARD EVALUATION PROCESS



The review of the Group Chair was facilitated by the Company Secretary on behalf of the Senior Independent Director. The questionnaires were completed by Board members in December 2020, with the results being shared with the Group Chair and Committee Chairs in January 2021 and discussed in Board and Committee meetings in February and March 2021.

Board

Directors concluded that the Board and its Committees continue to function well. There is a culture of openness, transparency and healthy challenge, along with well-defined roles and delineations between the Board and the Executive Committee.

It was concluded that the number and structure of meetings throughout the year was appropriate for the Board to properly discharge its duties. It was further concluded that the Board has a strong process for monitoring revenue, profitability, margin and other financial indicators against the objectives set.

It was agreed that there would be more focus on keeping up-to-date with industry developments, particularly in the US, and the Group's relative competitive positioning by encouraging increased emphasis within routine management presentations. It was further agreed that the Board would review its approach to assessing and setting the Group's strategic direction and adjust future agendas and meeting structures as appropriate. It was agreed that the regularity of reporting on Gammon would be reviewed, as well as the optimum reporting and presentation format for executive reporting.

Committees

There was a clear consensus that the Committees were operating effectively with evidence of:

- appropriate size, membership and composition;
- clearly defined roles and responsibilities that are appropriate and clearly understood;
- an atmosphere of trust and respect between the Committee and management;
- adequate opportunity to discuss issues and ask probing questions;
- adequate access to management and external advisers between meetings; and
- strong Committee Chair leadership.

It was concluded that the Nomination Committee and Safety and Sustainability Committee could benefit from more presentations from senior management and that this would be actioned during 2021.

It was suggested that, in light of restrictions imposed by COVID-19, renewed emphasis should be placed upon the relationship and interactions between each Committee and management in order to maintain the atmosphere of trust highlighted by the evaluation process.

Group Chair

The Board was unanimous in its conclusion that it received strong leadership from the Group Chair, who maintains a cohesive and collegiate board and is effective at focusing discussion in a calm and productive fashion. It was concluded that the Group Chair sets the agenda, style and tone of Board meetings to promote decision-making and allow for constructive debate.

The evaluation process highlighted the Group Chair's success in adapting to the use of virtual meetings by ensuring all Directors are given the opportunity to contribute. The Group Chair dedicates sufficient time to the role in order to discharge his duties effectively, and is easily accessible by Board members between the formal meetings.

Further detail on the succession planning process for the Group Chair can be found on page 123.

Individual Directors

The evaluation concluded that each Director continues to have sufficient time, knowledge and commitment to effectively contribute to the long-term sustainable success of the business.



Philip Aiken AM
Chair of the Nomination Committee

MEMBERSHIP

- Philip Aiken (Chair of the Committee)
- Leo Quinn
- Stephen Billingham
- Stuart Doughty
- Barbara Moorhouse

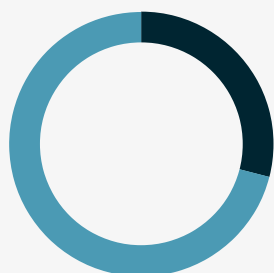
KEY ACTIONS FROM 2020

- Oversaw executive search for new Group Chair
- Reviewed Committee memberships
- Reviewed the balance of Directors' skills and experience, independence and tenures

PRIORITIES FOR 2021

- Continue to oversee Group Chair succession plan
- Evaluation of the Board and its main Committees
- In the event of vacancies arising on the Board, the selection of new Directors

ALLOCATION OF TIME



- Review of Board balance and composition
- Group Chair succession planning

Report of the Nomination Committee

I am pleased to present the report of the Nomination Committee, setting out the key activities undertaken during 2020.

During the year the Committee focused on its core responsibilities and, where appropriate, worked closely with the Remuneration Committee.

The Committee held one scheduled meeting during the year and one ad hoc meeting to discuss matters related to the Group Chair's succession. At its February 2020 meeting, the Committee reviewed the Board's balance and composition and Committee memberships to ensure that these would allow for duties to be effectively discharged. At its ad hoc meeting in September 2020, the Committee focused on the executive search process for my role of Group Chair.

The Committee's terms of reference can be found on the Company's website, www.balfourbeatty.com.

Philip Aiken
Chair of the Nomination Committee
9 March 2021

Roles and responsibilities of the Committee

- Making recommendations as to the appointment, reappointment, retirement or continuation of any Director
- Proposing and overseeing induction plans for new Board appointments
- Making recommendations regarding Directors' independence in light of the Code independence criteria
- Monitoring the structure, size, composition and balance of the Board and Committees
- Spearheading Board succession planning and reviewing succession plans at Executive Committee level

Committee composition

The Committee consists of two independent non-executive Directors, the Senior Independent Director, the independent non-executive Group Chair and the Group Chief Executive, thereby fulfilling the 2018 UK Corporate Governance Code requirement that the majority of members of the Nomination Committee should be independent non-executive Directors.

Main activities of the Committee during the year

The Committee met during the year to consider the following matters. Further detail on Board and Committee attendance can be found on page 107.

February 2020	September 2020 (ad hoc)
➤ reviewed the Board's composition and the balance of skills, knowledge and experience of individual Directors; ➤ reviewed Committee memberships; ➤ reviewed the non-executive Directors' tenures; ➤ reviewed the non-executive Directors' independence and conflicts of interest; and ➤ assessed the Committee's effectiveness in 2019, following the internal evaluation of the Committee.	➤ succession planning for the role of Group Chair, discussed further on page 123; and ➤ constituted a sub-Committee to take decisions and actions related to the process for succession of the Group Chair role.

Group Chair succession

The Committee focused on the search process for the role of Group Chair, given Philip Aiken will be stepping down from the Board at the Company's AGM in 2021.

A sub-Committee was set up in September 2020, a meeting of which can be constituted by any two of the Committee members, excluding Philip Aiken. The sub-Committee was established to allow for actions and decisions to be taken as necessary, on behalf of the Committee, allowing for pace to be maintained. The Committee, with support from the Group HR Director, compiled a specification for the role of Group Chair and undertook a competitive tender process for executive search agencies in order to find a firm with appropriate credentials, terms of business and cultural fit. Pursuant to this process, Egon Zehnder was engaged. Egon Zehnder is an independent executive search consultancy, compliant with the Enhanced Code of Conduct for Executive Search Firms, and has no connections to the Company or any of its individual Directors.

Following engagement, a timetable was drawn up setting out key milestones in the process, including the drawing up of long- and short-lists of candidates and the commencement of a staged interview process.

The Committee is responsible for ensuring that candidates are free of conflicts of interest and are able to commit sufficient time in order to properly discharge the duties of the Group Chair.

Attendance

At the invitation of the Committee, the Group HR Director attended an ad hoc meeting of the Nomination Committee in September 2020, to present to the Committee with regards to the succession of the Group Chair.

The Company Secretary or their nominee attended all Committee meetings.

Evaluation of the Committee

During the year, an internal evaluation of the effectiveness of the Committee was conducted. Further details can be found on pages 120 and 121.

Appointment and reappointment of Directors

The Committee unanimously recommends the re-election of each of the Directors at the 2021 AGM. In making this recommendation, the Committee carried out an assessment of each Director including their performance, contribution to the long-term sustainable success of the Company, and capacity to discharge their responsibilities effectively, given their external time commitments and responsibilities.

Diversity and inclusion remain central to the Committee's decision-making and oversight in relation to new Board appointments. The non-executive Directors come from broad industry and professional backgrounds, with varied experience aligned to the needs of the business. Further detail on backgrounds and experience of the Directors can be found on pages 108 and 109.

The Committee acknowledges the Hampton-Alexander Review, which set recommendations aimed at increasing the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 boards by 2020. The Committee further acknowledges the Parker Review directing that boards of FTSE 250 companies should have at least one director from an ethnic minority background by 2024. Diversity of backgrounds not only ensures a more proportionate representation of wider society but also places the Group in a stronger position to deliver for its stakeholders. At Board level, two of the Company's eight Directors (25%) are women.

Diversity and inclusion

A range of personal strengths and industry backgrounds are represented on the Board, which is made up of two female and six male Directors. Further information on the skills and backgrounds of individual Directors can be found in the Board biography section on pages 108 and 109.

Senior leadership, comprising the Executive Committee and their direct reports (excluding administrative assistants), consists of 33 females and 91 males, meaning a 26.6% female representation. Details of the gender breakdown across the Group can be found in the People section on page 75.

The Board is committed to ensuring that it remains diverse and it has a diversity and inclusion policy to support this. At Board level, currently two out of eight Directors (25%) are women. The Board recognises that it does not currently meet the target set by the Hampton-Alexander Review and will aim to enhance the diversity of its Board through ongoing succession planning.

The Board further acknowledges the Parker Review directing that boards of FTSE 250 companies should have at least one director from an ethnic minority background by 2024 and also aims to address this through future succession planning.

Appointment and induction programmes

There were no new Board appointments during 2020. However, when making a new appointment, the Committee identifies and articulates objectives and criteria based on its Board composition reviews. The Committee is responsible for engaging an executive search consultant and reviewing shortlists of candidates and attending interviews. The candidate's existing appointments and associated time commitments and actual or potential conflicts of interest are also assessed. The Committee will agree a recommendation for appointment to the Board, taking account of matters such as gender, social and ethnic backgrounds and cognitive and personal strengths.

A bespoke induction programme is prepared for all new Directors joining the Company. Induction programmes are designed by the Company Secretary in conjunction with the Group Chair, Senior Independent Director and Group Chief Executive and include one-to-one meetings with the Executive Directors, Executive Committee members, the Group General Counsel and Company Secretary. Meetings are set up with key members of senior management from a variety of departments and business units, with the content of meetings varying depending on the Director being inducted and their background and individual experience.

An induction programme would also include:

- documents provided via the electronic Board portal covering key information relating to the Group including financial performance, Board policies and procedures and governance matters. These documents are also available to all other Board members as a continuing point of reference; and
- visits to key operational sites, offering a chance to meet face-to-face with the workforce, under normal circumstances, without government restrictions in place enforcing social distancing. Directors continue to make regular site visits throughout their tenure, in line with the Company's Employee Voice initiative, gaining valuable insight into operations and feedback from the workforce. Further detail on the Employee Voice initiative can be found on page 112.

Succession planning

The Board considers the length of service of the members of the Board as a whole and the need for it to refresh its membership progressively over time. Although no Directors, other than the Group Chair, have retired or stated their intention to retire, Director succession planning remained a priority for the Committee in 2020.



Stuart Doughty CMG
Chair of the Safety and Sustainability Committee

MEMBERSHIP

- Stuart Doughty (Chair of the Committee)
- Philip Aiken
- Anne Drinkwater
- Leo Quinn

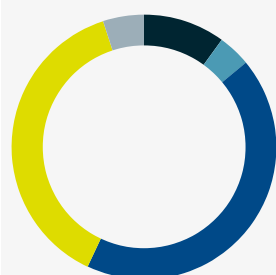
KEY ACTIONS FROM 2020

- Received reports on the implementation of Group initiatives
- Reviewed findings from serious incidents and fatalities
- Reviewed the results of the Loughborough Report
- Reviewed and agreed new Sustainability Strategy targets

PRIORITIES FOR 2021

- Keeping our sites open and COVID-19 secure
- Agreeing science-based sustainability targets
- Launch of new Health and Wellbeing strategy
- Continued focus on risk elimination

ALLOCATION OF TIME



- Group performance updates
- Zero Harm updates
- Notable incidents and learnings
- Environment and sustainability updates
- Governance and other matters

Report of the Safety and Sustainability Committee

I am pleased to present the report of the Safety and Sustainability Committee for 2020.

During 2020, the Committee's attention focused on the impacts of the COVID-19 pandemic, with Group processes and procedures being reviewed to ensure they remain in line with UK Government and World Health Organisation best practice guidelines.

Although the Committee saw continuing trends of improved Group HSES performance, we nonetheless suffered the tragic loss of four of our people during the year. Three of these incidents occurred within Gammon, the Group's Hong Kong-based 50:50 joint venture with Jardine Matheson, and one in the UK. The Group's HSES targets and priorities were presented to the Committee during the year, including the new sustainability strategy called Building New Futures. The Committee also reviewed a fatal incident in the US involving one of our joint venture partner's workers. The Committee continues to focus on thoroughly investigating such events and distilling key learnings to be applied throughout the Group's operations.

The Committee met four times in 2020 and its meetings were regularly attended by other members of the Board and the Group HSES Director. Further attendees attended at the discretion of the Committee, including the Group Head of Environment and Sustainability and other key individuals from the HSES Executive and business unit managing directors who are also leaders of our fatal risk groups.

Stuart Doughty
Chair of the Safety and Sustainability Committee

9 March 2021

Roles and responsibilities of the Committee

- Reviewing strategies, policies, procedures and performance of the Group in relation to health, safety, environment and sustainability (HSES) matters
- Monitoring and driving HSES improvements
- Approving health and safety targets and key performance indicators and monitoring the Group's performance against them
- Monitoring the Group's performance against main safety risk groups and strategies for mitigating such risks
- Reviewing Group environmental and social performance, including but not limited to carbon emissions, energy, resource efficiency and compliance

Main activities of the Committee during the year COVID-19

The Committee received reports on the implementation of best practice procedures for both construction and office sites and noted the extensive risk assessments carried out to ensure that sites remain safe. Reports included updates to communications, controls, monitoring and Site Operating Procedures in addition to the required processes to be followed where an employee is diagnosed with COVID-19 or has to self-isolate.

The Committee reviewed the results of the Loughborough Report, "COVID-19 and construction: Early lessons for a new normal?", a research report conducted by Loughborough University in collaboration with Balfour Beatty and other Tier One contractors and supply chain partners (being those deemed essential by the UK Government and therefore able to remain open throughout the pandemic). The report revealed the early learning threats and opportunities of the pandemic. One of the threats is higher stress levels and a threat to wellbeing of employees, leading the Group to engage Mates in Mind, a charity focusing on construction worker mental health, to provide additional tailored support to the wider business.

Further detail on the COVID-19 pandemic and its effects on the business can be found on pages 4 and 5.

Safety performance and Zero Harm

The Group HSES Director reported to the Committee during the year on Group performance against various safety metrics. The Committee saw significant Group-wide reductions in lost time incident rates, falling object incidents and a positive increase in safety observation rates during 2020. Strong staff engagement results also supported the strong Zero Harm culture within the business.

Reports were received regarding progress on Group initiatives, including:

- The Big Conversation – launched on 9 November 2020, an initiative encouraging the workforce to share challenges, solutions and innovations around fatal risks and mental health (further details on page 50); and
- Health and Wellbeing strategy – launched in January 2021.

An update on the Zero Harm strategy was presented in February 2020, which included an overview of the Group's achievements in improving plant standards by instigating safety changes directly with manufacturers of plant equipment and machinery. The Committee was further informed of the related implementation plans, targeted inspections and internal audit reviews in place to manage the embedding of safety innovations. Further detail on Zero Harm can be found on pages 48 to 51.

Notable incidents and fatalities

Tragically, four fatal incidents took place during 2020, further details of which can be found on page 51.

The Committee received reports on notable incidents and events that are deemed to have had a high potential of serious injury, including detail on learnings that are shared and applied across the Group. The Committee was also presented with case studies of external incidents and key lessons to be applied to the Group's operations.

The Committee received updates on past incidents and progress made in implementing key learnings within the Group, for example the introduction of a Temporary Works Working Group. This included reports regarding the strengthening of internal controls following serious event investigations.

Environment and sustainability

The Committee received regular updates throughout the year on the Company's performance with regards to sustainability and environmental factors.

During the year, the Committee oversaw the implementation of the new Building New Futures Sustainability Strategy, launched on 9 December 2020, which sets out the Group's sustainability targets and ambitions and commitment to set a science-based target to reduce its carbon emissions. The Strategy demonstrates alignment with the 'Sustainable Development Goals' set by the United Nations and allows for consistency across the business in light of the breadth of matters that operational and work winning teams have responsibility for.

The Committee further noted the Group's long- and short-term sustainability targets, including those around generation of social value (further detail on pages 68 to 70) and reduction of carbon emissions and waste.

Governance

During the year, the Committee reviewed its terms of reference and approved minor changes. The Committee's terms of reference can be found on the Company website at www.balfourbeatty.com.



Stephen Billingham CBE
Chair of the Audit and Risk Committee

MEMBERSHIP

- Stephen Billingham (Chair of the Committee)
- Stuart Doughty
- Michael Lucki
- Barbara Moorhouse

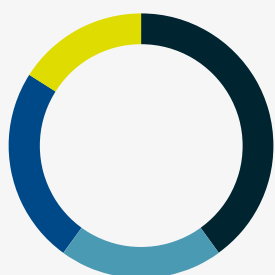
KEY ACTIONS FROM 2020

- Reviewed impacts of the COVID-19 pandemic on the Group's key judgements on significant accounting issues (including key contract judgements), risk and internal controls and internal and external audit plans
- Monitored and assessed the impact of the ongoing investigation into the US military housing business
- Reviewed and challenged management's going concern and viability assessments conducted under severe downside scenarios in light of the COVID-19 pandemic

PRIORITIES FOR 2021

- Continue to review and challenge management's judgements on significant accounting issues including key contract judgements
- Assess the effectiveness of the Gated Business Lifecycle including the mitigation of project risk
- Monitor the progress and effectiveness of the Performance Improvement Plan (PIP) in place as agreed with the Air Force in relation to the US military housing business
- Assess management's review of policies within its Investments business

ALLOCATION OF TIME



- Financial reporting
- Internal audit, risk management and internal control
- External auditor
- Governance and other matters

Report of the Audit and Risk Committee

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2020. This report contains explanations and insights into how the Committee discharged its duties during this unprecedented year.

The Audit and Risk Committee assists the Board in fulfilling its responsibilities related to Group financial statements, risk management and financial controls and the internal and external audit functions.

The Committee held four meetings during the year (further detail on attendance can be found on page 107). All non-executive Directors are encouraged to attend Committee meetings and meetings were also regularly attended by the Group Chair, Group Chief Executive, Chief Financial Officer, Group Risk and Audit Director, UK Head of Internal Audit, Group Financial Controller, Group General Counsel and Company Secretary and representatives of the external auditor, including the lead audit partner. There were further ad hoc attendees throughout the year who joined Committee meetings for specific agenda items. All meetings were held in line with government guidance in relation to the COVID-19 pandemic.

During 2020, the Committee remained focused on monitoring the integrity of the Group's financial reporting, particularly in light of the uncertainties posed by the COVID-19 pandemic. Further detail on the impact of the pandemic, including on the Group's external and internal audit plans, is set out on the following pages.

The Committee also continued its programme of annually recurring compliance matters. The Committee's terms of reference can be found on the Company's website, www.balfourbeatty.com.

Stephen Billingham
Chair of the Audit and Risk Committee
9 March 2021



The Committee remained focused on monitoring the integrity of the Group's financial reporting, particularly in light of the uncertainties posed by the COVID-19 pandemic.



Roles and responsibilities of the Committee

- Monitoring the integrity of the Group's financial statements, including formulating an opinion on whether the Annual Report and Accounts are fair, balanced and understandable
- Reviewing the significant financial issues and judgements related to the Group's financial statements, including Investments portfolio valuations
- Ensuring management has relevant systems of risk management and internal control in place
- Monitoring the effectiveness of the internal audit function
- Overseeing the relationship with the external auditor, including annual approval of the external audit plan, review of audit opinions, setting of external auditor remuneration, and reporting the results of external audits to the Board
- Monitoring the effectiveness, objectivity and independence of the external auditor, including factors related to the provision of non-audit services

Committee composition

The Committee is chaired by Stephen Billingham, who the Board has determined as having the recent and relevant financial experience required by the UK Corporate Governance Code.

The Chair is supported by the other Committee members in delivering the Committee's governance responsibilities. Committee members possess a range of experience relevant to the sector within which the Company operates, particularly in relation to financial management and risk. The Committee members' full biographical details can be found on pages 108 and 109.

All meetings were attended by the Company Secretary or their nominee.

Evaluation of the Committee

During the year, an internal evaluation of the effectiveness of the Committee was conducted. Further details can be found on pages 120 and 121.

Corporate governance

The Committee reviewed its terms of reference in November 2020 and approved minor changes. The Committee's terms of reference can be found on the Company's website, www.balfourbeatty.com.

COMMITTEE ACTIVITIES DURING 2020

The Committee has a substantial agenda of items formulated to fully discharge its roles and responsibilities, whilst maintaining sufficient time for discussion of ad hoc items that arise throughout the year.

		MARCH	MAY	AUGUST	NOVEMBER
Group financial statements	Received reports on financial and accounting, contract and commercial issues and litigation	●		●	
	Approved financial results press releases and the Annual Report and Accounts to be put to the Board	●		●	
	Approved the Group's viability and going concern statements	●		●	
	Reviewed Directors' valuation of the Investments portfolio	●		●	
	Approved Greenhouse Gas Emissions representation letter to PwC	●			
External auditor	Reviewed the external auditor's report on the Company's full year and half year financial statements	●		●	
	Reviewed the external auditor's assessment of its objectivity and independence including a review of non-audit services (and associated fees) provided by the external auditor	●			
	Reviewed management representation letters related to the Company's full year and half year financial statements	●		●	
	Reviewed process and control issues identified during the external audit and recommendations to management set out in the external auditor's management letters	●			●
	Reviewed the external auditor's audit plan and strategy		●		●
	Approved the external auditor's fees				●
Risk management and financial controls (including the internal audit function)	Conducted an annual assessment of risk and internal control, including a robust assessment of principal and emerging risks	●			
	Reviewed findings and recommendations from internal audit reports and on work plans	●	●	●	●
	Received an update on the impact of COVID-19 on internal controls		●		
	Received risk and internal control reports			●	
	Reviewed and approved the internal audit plan			●	●
Other matters	Received updates on US military housing investigation	●			●
	Received updates on Group tax and insurance		●		
	Conducted an annual review of its terms of reference				●
	Private meetings between the non-executive Directors, Head of Internal Audit and KPMG	●	●	●	●

Significant issues and other accounting judgements

In accordance with Code provision 26, the following sets out all significant issues reviewed by the Committee throughout the year, being those requiring management to exercise the highest level of judgement or estimation. The Committee assesses these judgements to determine if they are reasonable and appropriate.

REVENUE AND MARGIN RECOGNITION

Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports and met with management, the Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements.

GOING CONCERN AND VIABILITY STATEMENT

In order to satisfy itself that the Group has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's viability statement, cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the Annual Report and Accounts. More details on going concern and the viability statement are contained on pages 170 and 102 respectively.

NON-UNDERLYING ITEMS

The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.

PROVISIONS

The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.

RETIREMENT BENEFITS

The key judgement relates to the assumptions underlying the valuation of retirement benefits. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.

DEFERRED TAX ASSETS

The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.

DIRECTORS' VALUATION OF THE INVESTMENTS PORTFOLIO

The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Financial reporting

A key responsibility of the Committee is to monitor and oversee the integrity of the Group's published financial statements. This responsibility is discharged in part through the review and evaluation of the Company's full year and half year financial statements.

The Committee has full access to management, in order to ask questions and gain further insights where necessary, and receives reports from members of the Finance team and the external auditor.

The Committee assessed whether the annual financial statements provided a 'fair, balanced and understandable' view of the Company's position, performance, business model and strategy, as well as:

- ▶ assessing whether the accounting policies applied, and judgements (including key contract judgements), estimates and assumptions made, by management are reasonable and appropriate based on information available (detail on pages 171 to 176); and
- ▶ assessing whether the Company has complied with relevant financial reporting standards and other regulatory requirements, including the Code, European Securities and Markets Authority and Markets Authority Guidelines on Alternative Performance Measures.

Going concern and viability

The Committee reviewed and challenged management's assessment of the Company's viability over a three-year period, and its going concern basis for the period of at least 12 months from the date of approval of the financial statements as part of its wider responsibility for assessing the Group's principal and emerging risks (see pages 92 to 103).

Due to the uncertainty following the COVID-19 pandemic, the Directors have carried out an assessment on the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements alongside the Group's viability assessment for the period to 31 December 2023. These assessments have involved the review of medium-term cash forecasts based on the Group's Three Year Plan which reflects the estimated impact of COVID-19 on each of the Group's operations on which the Directors have modelled a series of analyses based on severe but plausible downside scenarios.

The Committee assessed these analyses and assumptions, taking into account cash flows, current levels of debt and the availability of future finance if required. The viability and going concern assessments including the severe but plausible downside scenarios modelled were discussed and the Committee concluded that the assessments were appropriate. The Committee subsequently

approved the viability statement and the going concern disclosures for inclusion in the 2020 Annual Report and Accounts.

The viability statement and the going concern disclosure can be found on pages 102 and 170 respectively.

US military housing

The Committee continued to receive updates and reports from the Group Financial Controller, Group Risk and Audit Director and Group General Counsel on the status and impact of the US military housing allegations levied in June 2019, related to the handling of certain work orders for US military bases managed by the Group's subsidiary, Balfour Beatty Communities (BBC). Reports to the Committee included detail on impairment and sensitivity testing, internal audit investigations and the status of the ongoing litigation.

Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct its own investigation, and BBC proactively contacted the Department of Justice (DoJ) to notify them of the review. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ.

Balfour Beatty has made a provision in its 2020 year end results for an estimate of the historical incentive fees that its investigation was unable to fully verify and which BBC has proposed to be repaid. The Group's external counsel is engaging with the DoJ, with the intention of seeking resolution but as the DoJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including the timing or any quantum of any possible fine, penalty or damages that may arise.

Following a series of operational challenges at Tinker Air Force Base in Oklahoma, the US Air Force required BBC to develop a comprehensive Performance Improvement Plan (PIP). The plan, which includes a variety of objectives and performance metrics, was agreed with the Air Force in February 2020. All initiatives set out in the plan have been completed, including implementing a significant management restructuring to better align technical support and resident services and appointing a Transformation Director. To date, 44 lines of effort have been signed off by the Air Force, whilst four remain under review.

COVID-19

During the year, the Committee received reports from the Group Risk and Audit Director regarding the creation of a new risk profile related to COVID-19 and related internal audit plan. The Committee received reports on disruption to the Group's internal audit plan caused by the outbreak of COVID-19 and the mitigating actions being taken to ensure a smooth recommencement of work following easing of lockdown measures. The Committee's review of the impact included discussion around the adaptations made to processes and the prioritisation of remote audits over project site visits.

The Committee also reviewed and approved management's assessment of the Group's half year going concern and viability statement which included severe but plausible downside scenarios modelled in light of the impact of COVID-19.

Similarly, the Committee received updates from the Group Head of Tax regarding the impact of government schemes introduced to help businesses through the pandemic, including deferral of tax payments in the UK and US and grant claims in relation to the UK Government's Job Retention Scheme.

The Group Financial Controller presented to the Committee the effects of COVID-19 on half year revenue and profit from operations. This included effects of increased costs as a result of implementing new operating procedures, lengthened site programmes and deterioration in contract recoverability, ultimately leading to a decline in profit from operations.

The Group Financial Controller further reported on the effects of COVID-19 on internal controls. Additional procedures have been put in place in addition to the Group's standard reporting with the aim of enhancing control and oversight whilst remote working is in place. This is aimed at critical finance processes which includes the tracking of progress on sites experiencing disruption due to COVID-19, and monitoring the Group's liquidity position against the latest COVID-19 developments.

The Committee also received updates from the external auditor regarding the evolution of risks related to the audit of the Group resulting from the pandemic.

Financial Reporting Council (FRC)

The Company's 2019 Annual Report and Accounts were subject to a review by the FRC's Corporate Reporting Review team. The Company received a letter from the FRC in November 2020 requesting further information on certain financial reporting matters and how the Group had satisfied the relevant reporting requirements relating to its key estimates and judgements disclosures under IAS 1 Presentation of Financial Statements including with respect to revenue, margin and provisions. The Company has responded to the FRC with an explanation of its approach and rationale taken. The FRC concluded its enquiry in March 2021 and the Company undertook to make certain disclosure enhancements to its 2020 Annual Report and Accounts.

The Company remains committed to keeping abreast of good practice and changing reporting requirements and will continue to develop its reporting and disclosures.

The FRC's review provides no assurance that the report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

External auditor Rotation and reappointment

The Company's external auditor is KPMG LLP. KPMG's appointment was approved by shareholders at the 2016 AGM, following an audit tender process in 2015. KPMG replaced Deloitte, the incumbent for the preceding 14 years.

Pursuant to the provisions of the EU Audit Directive (as summarised below), the Company has adopted a policy that no external auditor, appointed following the implementation of the June 2016 EU Audit Directive, can remain in post for longer than 20 years. The Company has adopted a policy that the Committee will lead an audit tender process every ten years and that this will apply to the current incumbent, KPMG. Consequently, the next external audit tender is anticipated to take place following the completion of KPMG's audit for the year ended 31 December 2025.

EXTERNAL AUDITOR ROTATION AND REAPPOINTMENT

2001 – 2014

- Deloitte incumbent external auditor

2015 – 2016

- Audit tender process conducted; KPMG appointed as external auditor at 2016 AGM

2023

- Lead audit partner due for rotation

2026

- Next scheduled audit tender process, per Company policy

The Committee considers that the external auditor relationship is appropriate and productive and the Committee is satisfied with KPMG's effectiveness. The Committee considers annually the need to conduct an earlier formal tender process, where this may be required for audit quality or independence reasons. Provided the results of the annual external audit review are satisfactory, KPMG is recommended for reappointment at the AGM on an annual basis. There are no contractual obligations in place that restrict the Group's choice of statutory auditor.

Paul Sawdon completed his third year as lead audit partner for the year ended 31 December 2020. The external auditor is required to rotate the lead partner every five years – such changes are planned carefully to ensure business continuity, whilst avoiding the introduction of undue risk or inefficiencies. Therefore, KPMG are due to rotate their partner following the conclusion of the audit for the year ended 31 December 2022.

The key aspects of the EU Audit Directive include the following:

- Audit firms should have a maximum tenure of 10 years, although the UK Government proposes to allow an extension of:
 - » up to an additional 10 years where a public tender is carried out after ten years; or
 - » by up to an additional 14 years where more than one audit firm is appointed to carry out the audit.
- Audit firms are prohibited from providing certain non-audit services.
- Where permitted non-audit services are provided by a group's auditor, they will be subject to a fees cap.
- Restrictions within any contract limiting a group's choice of auditor are prohibited.

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

Independence

A formal review of the external auditor's independence is conducted by the Committee annually. This review took place in March 2020, where the Committee considered a letter submitted by KPMG which sets out:

- any relationships that bear on their objectivity and independence and the safeguards implemented to address any consequent threats to independence; and
- considerations related to the provision of non-audit services, including a comparison for the prior year (further detail below).

Following review of this letter, the Committee satisfied itself that KPMG remained sufficiently independent in accordance with the relevant professional ethical standards.

Non-audit work

The Company maintains a policy governing the provision of non-audit services to the Group, which sets out certain services that KPMG are prohibited from providing to the Group as well as detailing characteristics that would make a service potentially prohibited. In addition to this, the policy sets out a requirement for the Chief Financial Officer to approve non-prohibited services where the fee is below £250,000, and for the Chair of the Audit and Risk Committee to approve non-prohibited services where the fee exceeds £250,000. This is in addition to KPMG's internal policy that prohibits it from providing any non-audit service, other than one closely related to an audit, to any FTSE 350 company (including Balfour Beatty plc).

These provisions help to safeguard the external auditor's objectivity and independence and ensure that no assignment be given to KPMG that may result in:

- audits of its own work;
- making management decisions on behalf of the Group;
- acting as advocate for the Group; and
- a mutuality of interest with the Group being created.

In accordance with the policy for the provision of non-audit services, the aggregated spend on non-audit services with the external auditor must not exceed 60% of the Group audit fee, unless exceptional circumstances exist, with a three-year rolling average not exceeding 70% of the Group audit fee (in line with the Financial Reporting Council's ethical standards).

During 2020, there were fees of £0.5 million (2019: £0.4 million) paid to the external auditor for non-audit services. 2020 non-audit services provided by KPMG primarily related to the review of the Group's half-year results.

Audit fees for 2020 were £3.6 million (2019: £3.3 million). Further details are included in Note 6.2 on page 182.

86% of non-audit related work provided by international accounting firms in 2020 was carried out by firms other than KPMG.

External auditor Effectiveness

The Committee assess the effectiveness of the external auditor and the appropriateness of the audit plan on an annual basis, in addition to the level of the external auditor's professional scepticism. From this review, recommendations for improvement are identified and communicated to the external

auditor where necessary. The Committee members meet privately with the external auditor and management throughout the year in order to gain feedback to support these assessments.

Risk management and internal control

The Committee is responsible for reviewing the Company's internal financial controls and internal control and risk management systems. The internal audit function is key in assisting the Committee in discharging this duty and presents at each meeting during the year on internal audit workplans and key findings.

In March, the UK Head of Internal Audit reported to the Committee on the implementation of a new intelligent risk information system and the detailed review of all risk and associated controls that had been undertaken as part of the implementation.

The Committee approved the internal audit function's:

- COVID-19 related amendments to the workplan in May 2020;
- UK half year workplan in August 2020; and
- 2021 workplan in November 2020.

In March 2020, the Committee reviewed the effectiveness of the Group's systems of risk management and internal control. As a consequence of this review, it was agreed to implement measures to improve control environments at strategic business unit level.

Evaluation of internal auditor effectiveness

The Committee reviews the effectiveness of the internal audit function formally on an annual basis, and informally on an ongoing basis. Reports setting out the function's work and findings are presented to the Committee at each meeting for discussion. An independent review of the function is undertaken periodically, as well as an internal self-assessment review. Such reviews are held in accordance with best practice guidelines and help contribute to the Committee's formal annual evaluation. In light of the reviews, the Committee satisfied itself that the quality, experience and expertise of the function is appropriate for the business.

Risk management and internal control

Risk management

Balfour Beatty's risk management policy demonstrates the Board's commitment to meeting the relevant requirements of the Code.

Through adoption of the policy, the Board accepts its responsibility to establish procedures to manage risk, oversee the internal control framework, and determine

the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives. As part of its ongoing system of monitoring and control reporting, the Board is also informed of any emerging risks that are faced by the Group, including potential impacts and timeframes and the required responses. More information on the principal and emerging risks faced by the Group are found on pages 92 to 102.

Balfour Beatty's approach to risk management seeks to reduce the likelihood of risk events occurring, limit or remove any negative impact of those events, and identify opportunities where taking risks may benefit the Group. The Enterprise Risk Management (ERM) framework is integral to this approach and, as such, undergoes regular review as part of the ongoing monitoring of, and response to, changes to the Group's risk profile and business operating model.

RISK MANAGEMENT: RESPONSIBILITIES AND ACTIONS

RESPONSIBILITIES	ACTIONS UNDERTAKEN
BOARD	
- Responsible for establishment of a framework of prudent and effective controls to enable risk to be assessed and managed - Determines Group appetite for and attitude to risk in pursuit of its strategic objectives	- Reviews the Group's risk landscape, profile, principal risks and required responses - Reviews the effectiveness of the Group's whistleblowing helpline and other channels for raising concerns about Code of Conduct breaches
AUDIT AND RISK COMMITTEE	
- Reviews significant accounting judgements - Reviews the effectiveness of Group internal controls, including systems to identify assess, manage and monitor risks - Reviews and assesses the internal audit workplan	- Receives regular reports on internal and external audit and other assurance activities - Reviews the effectiveness of Group risk management and internal control systems
SAFETY AND SUSTAINABILITY COMMITTEE	
Reviews main risks in relation to safety	Receives regular reports on risks in relation to safety
GROUP TENDER AND INVESTMENT COMMITTEE	
Reviews and approves tenders and investments, triggered by certain financial thresholds or other risk factors	Critically appraises significant tender and investment/divestment proposals, with a specific focus on risk
GROUP MANAGEMENT	
- Strategic leadership - Responsible for reviewing and implementing the Group risk management policy - Ensures appropriate actions are taken to manage strategic risks and other key risks	- Strategic plan and annual budget process - Produces and monitors Group Risk Register - Reviews risk management and assurance activities and processes - Monthly/quarterly finance and performance reviews
STRATEGIC BUSINESS UNIT MANAGEMENT	
- Responsible for risk management and internal control systems within its business - Ensures that business units' responsibilities are discharged	- Reviews key risks and mitigation plans - Reviews and challenges business units' internal control environment - Reviews results of internal control testing - Escalates key risks to Group management and the Board
ENABLING FUNCTION MANAGEMENT	
Maintains an effective system of risk management and internal control within its enabling functions	- Maintains and regularly reviews enabling function risk registers - Reviews mitigation plans - Plans, executes and reports on internal control testing - Escalates key risks to Group management and the Board
BUSINESS UNIT MANAGEMENT	
Maintains an effective system of risk management and internal control within its business units and projects	- Maintains and regularly reviews project, functional and strategic risk registers - Reviews mitigation plans - Plans, executes and reports on internal control testing - Escalates key risks to strategic business unit management

Roles and responsibilities

The Board is responsible for the establishment and oversight of Balfour Beatty's ERM framework and embedding an effective risk management culture. The Board establishes the Group's risk attitude and appetite by directing the level of risk that can be taken by the Group and its strategic and individual business units without specific approval. Group policies, procedures and delegated authority levels set by the Board provide the structure within which risks are reviewed and escalated to the appropriate level, up to and including the Board, for consideration and approval.

The roles and responsibilities of the Board, its Committees, strategic business unit and individual business unit management are set out opposite.

Balfour Beatty's ERM framework comprises the policy, operating standards and associated procedures and supporting tools to identify, assess, respond to and monitor risk. Risk registers across the Group are maintained within the bespoke ERM system, IRIS (Intelligent Risk Information System), which enables increased oversight and central review as well as consistency in the application of the process at all levels of the organisation.

In 2020 the roll out of IRIS into the US business has increased visibility of risk profiles and enables the consistent roll up of operational and business risk profiles to Group level.

As mandated in the Balfour Beatty risk management policy, business units and enabling functions are responsible for ensuring that effective arrangements, and management controls, are established and implemented across their organisation, and escalated to Group management as relevant.

Balfour Beatty is relentless in ensuring that a positive risk management culture remains embedded at all levels. This is achieved through senior management ownership and application of the framework at each level of the organisation, ensuring that effective risk identification and management aligned to appetite remain at the heart of key decision making.

Risk management is central to the work winning and project delivery process and an assessment of risk is built into each stage within the Gated Business Lifecycle, informing decisions to proceed to the next stage. As an opportunity develops, detailed analysis of risks which have the potential to influence a project's ability to meet its objectives, including the achievement of expected

contract targets and the meeting of client expectations, is performed and associated mitigation strategies are challenged.

The Circles of Risk act as a prompt to ensure early consideration is given to the pursuit of an opportunity as it aligns to risk appetite and provides guidance on the identification of potential project-level risk themes and associated mitigation to support the decision-making process. For more information on the Circles of Risk see page 89.

In addition, the Board's delegated authority levels act as triggers for the escalation of matters requiring approval as the opportunity proceeds through the gates at bid stage. This means projects above a certain value, or those with bespoke aspects such as a move into new markets, require approval by the Group Tender and Investment Committee or the Board, as appropriate.

Escalation and reporting structures ensure that risk oversight is rigorously applied at all levels of the business from operational review through to scrutiny by the Executive Risk Steering Group (ERSG) and the Board. The ERSG monitors any changes in the Group's risk profile and its members act as the executive sponsor for risk management within their respective businesses and functions, ensuring that the Group risk profile is informed by business and operational risk trends.

It remains vital that the Group's approach to risk management continues to be reflective of the shape and direction of the business and the wider industry. A further review and streamline of the Group Risk Register was reviewed and refreshed in 2020 as part of the biannual formal review of the Group's risk profile to verify that all identified risks and associated controls have been appropriately assessed and have an allocated owner at senior management level.

Internal control

The Board has ultimate responsibility for the Group's internal control and risk management systems and regularly reviews their effectiveness. The Group's systems and controls are maintained centrally on the Business Management System (BMS) and are designed to ensure exposure to significant risk is both understood and appropriately managed. The Board recognises that any system of internal control is designed to identify and control rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved sit wholly within Balfour Beatty's internal control environment. Where this is the case, separate systems of

internal control and risk management are applied as agreed between the joint venture partners.

Central to the Group's systems of internal control are its processes and framework for risk management. These align with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and were in place throughout 2020 and up to the date of signing this report. The Group has a thorough understanding of its risk exposures and has in place a key control statement.

Topics covered by policies, standards and expectations include but are not limited to:

- a comprehensive system of delegated authorities from the Board to management with certain matters reserved by the Board;
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and management, including particular areas of business or project risk. This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control identified risks;
- annual review of the strategy and plans of each business and of the Group as a whole to identify risks to the achievement of objectives and, where appropriate, any relevant mitigating actions;
- a comprehensive suite of policies, manuals and instructions setting out the requirements of the Group Finance function covering the financial management of the Group, including but not restricted to arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, application of accounting policies and financial controls;
- risk management requirements which are embedded throughout the Group and held on the BMS;
- enhanced systems for the management and reporting of risk which have been deployed throughout the Group;
- reviews and tests by the internal audit function of critical business financial processes and controls and specific reviews in areas of perceived high business risk;
- reviews and authorising of proposed investment, divestment and capital expenditure through the Board and Board Committees;

The Audit & Risk Committee's role in ensuring the financial statements taken as a whole are fair, balanced and understandable

As part of the Committee's assessment whether the annual financial statements provides a 'fair, balanced and understandable' view, the Committee has oversight that the following processes have been implemented effectively by management:

- comprehensive guidance issued to all contributors;
- verification of the factual content of the financial statements;
- review of the disclosures made by the contributors to each section; and
- comprehensive reviews by senior management to ensure consistency and overall balance.

In addition to the above, the Committee also undertakes a review to determine if the entire financial statements is representative of the Group's performance in the year and challenges management on the overall balance of the report prior to recommending approval of the financial statements to the Board.

- regular reporting, monitoring and review of the effectiveness of health, safety, environment and sustainability processes. These processes are subject to independent audit and certification to internationally recognised standards as appropriate;
- legal and regulatory compliance risks which are addressed through specific policies and training on such matters as business integrity, competition and data protection laws; and
- promotion of a culture of compliance with ethics and integrity responsibilities to help manage legal and reputational risks across the Group. A 'Speak Up' ethics helpline encourages the workforce to raise concerns, in confidence, about possible breaches of the Code of Conduct.

There is also an independent internal audit function that executes a risk-based programme of audit throughout the entire Group. All audit reports are shared with relevant management in addition to being reviewed by the Audit and Risk Committee; see pages 130 and 131.

It is the expectation and requirement of the Board that business unit, enabling function and shared services management teams ensure this comprehensive internal control environment (including internal audit) is embedded within their respective areas.



Anne Drinkwater
Chair of the Remuneration Committee

MEMBERSHIP

- Anne Drinkwater (Chair of the Committee)
- Philip Aiken
- Michael Lucki
- Barbara Moorhouse

KEY ACTIONS FROM 2020

A significant amount of the Committee's time in 2020 was spent assessing the impact of COVID-19 and overseeing the implementation of the new Remuneration Policy, which was approved by shareholders at the 2020 AGM. Our other key actions from 2020 included:

- Engaged with shareholders around proposed Remuneration Policy changes
- Ensured the Remuneration Policy was implemented in alignment with business strategy and culture
- Continued to monitor remuneration practice across the Group as a whole, keeping abreast of market practice

PRIORITIES FOR 2021

- Maintain alignment of remuneration with strategic and operational delivery
- Review incentive plan measures to ensure they support the sustainability strategy
- Consider impact of culture on remuneration strategy implementation
- Widen engagement with stakeholders around remuneration practices
- Ensure appropriate remuneration structure across all global Balfour Beatty operations

Report of the Remuneration Committee

As Chair of the Remuneration Committee I am pleased to present our Directors' remuneration report for the year ended 31 December 2020. At the AGM in 2020, the Remuneration Policy was approved by over 93% of shareholders, and a summary of the policy and how it will be implemented for the year ending 31 December 2021 is included in the Remuneration At A Glance section on page 137. The remainder of the report sets out the Annual Report on Remuneration detailing how the remuneration policy was applied over the year ended 31 December 2020.

In this unprecedented year, our focus has been to ensure we take a balanced approach to remuneration reflecting the huge range of challenges facing individuals, businesses and governments in light of the COVID-19 pandemic and recognising the significant contributions of the whole workforce across the Group who have continued to deliver projects and services safely for our customers. The deliberations of the Committee are made against the backdrop of continued progress against the Build to Last strategy, the markets in which the Group operates, the wider general economy and developing corporate governance and shareholder views.

Roles and responsibilities of the Committee

The terms of reference of the Remuneration Committee are available in full on the Company's website at <https://www.balfourbeatty.com/investors/governance/board-committees>.

The Committee's terms of reference were reviewed during the year to ensure compliance with the Code and recognise best practice.

Strategic and business context

Throughout the COVID-19 pandemic, Balfour Beatty has responded swiftly and decisively to the rapidly evolving situation, protecting the Group's expert capability and financial strength, whilst continuing to deliver for all stakeholders:

- Whilst the COVID-19 pandemic has impacted profitability, the Group has recovered from a half-year loss to deliver a resilient performance, including a second half profit.
- The actions of management have meant cash performance continues to be strong (with average net cash of £527 million – significantly higher than last year and exceeding previous guidance).

➤ Recognising the positive momentum across the business as a result of the actions of management, including a record year end order book of £16.4 billion giving clear medium-term visibility, the Board has recommended the payment of a 2020 final dividend. In addition, as a first step in a programme of returning capital to shareholders, the Company commenced a £50 million share buyback programme in January 2021 and in March increased this to £150 million for 2021.

➤ The executive Directors and management have made an exceptional contribution in response to the COVID-19 pandemic, leading industry-wide practice to keep sites open and people safe. Leo Quinn's industry leadership and regular liaison with the UK Government helped to develop industry national safety guidelines and the Company's inclusion on the Build Back Britain Better Council.

➤ Whilst the Group accessed support under the UK Job Retention Scheme between March and October, which avoided the necessity to declare significant redundancies as a direct result of the impact of the pandemic, pay for impacted employees was topped up above the minimum level of government support. This protected employees and ensured jobs were retained during this challenging period. With 2020 full year results now finalised, the Group has taken the decision to repay the £19 million claimed under the UK Job Retention Scheme.

➤ Throughout this difficult time, enhanced communication and engagement with our workforce has led to an increase from 66% to 75% in the employee engagement index score across the UK and US.

➤ Members of the Board and the Executive Committee agreed a voluntary pay reduction of 20% in April and May. In addition to this, during May other management-level employees agreed up to 20% reductions in base salary whilst continuing to work.

Balfour Beatty has launched its refreshed sustainability strategy, Building New Futures, which forms an important part of its business strategy. The Group's international footprint and the expert capability of its employees will allow it to drive best practice, innovate and deliver real impact at scale. During 2021, the Remuneration Committee will be reviewing the incentive plan performance measures used and how these can support the sustainability strategy.

Reward for 2020

The Annual Incentive Plan (AIP) outcomes for the executive Directors was 59.25% and 59.00% of maximum for Leo Quinn and Philip Harrison respectively:

- Given the exceptionally challenging circumstances brought about by the pandemic, the stretching profit targets which were set at the start of the year and not adjusted, were not met and this element of the bonus did not pay out. However, the maximum cash target was significantly exceeded, reflecting prudent cost management during the year.
- Representative of the exemplary leadership of the Company shown by Leo Quinn and Philip Harrison, 97% and 96% respectively of their strategic business and personal objectives were met. The achievement levels include adjustment downwards based on the safety metric where, tragically, there were four fatal incidents in the year, one in the UK business and three in the Hong Kong based joint venture.
- Leo Quinn led the rapid mobilisation of revised safe operating procedures across the organisation in response to the pandemic and led engagement across the construction sector, as well as achieving increases in employee engagement scores and ensuring major strategic wins in relation to HS2.
- Philip Harrison has continued to deliver a robust financial platform for the Group including successful implementation of the HS2 financial systems, delivering continued improvements to cash liquidity management and completing an extension of the Group's committed bank facility.
- Further details of the strategic business and personal objectives are set out on pages 142 and 143.

50% of this AIP payment will be deferred into Balfour Beatty shares for three years.

The proposed award of a 2020 Performance Share Plan (PSP) to the executive Directors was held back at their request in March 2020 due to the high level of business uncertainty relating to the COVID-19 pandemic. 2020 PSP awards were made to the executive Directors in June 2020 although the share price improvement between those dates created a significant reduction in the number of shares granted.

The performance conditions relating to the 2018 PSP awards measured performance over the three years ended 31 December 2020 for all participants. TSR performance over the period fell marginally below median. Given the impact of the pandemic, the stretching EPS targets set at the start of the

performance period, which were not adjusted, were not met. Therefore the EPS and TSR elements of the awards lapsed in full. However, the maximum operating cash flow target was met and as a result, 33.3% of these awards will vest for Leo Quinn and Philip Harrison on 27 March 2021.

In assessing the appropriateness of the AIP and PSP outcomes, the Remuneration Committee considered the impact of actions taken by management to maintain a strong cash position (including the cessation of the dividend and government support received) and the consequent successes and subsequent actions (including the reinstatement of the dividend and decision to repay the UK Government Job Retention Scheme). In addition to the voluntary pay cut for the Board in April and May, the outcomes represent a significant reduction in both incentive outcomes and total single figure remuneration compared to the prior year. On balance, the Remuneration Committee considered the vesting outcome appropriately reflected the Group's underlying performance over the relevant periods.

As a result of the outcome of the voluntary reduction in salary and the lower outcome of both the AIP and the PSP, the single figure of remuneration for both executive Directors fell by approximately 30% from 2019 (see page 141). The Committee believes that the total remuneration received, and the change from the prior year, was appropriate in the context of business performance in this unprecedented year.

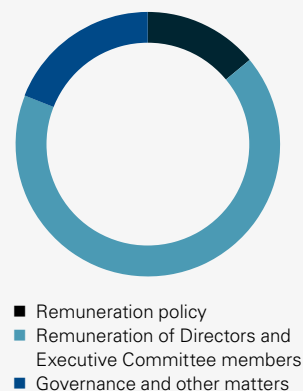
Remuneration for 2021

Since appointment in January 2015, the Group Chief Executive has not taken a salary increase and the only increase for the Chief Financial Officer was on 1 July 2019 in line with the wider workforce (compared to an average salary increase over this period of around 14% for the wider workforce).

In July 2020, the Remuneration Committee awarded a base salary increase of 2.5% to the Group Chief Executive (in line with the wider workforce). Whilst this increase would usually be effective from 1 July 2020, the executive Directors and the Remuneration Committee delayed the effective date of implementation to 1 January 2021. However, the Group Chief Executive declined the increase to his base salary which remains unchanged.

The Chief Financial Officer's salary on appointment was positioned towards the lower end of the Construction sector and since then, he has been instrumental in the success of the business. The Chief Financial Officer's role continues to become increasingly strategic and critical to the success and stability of the business in the coming years.

ALLOCATION OF TIME



Throughout the COVID-19 pandemic, Balfour Beatty has responded swiftly and decisively to the rapidly evolving situation, protecting the Group's expert capability and financial strength, whilst continuing to deliver for all stakeholders.



In July 2020, the Remuneration Committee agreed a base salary increase for the Chief Financial Officer of 5.8%. This is the second increase in his salary since his appointment in June 2015 and reflects his contribution in moving Balfour Beatty into a market-leading position.

No changes are proposed to the basis for the performance measures to be used in the AIP for 2021. The AIP will continue to be based on profit (40%), cash (35%) and strategic business/personal objectives (25%), with challenging performance targets set for each. The executive Directors will be able to earn a maximum bonus of 150% of base salary in line with the policy. Details of the targets for the 2021 AIP will be disclosed on a retrospective basis.

As in previous years, the PSP awards will be based on a mix of adjusted earnings per share (one-third), cash (one-third) and relative total shareholder return (one-third) targets. The Committee is satisfied that the balance of measures remain appropriate, aligned to long-term business strategy, with stretching targets which reflect the current environment. The Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary.

Full details of how the Remuneration Policy will be applied during 2021 (including the basis for the performance measures) are detailed on pages 138 to 140.

Wider workforce remuneration

In addition to the executive Directors, the Committee reviewed both the level and structure of remuneration for the members of the Executive Committee, with a focus on alignment with strategy and culture. The Committee receives regular updates on pay and benefits for the wider workforce and takes these into account when reviewing executive and senior management remuneration.

Results of the employee engagement surveys are also reviewed to monitor how the Company's policies and practices support culture and strategy.

The UK Gender Pay Gap Report was discussed, including the steps Balfour Beatty is taking to narrow its gender pay gap through the Diversity and Inclusion action plans in the UK and US.

The pay ratio of Group Chief Executive to average employee reduced for 2020 in comparison to 2019 which reflected the reduction in the single figure of remuneration for the Group Chief Executive as a result of the voluntary reduction in salary and the lower outcome of both the AIP and the PSP.

Shareholder engagement

Shareholder consultation is an ongoing process. Past consultations have informed the implementation of our Remuneration Policy during 2020. The Remuneration Committee also recognises the 83% 'vote for' the Annual Report on Remuneration and the feedback from shareholders at the 2020 AGM, which helped inform the Committee's decision making during the year.

Conclusion

We believe that our implementation of the Company's Remuneration Policy will continue to deliver a robust link between strategy, reward and performance, supporting Balfour Beatty's drive to deliver profitable managed growth and cash generation into the future. The Remuneration Policy has been, and will continue to be, implemented rigorously, aligned with the Group's strategic goals and culture. We hope you will support the Remuneration report at the 2021 AGM.

Anne Drinkwater

Chair of the Remuneration Committee

9 March 2021

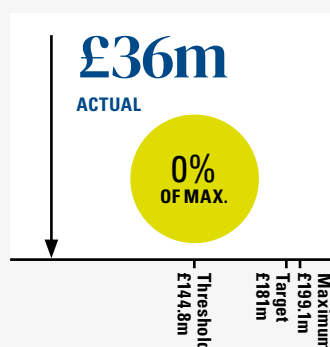
Remuneration at a glance

Ahead of the Annual Report on Remuneration, we have summarised below the key remuneration outcomes for 2020, the key elements of the Company's remuneration policy approved at the AGM held on 25 June 2020 and how we intend to implement it in 2021 in line with the changes set out in the Remuneration Committee Chair's annual statement on pages 134 to 136.

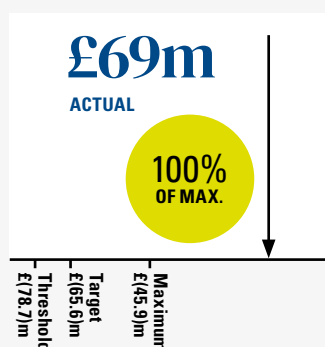
Our full Remuneration Policy can be found on the Balfour Beatty website at: www.balfourbeatty.com.

AIP metrics and outcomes

PROFIT BEFORE TAX AND NON-UNDERLYING ITEMS



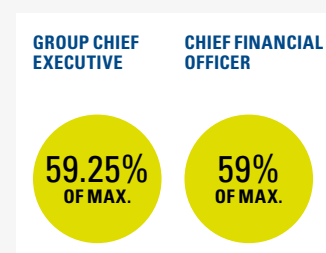
GROUP TOTAL CASH FLOW¹



STRATEGIC BUSINESS AND PERSONAL OBJECTIVES

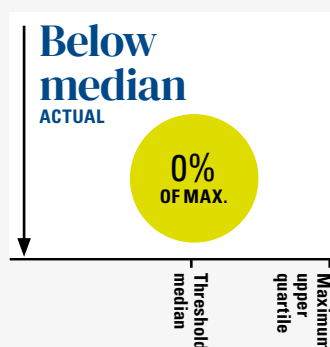


AIP OUT-TURN

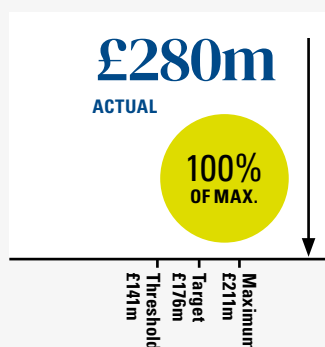


PSP metrics and outcomes

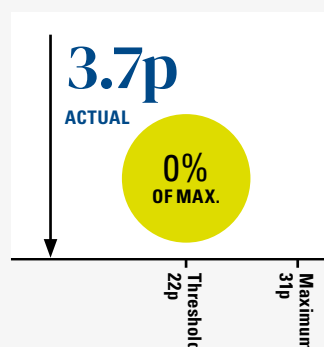
TOTAL SHAREHOLDER RETURN



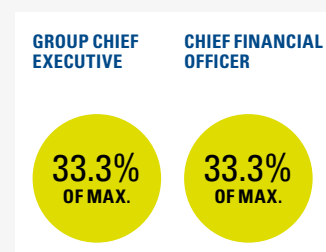
OPERATING CASH FLOW (OCF) TARGETS



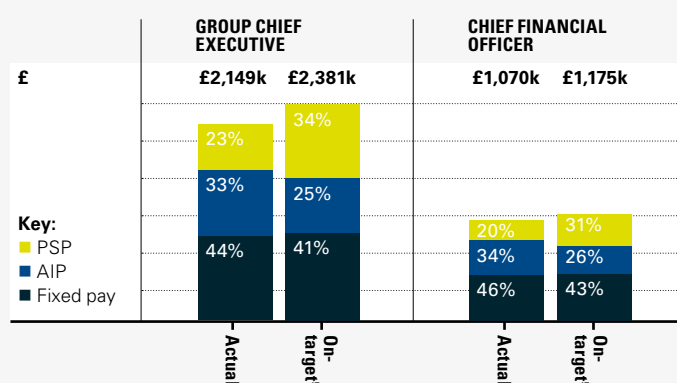
EARNINGS PER SHARE²



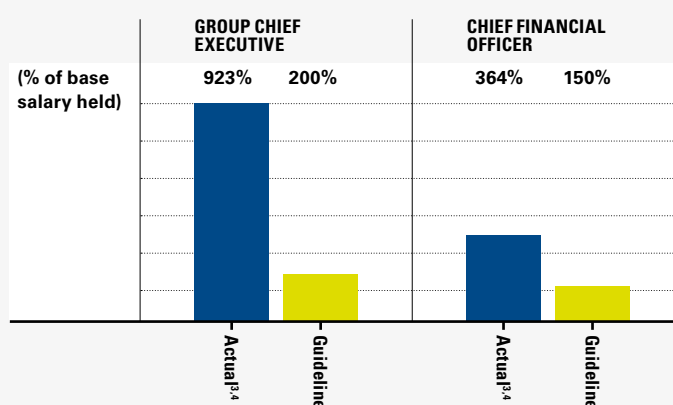
PSP OUT-TURN



EXECUTIVE DIRECTOR REMUNERATION SCENARIOS



EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES



¹ Group total cash flow is the movement between opening and closing total net cash/debt.

² Underlying basic earnings per share from continuing operations.

³ Calculations shown include shares beneficially owned at 31 December 2020 plus unvested shares, which are not subject to a further performance condition, on a net of tax basis.

⁴ Actual holdings are shown on IA basis.

⁵ Group Chief Executive's and Chief Financial Officer's scenarios are calculated on base salaries at 1 January 2020 of £800k and £411k respectively.

Summary of policy and implementation in 2021

	Remuneration policy	Our approach for 2021																		
Base salary	To provide a competitive salary relative to comparable companies in terms of size and complexity.	Since appointment, the Group Chief Executive has not taken a salary increase and the only increase for the Chief Financial Officer was on 1 July 2019 in line with the wider workforce (compared to an average salary increase over this period of c.14% for the wider workforce). The salary of the Chief Financial Officer is positioned towards the lower end of the Construction sector, which generally comprises companies of smaller financial size and international exposure. During this time, the Chief Financial Officer has been critical to the success of Build to Last, delivering the strong cash performance of the business and building a resilient foundation that will enable the Company to recover strongly from the COVID-19 pandemic. The Chief Financial Officer's role has also transformed to become more strategic which will be critical to the success and stability of the business in the coming years. In reaction to the onset of the COVID-19 pandemic, the executive Directors took appropriate action to shore up the cash position and strength of the business including taking a voluntary 20% reduction in base salary in April and May 2020. In June, in recognition of the progression made under Build to Last and their exceptional leadership, the Committee awarded a 2.5% increase to the Group Chief Executive (in line with the wider workforce) and a 5.8% increase to the Chief Financial Officer (recognising his increasing role over the last five years). Whilst these increases would usually have been effective from 1 July 2020, the executive Directors and the Committee delayed the effective date of implementation to 1 January 2021. The Group Chief Executive declined the increase to his base salary which remains unchanged. The next base salary review date is 1 July 2021.																		
		<table><tr><th></th><th>Date of appointment</th><th>Salary on appointment £</th><th>1 July 2019 £</th><th>1 January 2021 £</th><th>% increase</th></tr><tr><td>Leo Quinn</td><td>Jan 2015</td><td>800,000</td><td>800,000</td><td>800,000</td><td>0%</td></tr><tr><td>Philip Harrison</td><td>Jun 2015</td><td>400,000</td><td>411,000</td><td>435,000</td><td>5.8%</td></tr></table>		Date of appointment	Salary on appointment £	1 July 2019 £	1 January 2021 £	% increase	Leo Quinn	Jan 2015	800,000	800,000	800,000	0%	Philip Harrison	Jun 2015	400,000	411,000	435,000	5.8%
	Date of appointment	Salary on appointment £	1 July 2019 £	1 January 2021 £	% increase															
Leo Quinn	Jan 2015	800,000	800,000	800,000	0%															
Philip Harrison	Jun 2015	400,000	411,000	435,000	5.8%															
Pension and benefits	Executive Directors can elect for Balfour Beatty to contribute to a defined contribution pension or receive a cash equivalent. Benefits are provided that are appropriate to the role and which take into account typical practice.	The executive Directors receive a pension cash allowance equivalent to 20% of base salary. As disclosed in the 2019 Remuneration report, the pension provision for incumbent executive Directors will align to the level of the wider workforce, currently 7% of base salary, from the end of December 2022.																		
Annual Incentive Plan (AIP)	Bonuses are subject to the achievement of stretching key performance measures without encouraging excessive risk. Performance measures are aligned to the Company's strategy and reflect the changing needs of the business. A minimum of 70% is based on financial measures. A proportion of any bonus earned is deferred into shares to facilitate share ownership, aid retention and provide further alignment with shareholders.	For 2021, the AIP for the executive Directors will be a maximum bonus of 150% of base salary, based on the achievement of three performance measures: ➤ profit before tax (40%); ➤ cash (35%); and ➤ strategic business and personal objectives (25%). The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in Balfour Beatty shares. While the Committee has chosen not to disclose in advance the performance targets for 2021 as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in the Remuneration report for 2021.																		
Long-term incentive	Incentivise and reward delivery of long-term performance linked to the business strategy and further facilitate share ownership and alignment with shareholders. Vesting, subject to performance, on the third anniversary of the grant followed by a two-year holding period, with a minimum of 30% based on relative total shareholder return and the balance based on other financial targets.	For 2021, and consistent with 2020, the Group Chief Executive will be granted a Performance Share Plan (PSP) award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary. The PSP awards to be granted in 2021 will be based on the achievement of three performance measures: ➤ relative TSR (33.3%) – the Company's TSR measured against a comparator group. There is no vesting for ranking below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher; ➤ EPS (33.3%) – the Group's EPS over the three-year performance period (underlying basic earnings per share from continuing operations); and ➤ cash (33.3%) – cash remains critical as a long-term performance measure. The performance measures are aligned to long-term business strategy and appropriately stretching reflecting the current environment.																		

	Remuneration policy	Our approach for 2021
Shareholding guidelines	Shareholding guidelines apply to executive Directors to align their long-term interests with those of shareholders. The Group Chief Executive and Chief Financial Officer must accumulate a shareholding to the value of 200% and 150% of base salary respectively (200% of base salary for all new executive Directors). New executive Directors will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure, for two years post cessation of employment.	200% of base salary for the Group Chief Executive and 150% of base salary for the Chief Financial Officer. The post vesting holding condition applying to PSP awards requires the vested shares (net of tax) to be held until the fifth anniversary of grant and will continue to apply post cessation of employment.
Non-executive Directors	Fees are set at a level to attract and retain high quality and experienced non-executive Directors.	The Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. At the annual review of fees for the Chairman and non-executive Directors on 1 July 2020, fees were increased, in line with the general workforce, as set out below. Whilst these increases would usually have been effective from 1 July 2020, the Chairman and non-executive Directors delayed the effective date to 1 January 2021.

	1 July 2019 £	1 January 2021 £	% increase
Chairman	277,000	284,000	2.5%
Base fee	62,500	64,000	2.4%
Senior independent Director fee	10,000	10,000	0%
Committee Chair fee	15,000	15,000	0%

Alignment with provision 40 of the Corporate Governance Code

Code requirements	Our approach
Simplicity & clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The remuneration framework is made up of three key elements: fixed pay (including base salary, pension and benefits), annual bonus (AIP) and a separate long-term incentive (PSP). The framework is simple to understand for both participants and shareholders and the incentive elements are aligned to the strategic priorities for the business.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Identified risks have been mitigated as follows: - Variable remuneration targets are set at levels which reward high performance but which do not encourage inappropriate business risk. - Deferral of part of any bonus earned under the AIP into shares and the holding period applied to any PSP award ensure variable remuneration is linked to sustainable performance and discourages short-term behaviours. - All AIP and PSP awards to executive Directors include provisions for malus and clawback. - The Committee has the discretion to vary formulaic outcomes for incentive vesting should outcomes not reflect the underlying performance of the Company.

Code requirements	Our approach
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Our remuneration policy in the 2019 Directors' remuneration report set out the potential remuneration in future periods under several performance scenarios for the Group Chief Executive and the Chief Financial Officer in respect of awards to be made in 2021. The Committee is comfortable that the discretions available to it are sufficient.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	A significant proportion of an executive Director's reward is linked to performance through the incentive framework, with a clear line of sight between performance and the delivery of long-term shareholder value. Performance measures and the underlying targets are reviewed regularly by the Committee to ensure that they are directly aligned to the Group's strategic priorities, and targets are calibrated to reward for strong performance over the performance period. Executive Directors are required to build material shareholdings in the Group and going forward will be subject to a post cessation shareholding requirement which will ensure that their interests are aligned to the Group's long-term performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The Committee is focused on ensuring a healthy culture exists across the entire business; a refreshed Cultural Framework was launched in 2020 and the Committee believes that the executive Directors are rewarded on both what they deliver and how that is delivered.

Annual report on remuneration

This part of the Remuneration report sets out how the Remuneration Policy was implemented over the year ended 31 December 2020. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The following sections have been audited by KPMG: Remuneration received by Directors for the year ended 31 December 2020 including related notes (page 141); outstanding share awards (page 145); PSP awards granted during the year (page 146); payments to past Directors (page 146); and Statement of Directors' shareholdings and share interests (page 146).

Remuneration received by Directors for the year ended 31 December 2020

The table below sets out the Directors' remuneration for the year ended 31 December 2020 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2019.

		Fixed pay				Variable pay				
	Year	Base salary and fees ^{1,2} £	Taxable benefits ^{3,4} £	Pension cash allowance ⁵ £	Sub total £	Annual incentive cash ⁶ £	Annual incentive deferred shares ⁶ £	Long-term incentives ^{7,8} £	Sub total £	Total ⁹ £
Executive Directors										
Philip Harrison	2020	397,300	14,533	80,560	492,393	181,868	181,868	213,894	577,630	1,070,023
	2019	405,500	14,502	80,000	500,002	296,691	296,691	407,144	1,000,526	1,500,528
Leo Quinn	2020	773,333	21,066	154,667	949,066	355,500	355,500	488,904	1,199,904	2,148,970
	2019	800,000	21,004	160,000	981,004	577,500	577,500	930,620	2,085,620	3,066,624
Non-executive Directors										
Philip Aiken	2020	267,767	–	–	267,767	–	–	–	–	267,767
	2019	277,000	–	–	277,000	–	–	–	–	277,000
Stephen Billingham	2020	74,917	232	–	75,149	–	–	–	–	75,149
	2019	75,750	328	–	76,078	–	–	–	–	76,078
Stuart Doughty	2020	74,917	886	–	75,803	–	–	–	–	75,803
	2019	75,750	1,849	–	77,599	–	–	–	–	77,599
Anne Drinkwater ⁹	2020	75,417	5,000	–	80,417	–	–	–	–	80,417
	2019	71,085	5,657	–	76,742	–	–	–	–	76,742
Michael Lucki	2020	60,417	10,246	–	70,663	–	–	–	–	70,663
	2019	62,000	16,842	–	78,842	–	–	–	–	78,842
Barbara Moorhouse	2020	60,417	1,173	–	61,590	–	–	–	–	61,590
	2019	62,000	875	–	62,875	–	–	–	–	62,875
Former non-executive Director										
Iain Ferguson ¹⁰	2020	–	–	–	–	–	–	–	–	–
	2019	28,082	1,219	–	29,301	–	–	–	–	29,301

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors. In response to the COVID-19 pandemic, the executive Directors and non-executive Directors took a voluntary 20% reduction in salary/fees in April and May.

2 In practice, the base salary paid to Leo Quinn was reduced due to his participation in the Company's Share Incentive Plan. The salary reduction in both 2019 and 2020 was £1,800.

3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for himself and his spouse and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for himself only and received a car allowance of £14,000 per annum.

4 The non-executive Directors received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column. The taxable benefits in 2020 for Michael Lucki include two payments of £2,500 each relating to allowances for travel in December 2018 and May 2019 respectively.

5 The pension cash allowance for Philip Harrison increased in line with his base salary from 1 July 2019. This increase was not actioned until March 2020, backdated to 1 July 2019.

6 AIP 2020: further details of these awards are set out on pages 141 to 143. For 2019, details of the AIP awards were set out in the 2019 Remuneration report.

7 For 2020, this relates to the 2018 PSP award for which the performance period ended in 2020, with the valuation of vesting shares calculated on a three-month average share price to 31 December 2020 of 247.6p. This compares to the 270.167p average middle market for the three dealing dates before the PSP award date which was used for calculating the number of shares granted, so there is no benefit relating to share price appreciation since award. Further details of the 2018 PSP awards are set out on page 144. For 2019, this relates to the 2017 PSP award for which the performance period ended in 2019, details of which were set out in the 2019 Remuneration report. For 2019, the valuation of the vesting shares for the 2017 PSP has been adjusted from the valuation included in the 2019 Remuneration report to reflect the actual valuation on the 8 June 2020 vesting date, based on a share price of 263.8p. Under the rules of the PSP scheme, the participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares.

8 Total figures and long-term incentives figures for 2019 have been adjusted from the figures included in the 2019 Remuneration report to reflect the actual valuation on the 8 June 2020 vesting date of shares vesting under the 2017 PSP.

9 The 20% temporary reduction in April and May 2020 was applied to the base fee only for Anne Drinkwater but not the Committee Chair fee. This was corrected through a deduction made in 2021.

10 Iain Ferguson retired from the Board effective 16 May 2019.

AIP awards for the year ended 31 December 2020

For 2020, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

- profit before tax (40%);
- cash (35%); and
- strategic business and personal objectives (25%).

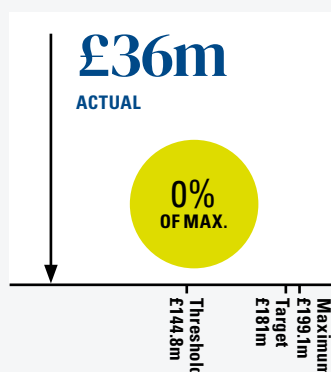
The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares. For the profit before tax element, 20% of the award would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above. For the Group total cash flow element, 5% of that element would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above.

AIP metrics and outcomes

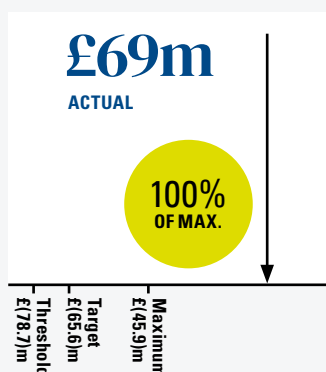
In addition to considering the formulaic outcome against the targets as shown above, the Committee reflected on the broader performance of the business, including the business resilience and industry leadership shown in response to the COVID-19 pandemic. As explained in the Chair's statement on pages 134 to 136, this included:

- ▶ Whilst the COVID-19 pandemic has impacted profitability, the Group has recovered from a half-year loss to deliver a resilient performance, including a second half profit.
- ▶ The actions of management that led to positive momentum across the business including a record year end order book of £16.4 billion enabling the Board to recommend the payment of a 2020 final dividend. In addition, as a first step in a programme of returning capital to shareholders the Company commenced a £50 million share buy-back programme in January 2021 that will be increased to £150 million in March 2021.
- ▶ The exceptional contributions made by the executive Directors and management in response to the COVID-19 pandemic, leading industry wide practice to keep sites open and people safe. Leo Quinn's industry leadership and regular liaison with the UK Government helped to develop industry national safety guidelines and the Company's inclusion on the Build Back Britain Better Council.

PROFIT BEFORE TAX AND NON-UNDERLYING ITEMS



GROUP TOTAL CASH FLOW¹



STRATEGIC BUSINESS AND PERSONAL OBJECTIVES



AIP OUT-TURN



¹ Group total cash flow is the movement between opening and closing total net cash/debt.

Performance against the 2020 AIP strategic business and personal objectives as it relates to the executive Directors was:

Summary of key strategic objectives, including:	Examples of achievement	Group Chief Executive	
		Weight %	Out-turn %
Lean: Deliver Build to Last for 2020, including: ▶ hold overhead cost flat across the Group (year on year); ▶ continue US implementation of shared service model ▶ 'Cash is our Compass'; retire preference shares while delivering average net cash with target range of £375 million to £425 million.	Strong achievement, including: ▶ overhead reduction by over £40 million; ▶ HR, Finance and IT fully aligned in US as planned; changes to US Civils reporting arrangements will enable the next stage of plans; and ▶ average net cash for 2020 of £527 million.	30	29
Expert: Drive employee engagement and position the business for important work winning opportunities: ▶ continue to reduce voluntary attrition rates to below 10%; ▶ secure the HS2 civils N1/N2 order in 2020, working with government and the HS2 team; and ▶ position the business to be shortlisted for further HS2 opportunities – to be awarded in 2021/22.	Achieved in full, including: ▶ voluntary attrition in the UK reduced year on year from 10.9% in 2019 to 9.8% in 2020; ▶ major strategic win of HS2 civils N1/N2 during the first half of 2020; and ▶ Balfour Beatty joint venture shortlisted for HS2 track slab & catenary packages of work.	30	30

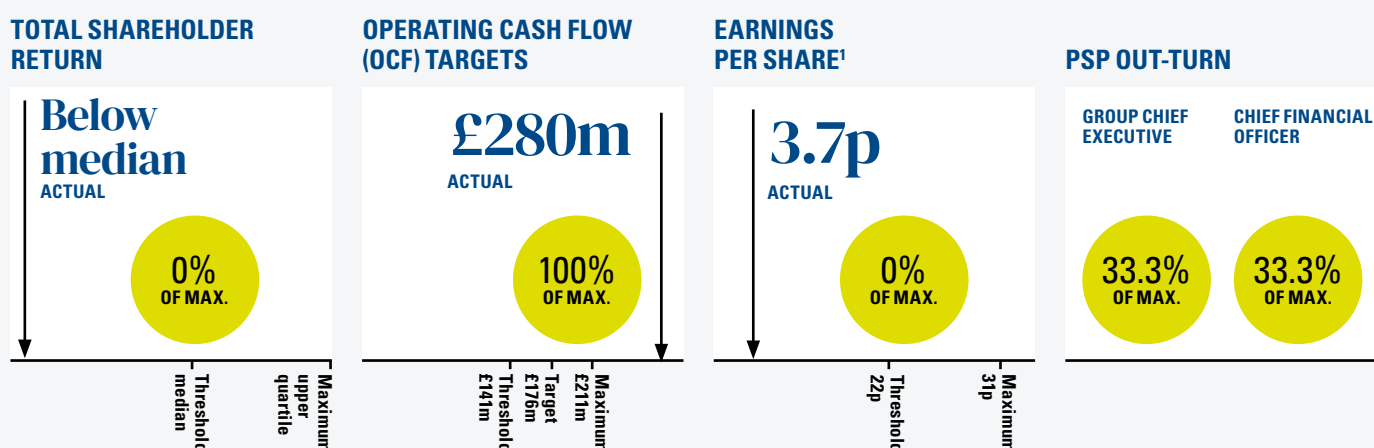
Summary of key strategic objectives, including:	Examples of achievement	Group Chief Executive	
		Weight %	Out-turn %
Trusted: Lead the Group in responding to the onset of the COVID-19 pandemic, retaining employee, customer and shareholder confidence.	Achieved in full, including: ➤ rapid mobilisation of new safety procedures across whole organisation, within weeks of the first lockdown, aiming to give employees and customers confidence in the Group's ability to continue working safely; ➤ increase in Group employee engagement index, from 66% in 2019 to 75% in 2020; and ➤ leading the engagement across construction sector tier one contractors in the first 100 days response to the pandemic.	30	30
Safe: Continue to demonstrate safety leadership and performance across the Group including: ➤ focus on safety improvement across the US businesses.	Mixed performance, including: ➤ Group LTIR reduction to 0.10 in 2020 from 0.14 in 2019; and ➤ reduction in US LTIR from 0.10 in 2019 to 0.09 in 2020. but reduction to out-turn due to one fatality in the UK business and three fatalities in Hong Kong based joint venture during 2020.	10	8
Total		100	97
Summary of key strategic objectives, including:	Examples of achievement	Chief Financial Officer	
		Weight %	Out-turn %
Lean: Deliver Build to Last for 2020 including: ➤ successful implementation of HS2 joint venture financial systems; ➤ upgrade forecasting tools for UK Construction; and ➤ improve R&D tax credit performance by 30%.	Achieved in full, including: ➤ HS2 financial systems 'go live' decision in December 2020; ➤ UK Construction 2021 budget successfully completed on new tool; and ➤ year on year increase of 37% in R&D tax credit.	45	45
Expert: Continue to improve cash liquidity management, including: ➤ retiring preference shares while delivering £100 million higher average net cash in 2020, with target range of £375 million to £425 million; and ➤ year on year improvement in performance against UK Government's Prompt Payment Code.	Mixed performance, including: ➤ average net cash for 2020 of £527 million; and ➤ improvement of 2% in invoices paid within 60 days versus 2019.	35	32
Trusted: Strengthen the position of the Group, including: ➤ completion of committed bank facility extension; and ➤ roll out of new risk toolset for US Buildings to improve effectiveness of the risk register process.	Achieved in full, including: ➤ agreement of a one year option extension to the committed bank facility in October 2020; and ➤ new risk register process successfully implemented in US Buildings in Q4 2020.	17	17
Safe: Continue to drive and role model improvement in safety culture and performance across the Group.	Mixed performance, including: ➤ Group LTIR reduction to 0.10 in 2020 from 0.14 in 2019; and ➤ demonstrable strong personal leadership; but reduction to out-turn due to one fatality in the UK business and three fatalities in Hong Kong based joint venture during 2020.	3	2
Total		100	96

Vesting of PSP awards for the year under review

The PSP awards granted on 27 March 2018 were based on a performance period for the three years ended 31 December 2020. The performance conditions applying to one-third of each award were comparative total shareholder return measured versus the companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), operating cash flow and earnings per share. 25% of each of the total shareholder return and earnings per share parts of the award would vest for threshold performance increasing to 100% of each part of the award vesting for maximum performance or above. For the operating cash flow part, 25% of that part would vest for threshold performance, increasing to 50% vesting of that part at target performance and then to 100% of that part at maximum performance or above.

In assessing the appropriateness of the formulaic outcomes of the performance targets, the Remuneration Committee considered the underlying performance of the Group over the three year period and, on balance, the Committee considered the vesting outcome appropriately reflected the Group's underlying performance.

Details of the PSP awards vesting for the year under review are therefore as follows:



¹ Underlying basic earnings per share from continuing operations.

Metric	Performance condition	Measure	Threshold	Target	Maximum	Actual	Vesting %
Total shareholder return	TSR against the 120 remaining companies ranked 51–200 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	60.5 or above	–	30.8 or above	66 (below median)	0%
Cash		Operating cash flow (OCF)	£141m	£176m	£211m	£280m	100%
Earnings per share		Underlying basic earnings per share from continuing operations	22p	–	31p	3.7p	0%
Total vesting							33.33%

Name of Director	Type of award	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares ¹
Philip Harrison	2018 conditional	27 March 2021	259,163	86,387	172,776	£213,894
Leo Quinn	2018 conditional	27 March 2021	592,373	197,457	394,916	£488,904

¹ Valuation of vesting shares calculated on a three-month average share price to 31 December 2020 of 247.6p. This compares to the 270.167p average middle market price for the three dealing dates before the PSP award date which was used for calculating the number of shares granted, so there is no benefit relating to share price appreciation since award.

Outstanding share awards

Name of Director	Share award	Date granted	At 1 January 2020	Maximum number of shares subject to award				Exercisable and/or vesting from
				Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2020	
Philip Harrison	PSP ^{1,5,6}	7 June 2017	253,347	–	154,338	99,009	–	8 June 2020
	PSP ^{2,3,5,6}	27 March 2018	259,163	–	–	–	259,163	27 March 2021
	PSP ^{3,5,6,7}	28 March 2019	269,438	–	–	–	269,438	28 March 2022
	PSP ^{5,6,7}	11 June 2020	–	274,104	–	–	274,104	11 June 2023
	DBP ^{8,10,11,13}	31 March 2017	44,464	–	44,464	–	–	31 March 2020
	DBP ^{8,9,11,13}	3 April 2018	110,736	–	–	–	110,736	3 April 2021
	DBP ^{8,9,11,13}	1 April 2019	81,555	–	–	–	81,555	1 April 2022
	DBP ^{8,9,11,12,13}	31 March 2020	–	136,768	–	–	136,768	31 March 2023
Leo Quinn	PSP ^{1,5,6}	7 June 2017	579,080	–	352,775	226,305	–	8 June 2020
	PSP ^{2,3,5,6}	27 March 2018	592,373	–	–	–	592,373	27 March 2021
	PSP ^{3,5,6,7}	28 March 2019	615,858	–	–	–	615,858	28 March 2022
	PSP ^{4,5,6,7}	11 June 2020	–	609,756	–	–	609,756	11 June 2023
	DBP ^{8,10,11,13}	31 March 2017	89,729	–	89,729	–	–	31 March 2020
	DBP ^{8,9,11,13}	3 April 2018	223,779	–	–	–	223,779	3 April 2021
	DBP ^{8,9,11,13}	1 April 2019	163,112	–	–	–	163,112	1 April 2022
	DBP ^{8,9,11,12,13}	31 March 2020	–	266,214	–	–	266,214	31 March 2023

- 2017 PSP award: This award vested in part on 8 June 2020. Details of the Company's performance against the performance conditions were set out in the 2019 Remuneration report. Philip Harrison and Leo Quinn also received 6,430 and 14,699 shares respectively in lieu of the dividends which would have been payable on the shares which vested. The closing middle market price of ordinary shares on the vesting date was 263.8p.
- 2018 PSP award: Further details of this award are set out on page 144.
- 2019 PSP award: This award is subject to three performance targets over a three-year performance period commencing 1 January 2019. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. No portion of the cash part (33.3%) will vest unless the 2021 year end operating cash flow (OCF) is greater than £120 million. 25% to 50% will vest for OCF between £120 million and £155 million, rising to full vesting for OCF of £190 million or more. For the EPS part (33.3%), no vesting unless 2021 EPS is 23p, 25% vesting of this part at 23p, rising to full vesting at 32p or more.
- 2020 PSP award: Details are set out on page 146.
- The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 270.167p for the 2018 award, 259.8p for the 2019 award, 202.3p for the 2020 award granted on 23 March 2020 and 262.4p for the 2020 award granted on 11 June 2020. The closing middle market price of ordinary shares on the date of the awards was 273.0p, 257.1p, 197.3p and 259.0p respectively.
- 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.
- A maximum of 3,972,249 conditional shares were awarded for all participants in the PSP in 2020 (3,088,389 shares awarded on 23 March 2020 and 883,860 shares on 11 June 2020), which are exercisable on 23 March 2023 and 11 June 2023 respectively.
- 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.
- The DBP awards made on 3 April 2018, 1 April 2019 and 31 March 2020 will vest on 3 April 2021, 1 April 2022 and 31 March 2023 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).
- The DBP awards made on 31 March 2017 vested on 31 March 2020. The closing middle market price of ordinary shares in the Company on the vesting date was 216.6p.
- The shares subject to the DBP awards made on 31 March 2017, 3 April 2018, 1 April 2019 and 31 March 2020 were purchased at average prices of 266.4p, 269.7p, 259.7p and 216.93p respectively.
- On 31 March 2020, for all participants in the DBP, a maximum of 1,041,528 conditional shares were awarded which will normally be released on 31 March 2023.
- As no dividends were paid in 2020, no further conditional shares were granted in lieu of entitlements to dividends for all participants in the DBP.
- The closing market price of the Company's ordinary shares on 31 December 2020 was 270.2p. During the year, the highest and lowest closing market prices were 293.4p and 189.6p respectively.

PSP awards granted during the year

The proposed 2020 PSP awards to the executive Directors was held back at their request in March 2020, when other senior management were granted awards, due to the high level of business uncertainty due to the COVID-19 pandemic. Once the UK lockdown had ended and the impact on the business was better understood, the following PSP awards were granted to the executive Directors on 11 June 2020, although the share price improvement between those dates created a significant reduction in the number of shares granted:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Philip Harrison	Conditional	175% of salary of £411,000	262.4p	274,104	£719,250	25%	31 December 2022	11 June 2023
Leo Quinn	Conditional	200% of salary of £800,000	262.4p	609,756	£1,600,000	25%	31 December 2022	11 June 2023

Awards will vest to executives after three years, subject to the achievement of three independently measured performance conditions as set out below:

Metric	Performance condition	Threshold	Target	Maximum
One-third relative TSR	Relative TSR against a comparator group of companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts); straight-line vesting between points	Median (25% vests)	–	Upper quartile (100% vests)
One-third cash	Group's Operating Cash Flow from continuing operations; straight-line vesting between points	£135m (25% vests)	£169m (50% vests)	£203m (100% vests)
One-third EPS	Group's EPS (underlying basic earnings per share from continuing operations); straight-line vesting between points	22p (25% vests)	–	33p (100% vests)

For these PSP awards, a post-vesting holding period will apply requiring the shares (net of tax) to be retained for two years.

Payments to past Directors

There were no payments to past executive Directors or payments for loss of office made during 2020.

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 2020 ^{1,2}	Beneficially owned at 31 December 2020 ^{2,3,4}	Outstanding PSP awards	Outstanding DBP awards
Philip Harrison	271,300	379,927	802,705	329,059
Leo Quinn	1,916,721	2,385,558	1,817,987	653,105
Philip Aiken	15,000	15,000		
Stephen Billingham ⁶	23,808	44,106		
Stuart Doughty	4,550	4,550		
Anne Drinkwater	–	4,500		
Michael Lucki	–	–		
Barbara Moorhouse	4,000	4,000		

1 Or date of appointment, if later.

2 Includes any shares held in the Company's all-employee Share Incentive Plan.

3 Or date of stepping down from the Board, if earlier.

4 As at 9 March 2021, there been no changes to the above other than an increase in respect of ordinary shares held in the Share Incentive Plan for Leo Quinn by 107 shares.

5 The closing market price of the Company's ordinary shares as at 31 December 2020, 270.2p, was used to calculate the value of shares beneficially owned.

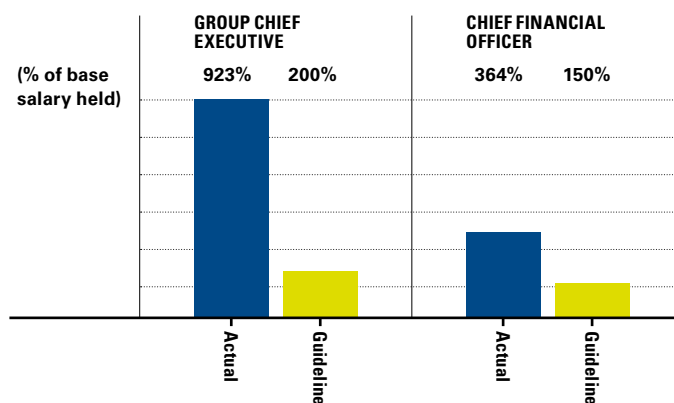
6 Stephen Billingham was also interested in 36,070 convertible redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2020.

Executive Directors' shareholding guidelines

The Group Chief Executive and Chief Financial Officer are required under the Company's shareholding guidelines to hold shares in the Company worth 200% and 150% of base salary respectively and must retain no fewer than 50% of the shares, net of taxes, vesting under their outstanding DBP and PSP awards until the required shareholding is met.

In line with the Investors Association (IA) guidelines, the calculations shown in the chart include shares beneficially owned at 31 December 2020 plus unvested shares, which are not subject to a further performance condition (outstanding DBP awards), on a net of tax basis. Both executive Directors' share interests met the Company's shareholding guidelines at 31 December 2020.

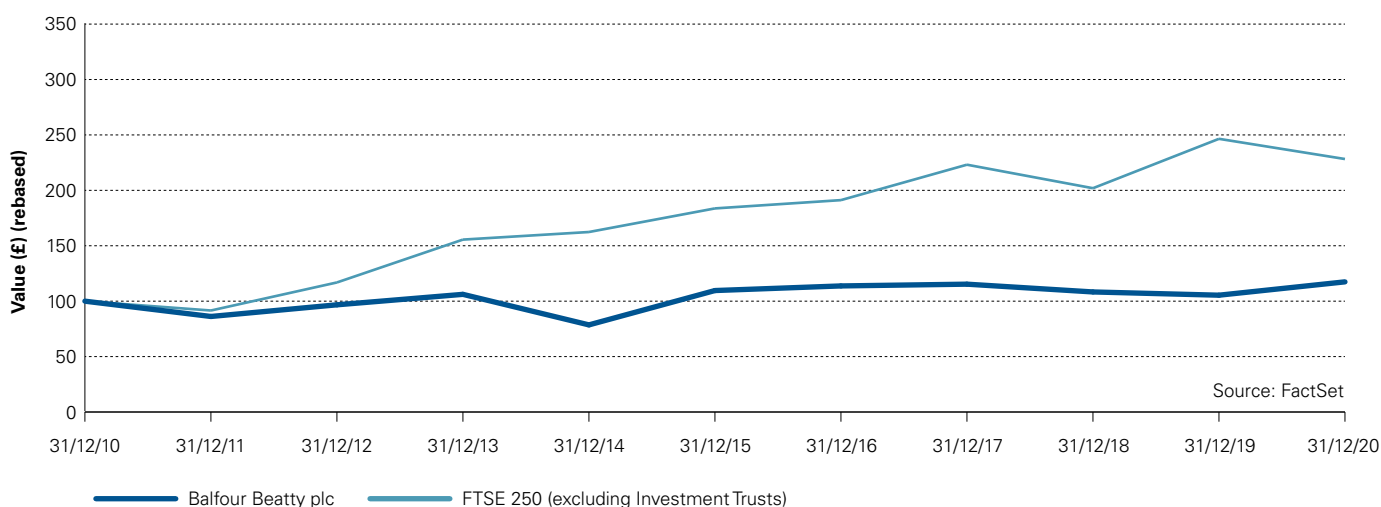
EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES



Performance graph

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

Total shareholder return (TSR)



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last 10 financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ended 31 December									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total remuneration ^{1,3,4}	£1,514,007	£1,189,287	£961,350	£797,568	£1,442,070	£1,445,250	£4,124,104	£2,982,121	£3,066,624	£2,148,970
AIP ²	65.3%	40.2%	21.0%	0%	47.0%	47.5%	97.0%	69.06%	96.25%	59.25%
PSP	0%	0%	0%	0%	0%	0%	88.6%	64.17%	60.92%	33.33%

1 The figures for 2011 to 2012 relate to Ian Tyler, who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures from 2015 onwards relate to Leo Quinn.

2 Andrew McNaughton did not qualify for any 2014 AIP.

3 Total remuneration for 2019 has been adjusted from the total figure included in the 2019 Remuneration report to reflect the actual valuation on the 8 June 2020 vesting date of shares vesting under the PSP 2017.

4 The figures for 2017 and 2018 exclude the vesting of awards made under the recruitment terms for the Group Chief Executive. Full details of these were included in the 2018 Remuneration report.

Percentage change in Directors' remuneration compared with all UK employees

The table below shows the percentage change in the remuneration (excluding long-term incentives) of the executive Directors undertaking the roles of Group Chief Executive and Chief Financial Officer and the non-executive Directors between the financial years ended 31 December 2019 and 31 December 2020, compared with the percentage change between the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator.

	Base salary/fees	Benefits	Annual bonus	Total remuneration
Leo Quinn, Group Chief Executive	(3)%	(3)%	(38)%	(22)%
Philip Harrison, Chief Financial Officer	(2)%	1%	(39)%	(22)%
Philip Aiken, non-executive Group Chair	(3)%	–	–	(3)%
Stephen Billingham, non-executive Director & Senior Independent Director	(1)%	(29)%	–	(1)%
Stuart Doughty, non-executive Director	(1)%	(52)%	–	(2)%
Anne Drinkwater, non-executive Director	6%	(12)%	–	5%
Michael Lucki, non-executive Director	(3)%	(39)%	–	(10)%
Barbara Moorhouse, non-executive Director	(3)%	34%	–	(2)%
All UK employees	0%	3%	(44)%	0%

Pay ratio of Group Chief Executive to average employee

The Regulations require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

The table below shows the relevant data for Balfour Beatty's UK employees for 2020, together with the 2019 data, calculated using Option A as set out in the legislation.

Year	Method of calculation adopted	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
		(Chief Executive: UK employees)	(Chief Executive: UK employees)	(Chief Executive: UK employees)
2020	Option A	64:1	45:1	32:1
2019	Option A	92:1	65:1	45:1

Pay details for the Group Chief Executive and individuals whose 2020 remuneration is at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

	Group Chief Executive	25th percentile	Median	75th percentile
Salary	£773,333	£26,910	£36,400	£51,248
Total pay and benefits	£2,148,970	£33,336	£47,653	£66,553

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to the full-time equivalent annualised remuneration (comprising salary, benefits, pension, annual bonus and long-term incentives) of all UK-based employees of the Group as at 31 December 2020 (i.e. 'Option A' under the Regulations). The Committee selected this calculation methodology as it was felt to produce the most statistically accurate result.

The Committee considers that the median pay ratio for 2020 that is disclosed in the above table is consistent with the pay, reward and progression policies for Balfour Beatty's UK employees taken as a whole. It reflects the fact that a greater proportion of executive Director pay is linked to annual performance through a higher annual bonus opportunity (a percentage of which is subject to deferral into shares).

Relative importance of spend on pay, dividends and underlying pre-tax profit

The following table shows the Group's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit:

	2019	2020	% change
Staff costs (£m) ¹	1,150	1,181	3%
Dividends (£m)	36	–	(100)%
Underlying pre-tax profit (£m)	200	36	(82)%

¹ Staff costs include base salary, benefits and bonuses for all Group employees (excluding joint ventures and associates).

Directors' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2020. The executive Directors were in receipt of a cash allowance in lieu of pension equivalent to 20% of base salary as disclosed in the Directors' remuneration table on page 141.

The pension contribution level for executive Directors contrasts to the majority of the wider UK workforce who currently typically receive pension contributions of up to 7% of salary.

External appointments of executive Directors

No executive Director held external appointments in 2020.

Service contracts

Executive Directors' contracts are on a rolling 12 month basis and are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the Director.

The non-executive Directors, including the Chairman, do not have a service contract and their appointments, whilst for a term of three years, may be terminated with three months' notice (six months' notice for the Group Chair) by either party. Non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to annual approval by shareholders.

Name	Commencement date	Unexpired term remaining
Leo Quinn, Group Chief Executive	1 January 2015	Terminable on 12 months' notice
Phil Harrison, Chief Financial Officer	1 June 2015	Terminable on 12 months' notice
Philip Aiken, non-executive Group Chair	26 March 2015	Fixed term expiring on 26 March 2021 (subject to renewal) and terminable on six months' notice
Stephen Billingham, non-executive Director & Senior Independent Director	1 June 2015	Fixed term expiring on 1 June 2021 (subject to renewal) and terminable on three months' notice
Stuart Doughty, non-executive Director	8 April 2015	Fixed term expiring on 8 April 2021 (subject to renewal) and terminable on three months' notice
Anne Drinkwater, non-executive Director	1 December 2018	Fixed term expiring on 30 November 2021 (subject to renewal) and terminable on three months' notice
Michael Lucki, non-executive Director	1 July 2017	Fixed term expiring on 30 June 2023 (subject to renewal) and terminable on three months' notice
Barbara Moorhouse, non-executive Director	1 June 2017	Fixed term expiring on 31 May 2023 (subject to renewal) and terminable on three months' notice

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code. No member of the Committee has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. During the year under review, the members of the Committee were as follows:

- Anne Drinkwater (Committee Chair);
- Philip Aiken;
- Michael Lucki; and
- Barbara Moorhouse.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR Director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed;
- Aon plc;
- PwC; and
- Deloitte LLP.

At regular intervals the Committee reviews the appropriateness and independence of the advice received from remuneration advisers. Following Aon plc ceasing the provision of remuneration advisory services to FTSE listed companies, PwC were appointed on an interim basis from 16 June 2020, and the Committee decided to initiate a competitive tender process to appoint new independent advisers to the Committee. Consequently, Deloitte LLP were appointed as independent advisers to the Committee with effect from 9 November 2020 replacing PwC. Deloitte, PwC and Aon are members of the Remuneration Consultants Group and, as such, voluntarily operate under its Code of Conduct in relation to executive remuneration consulting in the UK.

During 2020, the Committee's advisers provided a range of advice to the Committee, including:

- analysis of market practice and corporate governance update;
- assistance with the review of the remuneration policy;
- assistance with the drafting of the remuneration report;
- valuation of share-based payments for IFRS 2 purposes; and
- calculation of vesting levels under the TSR element of the PSP awards.

During 2020, fees charged by Aon for advice provided to the Committee for 2020 amounted to £23,175 (excluding VAT) (2019: £142,572). In addition, the only other services provided to the Group by Aon plc or its subsidiaries are for professional services supporting benefits administration including the UK healthcare trust. PwC received fees amounting to £8,500 (excluding VAT) during the year in respect of advice given to the Committee and in addition, the only other services related to advice for employees on global assignment. Deloitte LLP received fees amounting to £11,500 (excluding VAT) during the year in respect of advice given to the Committee with no other services provided to the Group during the year. Other than disclosed above, Aon, PwC and Deloitte have no connection with the Company or individual Directors.

Terms of reference

During the period, the Committee has agreed a number of changes to be made to its terms of reference, as part of the annual review. The Committee's terms of reference can be found in the Investors section of the Company's website <https://www.balfourbeatty.com/investors/governance/board-committees>.

Statement of shareholder voting at the AGM

At the AGM on 25 June 2020, the resolution to approve the Directors' Remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	441,450,058	82.68%
Against	92,500,778	17.32%
Total votes cast	533,950,836	100%
Abstentions	50,650	

The resolution to approve the Remuneration policy was approved at the AGM on 25 June 2020 and received the following votes from shareholders:

	Total number of votes	% of votes cast
For	471,417,406	93.57%
Against	32,405,719	6.43%
Total votes cast	503,823,125	100%
Abstentions	30,178,361	

By order of the Board

Anne Drinkwater

Chair of the Remuneration Committee

9 March 2021

Directors' Report

The Directors of Balfour Beatty plc present their report, together with the audited accounts for the year ended 31 December 2020. For the purpose of the Financial Reporting Council's Disclosure Guidance and Transparency Rule (DTR) 4.1.8R, the Directors' report is also the Management report for the year ended 31 December 2020.

As permitted by Section 414 C(11) of the Companies Act 2006, some matters required to be included in the Directors' report have instead been included in the Strategic report. These disclosures are incorporated by reference in the Directors' report. The Strategic report can be found on pages 1 to 103.

Corporate governance

The Governance section on pages 105 to 153, forms part of the Directors' report.

The Company complied with the UK Corporate Governance Code with the exception of provision 38, which the Company complied with in part. In compliance with provision 38 of the Code, only the basic salary of Executive Directors is pensionable. As set out in the Directors' Remuneration Policy, pension contributions (or salary supplement in lieu) for new executive Directors will, in compliance with the Code, be aligned with the majority of the wider UK workforce and, from the end of December 2022, the pension contributions (or salary supplement in lieu) paid to the incumbent executive Directors will be aligned with the wider workforce.

Directors and their interests

The Directors who served during the year and were Directors at 31 December 2020 were Philip Aiken, Leo Quinn, Philip Harrison, Stephen Billingham, Anne Drinkwater, Stuart Doughty, Barbara Moorhouse and Michael Lucki. Further details and individual biographies for current Directors are set out on pages 108 and 109.

The interests of the Directors and their connected persons in the Company's shares, (as notifiable to the Company under Article 19 of the Market Abuse Regulation) are set out on page 146. In the period between 31 December 2020 and the date of this report there has been no change in the interests of Directors, or their connected persons, save for the purchase of 107 ordinary shares held in the Share Incentive Plan for Leo Quinn.

At no time during 2020 did any of the Directors have a material interest in any contract with the Company or any of its subsidiaries.

Directors' indemnities and insurance

The Group maintains Directors' and officers' liability insurance which provides appropriate cover for legal action brought against its Directors.

Qualifying third-party indemnity provisions were in force during 2020 and as at the date of this report for the benefit of certain employees who are directors of a subsidiary company.

Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the year ended 31 December 2020 for the benefit of the trustee directors of the Balfour Beatty Pension Fund.

Articles of Association

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

Share capital

Details of the share capital of the Company as at 31 December 2020, including the rights attaching to the shares, are set out in Note 31 on page 211. On 1 July 2020, the Company's 111,839,795 preference shares of 1p each were redeemed at £1 per share and cancelled. No ordinary shares were issued or repurchased for cancellation during 2020.

The powers of the Directors to issue or buy back the Company's shares are determined

by the Companies Act 2006 and the Articles of Association. The Directors are authorised to issue and allot shares and to buy back shares subject to annual shareholder approval at the AGM. Such authorities were granted by shareholders at the 2020 AGM and it will be proposed at the 2021 AGM that the Directors be granted new authorities to issue, allot and to buy back shares.

Under the authority provided at the 2020 AGM the Company commenced a share buy back on 5 January 2021 and, as at the 8 March 2021 (the latest practicable date prior to the date of this document), the Company had purchased 8,569,875 ordinary shares for a total consideration of £23,625,340.97 and these shares are held in treasury with no voting or dividend rights.

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

No person has special rights of control over the Company's share capital and all issued shares are fully paid. Shares held by the Balfour Beatty Employee Share Ownership Trust rank pari passu with the ordinary shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in this trust rest with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

Major shareholders' interests

Notifications provided to the Company by major shareholders in accordance with the DTR are published via a Regulatory Information Service and on the Company's website.

The Company has been notified of the following interests in voting rights in its shares as at 31 December 2020 and as at the date of this report. Please note that percentages provided are as at the date of notification.

	Percentage of voting rights (%) as at 31 December 2020	Percentage of voting rights (%) as at 9 March 2021
Janus Henderson Group plc	6.96	6.96
M&G Investment Management	6.22	6.22
Schroders plc	5.07	5.07
BlackRock Inc	5.03	5.03
Causeway Capital Management LLC	4.90	4.90
Tameside MBC re Greater Manchester Pension Fund	4.02	4.02

Details of shares purchased by the Balfour Beatty Share Ownership Trust in relation to the Company's share schemes can be found in Note 32.3 on page 214. All shares purchased were ordinary shares. The percentage of called-up share capital represented by the shares purchased in 2020 was 0.5%.

Dividends

The Board decided on 1 June 2020 that no final dividend would be paid in 2020 given the uncertain economic climate due to COVID-19. On 12 August 2020, the Company announced in the results for the half-year ended 26 June 2020 that the Board would look to re-instate the dividend as soon as is appropriate. A final dividend of 1.5 pence per ordinary share has been recommended by the Board for shareholder approval at the 2021 AGM, giving total dividends per ordinary share of 1.5 pence for 2020 (2019: 2.1 pence). The Directors will continue to offer the dividend reinvestment plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service.

Branches

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

Auditor

KPMG LLP has indicated its willingness to continue as auditor to the Company and a resolution for its reappointment will be proposed at the 2021 AGM.

Company Secretary

In June 2020, David Mercer resigned from his role as Company Secretary and the Board appointed Paul Waters in his place. Paul resigned in September 2020 and the Board appointed Tracey Wood as Company Secretary in his place.

Innovation, future development and research and development

Information concerning innovation, future development and research and development is set out on pages 26 to 29, and forms part of the Directors' report disclosures.

Sustainability

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 55 to 70.

Policies

The Group's published policies on: health and safety; sustainability; sustainable procurement; modern slavery; social value; environment; business conduct; supply chain media, PR and marketing; quality; information security; and ethics, remain in place and can be accessed on its website <https://www.balfourbeatty.com/how-we-work>.

Greenhouse gas emissions

Details of Balfour Beatty's Scope 1 and 2 greenhouse gas emissions and the actions which the Group is taking to reduce them are set out on pages 60 to 64 and form part of the Directors' report disclosures.

Employment

The Balfour Beatty Group operates across a number of geographies and end markets. Balfour Beatty provides a Human Resources framework for promoting diversity, ethical behaviour and learning and development as well as continuing to fulfil its commitments in relation to regulation and corporate governance.

The Group provides fair and flexible employment policies and practices that respond to the different needs of its people. Information concerning employee diversity is set out on pages 73 and 74 and forms part of the Directors' report disclosures. Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible and is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential, consistent with all other employees. The Company operates an all employee share incentive plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders. Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants.

Information concerning financial and economic factors affecting the performance of the Group and the Company's share price is available to all employees via the Company's intranet site.

Further information on how Directors have engaged with employees and how they have had regard to employee interests can be found on pages 113 and 114.

Diversity

Details on the Company's Board diversity policy can be found in the Nomination Committee Report on page 123.

Details of the Group's approach to diversity and inclusion can be found on pages 73 and 74.

Disclosures required under Listing Rule 9.8.4

There are no disclosures required to be made under UK Listing Rule 9.8.4. Details of long-term incentive plans can be found in the Summary of policy and implementation in 2021 on pages 138 to 139.

Events after the reporting date

Details of material post balance sheet events can be found in Note 39 on page 220.

Political donations

At the AGM held in June 2020, 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 2021 AGM.

In the US, no corporate political contributions were made by business units during the year (2019: US\$5,000 (£3,900)). Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's Code of Conduct.

Capitalised interest

Details of the Group's capitalised interest can be found in Note 15 on page 188.

Financial instruments

The Group's financial risk management objectives and policies (including its hedging policy) and its exposure to the following risks – liquidity, foreign currency, interest rate, price and credit – are detailed in Note 40 on pages 220 to 224.

Going concern and viability

The Group's going concern statement is detailed in Note 1 of the consolidated financial statements on page 170.

The long-term Viability Statement is set out on pages 102 and 103.

Change of control provisions

The Group's bank facility and surety agreements contain provisions that, where the parties are unable to agree the implications of any change of control, on notice being given to the Group the lenders and sureties may exercise their discretion to require prepayment of any loans or outstanding bonds and cancel all commitments under the agreement concerned.

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

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

Some other commercial agreements, entered into in the normal course of business, include change of control provisions. The Group's share and incentive plans include usual provisions relating to change of control. There are no agreements providing for compensation for the Directors or employees on a change of control.

Annual General Meeting

All resolutions continue to be put to a poll rather than a show of hands. Each substantially separate issue is proposed via a separate resolution and proxy forms provide for shareholders to vote for, vote against or withhold their vote on each resolution.

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

The 2021 AGM will be held at The Curve, Axis Business Park, Hurricane Way, Langley, SL3 8AG, United Kingdom on Thursday 13 May 2021 commencing at 10am. The AGM will be a closed meeting and shareholders will not be permitted to attend.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in

conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU);
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration report and Corporate governance statement that complies with that law and those regulations.

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

Statements of Directors as to disclosure of information to the Company's auditor

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

By order of the Board

Tracey Wood
Group General Counsel and Company Secretary

9 March 2021

Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU Registered in England and Wales, registered number 395826

1 Our opinion is unmodified

We have audited the financial statements of Balfour Beatty plc ("the Company") for the year ended 31 December 2020 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Company Statement of Changes in Equity, Group and Company Balance Sheets, Group Statement of Cash Flows, and the related notes, including the accounting policies in Note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the Company's shareholders on 19 May 2016. The period of total uninterrupted engagement is for the five financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Our identification of key audit matters remains unchanged from 2019 with the following exceptions: (i) In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter; and (ii) we have removed the key audit matter related to goodwill impairment – Gas and Water cash-generating unit (CGU) following the full impairment of the goodwill balance in the CGU in 2019.

The risk

Our response

Contract accounting Group revenue £7,003 million (2019: £6,941 million), contract assets £288 million (2019: £377 million), contract liabilities £526 million (2019: £471 million), contract provisions £279 million (2019: £224 million) **Risk vs 2019:** ↔

Refer to pages 126-133 (Audit and Risk Committee report), Note 2.4 (Principal accounting policies – Revenue recognition), Note 2.27(a) (Judgements and key sources of estimation uncertainty – Revenue and margin recognition), Note 4 (Revenue) and Note 26 (Provisions)

Subjective estimates

For the majority of its contracts, the Group recognises revenue over time and measures the progress based on the input method by considering the proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total forecast costs of the contract at completion.

The recognition of revenue and profit therefore rely on estimates in relation to the forecast total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and amounts are re-estimated, until the outcome of the contract is known.

The revenue on contracts may also include variations and claims, which fall under either the variable consideration or contract modification requirements of IFRS 15 Revenue from Contracts with Customers. These are recognised on a contract-by-contract basis when evidence supports that the contract modification is enforceable or when variable consideration is highly probable that a significant reversal in the amount of revenue recognised will not occur.

The effect of these matters is that, as part of our risk assessment, we determined that contract revenue and other related contract balances have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Group financial statements as a whole, and possibly many times that amount. Therefore, auditor judgement is required to assess whether the Directors' estimates for forecast costs and variable consideration falls within an acceptable range. The financial statements (Note 2.27(a)) disclose the nature and extent of the estimates and judgements made by the Group.

We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balances is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the detailed project review papers from the Group to support the estimates made and challenged the judgements underlying those papers with senior operational, legal, commercial and financial management. Our procedures included:

- **Historical comparisons:** evaluating the financial performance of contracts against budget and historical trends;
- **Benchmarking assumptions:** challenging the Group's judgement in respect of forecast contract out-turn, contingencies, settlements and the recoverability of contract balances via agreement to post year end third-party certifications and confirmations and with reference to our own assessments, historical outcomes and industry norms;
- **Customer correspondence scrutiny:** analysing correspondence with customers around variations and claims to challenge the estimates of claims and variations made by the Group;
- **Legal correspondence scrutiny:** analysing correspondence with lawyers, and other legal opinions including arbitration results or other legal advice obtained by the Group, around variations and claims;
- **Test of detail:** analysing the end of job forecasts on contracts selected and challenging the estimates within the forecasts by considering the amounts already procured, the amounts still to be procured, the site and time related cost forecasts against programme and run rates, and any contingency held;
- **Test of detail:** inspecting selected contracts for key clauses; identifying relevant contractual mechanisms such as pain/gain shares, design bonuses, liquidated damages and success fees and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements;
- **Virtual site visits:** holding video conferencing calls with sites related to certain higher risk or larger value contracts, with the involvement of our industry specialists for a sample of these, inspecting the physical progress on site for individual projects and identifying areas of complexity through observation and discussion with site personnel;
- **KPMG specialists:** Utilising KPMG Major Project specialists for a sample of contracts to review the risks and opportunities associated with the contract and develop a range of possible contract out-turns and challenge the appropriateness of revenue recognised and provisions held in relation to these contracts; and
- **Assessing transparency:** considering the adequacy of the Group's disclosures including those included in Note 2.27(a) around the nature of estimates and judgements.

Our findings:

We consider the amount of revenue, contract assets, contract liabilities, contract provisions and associated profits recognised to be acceptable. (2019: acceptable).

The risk	Our response
Accounting for the US Military Housing investigation Refer to pages 126-133 (Audit and Risk Committee report), Note 37 (Contingent liabilities) Assessing transparency The Group engaged external legal counsel to conduct an investigation into potential fraudulent falsification of maintenance records at certain military housing bases in the United States (US) leading to an increase in incentive fees recognised over the period from 2014 to 2018. In addition, the US Department of Justice (DOJ) has initiated a review into this matter. The Group's investigation is substantially complete and findings have been shared with the DOJ. The investigation by the DOJ is still ongoing. A provision has been recognised for the estimate of the portion of historic incentive fees that its investigation was unable to verify. No provision for any fine or penalty has been recognised and the Group continue to disclose this risk as a contingent liability as the quantum of obligation cannot be measured with sufficient reliability. The effect of these matters is that, as part of our risk assessment, we determined that the estimation of liabilities arising out of the military housing investigation and related contingent liability disclosures has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 37) discloses the nature and extent of the judgements made by the Group.	Risk vs 2019: ↔ Our procedures included: ➤ Enquiry of lawyers: speaking to the external lawyers conducting the investigation, as well as the forensic accountants supporting the lawyers, to obtain their views on the results of their investigation; ➤ Legal correspondence scrutiny: Reviewing correspondence and presentations made to the DOJ; ➤ Enquiry of finance and management: making inquiries of the Board and the Audit and Risk Committee to understand their assessment of the Group's compliance with relevant laws and regulations in respect of military housing contracts. We also met with management including the Group Risk and Audit Director, General Counsel and legal function to assess the status of the ongoing investigation, and the possibility of fines or penalties; ➤ KPMG Specialists: utilising KPMG forensic specialists to review the output of the Group's investigation and challenge the external lawyers on the range of possible outcomes; and ➤ Assessing transparency: considering the adequacy of the disclosures in respect of the contingent liabilities. Our findings: We consider the provision recognised and disclosure of contingent liabilities arising out of the Military Housing investigation to be acceptable (2019: acceptable).
Going concern assessment Refer to pages 126-133 (Audit and Risk Committee report) and Note 1 (Basis of accounting) Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model including adverse changes in the economic environment, including the impact of COVID-19, and deteriorations in commercial or operational conditions, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period are: ➤ A reduction in forecasted revenues due to further restrictions for working on construction sites mandated either by national or local government authorities and delays or cancellation of projects not yet contracted; ➤ Significant cost inflation due to a reduction in productivity and disruptions to the Group's supply chain; and ➤ A deterioration of contract judgements. There are also less predictable but realistic second order impacts, such as delays in cash receipts received from non-government customers, a reduction or delay in disposal of PPP financial assets, a reduction or delay in the distributions received from joint ventures, and the possible impact of Brexit, which could result in further cost inflation and delays to projects not yet contracted. The risk for our audit was whether or not the financial impact of those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Risk vs 2019: ↔ We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the risk is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: ➤ Benchmarking assumptions: Testing the integrity of the cash flow projections and considered the appropriateness of key assumptions used in preparing those projections, with a specific focus on forecasted revenue, operating margins and operating cash flows. We evaluated these via enquiries with Group and Divisional management. We also assessed the projections and assumptions by reference to our knowledge of the business, historical performance, historical forecasting accuracy, current order book, and general market conditions, including the impact of COVID-19 on operating under national or local government restrictions. ➤ Funding assessment: Reviewing the agreements for the Revolving Credit facility and US Private Placement loan, to understand key terms including relevant covenants and to understand any restrictions in the use of funds. We considered whether these key terms were appropriately reflected in the financial models used for the purpose of assessing the future forecasts and assessing covenant compliance. ➤ Sensitivity analysis: Considering the downside sensitivities and if they represent severe but plausible scenarios based on our knowledge of the business, the principal risks of the Group, and recent trading results. We assessed the future revenue and operating margin assumptions in the downside scenarios by comparing to the actual revenue and operating margins achieved in 2020 whilst operating through COVID-19 restrictions. ➤ Assessing transparency: considering whether the going concern disclosure in Note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities. Our findings: We found the going concern disclosures included in Note 1 without any material uncertainty to be acceptable (2019: acceptable).

The risk

Our response

Recoverability of the parent Company's investment in subsidiaries

Investment in subsidiaries £1,720 million (2019: £1,714 million)

Risk vs 2019: ↔

Refer to Note 20.2 (Investments)

Low risk, high value

The carrying amount of the parent Company's investment in subsidiaries represents 48% of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.

Our risk principally relates to the parent Company's investment in Balfour Beatty Investment Holdings Limited (BBIHL), where a value in use model has been used to support the investment's carrying amount.

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

- **Our sector experience:** considering the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy, current order book, and wider macro environment conditions of BBIHL;
- **Benchmarking assumptions:** challenging the assumptions used by the Company in the calculation of BBIHL's discount rates, including comparisons with external data sources;
- **Sensitivity analysis:** performing our own sensitivity analysis over BBIHL's value in use, including a reasonably possible reduction in assumed growth rates and operating margins to identify areas on which to focus our procedures, including the consideration of the possible impacts of COVID-19; and
- **Tests of detail:** Comparing the carrying amount of 100% of investments (2019: 100%) of the total investment balance with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.

Our results:

We found the Company's conclusion that there is no impairment of its investment to be acceptable (2019: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £10.0 million (2019: £10.0 million), determined with reference to a benchmark of Group profit before tax, normalised by averaging the last three years of Group profit before tax excluding non-underlying items in the year, with the exception of the amortisation of acquired intangible assets, of £133 million, of which it represents 7.5% (2019: benchmark of Group profit before tax, normalised to exclude non-underlying items in the year as disclosed in Note 10, with the exception of the charge relating to the amortisation of acquired intangible assets, of £194m, of which it represented 5.2%).

The underlying profit before tax of the Group for the year ended 31 December 2020 declined by 82%. In these situations, auditing standards allow for normalisation of the benchmark to be used in determining materiality that is most likely to influence the decision making of the users of the financial statements. As such we determined that Group profit before tax, normalised by averaging the last three years of Group profit before tax exclude non-underlying items in the year, with the exception of the amortisation of acquired intangible assets was the most appropriate alternative benchmark in these circumstances to determine materiality.

Materiality for the parent Company financial statements as a whole was set at £9.0 million (2019: £9.0 million), determined with reference to a benchmark of company total assets, of which it represents 0.3% (2019: 0.2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the Group and parent Company was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £7.5 million (2019: £7.5 million) for the Group and £6.75 million (2019: £6.75 Million) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.5 million (2019: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

3 Our application of materiality and an overview of the scope of our audit continued

Scoping and coverage

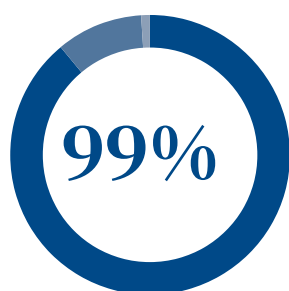
Of the Group's 12 (2019: 14) reporting components, we subjected 6 (2019: 9) to full scope audits for Group reporting purposes and 5 (2019: 5) to specified risk-focused audit procedures. The components for which we performed specified risk-focused procedures were not individually financially significant enough to require a full scope audit for Group reporting purposes but did present specific individual risks that needed to be addressed. For three components, the specified audit procedures were performed over revenue and other contract accounting related balances, including, contracts asset and liabilities and any contract provisions. For one component procedures were performed over inventory.

The components within the scope of our work accounted for 99% (2019: 98%) of Group revenue, 99% (2019: 98%) of Group profit before tax and 98% (2019: 98%) of Group total assets as illustrated below.

The Group audit team instructed components, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team set the component materiality's, which ranged from £0.2 million to £8.0 million (2019: £0.5 million to £9.0 million), having regard to the mix of size and profile of the Group across the components. The work on 11 of the Group's 12 components was performed by the component auditors. Specified risk-focused procedures on 1 component, audit of the parent Company, Group consolidation work and procedures on the items excluded from normalised Group profit before tax were performed by the Group audit team.

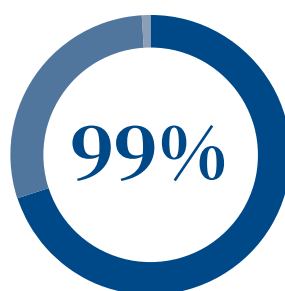
The Group audit team had planned to visit component locations in the United Kingdom, United States and Hong Kong; however, these visits were prevented by movement restrictions relating to the COVID-19 pandemic. Instead, senior members of the group audit team used video conferencing to oversee the component auditor work and had video discussions with management of the 3 component locations in scope of the Group audit we had planned to visit (United Kingdom, United States and Hong Kong). In addition, in all locations, the group audit team conducted remote file reviews by senior members of the audit team to evaluate whether work performed over key areas of the audit was sufficient. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor. The Group audit team also attended local final audit closing meetings via conference call.

GROUP REVENUE



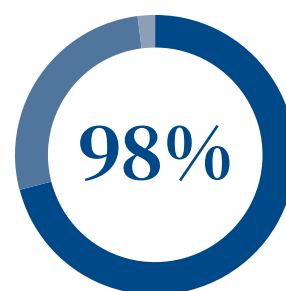
- Full scope audit 89% (2019: 88%)
- Specified risk-focused procedures 10% (2019: 10%)
- Out of scope 1% (2019: 2%)

GROUP PROFIT BEFORE TAX



- Full scope audit 70% (2019: 79%)
- Specified risk-focused procedures 29% (2019: 19%)
- Out of scope 1% (2019: 2%)

GROUP TOTAL ASSETS



- Full scope audit 71% (2019: 83%)
- Specified risk-focused procedures 27% (2019: 15%)
- Out of scope 1% (2019: 2%)

4 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated the Directors' assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in Note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 87 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit and Risk Committee, internal audit, compliance officers and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and all relevant Committee minutes.
- Considering remuneration incentive schemes (primarily the annual incentive plan) and performance targets for management and Directors, including underlying profit from operations targets for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Company.

We communicated identified fraud risk factors throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue earned from construction and support services is recorded in the wrong period and the risk that Group and component management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the estimation of forecast costs and the recognition of variable consideration.

Further detail in respect of revenue recognition including the estimation of forecast costs and variable consideration is set out in the Contract Accounting key audit matter disclosures in section 2 of this report.

However, on this audit we do not believe there is a fraud risk related to revenue recognition in the Infrastructure Investments segment based on the contractual nature of the segment’s revenue with no significant judgement or estimation required in recognising revenue.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on specific risk-based criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts, those posted by users who post journals infrequently and those with missing user identification; and
- Assessing significant accounting estimates for bias.

We assessed the disclosures in Note 37 related to the US Military Housing investigation compared to our knowledge based on discussion with the Group’s internal and external legal advisers.

We discussed with the Audit and Risk Committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group’s regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. The execution of these procedures was supported by forensic specialists.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity’s procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation), distributable profits legislation, and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group’s license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and environmental law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of the US Military Housing investigation is set out in the key audit matter disclosures in section 2 of this report.

We discussed with the Audit and Risk Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

5 Fraud and breaches of laws and regulations – ability to detect continued**Context of the ability of the audit to detect fraud or breaches of law or regulation**

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on pages 102 and 103 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the emerging and principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on pages 102 and 103 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit and Risk Committee, including the significant issues that they considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 151 to 153, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Sawdon (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

9 March 2021

GROUP INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020			2019		
		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 including share of joint ventures and associates		8,587	6	8,593	8,405	6	8,411
Share of revenue of joint ventures and associates	19.2	(1,269)	(4)	(1,273)	(1,093)	(5)	(1,098)
Group revenue	4	7,318	2	7,320	7,312	1	7,313
Cost of sales		(7,079)	(2)	(7,081)	(6,930)	(1)	(6,931)
Gross profit		239	–	239	382	–	382
Gain on disposals of interests in investments	34.2/34.3	–	–	–	40	–	40
Amortisation of acquired intangible assets	15	–	(6)	(6)	–	(6)	(6)
Other net operating expenses		(226)	18	(208)	(267)	(56)	(323)
Group operating profit/(loss)		13	12	25	155	(62)	93
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		38	–	38	37	–	37
Gain on disposals of interests in investments	34.2/34.3	–	–	–	29	–	29
Share of results of joint ventures and associates	19.2	38	–	38	66	–	66
Profit/(loss) from operations	6	51	12	63	221	(62)	159
Investment income	8	38	–	38	34	–	34
Finance costs	9	(53)	–	(53)	(55)	–	(55)
Profit/(loss) before taxation		36	12	48	200	(62)	138
Taxation	11	(11)	(7)	(18)	(14)	9	(5)
Profit/(loss) for the year		25	5	30	186	(53)	133
Attributable to							
Equity holders		25	5	30	183	(53)	130
Non-controlling interests		–	–	–	3	–	3
Profit/(loss) for the year		25	5	30	186	(53)	133

1 Before non-underlying items (Notes 2.10 and 10).

	Notes	2020 Pence	2019 Pence
Earnings per ordinary share			
– basic	12	4.4	19.0
– diluted	12	4.4	18.8
Dividends per ordinary share proposed for the year	13	1.5	2.1

Commentary on the Group Income Statement*

Total profit before taxation for 2020 was £48m (2019: £138m), which is inclusive of a non-underlying profit of £12m (2019: £62m loss). The total profit after tax was £30m (2019: £133m).

Background

The Group Income Statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the statement of comprehensive income. The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The income statement shows the revenue and results of continuing operations. There were no discontinued operations in either year.

Revenue

Revenue from operations including non-underlying items and the Group's share of joint ventures and associates increased by 2% to £8,593m from £8,411m in 2019. This is predominantly driven by strong order book growth in prior years which more than offset reduced volumes as a result of site closures caused by COVID-19. Construction Services underlying revenue was up 2% at £6,964m as a result of higher volumes at Gammon. Support Services revenue increased by 4% to £1,067m following higher volumes in the Group's power and transportation operations.

Share of results of joint ventures and associates

Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

The Group's underlying profit generated from its share of joint ventures and associates decreased from the prior year primarily due to the Group's decision to defer disposals of Infrastructure Investments assets due to the uncertainty in the secondary market for these assets caused by COVID-19. The Group expects to recommence disposals in 2021.

Underlying profit from operations

Underlying profit from operations decreased to £51m from £221m in 2019. Throughout the year, the Group worked hard to minimise the impact of the COVID-19 pandemic on operations as the majority of its projects remained operational in line with government guidance and where it was safe to do so. However, site closures, particularly in the second quarter, combined with a reduction in productivity and the cost of implementing new operating procedures, led to a material reduction in profit from operations. In addition, COVID-19 has led to lengthened site programmes triggering a reassessment of the Group's contract end forecast positions which has also contributed to the decrease in profits.

The decrease in profits is also driven by the Group's decision to defer disposals of Infrastructure Investments assets due to the uncertainty in the secondary market for these assets caused by COVID-19. The Group expects to recommence disposals in 2021.

Non-underlying items profit from operations

During the year, the Group recognised grant income of £19m in respect of the UK Government's Job Retention Scheme (JRS) (2019: £nil). This was a one-off temporary scheme which the Group has decided to voluntarily refund after the balance sheet date. This income has been presented within non-underlying items to avoid distorting the underlying performance of the Group. Refer to Note 10.2.1.

Other non-underlying items include the amortisation of acquired intangible assets of £6m (2019: £6m); a loss on GMP equalisation of £3m and a release of a provision amounting to £2m previously held for blacklisting claims.

Net finance costs

Net finance costs of £15m in the year represents a decrease from £21m in 2019. The decrease is primarily driven by a saving of £8m of preference shares costs as the Group fully redeemed them on 1 July 2020 and an increase of £5m in interest receivable on subordinated debt. These decreases were partially offset by a £11m impairment of loans to joint ventures and associates. Refer to Note 9.

Taxation

The Group's underlying loss before tax from subsidiaries of £2m (2019: £134m profit) resulted in an underlying tax charge of £11m (2019: £14m). This arose principally from the derecognition of UK tax losses.

Earnings per share

Basic earnings per share were 4.4p (2019: 19.0p). Underlying basic earnings per share were 3.7p (2019: 26.7p).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 84 to 87.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020			2019		
		Group £m	Share of joint ventures and associates £m	Total £m	Group £m	Share of joint ventures and associates £m	Total £m
Profit/(loss) for the year		(8)	38	30	67	66	133
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	32.1	(62)	–	(62)	43	2	45
Tax on above	32.1	5	–	5	(8)	(1)	(9)
		(57)	–	(57)	35	1	36
Items which will subsequently be reclassified to the income statement							
Currency translation differences	32.1	(11)	(4)	(15)	(12)	(7)	(19)
Fair value revaluations – PPP financial assets	32.1	5	8	13	3	24	27
– cash flow hedges	32.1	(4)	1	(3)	(4)	2	(2)
– investments in mutual funds measured at fair value through OCI	32.1	2	–	2	2	–	2
Recycling of revaluation reserves to the income statement on disposal [^]	34.3	–	–	–	(2)	(2)	(4)
Tax on above	32.1	–	(2)	(2)	–	(5)	(5)
		(8)	3	(5)	(13)	12	(1)
Total other comprehensive (loss)/income for the year		(65)	3	(62)	22	13	35
Total comprehensive (loss)/income for the year	32.1	(73)	41	(32)	89	79	168
Attributable to							
Equity holders				(32)			165
Non-controlling interests				–			3
Total comprehensive (loss)/income for the year	32.1			(32)			168

[^] 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 2020 was £32m comprising a total profit after tax of £30m and other comprehensive loss after tax of £62m.

Background

The Group Statement of Comprehensive Income is presented on a total Group basis. Other comprehensive income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement.

Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit liabilities are increases or decreases in the present value of the pension liability because of:

- » differences between the previous actuarial assumptions and what has actually occurred; or
- » changes in actuarial assumptions used to value the obligations.

Actuarial losses for the Group including joint ventures and associates totalled £62m in 2020 compared to gains of £45m in 2019. Refer to Note 30.

Items which will subsequently be reclassified to the income statement

Currency translation differences

The Group operates in a number of countries with different local currencies. Currency translation differences arise on translation of the balance sheet and results from the local functional currency into the Group's presentational currency, sterling.

Fair value revaluations – PPP financial assets

Assets constructed by PPP concession companies are classified principally as financial assets measured at fair value through OCI. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related fair value movements recognised in OCI. During the year, gilt rates have decreased resulting in fair value gains including joint ventures and associates of £13m being taken through OCI (2019: £27m).

Fair value revaluations – cash flow hedges

Cash flow hedges are principally interest rate swaps, to manage the interest rate and inflation rate risks in Infrastructure Investments' subsidiary, joint venture and associate companies which are exposed by their long-term contractual agreements. The fair value of derivatives changes in response to prevailing market conditions. During the year, LIBOR decreased resulting in fair value losses on the interest rate swaps including joint ventures and associates of £3m being recognised in OCI (2019: £2m).

Recycling of revaluation reserves to the income statement on disposal

Fair value gains and losses and currency translation differences recognised in OCI are transferred to the income statement upon disposal of the asset. On disposal of infrastructure concession assets in 2019, £4m of profit (including joint ventures and associates) was recycled to the income statement from OCI and included in the gain on disposal. There were no disposals in 2020.

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 84 to 87.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Share of joint ventures' and associates' reserves (Note 19.6) £m	Other reserves (Note 32.1) £m	Retained profits £m	Non- controlling interests £m	Total £m
At 1 January 2019		345	65	22	63	162	575	10	1,242
Total comprehensive income/(loss) for the year	32.1	–	–	–	79	(13)	99	3	168
Ordinary dividends	13	–	–	–	–	–	(36)	–	(36)
Non-controlling interest's dividends		–	–	–	–	–	–	(4)	(4)
Joint ventures' and associates' dividends	19.1	–	–	–	(95)	–	95	–	–
Movements relating to share-based payments		–	–	–	–	(7)	14	–	7
Reserve transfers relating to joint venture and associate disposals	19.6	–	–	–	(1)	–	1	–	–
At 31 December 2019		345	65	22	46	142	748	9	1,377
Total comprehensive (loss)/income for the year	32.1	–	–	–	41	(9)	(64)	–	(32)
Joint ventures' and associates' dividends	19.1	–	–	–	(50)	–	50	–	–
Reserve transfers relating to joint ventures and associates	19.6	–	–	–	28	–	(28)	–	–
Redemption of preference shares	31.2	–	111	–	–	(17)	(94)	–	–
At 31 December 2020		345	176	22	65	116	612	9	1,345

Commentary on Group Statement of Changes in Equity*

Total equity of £1,345m at 31 December 2020 decreased primarily due to movements in the Group Statement of Comprehensive Income.

Background

The Group Statement of Changes in Equity includes the total comprehensive (loss)/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 is recommending a final dividend of 1.5p. There was no interim dividend, therefore the total dividend for the year is also 1.5p per share (2019: 2.1p).

Joint ventures' and associates' dividends

Dividends of £50m (2019: £95m) were received in the year from joint ventures and associates (JVA), resulting in a transfer of this amount between JVA reserves and Group retained profits.

Reserves

Other reserves comprise: hedging reserves £(32)m (2019: £(29)m); PPP financial assets revaluation reserve £30m (2019: £27m); currency translation reserve £98m (2019: £109m); and other reserves £20m (2019: £17m).

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Notes	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves (Note 32.2) £m	Retained profits £m	Total £m
At 1 January 2019		345	65	22	105	873	1,410
Total comprehensive loss for the year	32.2	–	–	–	–	(27)	(27)
Ordinary dividends	13	–	–	–	–	(36)	(36)
Movements relating to share-based payments		–	–	–	8	(1)	7
At 31 December 2019		345	65	22	113	809	1,354
Total comprehensive income for the year	32.2	–	–	–	–	62	62
Redemption of preference shares		–	111	–	(17)	(94)	–
Movements relating to share-based payments		–	–	–	6	(6)	–
At 31 December 2020		345	176	22	102	771	1,416

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 84 to 87.

BALANCE SHEETS

At 31 December 2020

	Notes	Group		Company	
		2020 £m	2019 £m	2020 £m	2019 £m
Non-current assets					
Intangible assets – goodwill	14	811	828	–	–
– other	15	312	300	–	–
Property, plant and equipment	16	93	91	–	–
Right-of-use assets	17	121	113	–	–
Investment properties	18	30	32	–	–
Investments in joint ventures and associates	19	554	550	–	–
Investments	20	26	27	1,720	1,714
PPP financial assets	21	155	155	–	–
Trade and other receivables	24	250	207	3	3
Retirement benefit assets	30	215	249	–	–
Deferred tax assets	29	80	92	–	–
		2,647	2,644	1,723	1,717
Current assets					
Inventories	22	114	101	–	–
Contract assets	23	288	377	–	–
Trade and other receivables	24	838	939	1,601	1,548
Cash and cash equivalents – infrastructure investments	27	22	35	–	–
– other	27	770	743	258	288
Current tax receivable		6	2	2	3
		2,038	2,197	1,861	1,839
Total assets		4,685	4,841	3,584	3,556
Current liabilities					
Contract liabilities	23	(524)	(469)	–	–
Trade and other payables	25	(1,403)	(1,520)	(1,976)	(1,858)
Provisions	26	(200)	(153)	–	–
Borrowings – non-recourse loans	27	(6)	(4)	–	–
– other	27	–	(35)	–	(35)
Liability component of preference shares	31	–	(110)	–	(110)
Lease liabilities	28	(47)	(42)	–	–
Current tax payable		(14)	(16)	–	–
Derivative financial instruments	40	(4)	(4)	–	–
		(2,198)	(2,353)	(1,976)	(2,003)
Non-current liabilities					
Contract liabilities	23	(2)	(2)	–	–
Trade and other payables	25	(128)	(108)	(3)	(3)
Provisions	26	(150)	(142)	–	–
Borrowings – non-recourse loans	27	(333)	(333)	–	–
– other	27	(189)	(196)	(189)	(196)
Lease liabilities	28	(78)	(78)	–	–
Retirement benefit liabilities	30	(126)	(116)	–	–
Deferred tax liabilities	29	(104)	(108)	–	–
Derivative financial instruments	40	(32)	(28)	–	–
		(1,142)	(1,111)	(192)	(199)
Total liabilities		(3,340)	(3,464)	(2,168)	(2,202)
Net assets		1,345	1,377	1,416	1,354
Equity					
Called-up share capital	31	345	345	345	345
Share premium account	32	176	65	176	65
Special reserve	32	22	22	22	22
Share of joint ventures' and associates' reserves	32	65	46	–	–
Other reserves	32	116	142	102	113
Retained profits	32	612	748	771	809
Equity attributable to equity holders of the parent		1,336	1,368	1,416	1,354
Non-controlling interests	32	9	9	–	–
Total equity		1,345	1,377	1,416	1,354

On behalf of the Board

Leo Quinn

Director

9 March 2021

Philip Harrison

Director

Commentary on the Group Balance Sheet*

Total assets of £4.7bn were 3% lower than last year and total liabilities of £3.3bn decreased by 4%. Net assets decreased by 2% to £1.3bn primarily driven by a reduction in profits in the year and losses in other comprehensive income of £62m.

Background

The Group's Balance Sheet shows the Group's assets and liabilities as at 31 December 2020. In accordance with IAS 1 Presentation of Financial Statements and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2020 decreased to £811m (2019: £828m), solely due to foreign currency movements.

Investments in joint ventures and associates

Investments in joint ventures and associates have remained in line with 2019 at £554m. Profits for the year of £38m with additional equity contributions of £29m were largely offset by dividends received from the Group's joint ventures and associates of £50m.

Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 169.

Borrowings

Borrowings excluding non-recourse loans

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity to support Balfour Beatty in its activities.

In October 2020, the Group agreed a one-year extension to the facility, which will now expire in October 2023. A further one-year extension option through to October 2024 remains available to the Group, subject to lenders' approval. This facility was undrawn at 31 December 2020.

Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain infrastructure concession projects.

At 31 December 2020, the Group's share of these non-recourse net borrowings amounted to £1,762m (2019: £1,792m), comprising £1,445m (2019: £1,490m) in relation to joint ventures and associates as disclosed in Note 19.2 and £317m (2019: £302m) on the Group balance sheet in relation to subsidiaries as disclosed in Note 27.

Retirement benefit assets and liabilities

The Group's balance sheet includes net retirement benefit assets of £89m (2019: £133m) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. The decrease in pension surplus in the year is due to actuarial movements accounted for in the year primarily driven by changes to discount rates and demographic assumptions.

Any surplus of deficit contributions would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the schemes have been settled.

Other

In addition to the liabilities on the balance sheet, in the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities, commonly referred to as bonds. These bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. They are customary or mandatory in many of the markets in which the Group operates. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from the Company. As at 31 December 2020, contract bonds in issue by financial institutions covered £4.0bn (2019: £4.4bn) of the contract commitments of the Group.

Equity commitments

During 2020, the Group invested £46m (2019: £64m) 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 £31m from 2021 onwards, inclusive of £7m expected for projects at preferred bidder stage. £10m of this is expected to be invested in 2021, as disclosed in Note 41(f).

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 84 to 87.

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Cash from operations	33.1	276	212
Income taxes paid		(2)	(1)
Net cash from operating activities		274	211
Cash flows from investing activities			
Dividends received from:			
– joint ventures and associates – infrastructure investments	19.5	20	59
– joint ventures and associates – other	19.5	30	36
Interest received – infrastructure investments – joint ventures	19.5	15	5
Interest received – infrastructure investments – subsidiaries		3	3
Acquisition of businesses, net of cash and cash equivalents acquired	34.1	(3)	(3)
Purchases of:			
– intangible assets – infrastructure investments	15	(32)	(58)
– intangible assets – other	15	(1)	(4)
– property, plant and equipment	16	(33)	(20)
Return of equity from joint ventures and associates	19.5	–	14
Investments in and long-term loans to joint ventures and associates	19.5	(25)	(58)
PPP financial assets cash expenditure	21	(2)	(3)
PPP financial assets cash receipts	21	15	16
Disposals of:			
– investments in joint ventures – infrastructure investments	19.5	1	24
– investments in joint ventures – other	19.5	1	1
– subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments	34.3.12/34.3.6	–	59
– property, plant and equipment – infrastructure investments	34.3.10	–	22
– property, plant and equipment – other		12	7
– investment property		3	–
– net assets held for sale – infrastructure investments	34.3.1	–	8
– other investments	20	3	5
Net cash from investing activities		7	113
Cash flows used in financing activities			
Purchase of ordinary shares	32.3	(8)	(2)
Proceeds from new loans relating to infrastructure investments assets	33.3	6	6
Repayments of:			
– loans – infrastructure investments	33.3	(4)	(48)
– loans – other	33.3	(36)	(15)
Redemption of preference shares	31.2	(112)	–
Repayment of lease liabilities	28	(58)	(45)
Ordinary dividends paid	13	–	(36)
Other dividends paid – non-controlling interest		–	(4)
Interest paid – infrastructure investments		(12)	(13)
Interest paid – other		(23)	(23)
Preference dividends paid		(6)	(12)
Net cash used in financing activities		(253)	(192)
Net increase in cash and cash equivalents		28	132
Effects of exchange rate changes		(14)	(15)
Cash and cash equivalents at beginning of year		778	661
Cash and cash equivalents at end of year	33.2	792	778

Commentary on the Group Statement of Cash Flows*

Cash and cash equivalents increased during the year to £792m. The Group generated cash from operating activities in the year of £274m compared to £211m in the prior year.

Background

The Group Statement of Cash Flows shows the cash flows from operating, investing and financing activities during the year.

Working capital

Working capital includes: inventories; contract assets and liabilities; trade and other receivables; trade and other payables; and provisions. Where the net working capital balance is in an asset position, i.e. the inventories and receivables balances are greater than the payables and provisions, this is referred to as unfavourable/positive working capital. Where this is not the case, this is referred to as favourable/negative working capital.

Cash used in operations

Cash inflow from operations of £276m (2019: £212m) comprised a profit from operations of £63m (2019: £159m) and a working capital inflow of £167m (2019: £32m) and includes the following significant adjustment items: share of results of joint ventures and associates £38m (2019: £66m); depreciation charges £82m (2019: £74m); and pension payments including deficit funding £18m (2019: £33m).

Working capital movements

The movement of the individual working capital balances on the balance sheet will not be reflective of the underlying movement of working capital due to the balance sheet being affected by foreign currency movements and disposals.

Working capital movements are disclosed in Note 33.1.

In 2020, the Group's working capital position resulted in an inflow of £167m (2019: £32m). The strong performance was underpinned by movements in net contract assets which benefited from a number of settlements during the year, both in the US and UK (including the Aberdeen Western Peripheral Route (AWPR) contract) and the mobilisation of a number of highways projects in the US. The working capital outflow from trade and other payables, partly offset by an inflow from trade and other receivables, was a result of the timing of payments at year end.

Cash flows from investing activities

The Group received dividends of £50m (2019: £95m) from joint ventures and associates during the year.

During the year, the Group incurred additional spend on intangible assets of £33m (2019: £62m) which related principally to the construction spend on the University of Sussex student accommodation.

Due to the COVID-19 pandemic, the Group suspended its programme for the disposal of infrastructure investment assets. As such, the Group did not receive any proceeds from disposals made in the year (2019: £169m).

The Group continued to invest in its joint ventures and associates, contributing £25m in the year to assets within these investments (2019: £58m).

Cash flows from financing activities

On 1 July 2020, the Group redeemed in full its preference shares resulting in a cash outflow of £112m. Preference dividends of £6m (2019: £12m) were paid in the year.

On 5 March 2020, the Group also repaid the second tranche of its US private placement loan notes which amounted to US\$46m (£36m).

In October 2020, the Group agreed a one-year extension to its committed bank facility, which will now expire in October 2023. A further one-year extension option through to October 2024 remains available to the Group, subject to lenders' approval. This facility was undrawn at 31 December 2020.

Interest payments amounted to £35m (2019: £36m) during the year, of which £12m (2019: £13m) related to infrastructure investments, £11m (2019: £12m) related to the US private placement, £6m (2019: £6m) related to the interest paid on lease liabilities and £6m (2019: £5m) related to other finance charges.

* The commentary is unaudited and forms part of the Chief Financial Officer's review on pages 84 to 87.

1 Basis of accounting

Going concern

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

Other than the uncertainty of the ongoing effects of the COVID-19 outbreak on the Group's financial performance and cash flows, the key financial risk factors for the Group remain largely unchanged. The Group's principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 94 to 101.

The Group's US private placement and committed bank facility contain certain financial covenants, such as the ratio of the Group's EBITDA to its net debt which needs to be less than 3.0 and the ratio of its EBITA to net borrowing costs which needs to be in excess of 3.0. These covenants are tested on a rolling 12-month basis as at the June and December reporting dates. At 31 December 2020, both these covenants were passed as the Group had net cash and net interest income from a covenant test perspective.

The Directors have carried out an assessment on the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts based on the Group's Three Year Plan which reflects the estimated impact of COVID-19 on each of the Group's operations. The Directors have also considered the strength of the Group's order book which amounted to £16.4bn at 31 December 2020 and will provide a pipeline of secured work over the going concern assessment period. These base case projections indicate that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the going concern assessment period.

Having repaid US\$46m of its US private placement notes on maturity in March 2020 and redeemed its preference shares in full for £112m in July 2020, the Group does not have any debt repayment obligations in the going concern assessment period. US\$259m of its US private placement notes remain outstanding, with the next tranche of US\$209m being due in March 2023 and the final tranche of US\$50m being due in March 2025. The Group does not have any other debt apart from these US private placement notes and non-recourse borrowings ringfenced within certain infrastructure investment companies. The Group's £375m committed bank facility, which was undrawn throughout the year ended 31 December 2020, remains fully available to the Group until October 2023, with a one-year extension option through to October 2024 available to the Group subject to lenders' consent.

The Directors have stress-tested the Group's base case projections of both cash and profit against key sensitivities which could materialise as a result of adverse changes in the economic environment including COVID-19 and a deterioration in commercial or operational conditions. The Group has sensitised its projections against severe but plausible downside scenarios which include:

- » further restrictions for two months on a portion of the Group's activities in the UK and the US, mandated either by federal or local government authorities or by the Group's customers;
- » elimination of a portion of unsecured work assumed within the Group's base case projections and a delay of three months for any awarded but not yet contracted work;

- » a deterioration of contract judgements;
- » a reduction in productivity in the UK in 2021 resulting in cost increases for subcontract work and procurement of materials;
- » delay in payments received from a portion of non-government customers;
- » removal of dividends from Gammon; and
- » delay in the disposal of Investments assets by 12 months.

A downside scenario to reflect lagging effects from the end of the transition period following the UK's exit from the European Union was also overlaid in addition to the downsides modelled above.

In assessing the impact of these sensitivities, the Group has not assumed any potential assistance from the UK Government such as the Job Retention Scheme and tax deferrals.

In the severe but plausible downside scenarios modelled by the Directors, the Group continues to retain sufficient headroom on liquidity. Through these downside scenarios, the Group is still expected to be in a net cash position and to remain within its banking covenants through the going concern assessment period.

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

Basis of preparation

The annual financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (the Act) and in accordance with International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Group has adopted these standards for accounting periods beginning on 1 January 2020.

The financial statements have been prepared under the historical cost convention, except as described under Note 2.26. The functional and presentational currency of the Company and the presentational currency of the Group is sterling.

The separate financial statements of the Company are presented as required by the Act. The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS) 100 issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2020 the Company reported under FRS 101 as issued by the Financial Reporting Council.

Except as noted below, the Company's accounting policies are consistent with those described in the Group's consolidated financial statements. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, related party transactions and comparative information. Where required, equivalent disclosures are given in the consolidated financial statements.

In addition to the application of FRS 101, the Company has taken advantage of Section 408 of the Act and consequently its statement of comprehensive income (including the profit and loss account) is not presented as part of these financial statements.

2 Principal accounting policies

2.1 Accounting standards

Adoption of new and revised standards

The following accounting standards, interpretations and amendments have been adopted by the Group in the year ended 31 December 2020:

- » Amendments to the following standards:
 - » IAS 1 and IAS 8 Definition of Material
 - » IFRS 3 Business Combinations
 - » IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
 - » IFRS 16 Leases Covid-19-Related Rent Concessions
- » Amendments to References to the Conceptual Framework in IFRS Standards

These amended standards did not have a material effect on the Group.

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2020:

- » IFRS 17 Insurance Contracts
- » Amendments to the following standards:
 - » IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
 - » IAS 16 Property, Plant and Equipment
 - » IAS 37 Provisions, Contingent Liabilities and Contingent Assets
 - » IFRS 3 Business Combinations
 - » IFRS 4 Insurance Contracts – Deferral of IFRS 9
 - » IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- » Amendments to Annual Improvements 2018–2020

The Directors do not expect the standards above to have a material effect. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

2.2 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are consolidated from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling equity holders is stated at the non-controlling equity holders' proportion of the fair value of the assets and liabilities recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less direct costs of the transaction; and (ii) the previous carrying amount of the assets (including goodwill) less liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under

IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained earnings).

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its individual assets and obligations for its individual liabilities.

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control or joint control.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return. Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Joint operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

2 Principal accounting policies continued

2.3 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Significant exchange rates used in the preparation of these financial statements are shown in Note 3.

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date. Currency translation differences arising are transferred to the Group's foreign currency translation reserve and are recognised in the income statement on disposal of the underlying investment.

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward foreign exchange contracts. Refer to Note 2.26(c) for details of the Group's accounting policies in respect of such derivative financial instruments.

2.4 Revenue recognition

The Group recognises revenue when it transfers control over a product or service to its customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Where consideration is not specified within the contract and is therefore subject to variability, the Group estimates the amount of consideration to be received from its customer. The consideration recognised is the amount which is highly probable not to result in a significant reversal in future periods.

Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

The Group's activities are wide ranging, and as such, depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Group will account for revenue over time and at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

Revenue is recognised as follows:

- » revenue from construction and services activities is recognised over time and the Group uses the input method to measure progress of delivery;
- » revenue from manufacturing activities is recognised at a point in time when title has passed to the customer; and
- » dividend income in the parent company is recognised when the equity holder's right to receive payment is established.

2.5 Construction and services contracts

When the outcome of individual contracts can be estimated reliably, contract revenue is recognised by reference to the measure of progress at the reporting date using the input method. Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract.

Estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the

end of the project. The estimated final out-turns on contracts are continuously reviewed, and in certain limited cases, recoveries from insurers are assessed, and adjustments made where necessary.

No margin is recognised until the outcome of the contract can be estimated with reasonable certainty. Provision is made for all known or expected losses on individual contracts once such losses are foreseen.

Revenue in respect of variations to contracts and incentive payments is recognised when there is an enforceable right to payment and it is highly probable it will be agreed by the customer. Variable consideration is assessed on a contract by contract basis according to the facts, circumstances and terms of each project and only recognised to the extent that it is highly probable not to significantly reverse in the future. Revenue in respect of claims is recognised only if it is highly probable not to reverse in future periods. Profit for the year includes the benefit of claims settled in the year to the extent not previously recognised on contracts completed in previous years.

2.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision maker and therefore the segmental disclosures provided in Note 5 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into three reportable segments which reflect the nature of the services provided by the Group. A description of each reportable segment is provided in Note 5. Further information on the business activities of each reportable segment is set out on pages 32 to 43.

Operating segments are aggregated on the basis of the nature of the services provided and the manner in which returns are earned by the Group. Further information on the nature of services provided within each segment is included in Note 4.

Working capital is the balance sheet measure reported to the chief operating decision maker. The profitability measure used to assess the performance of the Group is underlying profit from operations.

Segment results represent the contribution of the different segments after the allocation of attributable corporate overheads. Transactions between segments are conducted at arm's length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable. Non-recourse net borrowings are directly attributable to Infrastructure Investments and therefore not included within Corporate activities.

Major customers are defined as customers contributing more than 10% of the Group's external revenue.

2.7 Pre-contract bid costs and recoveries

Pre-contract costs are expensed as incurred until preferred bidder status is awarded at which point further costs are capitalised as there is a high probability that the Group would be able to recover these costs. Amounts subsequently recovered in respect of pre-contract costs that have been written off before preferred bidder status was awarded are recognised in full in the income statement when they are received in cash.

2.8 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

2 Principal accounting policies continued

2.9 Investment income and finance costs

Interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method. Finance costs also include interest cost on the discount unwind of lease liabilities and impairment of loans to joint ventures and associates.

2.10 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be presented separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will not affect the absolute amount of the results for the period and the trend of results. The Group's underlying results exclude non-underlying items.

Non-underlying items include:

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

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

These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group. Refer to Note 10.

2.11 Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also accounted for within equity. Current tax is based on the profit for the year.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.12 Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and other businesses, joint ventures and associates and represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written off or discount arising on acquisition credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation charges in respect of software and Infrastructure Investments intangibles are included in underlying items.

c) Research and development

Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure associated with bringing the asset to its operating location and condition.

2.14 Investment properties

The Group classifies land and buildings which it holds to generate capital appreciation and/or to earn rental income as investment properties. The Group has chosen to state its investment properties at cost less accumulated depreciation and impairment losses. The Group depreciates its investment properties over 25 years. Land is not depreciated.

2.15 Leasing

As a lessee, the Group assesses whether a contract is, or contains, a lease at the inception of a contract. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess if a lease exists, the Group assesses whether: (i) the contract involves the use of an identified asset; (ii) the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the lease term; and (iii) the Group has the right to direct the use of the asset. In order to determine if the contract involves the use of an identified asset, the Group exercises judgement to assess if the supplier has a substantive substitution right over the asset. An asset is not identified if it has been determined that the supplier has substantive substitution rights.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated over the lease term. The lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group has elected to apply the practical expedient which allows the Group to use a single discount rate for a portfolio of leases with similar characteristics.

2 Principal accounting policies continued

2.15 Leasing continued

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of less than 12 months and leases of low value assets. Instead, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.16 Impairment of assets

Assets that have an indefinite useful life (such as goodwill arising on acquisitions) are reviewed at least annually for impairment. Other intangible assets, property, plant and equipment and right-of-use assets are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

2.17 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments in mutual funds are measured at fair value. Gains and losses arising from changes in the fair value of these investments are recognised in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Investments that are held until they reach maturity are measured at amortised cost.

Investments in subsidiaries are recognised and held at cost and subsequently tested for impairment on an annual basis. Where an impairment is identified, a provision for impairment is recorded against the carrying value of the investment.

2.18 Government grants

Government grants are recognised when there is a reasonable assurance that the Group will be able to comply with the conditions attached to the grant and that the grant will be received. Grants are recognised in the income statement on a systematic basis as a deduction from the related category of cost in the periods in which the expenses are recognised.

2.19 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost includes an appropriate proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.20 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts and expected credit losses.

2.21 Trade payables

Trade payables are not interest bearing and are stated at cost.

2.22 Provisions

Provisions for insurance liabilities retained in the Group's captive insurance arrangements, legal claims, defects and warranties, environmental restoration, onerous leases, and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability.

Provisions are recognised when: (i) the Group has a present legal or constructive obligation as a result of a past event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount of the obligation can be estimated reliably.

2.23 Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Premiums payable on settlement or redemption and direct issue costs are included in the carrying amount of the instrument and are charged to the income statement on an accruals basis using the effective interest method together with the interest payable.

2.24 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution retirement and other long-term employee benefit schemes, the largest of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit pension schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligations, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the scheme assets. Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

Any surplus or deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

2.25 Share-based payments

Employee services received in exchange for the grant of equity-settled and cash-settled awards are charged to the income statement on a straight-line basis over the vesting period, based on the fair values of the awards at the date of grant.

The credits in respect of the amounts charged are included within separate reserves in equity until such time as the awards are exercised, when the shares are transferred or cash payments made to employees.

2.26 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Classification of financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2 Principal accounting policies continued

b) Cumulative convertible redeemable preference shares

The Company's cumulative convertible redeemable preference shares 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 the fair value assigned to the liability component, representing the embedded option to convert the liability component into the Company's ordinary shares, is included in equity.

The interest expense on the liability component is calculated by applying applicable market interest rates for similar non-convertible debt prevailing at the dates of issue to the liability component of the preference shares. The difference between this amount and the dividend 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 payable.

c) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 40.

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently re-measured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (OCI). Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded in the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the balance sheet are recognised in the income statement as they arise.

d) PPP concession companies

Assets constructed by PPP concession companies are classified principally as financial assets measured at fair value through OCI.

In the construction phase, income is recognised by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, income is recognised by allocating a proportion of total cash receivable over the life of the project to service costs by means of a deemed rate of return on those costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method, giving rise to interest income.

Due to the nature of the contractual arrangements, the projected cash flows can be estimated with a high degree of certainty.

In the construction phase, the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in OCI. Amounts originally recognised in OCI are transferred to the income statement upon disposal of the asset.

2.27 Judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may differ from these judgements, estimates and assumptions.

The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group as at 31 December 2020 are discussed below.

a) Revenue and margin recognition (judgement and estimate)

The Group's revenue recognition and margin recognition policies, which are set out in Notes 2.4 and 2.5, are central to how the Group values the work it has carried out in each financial year.

These policies require forecasts to be made of the outcomes of long-term construction services and support services contracts, which require both estimates and judgements to be made of both cost and income recognition on each contract. On the cost side, estimates of forecasts are made on the final out-turn of each contract in addition to potential costs to be incurred for any maintenance and defects liabilities. On the income side, estimates and judgements are made on variations to consideration which typically include variations due to changes in scope of work, recoveries of claim income from customers, and potential liquidated damages that may be levied by customers. Judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. In the current year, the Group has also considered the effects of the COVID-19 pandemic on judgements and estimates applied in this area. The Group continues to regularly assess these judgements and estimates including considerations of the ongoing impact of the pandemic.

As at 31 December 2020, the Group's contract assets, contract liabilities and contract provisions amounted to £288m, £526m and £279m respectively as set out in Notes 23 and 26. The Group has considered the nature of the estimates involved in deriving these balances and concluded that it is possible, on the basis of existing knowledge, that outcomes within the next financial year may be different from the Group's assumptions applied as at 31 December 2020 and could require a material adjustment to the carrying amounts of these assets and liabilities in the next financial year. However, due to the level of uncertainty, combination of cost and income variables and timing across a large portfolio of contracts (in excess of 1,000) at different stages of their contract life, it is impracticable to provide a quantitative analysis of the aggregated judgements that are applied at a portfolio level.

Within this portfolio, there are a limited number of long-term contracts where the Group has incorporated significant judgements over contractual entitlements relating to recoveries of claim income from customers and liquidated damages levied by the customer. These recoveries have been recognised at the amount that is considered highly probable not to significantly reverse. However, there are a host of factors affecting potential outcomes in respect of these entitlements which could result in a range of reasonably possible outcomes on these contracts in the following financial year, ranging from a gain of £35m to a loss of £20m. The Directors have assessed the range of reasonably possible outcomes on these limited number of contracts based on facts and circumstances that were present and known at the balance sheet date. As with any contract applying long-term contract accounting, these contracts are also affected by a variety of uncertainties that depend on future events, and so often need to be revised as contracts progress.

2 Principal accounting policies continued

2.27 Judgements and key sources of estimation uncertainty continued

b) Taxation (estimate)

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is probable that future taxable profit will arise against which the temporary differences will be utilised. Determining the extent to which tax losses are recognised requires an estimation of the likely timing and level of future taxable profits.

At 31 December 2020, a £100m increase/decrease in forecast future taxable profits would lead to a £10m increase/£10m decrease in deferred tax assets and an equivalent credit/debit in the income statement.

c) Non-underlying items (judgement)

Non-underlying items are items of financial performance which the Group believes should be presented separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying items or non-underlying items requires judgement.

A total non-underlying profit after tax of £5m was credited (2019: £53m charged) to the income statement for the year ended 31 December 2020. Refer to Note 10.

d) Financial assets measured at fair value through OCI (judgement and estimate)

At 31 December 2020, £1,718m (2019: £1,741m) of PPP financial assets constructed by the Group's subsidiary, joint venture and associate companies were classified as financial assets measured at fair value through OCI. Judgement is required in determining the appropriate classification of these assets and hence the accounting treatment required. In the operational phase the fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates is used from 1.2% to 7.9% (2019: 1.7% to 9.4%), which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. These represent key sources of estimation uncertainty. Refer to Note 40.

A £13m gain was taken to other comprehensive income in 2020 (2019: £27m gain) and a cumulative fair value gain of £314m had arisen on these financial assets as a result of market-related movements in the fair value of these financial assets at 31 December 2020 (2019: £301m gain).

e) Provisions (judgement and estimate)

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The range of potential outcomes on contract provisions as a result of uncertain future events could result in a materially positive or negative swing to profitability and cash flow.

The Group has considered the nature of these estimates and concluded that it is possible, on the basis of existing knowledge, that outcomes within the next financial year may be different from the Group's assumptions and judgements applied as at 31 December 2020 and could require a material adjustment to the carrying amounts of assets and liabilities in the next financial year. However, due to the level of uncertainty, combination of variables and timing across a large portfolio of complex contracts at different stages of their contract life, it is impracticable to provide a quantitative analysis of the aggregated judgements that are applied at a portfolio level.

To the extent that the sensitivities disclosed in Note 2.27(a) affects a loss-making contract, this will have an impact on the Group's provisions in the next financial year.

f) Retirement benefit obligations (judgement and estimate)

Details of the Group's defined benefit pension schemes are set out in Note 30, including tables showing the sensitivity of the pension scheme obligations and assets to different actuarial assumptions.

At 31 December 2020, the net retirement benefit assets recognised on the Group's balance sheet were £89m (2019: £133m). The effects of changes in the actuarial assumptions underlying the schemes' obligations and discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2020, the Group recognised net actuarial losses of £62m (2019: £45m gains) in OCI, including its share of the actuarial gains and losses arising in joint ventures and associates.

Any surplus or deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

3 Exchange rates

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

Average rates

£1 buys	2020	2019	Change
US\$	1.29	1.28	0.8%
HK\$	10.02	10.03	(0.1)%
Euro	1.13	1.14	(0.9)%

Closing rates

£1 buys	2020	2019	Change
US\$	1.37	1.32	3.8%
HK\$	10.58	10.28	2.9%
Euro	1.11	1.17	(5.1)%

4 Revenue

4.1 Nature of services provided

4.1.1 Construction Services

The Group's Construction Services segment encompasses activities in relation to the physical construction of assets provided to public and private customers. Revenue generated in this segment is measured over time as control passes to the customer as the asset is constructed. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's end of job forecast (the input method). Payment terms are based on a schedule of value that is set out in the contract and fairly reflect the timing and performance of service delivery. Contracts with customers are typically accounted for as one performance obligation (PO).

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction services, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit-out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However for certain types of contracts, services relating to fit-out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small-scale infrastructure works 24 to 60 months for large-scale complex construction	The Group provides construction services to three main types of infrastructure assets: highways, railways and other large-scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK, US and Hong Kong. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway construction services primarily in the UK, US and Hong Kong include design and managing the construction of railway systems delivering major multi-disciplinary projects, track work, electrification and power supply. The Group serves both public and private railways including high-speed passenger railways, freight and mixed traffic routes, dense commuter networks, metros and light rail. Other infrastructure assets include construction, design and build services on large-scale complex assets predominantly servicing the waste, water and energy sectors. Contracts entered into relating to these infrastructure assets can take the form of fixed price, cost-plus or target-cost contracts with shared pain/gain mechanisms. Contract lengths vary according to the size and complexity of the asset build and can range from a few months for small-scale infrastructure works to four to five years for large-scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses the maintenance element as a separate PO and revenue from this PO is recognised in the Support Services segment. Refer to Note 4.1.2.

4.1.2 Support Services

The Group's work in this segment supports existing assets through maintaining, upgrading and managing services across utilities and infrastructure assets. Revenue generated in this segment is measured over time as control passes to the customer as and when services are provided. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's end of job forecast (the input method). Payments are structured as milestone payments set out in the respective contracts.

Types of assets	Nature, timing of satisfaction of performance obligations and significant payment terms
Utilities	Within the Group's services contracts, the Group provides support services to various types of utility assets. For contracts servicing utility assets, the Group provides services such as renewal, upgrade and expansion of underground main pipelines for assets within the gas network. Within the water network, services include clean and waste water mains renewal and repair, metering and treatment facilities. Contracts are typically delivered through framework agreements which are normally granted on a regulatory cycle period of five years for water contracts and eight years for gas contracts. Individual instructions delivered under the framework agreements can vary in size and duration but usually last between one to six weeks for smaller projects or up to one to two years for major projects. Each instruction is accounted for as a separate PO. Payments are normally set according to a schedule of rates or are cost reimbursable and may include a pain/gain element. For contracts servicing power transmission and distribution assets, the Group constructs and maintains electricity networks, including replacement or new build of overhead lines, underground cabling, cable tunnels and offshore windfarm maintenance. Contracts entered into are normally fixed-price and contract lengths can vary from 12 to 36 months, and up to 20 years for offshore windfarm maintenance contracts. Each contract is normally assessed to contain one PO. However, where a contract contains both a construction phase and a maintenance phase, these are assessed to contain two separate POs.
Infrastructure	The Group provides maintenance, asset and network management and design services in respect of highways, railways and other publicly available assets. The customer in this area of the Group is mainly government bodies. Types of contract include a fixed schedule of rates, fixed price, target cost arrangements and cost-plus. Contract terms range from 1 to 25 years. Where contracts include a lifecycle element, this is accounted for as a separate PO and recognised when the work is delivered.

4 Revenue continued

4.1 Nature of services provided continued

4.1.3 Infrastructure Investments

The Group invests directly in a variety of assets, predominantly consisting of infrastructure assets where there are opportunities to manage the asset upon completion of construction. The Group also invests in real estate type assets, in particular private residential and student accommodation assets. Revenue generated in this segment is from the provision of construction, maintenance and management services and also from the recognition of rental income. The Group's strategy is to hold these assets until optimal values are achieved through disposal of mature assets.

Types of services	Nature, timing of satisfaction of performance obligations and significant payment terms
Service concessions	The Group operates a UK and North America portfolio of service concession assets comprising of assets in the roads, healthcare, student accommodation, biomass and waste and offshore transmission sectors. The Group accounts for these assets under IFRIC 12 Service Concession Arrangements. Where the Group constructs and maintains these assets, the two services are deemed to be separate performance obligations and accounted for separately. If the maintenance phase includes a lifecycle element, this is considered to be a separate PO. Contract terms can be up to 40 years. The Group recognises revenue over time using the input method. Consideration is paid through a fixed unitary payment charge spread over the life of the contract. Revenue from this service is presented across Buildings, Infrastructure or Utilities in Note 4.2.
Management services	The Group provides real estate management services such as property development and asset management services. Contract terms can be up to 50 years. The Group recognises revenue over time as and when service is delivered to the customer. Revenue from this service is presented within Buildings in Note 4.2.
Housing development	The Group also develops housing units on land that is owned by the Group. Revenue is recognised on the sale of individual units at the point in time when control of the asset is transferred to the purchaser. This is deemed to be when an unconditional sale is achieved. Revenue from this service is presented within Buildings in Note 4.2.

4.2 Disaggregation of revenue

The Group presents a disaggregation of its underlying revenue according to the primary geographical markets in which the Group operates as well as the types of assets serviced by the Group. The nature of the various services provided by the Group is explained in Note 4.1. This disaggregation of underlying revenue is also presented according to the Group's reportable segments as described in Note 5.

For the year ended 31 December 2020

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	2,165	3,789	1,010	6,964
	Group revenue	2,165	3,776	25	5,966
Support Services	Revenue including share of joint ventures and associates	1,034	–	33	1,067
	Group revenue	1,034	–	3	1,037
Infrastructure Investments	Revenue including share of joint ventures and associates	178	366	12	556
	Group revenue	76	236	3	315
Total revenue	Revenue including share of joint ventures and associates	3,377	4,155	1,055	8,587
	Group revenue	3,275	4,012	31	7,318

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	4,138	2,190	613	23	6,964
	Group revenue	3,603	1,733	607	23	5,966
Support Services	Revenue including share of joint ventures and associates	–	492	565	10	1,067
	Group revenue	–	492	535	10	1,037
Infrastructure Investments	Revenue including share of joint ventures and associates	367 ⁺	172	14	3	556
	Group revenue	311 ⁺	2	–	2	315
Total revenue	Revenue including share of joint ventures and associates	4,505	2,854	1,192	36	8,587
	Group revenue	3,914	2,227	1,142	35	7,318

Timing of revenue recognition		Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time		6,958	1,065	535	8,558
At a point in time		6	2	21	29
Revenue including share of joint ventures and associates		6,964	1,067	556	8,587
Over time		5,960	1,035	294	7,289
At a point in time		6	2	21	29
Group revenue		5,966	1,037	315	7,318

+ Includes rental income of £28m including share of joint ventures and associates or £9m excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the year ended 31 December 2019

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	2,189	3,753	916	6,858
	Group revenue	2,189	3,738	23	5,950
Support Services	Revenue including share of joint ventures and associates	971	–	52	1,023
	Group revenue	971	–	20	991
Infrastructure Investments	Revenue including share of joint ventures and associates	193	314	17	524
	Group revenue	116	252	3	371
Total revenue	Revenue including share of joint ventures and associates	3,353	4,067	985	8,405
	Group revenue	3,276	3,990	46	7,312

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	4,427	1,886	541	4	6,858
	Group revenue	3,781	1,626	539	4	5,950
Support Services	Revenue including share of joint ventures and associates	–	463	551	9	1,023
	Group revenue	–	463	519	9	991
Infrastructure Investments	Revenue including share of joint ventures and associates	409 ⁺	89	23	3	524
	Group revenue	368 ⁺	2	–	1	371
Total revenue	Revenue including share of joint ventures and associates	4,836	2,438	1,115	16	8,405
	Group revenue	4,149	2,091	1,058	14	7,312

Timing of revenue recognition		Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time		6,848	1,020	503	8,371
At a point in time		10	3	21	34
Revenue including share of joint ventures and associates		6,858	1,023	524	8,405
Over time		5,940	988	350	7,278
At a point in time		10	3	21	34
Group revenue		5,950	991	371	7,312

⁺ Includes rental income of £27m including share of joint ventures and associates or £13m excluding share of joint ventures and associates.

4.3 Transaction price allocated to the remaining performance obligations (excluding joint ventures and associates)

	2021 £m	2022 £m	2023 onwards £m	Total £m
Construction Services	4,670	2,384	3,905	10,959
Support Services	766	457	1,400	2,623
Infrastructure Investments	135	32	1,489	1,656
Total transaction price allocated to remaining performance obligations	5,571	2,873	6,794	15,238

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earned by the Group for distinct goods and services which the Group has promised to deliver to its customers. These include promises which are partially satisfied at the period end or those which are unsatisfied but which the Group has committed to providing. In deriving this transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future.

The transaction price above does not include any estimated revenue to be earned on framework contracts for which a firm order or instruction has not been received from the customer.

5 Segment analysis

Reportable segments of the Group:

- » Construction Services – activities resulting in the physical construction of an asset;
- » Support Services – activities which support existing assets or functions such as asset maintenance and refurbishment; and
- » Infrastructure Investments – acquisition, operation and disposal of infrastructure assets such as roads, hospitals, student accommodation, military housing, offshore transmission networks, waste and biomass and other concessions. This segment also includes the Group's housing development division.

5.1 Total Group

	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Income statement – performance by activity					
Revenue including share of joint ventures and associates ¹	6,964	1,067	556	–	8,587
Share of revenue of joint ventures and associates ¹	(998)	(30)	(241)	–	(1,269)
Group revenue ¹	5,966	1,037	315	–	7,318
Group operating profit/(loss) ¹	–	45	–	(32)	13
Share of results of joint ventures and associates ¹	29	1	8	–	38
Profit/(loss) from operations ¹	29	46	8	(32)	51
Non-underlying items:					
– amortisation of acquired intangible assets	(1)	–	(5)	–	(6)
– other net operating expenses	13	4	–	1	18
	12	4	(5)	1	12
Profit/(loss) from operations	41	50	3	(31)	63
Investment income					38
Finance costs					(53)
Profit before taxation					48

¹ Before non-underlying items (Notes 2.10 and 10).

	Construction Services 2019 £m	Support Services 2019 £m	Infrastructure Investments 2019 £m	Corporate activities 2019 £m	Total 2019 £m
Income statement – performance by activity					
Revenue including share of joint ventures and associates ¹	6,858	1,023	524	–	8,405
Share of revenue of joint ventures and associates ¹	(908)	(32)	(153)	–	(1,093)
Group revenue ¹	5,950	991	371	–	7,312
Group operating profit/(loss) ¹	96	48	44	(33)	155
Share of results of joint ventures and associates ¹	29	(1)	38	–	66
Profit/(loss) from operations ¹	125	47	82	(33)	221
Non-underlying items:					
– amortisation of acquired intangible assets	(1)	–	(5)	–	(6)
– other non-underlying items	2	(58)	–	–	(56)
	1	(58)	(5)	–	(62)
Profit/(loss) from operations	126	(11)	77	(33)	159
Investment income					34
Finance costs					(55)
Profit before taxation					138

¹ Before non-underlying items (Notes 2.10 and 10).

	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Assets and liabilities by activity					
Contract assets	172	91	25	–	288
Contract liabilities – current	(418)	(105)	(1)	–	(524)
Inventories	51	34	29	–	114
Trade and other receivables – current	683	114	35	6	838
Trade and other payables – current	(1,120)	(216)	(38)	(29)	(1,403)
Provisions – current	(165)	(7)	(15)	(13)	(200)
Working capital*	(797)	(89)	35	(36)	(887)
Total assets	2,107	493	1,169	916	4,685
Total liabilities	(2,035)	(405)	(463)	(437)	(3,340)
Net assets	72	88	706	479	1,345

* Includes non-operating items and current working capital.

5 Segment analysis continued

5.1 Total Group continued

	Construction Services 2019 £m	Support Services 2019 £m	Infrastructure Investments 2019 £m	Corporate activities 2019 £m	Total 2019 £m
Assets and liabilities by activity					
Contract assets	264	90	23	–	377
Contract liabilities – current	(392)	(74)	(3)	–	(469)
Inventories	60	8	33	–	101
Trade and other receivables – current	800	88	43	8	939
Trade and other payables – current	(1,249)	(190)	(47)	(34)	(1,520)
Provisions – current	(111)	(5)	(13)	(24)	(153)
Working capital*	(628)	(83)	36	(50)	(725)
Total assets	2,341	501	1,149	850	4,841
Total liabilities	(2,059)	(335)	(473)	(597)	(3,464)
Net assets	282	166	676	253	1,377

* Includes non-operating items and current working capital.

	Construction Services 2020 £m	Support Services 2020 £m	Infrastructure Investments 2020 £m	Corporate activities 2020 £m	Total 2020 £m
Other information					
Capital expenditure on property, plant and equipment (Note 16)	15	12	–	6	33
Capital expenditure on intangible assets (Note 15)	–	–	33	–	33
Depreciation (Note 16, Note 17 and Note 18)	36	33	1	12	82

	Construction Services 2019 £m	Support Services 2019 £m	Infrastructure Investments 2019 £m	Corporate activities 2019 £m	Total 2019 £m
Other information					
Capital expenditure on property, plant and equipment (Note 16)	11	8	–	1	20
Capital expenditure on intangible assets (Note 15)	–	4	58	–	62
Depreciation (Note 16, Note 17 and Note 18)	25	35	4	10	74
Gain on disposals of interests in investments (Note 34.3)	–	–	40	–	40
Gain on disposals of interests in investments within joint ventures and associates (Note 34.3)	–	–	29	–	29

	United Kingdom 2020 £m	United States 2020 £m	Rest of world 2020 £m	Total 2020 £m
Performance by geographic destination				
Revenue including share of joint ventures and associates ¹	3,377	4,155	1,055	8,587
Share of revenue of joint ventures and associates ¹	(102)	(143)	(1,024)	(1,269)
Group revenue ¹	3,275	4,012	31	7,318

¹ Before non-underlying items (Notes 2.10 and 10).

	United Kingdom 2019 £m	United States 2019 £m	Rest of world 2019 £m	Total 2019 £m
Performance by geographic destination				
Revenue including share of joint ventures and associates ¹	3,353	4,067	985	8,405
Share of revenue of joint ventures and associates ¹	(77)	(77)	(939)	(1,093)
Group revenue ¹	3,276	3,990	46	7,312

¹ Before non-underlying items (Notes 2.10 and 10).

Major customers

Included in Group revenue are revenues of £1,577m (2019: £1,627m) from the US Government and £1,267m (2019: £1,210m) from the UK Government, which are the Group's two largest customers. These revenues are included in the results across all three reported segments.

5 Segment analysis continued

5.2 Infrastructure Investments

	Group 2020 £m	Share of joint ventures and associates (Note 19.2)* 2020 £m	Total 2020 £m	Group 2019 £m	Share of joint ventures and associates (Note 19.2)* 2019 £m	Total 2019 £m
Underlying profit from operations¹						
UK [^]	2	(6)	(4)	4	(4)	–
North America	12	14	26	18	13	31
Gain on disposals of interests in investments	–	–	–	40	29	69
	14	8	22	62	38	100
Bidding costs and overheads	(14)	–	(14)	(18)	–	(18)
	–	8	8	44	38	82
Net assets/(liabilities)						
UK [^]	458	264	722	417	278	695
North America	107	194	301	105	178	283
	565	458	1,023	522	456	978
Non-recourse borrowings net of associated cash and cash equivalents (Note 27)	(317)	–	(317)	(302)	–	(302)
Total Infrastructure Investments net assets	248	458	706	220	456	676

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.

[^] Including Ireland. 2019 results include Singapore and Ireland.

¹ Before non-underlying items (Notes 2.10 and 10).

6 Profit/(loss) from operations

6.1 Profit/(loss) from operations is stated after charging/(crediting)

	2020 £m	2019 £m
Depreciation of property, plant and equipment	24	28
Depreciation of right-of-use assets	56	45
Depreciation of investment properties	2	1
Amortisation of intangible assets	17	17
Amortisation of contract fulfilment assets	9	5
Net charge/(credit) of trade receivables impairment provision	9	(1)
Impairment of property, plant and equipment	–	8
Impairment of intangible assets	1	–
Profit on disposal of property, plant and equipment	(7)	(6)
Government grant income ^{&}	(27)	(3)
Cost of inventory recognised as an expense	98	93
Auditor's remuneration	4	3

& Additionally, the Group recorded its share of the joint venture's income in the year of £17m relating to the employment support scheme in Hong Kong (2019: Enil).

6.2 Analysis of auditor's remuneration

	2020 £m	2019 £m
Services as auditor to the Company	0.6	0.6
Services as auditor to Group subsidiaries	2.5	2.3
Total audit fees	3.1	2.9
Audit-related assurance fees	0.5	0.4
Other assurance fees	–	–
Total non-audit fees	0.5	0.4
Total fees in relation to audit and other services	3.6	3.3

7 Employee costs

7.1 Group

	2020 £m	2019 £m
Employee costs during the year		
Wages and salaries	1,181	1,150
Redundancy costs	10	9
Social security costs	94	92
Pension costs (Note 30)	57	55
Non-underlying GMP equalisation costs (Note 10.2.2)	3	–
Share-based payments (Note 35)	13	16
	1,358	1,322

7 Employee costs continued

7.1 Group continued

Average number of Group employees	2020 Number	2019 Number
Construction Services	12,795	12,080
Support Services	4,525	5,429
Infrastructure Investments	1,658	1,548
Corporate	135	140
	19,113	19,197

Detailed disclosures of items of remuneration, including those accruing under the Company's equity-settled share-based payment arrangements can be found within the Remuneration report on pages 134 to 150.

7.2 Company

The Company did not have any employees and did not incur any employee costs in the year (2019: £nil). Balfour Beatty Group Employment Ltd, which was established in February 2013, remains the employing entity for the Balfour Beatty Group's UK employees.

8 Investment income

	2020 £m	2019 £m
Subordinated debt interest receivable	25	20
Interest receivable on PPP financial assets (Note 21)	8	9
Other interest receivable and similar income	2	3
Net finance income on pension scheme assets and obligations (Note 30.2)	3	2
	38	34

9 Finance costs

	2020 £m	2019 £m
Non-recourse borrowings – bank loans and overdrafts	11	13
Preference shares – finance cost	6	12
– accretion	2	4
US private placement – finance cost	10	12
Interest on lease liabilities (Note 28)	6	6
Other interest payable – committed facilities	2	2
– letter of credit fees	2	3
– other finance charges	3	3
Impairment of loans to joint ventures and associates	11	–
	53	55

The impairment of loans to joint ventures and associates of £11m (2019: £nil) relates to expected credit loss assessments performed on the Group's investments in joint ventures and associates. £10m of this impairment relates to subordinated debt receivable from joint ventures and associates held within the Infrastructure Investments segment. Refer to Note 19.1.

10 Non-underlying items

	2020 £m	2019 £m
Items credited to/(charged against) profit		
10.1 Amortisation of acquired intangible assets	(6)	(6)
10.2 Other non-underlying items:		
– grant income received in relation to UK Job Retention Scheme	19	–
– loss arising from the recognition of GMP equalisation on the Group's pension schemes	(3)	–
– release of provision held for blacklisting claims	2	–
– impairment of goodwill relating to Gas & Water	–	(58)
– provision release relating to settlements of health and safety claims	–	2
Total other non-underlying items	18	(56)
Credited to/(charged against) profit before taxation	12	(62)
10.3 Tax (charge)/credit:		
– non-underlying (derecognition)/recognition of deferred tax assets in the UK	(6)	9
– tax on grant income received in relation to UK Job Retention Scheme	(4)	–
– tax on loss arising from the recognition of GMP equalisation on the Group's pension schemes	1	–
– tax on other items above	2	–
Total tax (charge)/credit	(7)	9
Credited to/(charged against) profit for the year	5	(53)

10.1 The amortisation of acquired intangible assets comprises: customer contracts £5m (2019: £5m); and customer relationships £1m (2019: £1m).

The charge was recognised in the following segments: Construction Services £1m (2019: £1m); and Infrastructure Investments £5m (2019: £5m).

10.2.1 During the year, the Group recognised grant income of £19m in respect of the UK Government's Job Retention Scheme (JRS) (2019: £nil).

This was a one-off temporary scheme which the Group has decided to voluntarily refund after the balance sheet date. This income has been presented within non-underlying items to avoid distorting the underlying performance of the Group. In line with this treatment, the Group will also present its voluntary refund of the grant income within non-underlying items in its results in 2021. Refer to Note 39.

The credit was recognised in the following segments: Construction Services £13m; Support Services £5m and Corporate £1m.

10 Non-underlying items continued

10.2.2 In 2020, the Group recognised additional retirement benefit liabilities of £3m in relation to Guaranteed Minimum Pension (GMP) equalisation following a further ruling which was published in November 2020. The judgement indicated that members who exercised their statutory right to transfer their benefits will be able to have a top-up payment made from their former scheme to the scheme to which they transferred their benefits. This follows the judgment on the Lloyds Banking Group High Court Hearing which was published on 26 October 2018, following which the Group recognised £28m of additional retirement benefit obligations within non-underlying items.

The charge was recognised in the following segments: Construction Services £2m; and Support Services £1m.

10.2.3 In 2020, the Group recognised a provision release of £2m relating to the resolution of disputes associated with blacklisting claims.

The credit of £2m was recognised in the Construction Services segment.

10.2.4 In 2019, following the Group's decision not to re-bid gas contracts under the RII-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts within this cash-generating unit (CGU), the Group reassessed the long-term outlook for its Gas & Water CGU. The assessment resulted in a full impairment of the goodwill attributable to this CGU, amounting to an impairment charge of £58m in 2019.

This charge was treated as a non-underlying item and was recognised in the Support Services segment.

10.2.5 In 2019, the Group recognised a provision release of £2m relating to the settlement of health and safety claims. These claims were previously included as part of the Group's overall reassessment of potential liabilities relating to historical health and safety breaches following new sentencing guidelines which was conducted in 2016. As a result of this reassessment, a non-underlying charge of £25m was recognised in the first half of 2016.

The credit of £2m was recognised in the Construction Services segment.

10.3.1 In previous periods, significant actuarial gains in the Group's main pension scheme, Balfour Beatty Pension Fund (BBPF), led to the recognition of deferred tax liabilities. This in turn led to the recognition of additional UK deferred tax assets in respect of tax losses which the Group recognised as non-underlying due to the size and nature of the credit. In 2020, actuarial losses in the BBPF resulted in the derecognition of UK deferred tax assets in respect of tax losses. Applying the same methodology used in previous periods, the Group recognised the associated £9m tax charge as a non-underlying item along with a £1m tax charge arising from certain of the actuarial losses in the Railways Pension Scheme. These charges have been partially offset by a deferred tax credit of £4m to restate previous deferred tax assets recognised through non-underlying items due to a tax rate change enacted in the UK during 2020. In 2019, actuarial gains in the BBPF resulted in a £9m tax credit in non-underlying items resulting from the recognition of UK deferred tax assets in respect of tax losses.

The £9m tax charge in non-underlying items in 2020 arising from the BBPF actuarial losses has increased by £25m as a result of the adjustment to actuarial losses arising from the changes to the mortality assumptions disclosed in Note 30.2.

10.3.2 As explained in Note 10.2.1, non-underlying income of £19m was recognised in 2020 in relation to grant income received under the UK Government's JRS. This income gave rise to a tax charge of £4m (2019: £nil).

10.3.3 As explained in Note 10.2.2, a non-underlying charge of £3m was recognised in 2020 to take into account the effect of GMP equalisation. This charge gave rise to a deferred tax credit of £1m (2019: £nil).

10.3.4 The remaining non-underlying items charged against the Group's operating profit gave rise to a tax credit of £2m (mainly on amortisation of acquired intangible assets) (2019: £nil after prior year adjustments).

11 Income taxes

11.1 Income tax charge/(credit)

	Underlying items ¹ 2020 £m	Non-underlying items (Note 10) 2020 £m	Total 2020 £m	Total 2019 £m
Total UK tax	9	9	18	(20)
Total non-UK tax	2	(2)	–	25
Total tax charge*	11	7	18	5
UK current tax				
– current tax	(4)	4	–	–
– adjustments in respect of previous periods	(1)	–	(1)	–
	(5)	4	(1)	–
Non-UK current tax				
– current tax	3	–	3	6
– adjustments in respect of previous periods	(2)	–	(2)	(3)
	1	–	1	3
Total current tax	(4)	4	–	3
UK deferred tax				
– origination and reversal of temporary differences	22	9	31	(25)
– UK corporation tax rate change	(10)	(4)	(14)	4
– adjustments in respect of previous periods	2	–	2	1
	14	5	19	(20)
Non-UK deferred tax				
– origination and reversal of temporary differences	4	(1)	3	24
– adjustments in respect of previous periods	(3)	(1)	(4)	(2)
	1	(2)	(1)	22
Total deferred tax	15	3	18	2
Total tax charge*	11	7	18	5

x Excluding joint ventures and associates.

1 Before non-underlying items (Notes 2.10 and 10).

11 Income taxes continued

11.1 Income tax charge/(credit) continued

The Group has recognised a £7m tax charge (2019: £9m credit) within non-underlying items in the year. Refer to Notes 10.3.1 to 10.3.4.

The Group tax charge excludes amounts for joint ventures and associates (refer to Note 19.2), except where tax is levied at the Group level.

The Group's underlying tax charge for 2020 includes a derecognition of deferred tax assets for some of the Group's previously recognised UK tax losses due to re-profiling of future UK profits.

In addition to the Group tax charge, tax of £3m is credited (2019: £14m charged) directly to other comprehensive income, comprising: a tax credit of £5m for subsidiaries (2019: £8m charge); and a tax charge in respect of joint ventures and associates of £2m (2019: £6m charge). Refer to Note 32.1.

11.2 Income tax reconciliation

	2020 £m	2019 £m
Profit before taxation including share of results from joint ventures and associates	48	138
Less: share of results of joint ventures and associates	(38)	(66)
Profit before taxation	10	72
(Less)/add: non-underlying items (credited)/charged excluding share of joint ventures and associates	(12)	62
Underlying (loss)/profit before taxation for subsidiaries ¹	(2)	134
Tax on (loss)/profit before taxation at standard UK corporation tax rate of 19% (2019: 19%)	–	25
Adjusted for the effects of:		
Expenses not deductible for tax purposes and other permanent items	3	2
Non-taxable disposals ⁺	–	–
Tax levied at Group level on share of joint ventures' and associates' profits [#]	3	8
Preference share dividends not deductible	1	2
Unrecognised temporary differences [^]	–	(3)
Recognition of losses not previously recognised*	–	(28)
Derecognition of losses previously recognised**	16	–
Effect of tax rates in non-UK jurisdictions	2	8
UK corporation tax rate change	(10)	4
Adjustments in respect of previous periods	(4)	(4)
Total tax charge on underlying (loss)/profit	11	14
Add: tax charge/(credit) in non-underlying items (Note 10.3)	7	(9)
Total tax charge on profit from operations	18	5

+ These gains / losses on disposal are not taxable due to availability of exemptions and use of capital losses.

These are mainly in connection with US and Canadian joint ventures and associates where tax is levied at the Group level rather than within the share of joint ventures and associates.

^ In 2019 certain unrecognised losses were utilised against current year profits.

* Additional UK tax losses of £202m were recognised in 2019, of which £53m were recognised in non-underlying items.

** UK tax losses of £132m have been derecognised in 2020, of which £51m are derecognised in non-underlying items.

¹ Before non-underlying items (Notes 2.10 and 10).

12 Earnings per ordinary share

Earnings

	Basic 2020 £m	Diluted 2020 £m	Basic 2019 £m	Diluted 2019 £m
Earnings	30	30	130	130
Amortisation of acquired intangible assets – net of tax credit of £2m (2019: £nil)	4	4	6	6
Other non-underlying items – net of tax charge of £9m (2019: £9m credit)	(9)	(9)	47	47
Underlying earnings	25	25	183	183
	Basic 2020 m	Diluted 2020 m	Basic 2019 m	Diluted 2019 m
Weighted average number of ordinary shares	687	690	685	689

Earnings per share

	Basic 2020 Pence	Diluted 2020 Pence	Basic 2019 Pence	Diluted 2019 Pence
Earnings per ordinary share	4.4	4.4	19.0	18.8
Amortisation of acquired intangible assets net of tax	0.5	0.5	0.9	0.9
Other non-underlying items net of tax	(1.2)	(1.2)	6.8	6.8
Underlying earnings per ordinary share	3.7	3.7	26.7	26.5

13 Dividends on ordinary shares

	Per share 2020 Pence	Amount 2020 £m	Per share 2019 Pence	Amount 2019 £m
Proposed dividends for the year				
Interim – current year	–	–	2.1	14
Final – current year	1.5	10	–	–
	1.5	10	2.1	14
Recognised dividends for the year				
Final – prior year		–		22
Interim – current year		–		14
		–		36

As announced on 1 June 2020, the proposed final 2019 dividend was cancelled by the Board due to the COVID-19 environment. The Board has recommended a final dividend of 1.5pence per share for the year ended 31 December 2020. Subject to approval at the Annual General Meeting on 13 May 2021, the final 2020 dividend will be paid on 7 July 2021 to holders on the register on 4 June 2021 by direct credit or, where no mandate has been given, by cheque posted on 7 July 2021. The ordinary shares will be quoted ex-dividend on 3 June 2021.

14 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2019	1,071	(168)	903
Currency translation differences	(23)	6	(17)
Impairment	–	(58)	(58)
At 31 December 2019	1,048	(220)	828
Currency translation differences	(12)	(5)	(17)
At 31 December 2020	1,036	(225)	811

In 2019, following the Group's decision not to re-bid for gas contracts under the RIIO-GD2 cycle, coupled with the Group's experience in managing historically underperforming contracts within this cash-generating unit (CGU), the Group reassessed the long-term outlook for its Gas & Water CGU which resulted in a full impairment of the goodwill attributable to this CGU. This amounted to an impairment charge of £58m which was treated as a non-underlying item. Refer to Note 10.2.3.

Carrying amounts of goodwill by segment

	2020			2019		
	United Kingdom £m	United States £m	Total £m	United Kingdom £m	United States £m	Total £m
Construction Services	260	429	689	260	444	704
Support Services	73	–	73	73	–	73
Infrastructure Investments	–	49	49	–	51	51
Group	333	478	811	333	495	828

Carrying amounts of goodwill by cash-generating unit

	2020		2019	
	£m	Pre-tax discount rate %	£m	Pre-tax discount rate %
UK Regional and Engineering Services	248	10.3	248	10.1
Balfour Beatty Construction Group Inc	408	11.4	423	11.1
Rail UK	68	10.4	68	10.2
Balfour Beatty Investments US	49	11.1	51	11.1
Other	38	11.2	38	10.1
Group total	811		828	

14 Intangible assets – goodwill continued

Carrying amounts of goodwill by cash-generating unit continued

The recoverable amount of goodwill is based on value-in-use, a key input of which is forecast cash flows. The Group's cash flow forecasts are based on the expected future revenues and margins of each CGU, giving consideration to the current level of confirmed and anticipated orders. Cash flow forecasts for the next three years are based on the Group's Three-Year Plan, which covers the period from 2021 to 2023. The cash flow forecasts for each CGU were compiled from each of its constituent business units as part of the Group's annual financial planning process.

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

In the derivation of each CGU's value-in-use, a terminal value is assumed based on a multiple of earnings before interest and tax. The multiple is applied to a terminal cash flow, which is the normalised cash flow in the last year of the forecast period. However, due to the long-term nature and the degree of predictability of some contracts within Balfour Beatty Investments US, the forecast period used in the derivation of this CGU's value-in-use extends beyond the Group's three-year cash flow forecast period. The EBIT multiple is calculated using the Gordon Growth Model and is a factor of the discount rate and growth rate for each CGU. The nominal terminal value is discounted to present value.

	2020			2019		
	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %	Inflation rate %	Real growth rate %	Nominal long-term growth rate applied %
UK Regional and Engineering Services	2.3	0.5	2.8	2.0	1.1	3.1
Balfour Beatty Construction Group Inc	1.9	0.6	2.5	2.0	0.9	2.9
Rail UK	2.3	0.5	2.8	2.0	1.1	3.1
Balfour Beatty Investments US	2.0	–	2.0	2.0	0.1	2.1
Other	2.2	0.5	2.7	2.0	1.1	3.1

Sensitivities

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

A reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs. Sensitivity analysis was carried out on the Balfour Beatty Investments US CGU to factor in potential adverse implications from the ongoing investigation into allegations about the handling of certain work orders on military bases managed by Balfour Beatty Communities. No impairment was triggered as a result of these events.

The impact of COVID-19 has been considered as part of the forecast cash flows used within the value-in-use calculations, and no impairment was triggered.

15 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Infrastructure Investments intangibles £m	Software and other £m	Total £m
Cost						
At 1 January 2019	231	48	3	146	132	560
Currency translation differences	(8)	2	–	(1)	1	(6)
Additions	–	–	–	58	4	62
Removal of fully amortised intangible asset	–	–	–	–	(5)	(5)
At 31 December 2019	223	50	3	203	132	611
Currency translation differences	(7)	(2)	–	–	–	(9)
Additions	–	–	–	32	1	33
Removal of fully amortised intangible asset	–	–	–	–	(1)	(1)
At 31 December 2020	216	48	3	235	132	634
Accumulated amortisation						
At 1 January 2019	(159)	(37)	(3)	(1)	(102)	(302)
Currency translation differences	6	(2)	–	–	(1)	3
Charge for the year	(5)	(1)	–	(1)	(10)	(17)
Removal of fully amortised intangible asset	–	–	–	–	5	5
At 31 December 2019	(158)	(40)	(3)	(2)	(108)	(311)
Currency translation differences	5	1	–	–	–	6
Charge for the year	(5)	(1)	–	(2)	(9)	(17)
Impairment charge	–	–	–	–	(1)	(1)
Removal of fully amortised intangible asset	–	–	–	–	1	1
At 31 December 2020	(158)	(40)	(3)	(4)	(117)	(322)
Carrying amount						
At 31 December 2020	58	8	–	231	15	312
At 31 December 2019	65	10	–	201	24	300

The Group recognises certain assets held as part of service concession arrangements as Infrastructure Investments intangible assets where the Group bears demand risk under IFRIC 12 Service Concession Arrangements. In 2020, the Group continued construction on its IFRIC 12 assets, at the University of Sussex, incurring a spend of £32m (2019: £58m) in the year (including interest capitalised of £3m (2019: £4m)). The Infrastructure Investments intangible assets are amortised on a straight-line basis over the life of the projects, which is 50 years.

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to 10 years for customer relationships, three to seven years for software, and up to five years for brand names, except for customer contracts and relationships relating to Balfour Beatty Investments North America which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships of up to 50 years.

Other intangible assets are amortised over periods up to 10 years.

16 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Infrastructure leasehold improvements £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 January 2019	73	281	66	2	422
Currency translation differences	(1)	(3)	–	–	(4)
Transfers	3	(3)	–	–	–
Additions	6	14	–	–	20
Removal of fully depreciated assets/assets scrapped	(6)	(5)	–	–	(11)
Disposals	(2)	(21)	–	–	(23)
Disposal of interest in Reno (Note 34.3.10)	–	–	(17)	–	(17)
Disposal of interest in BBCS-Hawkeye Housing LLC (Iowa) (Notes 34.3.6 and 34.3.12)	–	–	(49)	–	(49)
At 31 December 2019	73	263	–	2	338
Currency translation differences	(1)	(3)	–	–	(4)
Transfers	1	(1)	–	–	–
Additions	3	26	–	4	33
Removal of fully depreciated assets/assets scrapped	(1)	(6)	–	–	(7)
Disposals	(10)	(18)	–	–	(28)
At 31 December 2020	65	261	–	6	332
Accumulated depreciation					
At 1 January 2019	(43)	(204)	(7)	–	(254)
Currency translation differences	1	2	–	–	3
Transfers	(3)	3	–	–	–
Charge for the year	(7)	(21)	–	–	(28)
Impairment charge	–	(8)	–	–	(8)
Removal of fully depreciated assets/assets scrapped	6	5	–	–	11
Disposals	2	20	–	–	22
Disposal of interest in Reno (Note 34.3.10)	–	–	2	–	2
Disposal of interest in BBCS-Hawkeye Housing LLC (Iowa) (Notes 34.3.6 and 34.3.12)	–	–	5	–	5
At 31 December 2019	(44)	(203)	–	–	(247)
Currency translation differences	1	2	–	–	3
Charge for the year	(8)	(16)	–	–	(24)
Removal of fully depreciated assets/assets scrapped	1	6	–	–	7
Disposals	5	17	–	–	22
At 31 December 2020	(45)	(194)	–	–	(239)
Carrying amount					
At 31 December 2020	20	67	–	6	93
At 31 December 2019	29	60	–	2	91

Infrastructure leasehold improvements comprised student accommodation projects in Iowa and Reno, for which all buildings were held under short leaseholds and were depreciated over 40 years. On 27 September 2019 and 16 December 2019 respectively, the Group disposed of its interests in the Iowa and Reno projects. Refer to Notes 34.3.6 and 34.3.10.

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated on a straight-line basis over their expected useful lives. Buildings are depreciated at 2.5% per annum and plant and equipment is depreciated at 4% to 33% per annum.

17 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
Cost or valuation				
At 1 January 2019	66	15	40	121
Currency translation differences	(1)	–	–	(1)
Additions	12	10	20	42
Removal of fully depreciated assets/assets scrapped	(1)	–	(1)	(2)
Disposals	(1)	–	(5)	(6)
At 31 December 2019	75	25	54	154
Currency translation differences	–	(1)	–	(1)
Additions	22	19	30	71
Removal of fully depreciated assets/assets scrapped	(7)	(1)	(4)	(12)
Disposals	(11)	(2)	(2)	(15)
At 31 December 2020	79	40	78	197
Accumulated depreciation				
At 1 January 2019	–	–	–	–
Charge for the year	(18)	(7)	(20)	(45)
Removal of fully depreciated assets/assets scrapped	1	–	1	2
Disposals	1	–	1	2
At 31 December 2019	(16)	(7)	(18)	(41)
Charge for the year	(20)	(14)	(22)	(56)
Removal of fully depreciated assets/assets scrapped	7	1	4	12
Disposals	5	2	2	9
At 31 December 2020	(24)	(18)	(34)	(76)
Carrying amount				
At 31 December 2020	55	22	44	121
At 31 December 2019	59	18	36	113

18 Investment properties

	Cost £m	Accumulated depreciation £m	Carrying amount £m
At 1 January 2019	35	(2)	33
Depreciation charge for the year	–	(1)	(1)
At 31 December 2019	35	(3)	32
Depreciation charge for the year	–	(2)	(2)
At 31 December 2020	35	(5)	30

Investment properties are held by the Group to generate rental income and capital appreciation. The Group has chosen to account for its investment property assets under the cost method. The Group has non-recourse project specific financing amounting to £26m (2019: £26m), which is secured through a floating charge over the property. No interest has been capitalised on the asset in 2020 as construction on the property was completed in 2017 (2019: £nil).

Once a property is ready for use, the Group ceases capitalisation of interest cost and commences depreciation on the property, on a straight-line basis over 25 years.

The fair value of the Group's investment properties at 31 December 2020 approximates the carrying value. The Group generated £3m (2019: £3m) of rental income from its investment properties.

19 Investments in joint ventures and associates

19.1 Movements

	Net assets £m	Loans £m	Total £m
At 1 January 2019	350	174	524
Currency translation differences	(11)	–	(11)
Income recognised	66	–	66
Fair value revaluation of PPP financial assets (Note 32.1)	24	–	24
Fair value revaluation of cash flow hedges (Note 32.1)	2	–	2
Actuarial movements on retirement benefit liabilities (Note 32.1)	2	–	2
Tax on items taken directly to equity (Note 32.1)	(6)	–	(6)
Dividends	(95)	–	(95)
Additions	33	–	33
Disposal of interest in North Island Hospitals (Note 34.3.5)	(11)	–	(11)
Disposal of interest in Townlake of Coppell (Note 34.3.9)	(2)	–	(2)
Return of equity	(14)	–	(14)
Loans advanced	–	26	26
Loans repaid	–	(1)	(1)
Reclassify negative investment to provisions (Note 26)	2	–	2
Reclassify negative investment to trade and other receivables	11	–	11
At 31 December 2019	351	199	550
Currency translation differences	(5)	–	(5)
Income recognised	38	–	38
Fair value revaluation of PPP financial assets (Note 32.1)	8	–	8
Fair value revaluation of cash flow hedges (Note 32.1)	1	–	1
Tax on items taken directly to equity (Note 32.1)	(2)	–	(2)
Dividends	(50)	–	(50)
Additions	29	–	29
Loans advanced	–	1	1
Loans repaid	–	(5)	(5)
Movement relating to loss of control of joint venture	16	(16)	–
Reclassification between net assets and loans	10	(10)	–
Impairment of loans to joint ventures and associates (Note 9)	–	(11)	(11)
At 31 December 2020	396	158	554

The principal joint ventures and associates are shown in Note 41.

The amount of the Group's share of borrowings of joint ventures and associates which was supported by the Group and the Company was £nil (2019: £nil).

The non-recourse borrowings of joint venture and associate entities relating to infrastructure concessions projects are repayable over periods extending up to 2048. The non-recourse borrowings arise under facilities taken out by project-specific joint venture and associate concession companies. The borrowings of each concession company are secured by a combination of fixed and floating charges over that concession company's interests in its project's assets and revenues and the shares in the concession company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

As disclosed in Note 41(f), the Group has committed to provide its share of further equity funding of joint ventures and associates in Infrastructure Investments' projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction is complete. As is customary in such projects, banking covenants restrict the payment of dividends and other distributions.

19 Investments in joint ventures and associates continued**19.2 Share of results and net assets of joint ventures and associates**

	Infrastructure Investments					
	Construction Services 2020 £m	Support Services 2020 £m	UK [^] 2020 £m	North America 2020 £m	Total 2020 £m	Total 2020 £m
Income statement						
Revenue¹	998	30	103	138	241	1,269
Operating profit/(loss)¹	29	1	(6)	18	12	42
Investment income	3	–	80	15	95	98
Finance costs	(1)	–	(80)	(19)	(99)	(100)
Profit/(loss) before taxation¹	31	1	(6)	14	8	40
Taxation	(2)	–	–	–	–	(2)
Profit/(loss) after taxation	29	1	(6)	14	8	38
Balance sheet						
Non-current assets						
Intangible assets – goodwill	29	–	–	–	–	29
– Infrastructure Investments intangible	–	–	42	–	42	42
– other	–	–	14	–	14	14
Property, plant and equipment	30	–	17	–	17	47
Investment properties	–	–	–	210	210	210
Investments in joint ventures and associates	2	–	–	–	–	2
Money market funds	–	–	–	94	94	94
PPP financial assets	–	–	1,359	204	1,563	1,563
Military housing projects	–	–	–	104	104	104
Other non-current assets	76	–	16	3	19	95
Current assets						
Cash and cash equivalents	334	–	152	24	176	510
Other current assets	221	–	69	36	105	326
Total assets	692	–	1,669	675	2,344	3,036
Current liabilities						
Borrowings – non-recourse	(60)	–	(43)	–	(43)	(103)
Other current liabilities	(464)	–	(130)	(18)	(148)	(612)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,122)	(456)	(1,578)	(1,578)
Other non-current liabilities	(72)	–	(268)	(7)	(275)	(347)
Total liabilities	(596)	–	(1,563)	(481)	(2,044)	(2,640)
Net assets	96	–	106	194	300	396
Loans to joint ventures and associates	–	–	158	–	158	158
Total investment in joint ventures and associates	96	–	264	194	458	554

[^] Including Ireland.¹ Before non-underlying items (Note 2.10).

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 £2,178m (2019: £2,272m). Note 41(e) details the Group's military housing projects.

On certain Infrastructure Investments concessions where net fair value revaluations of PPP financial assets and cash flow hedges resulted in the Group's carrying value of these investments being negative, the Group has not recognised losses beyond the carrying value of its investments. This is because the Group has not committed to provide any further funding to these investments and the borrowings within these concessions are non-recourse to the Group. At 31 December 2020, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £9m (2019: £nil).

19 Investments in joint ventures and associates continued

19.2 Share of results and net assets of joint ventures and associates continued

	Construction Services 2019 £m	Support Services 2019 £m	Infrastructure Investments			Total 2019* £m
	2019 £m	2019 £m	UK [^] 2019 £m	North America 2019* £m	Total 2019* £m	Total 2019* £m
Income statement						
Revenue¹	908	32	82	71	153	1,093
Operating profit/(loss) excluding gain on disposals of interests in investments ¹	30	(1)	–	16	16	45
Gain on disposals of interests in investments	–	–	9	20	29	29
Operating profit/(loss)¹	30	(1)	9	36	45	74
Investment income	5	–	88	18	106	111
Finance costs	(1)	–	(90)	(21)	(111)	(112)
Profit/(loss) before taxation¹	34	(1)	7	33	40	73
Taxation	(5)	–	(2)	–	(2)	(7)
Profit/(loss) after taxation	29	(1)	5	33	38	66
Balance sheet						
Non-current assets						
Intangible assets – goodwill	30	–	–	–	–	30
– Infrastructure Investments intangible	–	–	49	–	49	49
– other	–	–	15	–	15	15
Property, plant and equipment	27	–	33	–	33	60
Investment properties	–	–	–	167	167	167
Investments in joint ventures and associates	1	–	–	–	–	1
Money market funds	–	–	–	166	166	166
PPP financial assets	–	–	1,421	165	1,586	1,586
Military housing projects	–	–	–	107	107	107
Other non-current assets	72	–	19	5	24	96
Current assets						
Cash and cash equivalents	277	–	144	26	170	447
Other current assets	261	–	61	2	63	324
Total assets	668	–	1,742	638	2,380	3,048
Current liabilities						
Borrowings – non-recourse	(53)	–	(43)	–	(43)	(96)
Other current liabilities	(458)	–	(165)	(9)	(174)	(632)
Non-current liabilities						
Borrowings – non-recourse	–	–	(1,173)	(444)	(1,617)	(1,617)
Other non-current liabilities	(64)	(4)	(291)	(6)	(297)	(365)
Total liabilities	(575)	(4)	(1,672)	(459)	(2,131)	(2,710)
Net assets	93	(4)	70	179	249	338
Reclassify net liabilities to provisions (Note 26)	–	–	2	–	2	2
Reclassify net liabilities to trade and other receivables	–	–	11	–	11	11
Adjusted net assets	93	(4)	83	179	262	351
Loans to joint ventures and associates	–	4	195	–	195	199
Total investment in joint ventures and associates	93	–	278	179	457	550

[^] Including Singapore and Ireland. The Group disposed of its interest in Gammon Capital (West) Holdings Pte. Ltd on 30 September 2019. Refer to Note 34.3.7.

¹ Before non-underlying items (Note 2.10).

19.3 Aggregate information of joint ventures and associates

	Joint ventures 2020 £m	Associates 2020 £m	Total 2020 £m
The Group's share of profit from operations	27	11	38
Aggregate carrying amount of the Group's interest	449	105	554

	Joint ventures 2019 £m	Associates 2019 £m	Total 2019 £m
The Group's share of profit from operations	39	27	66
Aggregate carrying amount of the Group's interest	446	104	550

19 Investments in joint ventures and associates continued**19.4 Details of material joint ventures**

	Gammon®		Connect Plus (M25) Ltd	
	2020 £m	2019 £m	2020 £m	2019 £m
Proportion of the Group's ownership interest in the joint venture	50%	50%	15%	15%
Income statement				
Revenue	1,970	1,790	144	166
Underlying operating profit excluding gain on disposals of interests in investments	57	64	8	5
Gain on disposals of interests in investments	–	9	–	–
Underlying operating profit	57	73	8	5
Investment income	6	16	140	141
Finance costs	(3)	(7)	(110)	(101)
Income tax charge	(4)	(11)	(8)	(8)
Profit/(loss)	56	71	30	37
Total other comprehensive income/(loss)	2	1	(83)	7
Total comprehensive income/(loss) (100%)	58	72	(53)	44
Group's share of total comprehensive income/(loss)	29	36	(8)	7
Dividends received by the Group during the year	29	52	4	5
Balance sheet				
Non-current assets	217	200	2,052	2,192
Current assets				
Cash and cash equivalents	640	529	144	135
Other current assets	413	498	43	86
	1,053	1,027	187	221
Current liabilities				
Trade and other payables	(671)	(703)	(25)	(80)
Provisions	(61)	(52)	–	–
Borrowings – non-recourse	(121)	(105)	(34)	(19)
Other current liabilities	(156)	(125)	(2)	(2)
	(1,009)	(985)	(61)	(101)
Non-current liabilities				
Trade and other payables	(64)	(61)	–	–
Provisions	(32)	(17)	–	–
Borrowings – non-recourse	–	–	(1,205)	(1,241)
Other non-current liabilities (including shareholder loans)	(48)	(50)	(413)	(431)
	(144)	(128)	(1,618)	(1,672)
Net assets (100%)	117	114	560	640
Reconciliation of the above summarised financial information to the carrying amount of the interest in the above joint ventures recognised in the consolidated financial statements:				
Net assets of joint venture (100%)	117	114	560	640
Group's share of net assets	59	57	84	96
Add: Group's interest in shareholder loans	–	–	28	28
Goodwill	29	30	–	–
Carrying amount of the Group's interest in the joint venture	88	87	112	124

@ Represents the combined results of Gammon China Ltd and Gammon Capital (West) Pte. Ltd as both joint ventures have common ownership and report under the same management structure. The Group disposed of its interest in Gammon Capital (West) Pte. Ltd on 30 September 2019. Refer to Note 34.3.7.

19 Investments in joint ventures and associates continued

19.5 Cash flow from/(to) joint ventures and associates

	Infrastructure Investments				Infrastructure Investments			
	UK [^] 2020 £m	North America 2020 £m	Other 2020 £m	Total 2020 £m	UK [^] 2019 £m	North America 2019 £m	Other 2019 £m	Total 2019 £m
Cash flows from investing activities								
Dividends from joint ventures and associates	4	16	30	50	25	34	36	95 ⁺
Subordinated debt interest received	15	–	–	15	5	–	–	5
Investments in and loans to joint ventures and associates	(3)	(22)	–	(25)	(25)	(33)	–	(58)
Equity	(7)	(22)	–	(29)	–	(33)	–	(33)
Subordinated debt invested	(1)	–	–	(1)	(26)	–	–	(26)
Subordinated debt repaid	5	–	–	5	1	–	–	1
Return of equity from joint ventures and associates	–	–	–	–	–	14	–	14 ⁺
Disposal of investments in joint ventures	1	–	1	2	2	22	1	25
Net cash flow from joint ventures and associates	17	(6)	31	42	7	37	37	81

[^] Including Ireland. 2019 cash flows include Singapore and Ireland.

⁺ In 2019, dividends and return of equity from joint ventures and associates included £41m and £14m respectively of proceeds generated from the disposal of the Group's 50% interest in Gammon Capital (West) Holdings Pte Ltd and the following assets: Borden; Dallas 5 Portfolio; Mobile Alabama portfolio and Evergreen portfolio. Refer to Note 34.3.

19.6 Share of reserves of joint ventures and associates

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total (Note 32.1) £m
At 1 January 2019	(8)	(68)	87	52	63
Currency translation differences	–	–	–	(7)	(7)
Income recognised	66	–	–	–	66
Fair value revaluation of PPP financial assets	–	–	24	–	24
Fair value revaluation of cash flow hedges	–	2	–	–	2
Actuarial movements on retirement benefit liabilities	2	–	–	–	2
Tax on items taken directly to equity	(1)	–	(5)	–	(6)
Dividends	(95)	–	–	–	(95)
Recycling of revaluation reserves to the income statement on disposal	–	8	(8)	(2)	(2)
Reserves disposed	(1)	–	–	–	(1)
At 31 December 2019	(37)	(58)	98	43	46
Currency translation differences	–	–	–	(4)	(4)
Income recognised	38	–	–	–	38
Fair value revaluation of PPP financial assets	–	–	8	–	8
Fair value revaluation of cash flow hedges	–	1	–	–	1
Tax on items taken directly to equity	–	2	(4)	–	(2)
Dividends	(50)	–	–	–	(50)
Reserve transfers relating to joint ventures and associates	28	–	–	–	28
At 31 December 2020	(21)	(55)	102	39	65

20 Investments

20.1 Group

	Corporate bonds £m	Investments in mutual funds £m	Total £m
At 1 January 2019	9	21	30
Fair value gains	–	2	2
Maturities/disposals	(4)	(1)	(5)
At 31 December 2019	5	22	27
Fair value gains	–	2	2
Maturities/disposals	–	(3)	(3)
At 31 December 2020	5	21	26

The corporate bonds are held by the Group's captive insurance company, Delphian Insurance Company Ltd, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 3.62% (2019: 2.32%) and weighted average life of 2.4 years (2019: 3.9 years). The fair value of the bonds is £5m (2019: £5m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2020 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The investments in mutual funds comprise holdings in a number of funds, based on employees' investment elections, in respect of the deferred compensation obligations of the Group as disclosed in Note 30.2. The fair value of these investments is £21m (2019: £22m), determined by the market price of the funds at the reporting date.

20.2 Company

	2020 £m	2019 £m
Investment in subsidiaries	1,746	1,740
Provisions	(26)	(26)
	1,720	1,714

The increase of investment in subsidiaries of £6m relates to new capital injected into the Company's existing subsidiaries. Including provisions recognised to date, the Directors have assessed the Company's investment in subsidiaries to be fully recoverable.

21 PPP financial assets

	Economic infrastructure £m	Social infrastructure £m	Total £m
At 1 January 2019	28	128	156
Income recognised in the income statement:			
– interest income (Note 8)	2	7	9
Gains recognised in the statement of comprehensive income:			
– fair value movements	–	3	3
Other movements:			
– cash expenditure	2	1	3
– cash received	(5)	(11)	(16)
At 31 December 2019	27	128	155
Income recognised in the income statement:			
– interest income (Note 8)	2	6	8
Gains recognised in the statement of comprehensive income:			
– fair value movements	–	5	5
Other movements:			
– cash expenditure	2	–	2
– cash received	(5)	(10)	(15)
At 31 December 2020	26	129	155

Assets constructed by PPP subsidiary concession companies are classified as financial assets measured at fair value through OCI and are denominated in sterling. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets.

There were no impairment provisions in 2020 or 2019.

22 Inventories

	2020 £m	2019 £m
Raw materials and consumables	84	66
Development and housing land and work in progress	29	33
Finished goods and goods for resale	1	2
	114	101

23 Contract balances

The timing of revenue recognition, billings and cash collection results in trade receivables (billed amounts), contract assets (unbilled amounts) and customer advances and deposits (contract liabilities) on the Group's balance sheet. For services in which revenue is earned over time, amounts are billed in accordance with contractual terms, either at periodic intervals or upon achievement of contractual milestones. The timing of revenue recognition is measured in accordance with the progress of delivery on a contract which could either be in advance or in arrears of billing, resulting in either a contract asset or a contract liability.

Contract assets

	£m
At 1 January 2019	363
Currency translation differences	(5)
Transfers from contract assets recognised at the beginning of the year to receivables	(319)
Increase related to services provided in the year	375
Reclassified from contract provisions (Note 26)	(7)
Impairments on contract assets recognised at the beginning of the year	(30)
At 31 December 2019	377
Currency translation differences	(2)
Transfers from contract assets recognised at the beginning of the year to receivables	(370)
Increase related to services provided in the year	274
Reclassified to contract provisions (Note 26)	16
Impairments on contract assets recognised at the beginning of the year	(7)
At 31 December 2020	288

Contract liabilities

	£m
At 1 January 2019	(491)
Currency translation differences	8
Revenue recognised against contract liabilities at the beginning of the year	424
Increase due to cash received, excluding amounts recognised as revenue during the year	(412)
At 31 December 2019	(471)
Currency translation differences	11
Revenue recognised against contract liabilities at the beginning of the year	419
Increase due to cash received, excluding amounts recognised as revenue during the year	(485)
At 31 December 2020	(526)

The amount of revenue recognised in 2020 from performance obligations satisfied (or partially satisfied) in previous periods amounted to £4m (2019: £27m).

24 Trade and other receivables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Current				
Trade receivables	526	575	–	–
Less: provision for impairment of trade receivables	(12)	(5)	–	–
	514	570	–	–
Due from subsidiaries	–	–	1,600	1,547
Due from joint ventures and associates	16	25	–	–
Due from joint operation partners	17	22	–	–
Contract fulfilment assets	15	12	–	–
Contract retentions receivable	202	221	–	–
Accrued income	9	13	–	–
Prepayments	41	37	–	–
Due on disposals	2	5	–	–
Other receivables	22	34	1	1
	838	939	1,601	1,548
Non-current				
Due from joint ventures and associates	67	52	1	1
Contract fulfilment assets	13	10	–	–
Contract retentions receivable	165	140	–	–
Due on disposals	1	2	–	–
Other receivables	4	3	2	2
	250	207	3	3
Total trade and other receivables	1,088	1,146	1,604	1,551
Comprising				
Financial assets (Note 40)	1,047	1,109	1,604	1,551
Non-financial assets – prepayments	41	37	–	–
	1,088	1,146	1,604	1,551

Based on prior experience, an assessment of the current economic environment and a review of the financial circumstances of individual customers, the Directors believe no further credit risk provision is required in respect of trade receivables.

The Directors consider that the carrying values of current and non-current trade and other receivables approximate their fair values.

Maturity profile of impaired trade receivables and trade receivables past due but not impaired

	Impaired		Past due but not impaired	
	Group 2020 £m	Group 2019 £m	Group 2020 £m	Group 2019 £m
Up to three months	–	–	36	23
Three to six months	–	–	14	12
Six to nine months	–	2	4	8
Nine to 12 months	–	–	7	8
More than 12 months	12	3	29	38
	12	5	90	89

At 31 December 2020, trade receivables of £90m (2019: £89m) were past due but not impaired. These relate to a number of individual customers where there is no reason to believe that the receivable is not recoverable.

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

25 Trade and other payables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Current				
Trade and other payables	763	837	–	–
Accruals	576	629	7	6
VAT, payroll taxes and social security	61	45	–	–
Due to subsidiaries	–	–	1,969	1,846
Dividends on preference shares	–	6	–	6
Due on acquisitions	3	3	–	–
	1,403	1,520	1,976	1,858
Non-current				
Trade and other payables	104	82	–	–
Accruals	11	10	–	–
Due to joint ventures and associates	10	10	3	3
Due on acquisitions	3	6	–	–
	128	108	3	3
Total trade and other payables	1,531	1,628	1,979	1,861
Comprising				
Financial liabilities (Note 40)	1,456	1,570	1,979	1,861
Non-financial liabilities:				
– accruals not at amortised cost	14	13	–	–
– VAT, payroll taxes and social security	61	45	–	–
	1,531	1,628	1,979	1,861

Maturity profile of the Group's non-current financial liabilities at 31 December

	Trade and other payables 2020 £m	Accruals 2020 £m	Due to joint ventures and associates 2020 £m	Due on acquisitions 2020 £m	Total 2020 £m
Due within one to two years	63	4	–	3	70
Due within two to five years	41	7	3	–	51
Due after more than five years	–	–	7	–	7
	104	11	10	3	128

	Trade and other payables 2019 £m	Accruals 2019 £m	Due to joint ventures and associates 2019 £m	Due on acquisitions 2019 £m	Total 2019 £m
Due within one to two years	47	4	–	3	54
Due within two to five years	32	6	2	3	43
Due after more than five years	3	–	8	–	11
	82	10	10	6	108

The Directors consider that the carrying values of current and non-current trade and other payables approximate their fair values. The fair value of non-current trade and other payables has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

26 Provisions

	Contract provisions £m	Employee provisions £m	Other provisions £m	Total £m
At 1 January 2019	236	55	25	316
Currency translation differences	(4)	–	–	(4)
Reclassified from accruals	1	–	–	1
Charged/(credited) to the income statement:				
– additional provisions	97	10	7	114
– unused amounts reversed	(31)	(6)	(5)	(42)
Utilised during the year	(61)	(11)	(6)	(78)
Reclassified to contract assets (Note 23)	(7)	–	–	(7)
Reclassified to trade and other receivables	(7)	–	–	(7)
Reclassify negative investment in the Group's investments in joint ventures and associates to provisions (Note 19.1)	–	–	2	2
At 31 December 2019	224	48	23	295
Reclassified from/(to) accruals	(1)	–	1	–
Charged/(credited) to the income statement:				
– additional provisions	140	14	7	161
– unused amounts reversed	(40)	(7)	(3)	(50)
Utilised during the year	(60)	(9)	(3)	(72)
Reclassified from contract assets (Note 23)	16	–	–	16
At 31 December 2020	279	46	25	350

	Contract provisions 2020 £m	Employee provisions 2020 £m	Other provisions 2020 £m	Total 2020 £m	Contract provisions 2019 £m	Employee provisions 2019 £m	Other provisions 2019 £m	Total 2019 £m
Due within one year	178	12	10	200	132	11	10	153
Due within one to two years	52	8	6	66	44	8	4	56
Due within two to five years	38	10	4	52	41	14	6	61
Due after more than five years	11	16	5	32	7	15	3	25
	279	46	25	350	224	48	23	295

Contract provisions include construction insurance liabilities, principally in the Group's self-insurance arrangements, loss provisions, and defect and warranty provisions on contracts, primarily construction contracts, that have reached practical completion. There is a latent defect period for which the provision is held, but where there are known identified issues then the provision may be required to cover rectification work over a more extended period.

Employee provisions are principally liabilities relating to employers' liability insurance retained in the Group's self-insurance arrangements.

Other provisions principally comprise: motor and other insurance liabilities in the Group's self-insurance arrangements; legal claims and costs, where provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress; and environmental provisions.

The Group takes actuarial advice when establishing the level of provisions in the Group's self-insurance arrangements and certain other categories of provision.

Insurance-related provisions within these categories were £59m (2019: £60m) as follows: Contract provisions £33m (2019: £32m); Employee provisions £22m (2019: £24m); and Other, mainly motor, provisions £4m (2019: £4m).

Restructuring provisions within these categories were £1m (2019: £4m) as follows: Employee provisions £nil (2019: £3m); and Other, mainly property-related, provisions £1m (2019: £1m).

27 Cash and cash equivalents and borrowings

27.1 Group

	Current 2020 £m	Non-current 2020 £m	Total 2020 £m	Current 2019 £m	Non-current 2019 £m	Total 2019 £m
Unsecured borrowings at amortised cost						
– US private placement (Note 27.2)	–	(189)	(189)	(35)	(196)	(231)
	–	(189)	(189)	(35)	(196)	(231)
Cash and deposits at amortised cost	591	–	591	589	–	589
Term deposits at amortised cost	179	–	179	154	–	154
Cash and cash equivalents (excluding infrastructure concessions)	770	–	770	743	–	743
	770	(189)	581	708	(196)	512
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2021 and 2072	(6)	(333)	(339)	(4)	(333)	(337)
Infrastructure concessions cash and cash equivalents	22	–	22	35	–	35
	16	(333)	(317)	31	(333)	(302)
Net cash/(borrowings)	786	(522)	264	739	(529)	210

The loans relating to project finance arise under non-recourse facilities taken out by project-specific subsidiary companies. The loans of each company are secured by a combination of fixed and floating charges over that company's interests in its project's assets and revenues and the shares in the company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

Included in cash and cash equivalents is restricted cash of: £7m (2019: £18m) held by the Group's self-insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations; £152m (2019: £72m) held within construction project bank accounts; and £22m (2019: £35m) relating to the maintenance and other reserve accounts in the Infrastructure Investments subsidiaries.

Cash, deposits and term deposits include the Group's share of amounts held by joint operations of £315m (2019: £297m).

Maturity profile of the Group's borrowings at 31 December

	Non-recourse project finance 2020 £m	Other borrowings 2020 £m	Total 2020 £m	Non-recourse project finance 2019 £m	Other borrowings 2019 £m	Total 2019 £m
Due on demand or within one year	(6)	–	(6)	(4)	(35)	(39)
Due within one to two years	(9)	–	(9)	(8)	–	(8)
Due within two to five years	(56)	(189)	(245)	(54)	(158)	(212)
Due after more than five years	(268)	–	(268)	(271)	(38)	(309)
	(339)	(189)	(528)	(337)	(231)	(568)

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.

On 5 March 2020, the Group repaid the second tranche of its US private placement notes amounting to US\$46m (£36m). US\$259m remain outstanding, with the next tranche of US\$209m being due in March 2023 and the final tranche of US\$50m being due in March 2025.

Undrawn Group committed borrowing facilities at 31 December in respect of which all conditions precedent were satisfied

	Non-recourse project finance 2020 £m	Other borrowings 2020 £m	Total 2020 £m	Non-recourse project finance 2019 £m	Other borrowings 2019 £m	Total 2019 £m
Expiring in one year or less	–	–	–	–	–	–
Expiring in more than one year but not more than two years	–	–	–	–	–	–
Expiring in more than two years	–	375	375	–	375	375
	–	375	375	–	375	375

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity as required to support Balfour Beatty in its activities.

In October 2020, the Group agreed a one-year extension to the facility, which will now expire in October 2023. A further one-year extension option through to October 2024 remains available to the Group, subject to lenders' approval. This facility was undrawn at 31 December 2020.

27 Cash and cash equivalents and borrowings continued**27.2 US private placement**

In March 2013, the Group raised US\$350m (£231m) of borrowings through a US private placement of a series of notes with an average coupon of 4.94% per annum and an average maturity of 9.3 years. On 7 March 2018, the Group repaid the first tranche of these notes amounting to US\$45m (£32.5m). On 5 March 2020, the Group repaid the second tranche of these notes amounting to US\$46m (£36m). At 31 December 2020, US\$259m (£189m) remain with an average coupon of 5.2% and a remaining average maturity of 2.6 years.

27.3 Company

	Current 2020 £m	Non-current 2020 £m	Total 2020 £m	Current 2019 £m	Non-current 2019 £m	Total 2019 £m
Cash	80	–	80	137	–	137
Term deposits	178	–	178	151	–	151
US private placement (Note 27.2)	–	(189)	(189)	(35)	(196)	(231)
Net cash/(borrowings)	258	(189)	69	253	(196)	57

28 Lease liabilities**28.1 Movements**

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
At 1 January 2019	75	14	40	129
Currency translation differences	(1)	–	–	(1)
Additions	11	10	21	42
Payments made for lease liabilities ⁺	(22)	(7)	(22)	(51)
Disposals	(1)	–	(4)	(5)
Interest on lease liabilities	3	1	2	6
At 31 December 2019	65	18	37	120
Additions	21	20	30	71
Payments made for lease liabilities ⁺	(24)	(17)	(23)	(64)
Disposals	(7)	–	(1)	(8)
Interest on lease liabilities	3	1	2	6
At 31 December 2020	58	22	45	125

+ Payments made for lease liabilities include an interest element of £6m (2019: £6m).

28.2 Maturity analysis – contractual undiscounted cash flows

	Land and buildings 2020 £m	Plant and equipment 2020 £m	Motor vehicles 2020 £m	Total 2020 £m	Land and buildings 2019 £m	Plant and equipment 2019 £m	Motor vehicles 2019 £m	Total 2019 £m
Due within one year	17	19	11	47	19	17	7	43
Due within one to two years	10	14	5	29	14	11	5	30
Due within two to five years	22	14	5	41	24	11	6	41
Due after more than five years	21	–	2	23	20	–	2	22
Total undiscounted cash flows	70	47	23	140	77	39	20	136

28.3 Amounts recognised in the income statement

	2020 £m	2019 £m
Interest on lease liabilities	6	6
Expenses relating to short-term leases	73	59

29 Deferred tax

29.1 Group

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Net deferred tax position at 31 December

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Deferred tax assets	80	92	–	–
Deferred tax liabilities	(104)	(108)	–	–
	(24)	(16)	–	–

Movement for the year in the net deferred tax position

	Group £m	Company £m
At 1 January 2019	(10)	–
Currency translation differences	4	–
Charged to income statement	(2)	–
Charged to equity	(8)	–
At 31 December 2019	(16)	–
Currency translation differences	3	–
(Charged)/credited to income statement	(18)	–
Credited to equity	5	–
Research and development tax credits	2	–
At 31 December 2020	(24)	–

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority.

Net deferred tax position

	Depreciation in excess of capital allowances £m	Retirement benefits £m	Unrelieved trading losses £m	Share-based payments £m	Provisions £m	Preference shares £m	Fair value adjustments £m	Derivatives £m	Other GAAP differences £m	Research and development credit £m	Total £m
At 1 January 2019	18	(21)	109	4	27	(1)	(67)	5	(86)	2	(10)
Currency translation differences	–	–	(1)	–	–	–	2	–	3	–	4
Transfers	–	–	3	(1)	(1)	–	–	1	(2)	–	–
Credited/(charged) to income statement	(1)	(5)	13	–	1	1	(10)	–	(1)	–	(2)
Credited/(charged) to equity	–	(8)	–	–	–	–	–	–	–	–	(8)
At 31 December 2019	17	(34)	124	3	27	–	(75)	6	(86)	2	(16)
Currency translation differences	–	–	–	–	(2)	–	3	–	2	–	3
Credited/(charged) to income statement	2	(4)	(28)	–	15	–	(7)	–	4	–	(18)
Credited/(charged) to equity	–	5	–	1	–	–	(2)	1	–	–	5
Research and development tax credits	–	–	–	–	–	–	–	–	–	2	2
At 31 December 2020	19	(33)	96	4	40	–	(81)	7	(80)	4	(24)

29 Deferred tax continued**29.1 Group continued****Net deferred tax position continued**

At the reporting date the Group had unrecognised tax losses from operations (excluding capital losses) that arose over a numbers of years of approximately £782m (2019: £540m) which are available for offset against future profits. £3m (2019: £8m) will expire within 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2021. The remaining losses may be carried forward indefinitely.

The Group has recognised deferred tax assets for UK corporation tax trading losses of £422m (2019: £578m) after derecognition of £28m in relation to prior years. The Group has UK corporation tax trading losses of £423m (2019: £252m) which are not recognised as deferred tax assets. As set out in Note 11, the Group has derecognised £132m of UK tax losses in 2020 due to the re-profiling of future UK profits, whilst £4m of current year losses have been recognised and carried forward. The Group also had temporary differences relating to retirement benefits on which a deferred tax asset has not been recognised of £63m (2019: £49m).

Deferred tax liabilities on fair value adjustments of £81m relate to temporary differences arising on goodwill and intangibles. Deferred tax liabilities on other GAAP differences of £80m relate to temporary differences arising on joint ventures.

At the reporting date the undistributed reserves of non-UK subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised were £557m (2019: £605m) in respect of subsidiaries and £49m (2019: £42m) in respect of joint ventures and associates. No liability has been recognised in respect of these differences because either no temporary difference arises or the timing of any distribution is under the Group's control and no distribution which gives rise to taxation is contemplated.

29.2 Company

The table below shows the deferred tax assets and liabilities before being offset where they relate to income taxes levied by the same tax authority.

Deferred tax assets and liabilities

	Deferred tax liabilities	Deferred tax assets	Net deferred tax assets/ (liabilities)
	Preference shares £m	Share-based payments £m	£m
At 1 January 2019	(1)	1	–
Credited/(charged) to income statement	1	(1)	–
At 31 December 2019	–	–	–
Credited/(charged) to income statement	–	–	–
At 31 December 2020	–	–	–

30 Retirement benefit assets and liabilities

30.1 Introduction

The Group, through trustees, operates a number of defined contribution and defined benefit pension schemes.

Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

Defined benefit schemes are schemes other than defined contribution schemes where the Group's obligation is to provide specified benefits on retirement.

IAS 19 Employee Benefits (IAS 19) prescribes the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on high-quality corporate bonds. The pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net finance income arising from the expected interest income on plan assets and interest cost on scheme obligations is included in investment income. Actuarial gains and losses are reported in the statement of comprehensive income. The IAS 19 accounting valuations are set out in Note 30.2.

A different calculation is used for the formal triennial funding valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme obligations. The principal difference between the two methods is that under the funding basis the obligations are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on high-quality corporate bonds as required by IAS 19 for the financial statements. Details of the latest formal triennial funding valuations are set out in Note 30.3.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of, the Group.

Principal schemes

The Group's principal schemes are the Balfour Beatty Pension Fund (BBPF), which includes defined contribution and defined benefit sections, and the Balfour Beatty Shared Cost Section of the Railways Pension Scheme (RPS). The defined benefit sections of both schemes are funded and closed to new members with the exception of employees where employment has transferred to the Group under certain agreed arrangements. Pension benefits are based on employees' pensionable service and their pensionable salary.

The schemes operate under trust law and are managed and administered by trustees on behalf of the members in accordance with the terms of the trust deed and rules and relevant legislation. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice. The trustees are responsible for establishing the investment strategy and ensuring that there are sufficient assets to meet the cost of current and future benefits.

These schemes expose the Group to investment and actuarial risks where additional contributions may be required if assets are not sufficient to pay future pension benefits:

- » investment risk: equity returns are a key determinant of investment return but the investment portfolio is also subject to a range of other risks typical of the investments held, for example, credit risk on corporate bond holdings; and
- » actuarial risk: the ultimate cost of providing pension benefits is affected by inflation rates and members' life expectancy. The net present value of the obligations is affected by the market yield on high-quality corporate bonds used to discount the obligations.

Changes in the principal actuarial assumptions based on market data, such as inflation and the discount rate, and experience, such as life expectancy, expose the Group to fluctuations in the net IAS 19 liability and the net finance cost.

Balfour Beatty Pension Fund

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

The Group operates a Scottish Limited Partnership (SLP) structure which holds the Group's 40% interest in the Birmingham Hospital PFI investment and the Group's 15% share of the Connect Plus (M25) asset. The BBPF is a partner in the SLP and is entitled to a share of the income of the SLP. In accordance with IFRS 10 Consolidated Financial Statements, the SLP is deemed to be controlled by the Group, which retains the ability to substitute the investment in the Birmingham Hospital PFI investment and the Connect Plus (M25) asset for other investments from time to time.

Under IAS 19, the investment held by the BBPF in the SLP does not constitute a plan asset and therefore the pension surplus presented in these financial statements does not reflect the BBPF's interest in the SLP. Distributions from the SLP to the BBPF will be reflected in the Group's financial statements as pension contributions on a cash basis. In 2020, the BBPF received distributions of £3m from the SLP (2019: £2m).

A formal triennial funding valuation of the BBPF was carried out as at 31 March 2019. As a result, the Group is expected to make deficit contributions of £17m in 2021, £22m in 2022 and £25m in 2023.

If the earnings cover for shareholder returns falls below an agreed trigger level then the contributions set out above may need to be accelerated.

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

30 Retirement benefit assets and liabilities continued

30.1 Introduction continued

Railways Pension Scheme

The RPS is a shared cost scheme. The legal responsibility of the Group in the RPS is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing.

The assumed cost of providing future service benefits is split between the Group and the members in the ratio 60:40.

Because of a declining population of active members, it has become less likely that the Group's costs of meeting any deficits would be capped in line with its strict legal obligation of 60% as members might only be able to afford to fund a small proportion of the scheme deficit. It has therefore been assumed that the Group will be responsible for 100% of any deficit and the balance sheet assets and obligations disclosed, therefore, are equal to 100% of the total scheme assets and obligations.

The RPS invests in a range of pooled investment funds intended to generate a combination of capital growth and income and, as determined by the trustee, taking account of the characteristics of the obligations and the trustee's attitude to risk. The majority of the RPS's assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled growth fund. This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time. The remaining assets in the RPS are principally fixed and index-linked bonds.

Following the formal triennial funding valuation carried out as at 31 December 2016, the Group agreed to make ongoing fixed deficit contributions of £6m per annum which should reduce the deficit to zero by 2027. This agreement constitutes a MFR under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the RPS would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the RPS have been settled.

A formal triennial valuation of the RPS as at 31 December 2019 is currently underway.

Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe, the majority of which are closed to new entrants, and deferred compensation schemes in North America, where an element of employees' compensation is deferred and invested in investments in mutual funds (as disclosed in Note 20.1) in a trust, the assets of which are for the ultimate benefit of the employees but are available to the Group's creditors in the event of insolvency.

The Group also participates in The Plumbing & Mechanical Services Industry Pension Scheme (Plumbers Scheme), which is an industry-wide non-associated multi-employer defined benefit scheme. As the Plumbers Scheme does not segregate assets and liabilities between the different participating employers, the Group's only obligation to the Plumbers Scheme is to pay the contributions requested by the scheme trustees as they fall due. In accordance with IAS 19, this obligation has been accounted for on a defined contribution basis and the relevant employer contributions have been charged to the income statement.

Membership of the principal schemes

	Balfour Beatty Pension Fund 2020			Railways Pension Scheme 2020			Balfour Beatty Pension Fund 2019			Railways Pension Scheme 2019		
	Number of members	Defined benefit obligations £m	Average duration Years	Number of members	Defined benefit obligations £m	Average duration Years	Number of members	Defined benefit obligations £m	Average duration Years	Number of members	Defined benefit obligations £m	Average duration Years
Defined benefit												
– active members	1	2	16	116	50	21	2	2	17	128	52	21
– deferred pensioners	10,130	1,841	22	1,118	146	20	10,638	1,607	23	1,159	162	21
– pensioners, widow(er)s and dependants	17,473	1,985	11	1,856	247	13	17,707	1,894	11	1,849	192	13
Defined contribution	14,383	–	–	–	–	–	13,845	–	–	–	–	–
Total	41,987	3,828	16	3,090	443	16	42,192	3,503	16	3,136	406	17

30.2 IAS 19 accounting valuations

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

	Balfour Beatty Pension Fund 2020 %	Railways Pension Scheme 2020 %	Balfour Beatty Pension Fund 2019 %	Railways Pension Scheme 2019 %
Discount rate	1.45	1.45	1.95	1.95
Inflation rate – RPI	2.90	2.90	2.95	2.95
– CPI	2.25	2.45	2.10	2.20
Future increases in pensionable salary	2.25	2.45	2.10	2.20
Rate of increase in pensions in payment (or such other rate as is guaranteed)	2.75	2.55	2.80	2.30

On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to check if an additional top up is due as a result of GMP equalisation; this has resulted in an additional obligation of £3m being recognised as a past service cost for the BBPF in 2020.

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

For the RPS, further calculations have been carried out by the trustees in relation to the cost of GMP equalisation. As a result the Group has revised its best estimate cost of equalisation from a loading on the liabilities of 0.5% in 2019 to 0.8% in 2020 (with the additional cost being recognised in the statement of comprehensive income).

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes. The mortality assumptions as at 31 December 2020 have been updated to reflect the experience of BBPF pensioners for the period to 31 March 2020. The mortality tables adopted for the 2020 IAS 19 valuation for the BBPF are the Self-Administered Pension Scheme (SAPS) S3 tables 'middle' for males and 'heavy' for females (2019: SAPS S3 tables) with a multiplier of 97% for males and 93% for females (2019: 110% for males and 102% for females); all with future improvements in line with the CMI 2019 core projection model, with default smoothing and initial addition parameter of nil (2019: CMI 2018 core projection model), with long-term improvement rates of 1.25% per annum and 1.00% per annum for males and females respectively (2019: 1.25% per annum and 1.00% per annum). The mortality assumption adopted for the RPS for 2020 is unchanged from 2019, with the exception of setting future improvements in line with the CMI 2019 core projection model (2019: CMI 2018 core projection model).

During the period, following independent advice from its actuaries, the Group made some technical changes to its sourcing of data from which to set the discount rate. In particular, as a result of changes in bond classification system at Bloomberg (the source for data on the bond universes), the Group has amended its approach to establishing the corporate bond universe underlying the corporate bond yield curve. This change has resulted in an increase to the discount rate of 0.15% which led to an actuarial gain of £100m being recognised within the statement of comprehensive income.

During 2020 the Group identified certain inconsistencies with the membership data used by the BBPF's actuary in calculating the mortality experience/assumptions and resulting mortality multiplier in previous years which led to a cumulative increase of £129m in the recognised pension asset as at 31 December 2019 (£50m cumulative impact as at 31 December 2018). This has been adjusted in the year ended 31 December 2020 through actuarial movements from changes in demographic assumptions included in the actuarial losses recognised in the Group's statement of comprehensive income. The Group considered it appropriate that the impact is recognised in 2020 due to the size of movements typically experienced relating to actuarial gains and losses, which is inherent with a scheme of this size and complexity, and the nature of the financial statement captions affected. This adjustment led to a corresponding deferred tax credit which is also recognised in the Group's statement of comprehensive income and a deferred tax charge recognised in non-underlying items in the Group's income statement due to the de-recognition of UK deferred tax assets in respect of tax losses as disclosed in Note 10.3.1.

BBPF life expectancies

	2020 Average life expectancy at 65 years of age		2019 Average life expectancy at 65 years of age	
	Male	Female	Male	Female
Members in receipt of a pension	21.5	23.3	20.5	22.5
Members not yet in receipt of a pension (current age 50)	22.5	24.2	21.4	23.4

RPS life expectancies

	2020 Average life expectancy at 65 years of age		2019 Average life expectancy at 65 years of age	
	Male	Female	Male	Female
Members in receipt of a pension	20.6	22.6	20.5	22.5
Members not yet in receipt of a pension (current age 50)	21.5	23.5	21.4	23.4

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 £573m (2019: £531m) have been excluded from the tables on pages 208 to 210. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes 2020 £m	Total 2020 £m	Balfour Beatty Pension Fund 2019 £m	Railways Pension Scheme 2019 £m	Other schemes 2019 £m	Total 2019 £m
Group								
Current service cost	(1)	(2)	(1)	(4)	(2)	(1)	(1)	(4)
Administrative expenses	–	–	–	–	–	(1)	–	(1)
Defined contribution charge	(47)	–	(6)	(53)	(44)	–	(6)	(50)
Included in employee costs (Note 7)	(48)	(2)	(7)	(57)	(46)	(2)	(7)	(55)
Past service cost as a result of GMP equalisation (Note 10.2.2)	(3)	–	–	(3)	–	–	–	–
Interest income	72	7	–	79	95	9	–	104
Interest cost	(67)	(8)	(1)	(76)	(90)	(11)	(1)	(102)
Net finance income/(cost) (Note 8)	5	(1)	(1)	3	5	(2)	(1)	2
Total charged to income statement	(46)	(3)	(8)	(57)	(41)	(4)	(8)	(53)

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

Amounts recognised in the Statement of Comprehensive Income

	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes 2020 £m	Total 2020 £m	Balfour Beatty Pension Fund 2019 £m	Railways Pension Scheme 2019 £m	Other schemes 2019 £m	Total 2019 £m
Actuarial movements on pension scheme obligations	(416)	(40)	2	(454)	(251)	(30)	(5)	(286)
Actuarial movements on pension scheme assets	370	22	–	392	300	29	–	329
Total actuarial movements recognised in the Statement of Comprehensive Income (Note 32.1)	(46)	(18)	2	(62)	49	(1)	(5)	43
Cumulative actuarial movements recognised in the statement of comprehensive income	(115)	(85)	(25)	(225)	(69)	(67)	(27)	(163)

The actual return on plan assets was a gain of £471m (2019: £433m gain).

Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes [†] 2020 £m	Total 2020 £m	Balfour Beatty Pension Fund 2019 £m	Railways Pension Scheme 2019 £m	Other schemes [†] 2019 £m	Total 2019 £m
Present value of obligations	(3,828)	(443)	(46)	(4,317)	(3,503)	(406)	(50)	(3,959)
Fair value of plan assets	4,043	363	–	4,406	3,752	340	–	4,092
Asset/(liabilities) in the balance sheet	215	(80)	(46)	89	249	(66)	(50)	133

[†] Investments in mutual funds of £21m (2019: £22m) are held to satisfy the Group's deferred compensation obligations (Note 20.1).

The defined benefit obligations comprise £46m (2019: £50m) arising from wholly unfunded plans and £4,271m (2019: £3,909m) arising from plans that are wholly or partly funded.

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Other schemes 2020 £m	Total 2020 £m	Balfour Beatty Pension Fund 2019 £m	Railways Pension Scheme 2019 £m	Other schemes 2019 £m	Total 2019 £m
At 1 January	(3,503)	(406)	(50)	(3,959)	(3,316)	(377)	(49)	(3,742)
Currency translation differences	–	–	–	–	–	–	2	2
Current service cost	(1)	(2)	(1)	(4)	(2)	(1)	(1)	(4)
Past service cost as a result of GMP equalisation	(3)	–	–	(3)	–	–	–	–
Transfers	–	(3)	–	(3)	–	–	–	–
Interest cost	(67)	(8)	(1)	(76)	(90)	(11)	(1)	(102)
Actuarial movements from reassessing the difference between RPI and CPI	(30)	(18)	–	(48)	(20)	(15)	–	(35)
Other financial actuarial movements	(228)	(23)	2	(249)	(368)	(40)	(5)	(413)
Actuarial movements from changes in demographic assumptions	(162)	–	–	(162)	190	25	–	215
Experience gains/(losses)	4	1	–	5	(53)	–	–	(53)
Total actuarial movements	(416)	(40)	2	(454)	(251)	(30)	(5)	(286)
Benefits paid	162	16	4	182	156	13	4	173
At 31 December	(3,828)	(443)	(46)	(4,317)	(3,503)	(406)	(50)	(3,959)

Following independent advice from the Group's actuaries and considering the correspondence between the Chancellor of the Exchequer and the UK Statistics Authority (UKSA) to potentially align the RPI with CPIH (a variant of the Consumer Prices Index that includes an estimate of housing costs), the Group reassessed the difference between RPI and CPI measures of price inflation from an average margin of 0.85% for BBPF and 0.75% for RPS at December 2019 to an average margin of 0.65% for BBPF and 0.45% for RPS at December 2020. This resulted in an actuarial loss of £48m being recognised within the statement of other comprehensive income.

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2020 £m	Railways Pension Scheme 2020 £m	Total 2020 £m	Balfour Beatty Pension Fund 2019 £m	Railways Pension Scheme 2019 £m	Total 2019 £m
At 1 January	3,752	340	4,092	3,487	309	3,796
Interest income	72	7	79	95	9	104
Actuarial movements	370	22	392	300	29	329
Transfers	–	3	3	–	–	–
Contributions from employer						
– regular funding	2	1	3	2	1	3
– ongoing deficit funding	9	6	15	24	6	30
Administrative expenses	–	–	–	–	(1)	(1)
Benefits paid	(162)	(16)	(178)	(156)	(13)	(169)
At 31 December	4,043	363	4,406	3,752	340	4,092

Fair value of the assets held by the schemes at 31 December

	2020			2019		
	Balfour Beatty Pension Fund £m	Railways Pension Scheme [†] £m	Total £m	Balfour Beatty Pension Fund £m	Railways Pension Scheme [†] £m	Total £m
Return-seeking	1,033	193	1,226	1,168	191	1,359
– Developed nation equities	341	–	341	369	–	369
– Emerging market equities	68	–	68	38	–	38
– Hedge funds	350	–	350	354	–	354
– Return-seeking growth pooled funds	–	193	193	–	191	191
– Other return-seeking assets	274	–	274	407	–	407
Liability-matching bond-type assets	2,315	170	2,485	1,991	149	2,140
– Corporate bonds	483	–	483	426	–	426
– Fixed interest gilts [^]	478	–	478	623	–	623
– Index-linked gilts [^]	1,216	–	1,216	824	–	824
– Liability-matching pooled funds	–	170	170	–	149	149
– Interest and inflation rate swaps	138	–	138	118	–	118
Property	165	–	165	231	–	231
Secure income assets	176	–	176	177	–	177
Cash and other	354	–	354	185	–	185
Total	4,043	363	4,406	3,752	340	4,092

[†] The amounts represent 100% of the scheme's assets.

[^] Of the assets above, £1,694m (2019: £1,447m) are assets that have quoted prices in active markets. The remaining assets that are neither quoted nor traded on an active market are stated at fair value estimates provided by the manager of the investment or fund.

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2021

	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Total 2021 £m
Regular funding	1	1	2
Ongoing deficit funding ⁺	15	6	21
Total required by schedule of contributions	16	7	23
Estimated BBPF running costs to be funded from ongoing deficit contributions [*]	(3)	–	(3)
Estimated total cash contributions	13	7	20

^{*} The running costs of the BBPF are funded from ongoing deficit contributions as per the BBPF schedule of contributions.

⁺ Ongoing deficit funding contributions presented above for the BBPF in 2021 are expected to be less than the amounts prescribed in the funding agreement due to overpaid contributions in 2020.

30 Retirement benefit assets and liabilities continued**30.2 IAS 19 accounting valuations continued**

The sensitivity analysis below has been determined based on reasonably possible changes in assumptions occurring at the end of the reporting period. In each case the relevant change in assumption occurs in isolation from potential changes in other assumptions. In practice more than one variable is likely to change at the same time. The sensitivities have been calculated using the projected unit credit method.

Sensitivity of the Group's retirement benefit obligations at 31 December 2020 to different actuarial assumptions

Assumptions	Sensitivity to increase in assumption			Sensitivity to decrease in assumption		
	Percentage points/years	(Decrease)/increase in obligations %	(Decrease)/increase in obligations £m	Percentage points/years	(Decrease)/increase in obligations %	(Decrease)/increase in obligations £m
Discount rate	0.5%	(7.7)%	(327)	(0.5)%	8.7%	372
Market expectation of RPI inflation	0.5%	5.6%	241	(0.5)%	(5.3)%	(225)
Salary growth	0.5%	<0.1%	1	(0.5)%	(<0.1)%	(1)
Life expectancy	1 year	5.0%	212	(1 year)	(4.9)%	(209)

Sensitivity of the Group's retirement benefit assets at 31 December 2020 to changes in market conditions

	Percentage points	(Decrease)/increase in assets %	(Decrease)/increase in assets £m
Increase in interest rates	0.5%	(7.3)%	(321)
Increase in market expectation of RPI inflation	0.5%	4.5%	196

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

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Present value of obligations	(4,317)	(3,959)	(3,742)	(3,956)	(4,155)
Fair value of assets	4,406	4,092	3,796	3,988	3,924
Surplus/(deficit)	89	133	54	32	(231)
Experience adjustment for obligations	5	(53)	(4)	21	76
Experience adjustment for assets	392	329	(117)	148	704
Total deficit funding	15	30	27	25	41

30.3 Latest formal triennial funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal triennial funding valuation	31/03/2019	31/12/2016
Scheme deficit		
Market value of assets	4,136	319
Present value of obligations	(4,228)	(367)
Deficit in defined benefit scheme	(92)	(48)
Funding level	97.8%	86.9%

31 Share capital

31.1 Ordinary shares of 50p each

	Issued	
	Million	£m
At 31 December 2019 and 2020	690	345

All issued ordinary shares are fully paid. Ordinary shares carry no right to fixed income but each share carries the right to one vote at general meetings of the Company. No ordinary shares were issued during the current or prior year.

On 9 December 2020, the Company announced a £50m share buyback programme, which commenced on 5 January 2021. Refer to Note 39.

31.2 Cumulative convertible redeemable preference shares of 1p each

	2020		2019	
	Million	£m	Million	£m
Issued	–	–	112	1

On 1 July 2020, the Company redeemed its 112m preference shares in full for £112m and cancelled them. The redemption of these shares resulted in £1m, representing the nominal amount of 1p per preference share, being transferred to the capital redemption reserve (included within other reserves) and £111m being transferred to share premium. These movements were offset by the release of the £18m equity component of the redeemed preference shares and a transfer from retained earnings of £94m.

Liability component recognised in the Balance Sheet

	2020 £m	2019 £m
Redemption value of shares in issue at 1 January	112	112
Equity component	(18)	(18)
Interest element	12	12
Liability component at 1 January at amortised cost	110	106
Interest accretion	2	4
Redemption of preference shares	(112)	–
Liability component at 31 December at amortised cost	–	110

Interest expense on the preference shares is calculated using the effective interest method.

32 Movements in equity

32.1 Group

	Other reserves											
	Called-up share capital 2020 £m	Share premium account 2020 £m	Special reserve 2020 £m	Share of joint ventures' and associates' reserves (Note 19.6) 2020 £m	Equity component of preference shares 2020 £m	Hedging reserves 2020 £m	PPP financial assets 2020 £m	Currency translation reserve 2020 £m	Other 2020 £m	Retained profits 2020 £m	Non-controlling interests 2020 £m	Total 2020 £m
At 1 January 2020	345	65	22	46	18	(29)	27	109	17	748	9	1,377
Profit/(loss) for the year	–	–	–	38	–	–	–	–	–	(8)	–	30
Currency translation differences	–	–	–	(4)	–	–	–	(11)	–	–	–	(15)
Actuarial movements on retirement benefit liabilities	–	–	–	–	–	–	–	–	–	(62)	–	(62)
Fair value revaluations												
– PPP financial assets	–	–	–	8	–	–	5	–	–	–	–	13
– cash flow hedges	–	–	–	1	–	(4)	–	–	–	–	–	(3)
– investments in mutual funds measured at fair value through OCI	–	–	–	–	–	–	–	–	2	–	–	2
Tax on items recognised in other comprehensive income	–	–	–	(2)	–	1	(2)	–	–	6	–	3
Total comprehensive (loss)/income for the year	–	–	–	41	–	(3)	3	(11)	2	(64)	–	(32)
Joint ventures' and associates' dividends	–	–	–	(50)	–	–	–	–	–	50	–	–
Redemption of preference shares	–	111	–	–	(18)	–	–	–	1	(94)	–	–
Reserve transfers relating to joint ventures and associates	–	–	–	28	–	–	–	–	–	(28)	–	–
At 31 December 2020	345	176	22	65	–	(32)	30	98	20	612	9	1,345

32 Movements in equity continued

32.1 Group continued

	Other reserves											
	Called-up share capital 2019 £m	Share premium account 2019 £m	Special reserve 2019 £m	Share of joint ventures' and associates' reserves (Note 19.6) 2019 £m	Equity component of preference shares 2019 £m	Hedging reserves 2019 £m	PPP financial assets 2019 £m	Currency translation reserve 2019 £m	Other 2019 £m	Retained profits 2019 £m	Non-controlling interests 2019 £m	Total 2019 £m
At 1 January 2019	345	65	22	63	18	(25)	24	123	22	575	10	1,242
Profit for the year	–	–	–	66	–	–	–	–	–	64	3	133
Currency translation differences	–	–	–	(7)	–	–	–	(12)	–	–	–	(19)
Actuarial movements on retirement benefit liabilities	–	–	–	2	–	–	–	–	–	43	–	45
Fair value revaluations	–	–	–	–	–	–	–	–	–	–	–	–
– PPP financial assets	–	–	–	24	–	–	3	–	–	–	–	27
– cash flow hedges	–	–	–	2	–	(4)	–	–	–	–	–	(2)
– investments in mutual funds measured at fair value through OCI	–	–	–	–	–	–	–	–	2	–	–	2
Recycling of revaluation reserves to the income statement on disposal [@]	–	–	–	(2)	–	–	–	(2)	–	–	–	(4)
Tax on items recognised in other comprehensive income [@]	–	–	–	(6)	–	–	–	–	–	(8)	–	(14)
Total comprehensive income/(loss) for the year	–	–	–	79	–	(4)	3	(14)	2	99	3	168
Ordinary dividends	–	–	–	–	–	–	–	–	–	(36)	–	(36)
Joint ventures' and associates' dividends	–	–	–	(95)	–	–	–	–	–	95	–	–
Non-controlling interests' dividends	–	–	–	–	–	–	–	–	–	–	(4)	(4)
Movements relating to share-based payments	–	–	–	–	–	–	–	–	(7)	14	–	7
Reserve transfers relating to joint venture and associate disposals	–	–	–	(1)	–	–	–	–	–	1	–	–
At 31 December 2019	345	65	22	46	18	(29)	27	109	17	748	9	1,377

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

32 Movements in equity continued**32.2 Company**

	Called-up share capital £m	Share premium account £m	Special reserve £m	Other reserves	Retained profits £m	Total £m
				Equity component of preference shares £m	Other £m	
At 1 January 2019	345	65	22	18	87	1,410
Loss for the year	–	–	–	–	–	(30)
Currency translation differences	–	–	–	–	–	3
Total comprehensive loss for the year	–	–	–	–	–	(27)
Ordinary dividends	–	–	–	–	–	(36)
Movements relating to share-based payments	–	–	–	–	8	(1)
At 31 December 2019	345	65	22	18	95	1,354
Profit for the year	–	–	–	–	–	67
Currency translation differences	–	–	–	–	–	(5)
Total comprehensive profit for the year	–	–	–	–	–	62
Redemption of preference shares	–	111	–	(18)	1	(94)
Movements relating to share-based payments	–	–	–	–	6	(6)
At 31 December 2020	345	176	22	–	102	1,416

As permitted under Section 408 of the Companies Act 2006, the Company has elected not to present its Statement of Comprehensive Income (including the profit and loss account) for the year. Balfour Beatty plc reported a profit for the financial year ended 31 December 2020 of £67m (2019: £30m loss).

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £nil occurred in 2020 (2019: £nil).

32.3 Balfour Beatty Employee Share Ownership Trust

The retained profits in the Group and the retained profits of the Company are stated net of investments in Balfour Beatty plc ordinary shares acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Performance Share Plan, the Executive Buyout Scheme, the Deferred Bonus Plan and the Restricted Share Plan. In 2020, 3.5m (2019: 0.9m) shares were purchased at a cost of £7.9m (2019: £2.0m). The market value of the 3.9m (2019: 3.7m) shares held by the Trust at 31 December 2020 was £10.5m (2019: £9.6m). The carrying value of these shares is £8.7m (2019: £9.3m).

Following confirmation of the performance criteria at the end of the performance period in the case of the Performance Share Plan, and at the end of the vesting period in the case of the Deferred Bonus Plan and the Restricted Share Plan, the appropriate number of shares will be unconditionally transferred to participants. In 2020, 1.7m shares were transferred to participants in relation to the March 2017 awards under the Performance Share Plan (2019: 2.1m shares were transferred to participants in relation to the April 2016 awards under the Performance Share Plan), 0.5m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2019: 0.6m shares) and 1.1m shares were transferred to participants in relation to awards under the Restricted Share Plan (2019: 0.9m).

The Trustees have waived the rights to dividends on shares held by the trust. Participants in the schemes receive an award of shares to represent the dividends which would have been payable on the shares since the date of grant.

Other reserves in the Group and Company include £7.2m (2019: £7.2m) relating to unvested Performance Share Plan awards, £4.1m (2019: £4.1m) relating to unvested Restricted Share Plan awards and £2.8m (2019: £2.4m) relating to unvested Deferred Bonus Plan awards.

33 Notes to the statement of cash flows

33.1 Cash from/(used in) operations

	Notes	Underlying items ¹ 2020 £m	Non-underlying items 2020 £m	2020 £m	2019 £m
Profit from operations		51	12	63	159
Share of results of joint ventures and associates	19	(38)	–	(38)	(66)
Depreciation of property, plant and equipment	16	24	–	24	28
Depreciation of right-of-use assets	17	56	–	56	45
Depreciation of investment properties	18	2	–	2	1
Amortisation of other intangible assets	15	11	6	17	17
Impairment of goodwill	14	–	–	–	58
Impairment of IT intangible assets	15	1	–	1	–
Impairment of property, plant and equipment	16	–	–	–	8
Pension payments including deficit funding	30.2	(18)	–	(18)	(33)
Movements relating to equity-settled share-based payments	35	8	–	8	10
Gain on disposal of interests in investments	34.2	–	–	–	(40)
Profit on disposal of property, plant and equipment		(7)	–	(7)	(6)
Loss on GMP equalisation		–	3	3	–
Other non-cash items		(2)	–	(2)	(1)
Operating cash flows before movements in working capital		88	21	109	180
Decrease in operating working capital				167	32
Inventories				(14)	(18)
Contract assets				87	(19)
Trade and other receivables				42	(56)
Contract liabilities				67	(11)
Trade and other payables				(69)	157
Provisions				54	(21)
Cash from operations				276	212

1 Before non-underlying items (Notes 2.10 and 10).

33.2 Cash and cash equivalents

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Cash and deposits	591	589	80	137
Term deposits	179	154	178	151
Cash balances within infrastructure concessions	22	35	–	–
	792	778	258	288

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of less than three months.

33.3 Analysis of movements in borrowings

	Infrastructure concessions non-recourse project finance £m	US private placement £m	Other £m	Total £m
At 1 January 2019	(379)	(239)	(15)	(633)
Currency translation differences	–	8	–	8
Proceeds of loans	(6)	–	–	(6)
Repayments of loans	48	–	15	63
At 31 December 2019	(337)	(231)	–	(568)
Currency translation differences	–	6	–	6
Proceeds of loans	(6)	–	–	(6)
Repayments of loans	4	36	–	40
At 31 December 2020	(339)	(189)	–	(528)

On 5 March 2020, the Group repaid the second tranche of its US private placement notes amounting to US\$46m (£36m). US\$259m remain outstanding, with the next tranche of US\$209m being due in March 2023 and the final tranche of US\$50m being due in March 2025.

The Group has a committed bank facility of £375m provided by a set of relationship banks. The purpose of the facility is to provide liquidity as required to support Balfour Beatty in its activities.

In October 2020, the Group agreed a one-year extension to the facility, which will now expire in October 2023. A further one-year extension option through to October 2024 remains available to the Group, subject to lenders' approval. This facility was undrawn at 31 December 2020.

34 Acquisitions and disposals

34.1 Current and prior year acquisitions

There were no material acquisitions in 2020.

Deferred consideration paid during 2020 in respect of acquisitions completed in earlier years was £3m (2019: £3m). This related to the Group's acquisition of Centex Construction in 2007.

34.2 Current year disposals

There were no disposals made in 2020.

The Group received £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

The Group also received £1m of deferred consideration in relation to the disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. This deferred consideration was received as part of the earn-out agreement that was entered into with the buyer as part of the disposal and was included in the Group's assessment of the additional gain on disposal recognised in 2019.

34.3 Prior year disposals

In 2019, the Group disposed of several Infrastructure Investments assets as detailed below. These disposals were either structured as a sale of the infrastructure investment asset itself or through the sale of the Group's equity interest in the entity which owns the asset.

The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates.

Notes	Disposal date	Entity/asset	Structure of sale	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Underlying gain £m
34.3.1	2 January 2019	Ranch at Pinnacle Point ⁺	Asset sale	n/a	8	(5)	1	4
34.3.2	1 February 2019	Borden Data Centre [^]	Asset sale	n/a	6	(3)	–	3
34.3.3	13 February to 28 March 2019	Dallas 5 Portfolio [^]	Asset sale	n/a	11	(4)	1	8
34.3.4	28 March 2019	Mobile Alabama portfolio [^]	Asset sale	n/a	5	(2)	–	3
34.3.5	18 September 2019	THP Partnership (North Island Hospitals) [#]	Equity interest sale	50	17	(11)	1	7
34.3.6	27 September 2019	BBCS-Hawkeye Housing LLC (Iowa) ^{&}	Equity interest sale	100	60	(44)	–	16
34.3.7	30 September 2019	Gammon Capital (West) Holdings Pte. Ltd [^]	Equity interest sale	50	25	(17)~	1	9
34.3.8	10 October 2019	Evergreen portfolio [^]	Asset sale	n/a	8	(2)	–	6
34.3.9	5 December 2019	Townlake of Coppell [#]	Equity interest sale	10	5	(2)	–	3
34.3.10	16 December 2019	Reno student accommodation ⁺	Asset sale	–	22	(15)	–	7
34.3.11		Other		n/a	3	–	–	3
					170 [∞]	(105)	4	69
		Less: Repayment of debt following disposal of Iowa and Reno assets			(60)			
		Less: Cash proceeds not included in the Directors' valuation [@]			(7)			
		Less: Cash and cash equivalents disposed relating to Iowa			(1)			
		Disposal proceeds per the Directors' valuation			102			

+ Disposal of asset within a subsidiary entity.

[^] Disposal of asset within a joint venture entity. The disposal of Gammon ITE West was structured as a disposal of equity interests in Gammon Capital (West) Holdings Pte Ltd within a joint venture entity.

[#] Disposal of joint venture.

[&] Disposal of subsidiary.

[∞] Proceeds from the sale within joint venture entities were included within Dividends received from joint ventures and associates – infrastructure investments and within Return of equity from joint ventures and associates in the statement of cash flows. The proceeds shown above include a non-controlling interest element of £4m relating to the disposal of the Group's Dallas 5 Portfolio asset.

~ Net assets disposed include £8m of subordinated debt receivable which was settled as part of the disposal.

[@] Sales proceeds per the Directors' valuation do not include the £2m additional sales proceeds received in relation to the Group's disposal of its 50% interest in Consort Healthcare (Fife) Holdings Ltd, the £1m deferred consideration received in relation to the Group's disposal of its Middle Eastern joint ventures and the £4m element of consideration attributable to a non-controlling interest relating to the disposal of the Group's Dallas 5 Portfolio asset.

34 Acquisitions and disposals continued

34.3 Prior year disposals continued

34.3.1 On 2 January 2019, the Group disposed of its Ranch at Pinnacle Point asset, a 392-unit residential property located in Rogers, Arkansas, for a cash consideration of £8m. The asset disposal resulted in a gain of £4m being recognised in underlying operating profit, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal.

34.3.2 On 1 February 2019, the Group disposed of its Borden data centre asset located in Ontario, Canada for a total consideration of £6m. The asset disposal resulted in a gain of £3m being recognised in the Group's share of joint ventures and associates.

34.3.3 On 13 February 2019, 15 March 2019, 22 March 2019 and 28 March 2019, the Group disposed of its Dallas 5 Portfolio asset, a 1,593-unit residential portfolio located throughout Dallas, Texas, for a total consideration of £11m. These asset disposals resulted in a gain of £8m being recognised in the Group's share of joint ventures and associates, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal. Part of the consideration and gain recognised by the Group is attributable to a non-controlling interest, amounting to £4m cash consideration and £2m gain respectively.

34.3.4 On 28 March 2019, the Group disposed of its Mobile Alabama portfolio, a 320-unit residential property portfolio located in Mobile, Alabama, for a total cash consideration of £5m. The asset disposal resulted in a gain of £3m being recognised in the Group's share of joint ventures and associates.

34.3.5 On 18 September 2019, the Group disposed of its entire 50% interest in North Island Hospitals, the concession for two Acute Care Centres on Vancouver Island, British Columbia. The infrastructure concession was disposed for a cash consideration of £17m and resulted in a gain being recognised in underlying operating profit of £7m, including a gain of £1m in respect of foreign currency translation reserves recycled to the income statement on disposal.

34.3.6 On 27 September 2019, the Group disposed of its entire 100% interest in BBCS-Hawkeye Housing LLC (Iowa) for cash consideration of £60m. This disposal resulted in a gain of £16m being recognised in underlying operating profit. The disposal included cash disposed of £1m.

34.3.7 On 30 September 2019, the Group disposed of its entire 50% interest in Gammon Capital (West) Holdings Pte. Ltd for cash consideration of £25m. This disposal resulted in a gain of £9m being recognised in the Group's share of joint ventures and associates, including gains of £1m and £8m in respect of foreign currency translation and PPP financial asset reserves respectively, and a loss of £8m in respect of hedging reserves, recycled to the income statement on disposal.

34.3.8 On 10 October 2019, the Group disposed of its Evergreen portfolio, a 882-unit residential property portfolio located in Atlanta, Georgia for cash consideration of £8m. The asset disposal resulted in a gain of £6m being recognised in the Group's share of joint ventures and associates.

34.3.9 On 5 December 2019, the Group disposed of its entire 10% interest in Coppell Properties, LLC (Townlake of Coppell) for a cash consideration of £5m. This disposal resulted in a gain of £3m being recognised in underlying operating profit.

34.3.10 On 16 December 2019, the Group disposed of its Reno student accommodation asset for cash consideration of £22m. This disposal resulted in a gain of £7m being recognised in underlying operating profit.

34.3.11 In 2019, the Group received an additional £2m of proceeds, with a further £1m being deferred into future periods, relating to its disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. The additional proceeds relate to the earn-out agreement that was entered into with the buyer as part of the disposal. At the time of the disposal, the Group did not include an estimate of the potential earn-out within its assessment of the gain on disposal as there was significant uncertainty as to whether the earn-out hurdles would be met. This additional gain of £3m was recognised as an underlying gain consistent with the Group's treatment of the gain on disposal previously recognised.

The Group also received £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

34.3.12 Subsidiaries net assets disposed

		BBCS-Hawkeye Housing LLC (Iowa) £m
Net assets disposed	Note	
Property, plant and equipment	16	44
Trade and other payables		(1)
Cash		1
		44
Cash consideration		(60)
Gain on disposal		(16)
Net cash flow effect		
Total consideration		60
Cash and cash equivalents disposed		(1)
Net cash consideration		59

35 Share-based payments

The Company operates three equity-settled share-based payment arrangements, namely the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP) and the Restricted Share Plan (RSP). The Group recognised total expenses relating to equity-settled share-based payment transactions of £8m in 2020 (2019: £10m). Refer to the Remuneration report for details of the PSP and DBP schemes.

The Company also operates three cash-settled share-based payment arrangements, namely the Shadow PSP (SPSP), the Shadow RSP (SRSP) and the Shadow Deferred Bonus Plan (SDBP). These share-based payment arrangements mirror the conditions of the equity-settled PSP, RSP and DBP plans, the only difference being they are settled in cash. The Group recognised total expenses relating to cash-settled share-based payment transactions of £5m (2019: £6m).

Movements in share plans

Equity-settled share-based payment awards

	PSP conditional awards	DBP conditional awards	RSP conditional awards
2020 number of awards			
Outstanding at 1 January	9,008,081	1,896,170	3,695,775
Granted during the year	3,972,249	1,041,528	1,136,761
Awards in lieu of dividends	–	–	–
Forfeited during the year	(1,740,854)	(124,022)	(199,044)
Exercised during the year	(1,680,913)	(504,312)	(1,092,400)
Expired during the year	–	–	–
Outstanding at 31 December	9,558,563	2,309,364	3,541,092
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.3	1.4	1.5
Weighted average share price at the date of exercise for awards exercised in the year	263.8	216.6	261.1
2019 number of awards			
Outstanding at 1 January	9,228,854	1,839,625	3,283,682
Granted during the year	3,491,337	720,664	1,540,549
Awards in lieu of dividends	–	41,745	74,051
Forfeited during the year	(1,721,747)	(71,534)	(349,718)
Exercised during the year	(1,990,363)	(634,330)	(852,789)
Expired during the year	–	–	–
Outstanding at 31 December	9,008,081	1,896,170	3,695,775
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.3	1.4	1.6
Weighted average share price at the date of exercise for awards exercised in the year	259.6p	262.0p	245.3p

The principal assumptions, including expected volatility determined from the historical weekly share price movements over the three-year period immediately preceding the award date, used by the consultants in the stochastic model for the 33.3% of the PSP awards granted in 2020 subject to market conditions, were:

Award date	Name of award	Number of awards	Closing share price on award date Pence	Expected volatility of shares %	Expected term of awards Years	Risk-free interest rate %	Calculated fair value of an award Pence
11 June 2020	PSP award	883,860	259.0	31.39%	3.0	0.00	205.0
23 March 2020	PSP award	3,088,389	197.3	28.97%	3.0	0.05	155.0

For the 66.7% of the PSP awards granted in 2020 subject to non-market conditions and for the DBP and RSP awards granted in 2020, the fair value of the awards is the closing share price on the date of grant.

Cash-settled share-based payment awards

	SPSP conditional awards	SDBP conditional awards	SRSP conditional awards
2020 number of awards			
Outstanding at 1 January	7,771,941	328,737	1,102,053
Granted during the year	3,989,675	831,076	544,000
Awards in lieu of dividends	–	–	–
Forfeited during the year	(1,603,849)	(92,783)	(297,771)
Exercised during the year	(1,281,170)	–	–
Expired during the year	–	–	–
Outstanding at 31 December	8,876,597	1,067,030	1,348,282
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.3	1.7	1.4
Weighted average share price at the date of exercise for awards exercised in the year	263.1	–	–

As at 31 December 2020, the Group's liability in respect of these cash-settled share-based payment awards amounted to £11m (2019: £9m). This liability has been recorded within accruals.

35 Share-based payments continued

Movements in share plans continued

Cash-settled share-based payment awards continued

	SPSP conditional awards	SDBP conditional awards	SRSP conditional awards
2019 number of awards			
Outstanding at 1 January	5,771,435	–	369,754
Granted during the year	3,139,866	321,573	724,621
Awards in lieu of dividends	–	7,164	25,992
Forfeited during the year	(695,032)	–	(18,314)
Exercised during the year	(444,328)	–	–
Expired during the year	–	–	–
Outstanding at 31 December	7,771,941	328,737	1,102,053
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.3	2.3	2.0
Weighted average share price at the date of exercise for awards exercised in the year	261.4p	–	–

36 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £3m (2019: £7m) in the Group and £nil (2019: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt in Infrastructure Investments projects which have reached financial close. Refer to Note 41(f).

37 Contingent liabilities

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

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

In June 2019, allegations about the handling of certain work orders were publicised about a number of military bases managed by Balfour Beatty Communities (BBC). Subsequently, the US Department of Justice (DoJ) commenced an investigation into the allegations of false claims. Balfour Beatty instructed Hunton Andrews Kurth LLP, BBC's outside counsel, to conduct its own investigation, and BBC proactively contacted the DoJ to notify them of the review. Balfour Beatty's own investigation is substantially complete, and the Group's findings have been shared with the DoJ.

The Group has made a provision in the current year for an estimate of the historical incentive fees that its investigation was unable to fully verify and which BBC has proposed to be repaid. The Group's external counsel is engaging with the DoJ, with the intention of seeking resolution but as the DOJ investigation is still ongoing, the Group is not able to provide any further indication or measure with sufficient reliability the outcome of the investigation, including timing or any quantum of any possible fine, penalty or damages that may arise.

38 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £345m (2019: £334m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due from or to joint ventures and associates at the reporting date are disclosed in Notes 24 and 25 respectively.

Transactions with non-Group members

The Group also entered into transactions and had amounts outstanding with related parties which are not members of the Group as set out below. These companies were related parties as they are or were controlled or jointly controlled by a non-executive director of Balfour Beatty plc.

	2020 £m	2019 £m
Sale of goods and services		
Anglian Water Group Ltd*	5	19
URENCO Ltd	–	2
Purchase of goods and services		
Anchor QEA, LLC	1	–

+ Anglian Water Group Ltd ceased to be a related party of the Group on 31 March 2020 following the retirement of Stephen Billingham as chairman from the board of Anglian Water. The sales of goods and services to Anglian Water Group Ltd represents the sales carried out in periods up until his retirement.

All transactions with these related parties were conducted on normal commercial terms, equivalent to those conducted with external parties. At 31 December 2020, there were no amounts owed by or to these related parties (2019: £nil) and no guarantees have been given or received and no expense has been recognised in either year for bad or doubtful debts in respect of amounts owed by related parties.

38 Related party transactions continued

Compensation of key management personnel of the Company

	2020 £m	2019 £m
Short-term benefits	2,610	3,034
Share-based payments	1,278	1,314
	3,888	4,348

Key management personnel comprise the executive Directors who are directly responsible for the Group's activities and the non-executive Directors. The compensation included above is in respect of the period of the year during which the individuals were Directors. Further details of Directors' emoluments, post-employment benefits and interests are set out in the Remuneration report on pages 134 to 150.

39 Events after the reporting date

On 9 December 2020, the Company announced a £50m share buyback programme, which commenced on 5 January 2021. In the period from 5 January 2021 to 8 March 2021 (the last practicable date prior to the date of this document), the Company purchased 8.6m ordinary shares to be held in treasury with no voting rights for a total consideration of £23.6m. On 9 March 2021, the Board decided to extend the Company's initial share buyback programme to £150m for 2021.

During the year the Group received grant income of £19m in relation to the UK Government's Job Retention Scheme (JRS). This income was recognised as a non-underlying item in the Group's results. Refer to Note 10.2.1. The furlough scheme provided welcome and timely support but the Group has made the decision post 31 December 2020 to voluntarily refund this income. Due to the timing of the decision to repay the JRS, there was no liability recognised at 31 December 2020 and the cost of the refund will be recognised as a non-underlying item within the Group's 2021 results.

On 4 March 2021 the UK Government announced an intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. It is currently expected that this will become substantively enacted during 2021 and hence the Group's deferred tax balances will be reassessed at that time. The impact of this rate change would have been an increase of around £20m to the Group's deferred tax assets as at 31 December 2020 if the tax increase had been substantively enacted by that date. The actual impact will be dependent on a number of factors including actuarial movements in the Group's pension schemes.

As at 9 March 2021, there were no other material post balance sheet events arising after the reporting date.

40 Financial instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The components of capital are as follows: equity attributable to equity holders of the Company comprising issued ordinary share capital, reserves and retained earnings as disclosed in Notes 31.1 and 32; US private placement as disclosed in Note 27; and cash and cash equivalents and borrowings as disclosed in Note 27.

The Group maintains or adjusts its capital structure through the payment of dividends to equity holders, issue of new shares and buyback of existing shares, and drawdown of new borrowings and repayment of existing borrowings. On 1 July 2020, the Company redeemed its convertible redeemable preference shares as disclosed in Note 31.2. The policy of the Group is to ensure an appropriate balance between cash, borrowings (other than the non-recourse borrowings of companies engaged in Infrastructure Investments projects), working capital and the value in the Infrastructure Investments investment portfolio.

The overall capital risk management strategy of the Group remains unchanged from 2019.

On 9 December 2020, the Company announced a £50m share buyback programme, which commenced on 5 January 2021. Refer to Note 39.

Categories of financial instruments

	Loans and receivables at amortised cost, cash and deposits 2020 £m	Financial liabilities at amortised cost 2020 £m	Financial assets at fair value through OCI 2020 £m	Financial assets at amortised cost 2020 £m	Derivatives 2020 £m	Loans and receivables at amortised cost, cash and deposits 2019 £m	Financial liabilities at amortised cost 2019 £m	Financial assets at fair value through OCI 2019 £m	Financial assets at amortised cost 2019 £m	Derivatives 2019 £m
Financial assets										
Fixed rate bonds and treasury stock	–	–	–	5	–	–	–	–	5	–
Mutual funds	–	–	21	–	–	–	–	22	–	–
PPP financial assets	–	–	155	–	–	–	–	155	–	–
Cash and deposits	792	–	–	–	–	778	–	–	–	–
Trade and other receivables	1,047	–	–	–	–	1,109	–	–	–	–
Total	1,839	–	176	5	–	1,887	–	177	5	–
Financial liabilities										
Liability component of preference shares	–	–	–	–	–	–	(110)	–	–	–
Trade and other payables	–	(1,456)	–	–	–	–	(1,570)	–	–	–
Unsecured borrowings	–	(189)	–	–	–	–	(231)	–	–	–
Infrastructure concessions non-recourse term loans	–	(339)	–	–	–	–	(337)	–	–	–
Derivatives	–	–	–	–	(36)	–	–	–	–	(32)
Total	–	(1,984)	–	–	(36)	–	(2,248)	–	–	(32)
Net	1,839	(1,984)	176	5	(36)	1,887	(2,248)	177	5	(32)
Current year comprehensive income/(loss) excluding share of joint ventures and associates	27	(36)	15	–	(4)	24	(49)	14	2	(6)

40 Financial instruments continued

Derivatives

	Financial liabilities			Financial liabilities		
	Current 2020 £m	Non- current 2020 £m	Total 2020 £m	Current 2019 £m	Non- current 2019 £m	Total 2019 £m
Interest rate swaps						
Designated as cash flow hedges	(4)	(32)	(36)	(4)	(28)	(32)
	(4)	(32)	(36)	(4)	(28)	(32)

Non-derivative financial liabilities gross maturity

The following table details the remaining contractual maturity for the Group's non-derivative financial liabilities. The table reflects the undiscounted contractual maturities of the financial liabilities including interest that will accrue on those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that are not included in the carrying value of the financial liability.

Maturity profile of the Group's non-derivative financial liabilities at 31 December

	Non-recourse project finance 2020 £m	Other borrowings 2020 £m	Other financial liabilities 2020 £m	Total non- derivative financial liabilities 2020 £m	Discount 2020 £m	Carrying value 2020 £m
Due on demand or within one year	(7)	–	(1,335)	(1,342)	1	(1,341)
Due within one to two years	(9)	–	(64)	(73)	–	(73)
Due within two to five years	(59)	(189)	(51)	(299)	2	(297)
Due after more than five years	(469)	–	(6)	(475)	202	(273)
	(544)	(189)	(1,456)	(2,189)	205	(1,984)
Discount	205	–	–	205		
Carrying value	(339)	(189)	(1,456)	(1,984)		

	Non-recourse project finance 2019 £m	Other borrowings 2019 £m	Other financial liabilities 2019 £m	Total non- derivative financial liabilities 2019 £m	Discount 2019 £m	Carrying value 2019 £m
Due on demand or within one year	(6)	(35)	(1,580)	(1,621)	4	(1,617)
Due within one to two years	(9)	–	(48)	(57)	1	(56)
Due within two to five years	(59)	(158)	(44)	(261)	5	(256)
Due after more than five years	(496)	(38)	(10)	(544)	225	(319)
	(570)	(231)	(1,682)	(2,483)	235	(2,248)
Discount	233	–	2	235		
Carrying value	(337)	(231)	(1,680)	(2,248)		

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 2020 £m	Receivable 2020 £m	Net payable 2020 £m	Payable 2019 £m	Receivable 2019 £m	Net payable 2019 £m
Due on demand or within one year	(37)	33	(4)	(23)	19	(4)
Due within one to two years	(12)	8	(4)	(5)	2	(3)
Due within two to five years	(15)	4	(11)	(11)	2	(9)
Due after more than five years	(22)	–	(22)	(21)	–	(21)
Total	(86)	45	(41)	(60)	23	(37)

40 Financial instruments continued

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk; credit risk; and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse effect of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- » forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company; and
- » interest rate swaps to mitigate the cash flow variability in non-recourse project finance loans arising from variable interest rates on borrowings.

There has been no material change to the Group's exposure to market risks and there has been no change in how the Group manages those risks since 2019.

(i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, euros and Hong Kong dollars. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Whenever a current or future foreign currency exposure is identified with sufficient reliability, Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer.

Refer to page 221 for details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures.

As at 31 December 2020, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £45m (2019: £18m) receivable and £45m (2019: £18m) payable with related cash flows expected to occur within five years (2019: five years). The foreign exchange gains or losses resulting from fair valuing these unhedged foreign exchange contracts will affect the income statement throughout the same periods.

In 2020, the Group has not designated any forward exchange contracts as cash flow hedges. In 2019, the Group designated forward exchange contracts with a notional principal amount of £5m receivable and £5m payable as cash flow hedges against highly probable cash flows which were expected to occur within five years. Fair value gains on these contracts of £nil were taken to hedging reserves through other comprehensive income in 2019.

No significant amounts in relation to hedge ineffectiveness have been charged or credited to the income statement in relation to any foreign exchange cash flow hedges.

The Group's investments in foreign operations are exposed to foreign currency translation risks. The Group does not enter into forward foreign exchange or other derivative contracts to hedge foreign currency denominated net assets.

In March 2013, the Group raised US\$350m through a US private placement which has been designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements. On 7 March 2018, the Group repaid the first tranche of this loan amounting to US\$45m. On 5 March 2020, the Group repaid the second tranche of this loan amounting to US\$46m. The Group has reassessed this hedge and has concluded that the hedge continues to be effective. Exchange movements in the year totalled £6m (2019: £8m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a £9m decrease (2019: £11m)/£9m increase (2019: £12m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

The hedging policy is reviewed periodically. At the reporting date there had been no change to the hedging policies since 2019.

(ii) Interest rate risk management

Interest rate risk arises in the Group's non-recourse project companies which borrow funds at both floating and fixed interest rates and hold financial assets measured at fair value through OCI. Floating rate borrowings expose the Group to cash flow interest rate risk. The Group's policy to manage this risk is to swap floating rate interest to fixed rate, using interest rate swap contracts.

In an interest rate swap, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The net effect of a movement in interest rates on income would be immaterial. The fair value of interest rate swaps is determined by discounting the future cash flows using the yield curve at the reporting date.

During 2020 and 2019, the Group's non-recourse project subsidiaries' borrowings at variable rates of interest were denominated in sterling.

The notional principal amounts of the subsidiaries' interest rate swaps outstanding at 31 December 2020 totalled £101m (2019: £105m) with maturities that match the maturity of the underlying borrowings ranging from one year to 19 years.

At 31 December 2020, the fixed interest rates range from 3.5% to 5.1% (2019: 3.5% to 5.1%) and the principal floating rates are LIBOR plus a fixed margin.

40 Financial instruments continued

Financial risk factors continued

(a) Market risk continued

(ii) Interest rate risk management continued

A 50 basis point increase/decrease in the interest rate in which financial instruments are held would lead to a £5m increase (2019: £5m)/£6m decrease (2019: £6m) in amounts taken directly to other comprehensive income by the Group in relation to the Group's exposure to interest rates on the PPP financial assets and cash flow hedges of its Infrastructure Investments subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and other borrowings. The majority of the debt of the Group is held at fixed interest rates. A 50 basis point increase/decrease in the interest rate of each currency in which these financial instruments are held would lead to a £4.6m decrease (2019: £4.0m)/£4.6m increase (2019: £4.0m) 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, loans provided to joint ventures and associates and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and deposits and derivative financial instruments, the Group has a policy of only using counterparties that are independently rated with a minimum long-term credit rating of BBB+ and at 31 December 2020 and 31 December 2019, this criterion was met. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board of Directors for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables, credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer. As such, the Group does not expect material credit losses to occur on balances owed to the Group by its public or regulated customers. This is in line with the Group's experience in the past of recovering balances owed by these customers.

The Group is exposed to credit risk on loans provided to joint ventures and associates, as the repayment of these loans is contingent on the performance of the underlying concession or operation. In the Infrastructure Investments segment the concessions are typically financed by a combination of non-recourse external borrowings and subordinated loans provided by the joint venture partners. The Group assesses any expected credit losses on its loans provided to joint ventures and associates by comparing the carrying value of the relevant investment in joint venture or associate balance (which includes the loans provided) to future cash flows expected to be received from the joint venture or associate, discounted where appropriate.

The maximum exposure to credit risk in respect of the above at the reporting date is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

There has been no material change to the Group's exposure to credit risks and there has been no change in how the Group manages those risks since 2019.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 27.1. The maturity profile of the Group's financial liabilities is set out on page 221.

There has been no material change to the Group's exposure to liquidity risks and there has been no change in how the Group manages those risks since 2019.

Fair value estimation

The Group holds certain financial instruments on the balance sheet at their fair values. The following hierarchy classifies each class of financial asset or liability in accordance with the valuation technique applied in determining its fair value.

There have been no transfers between these categories during 2020 or 2019.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds investments in mutual funds measured at fair value through OCI which are traded in active markets and valued at the closing market price at the reporting date.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date and taking into account own credit risk. Own credit risk for Infrastructure Investments' swaps is not material and is calculated using the following credit valuation adjustment (CVA) calculation: loss given default multiplied by exposure multiplied by probability of default.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts. Own credit risk for the other derivative liabilities is not material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party.

Level 3 – The fair value is based on unobservable inputs.

The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin by reference to the construction margin on non-PPP projects reflecting the construction risks retained by the construction contractor, and fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in other comprehensive income and other movements recognised in the income statement. Amounts originally recognised in other comprehensive income are transferred to the income statement upon disposal of the asset.

40 Financial instruments continued

Financial risk factors continued

(c) Liquidity risk continued

Fair value estimation continued

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £6m decrease (2019: £6m)/£6m increase (2019: £7m) in the fair value of the assets taken through equity. Refer to Note 21 for a reconciliation of the movement from the opening balance to the closing balance.

For PPP financial assets held in joint ventures and associates, a change in the discount rate by 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £53m decrease (2019: £44m)/£56m increase (2019: £47m) in the fair value of the assets taken through equity within the share of joint ventures and associates reserves.

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial instruments at fair value								
Investments in mutual fund financial assets	21	–	–	21	22	–	–	22
PPP financial assets	–	–	155	155	–	–	155	155
Total assets measured at fair value	21	–	155	176	22	–	155	177
Financial liabilities – infrastructure concessions interest rate swaps	–	(36)	–	(36)	–	(32)	–	(32)
Total liabilities measured at fair value	–	(36)	–	(36)	–	(32)	–	(32)

41 Principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries

	Country of incorporation or registration
Construction and support services	
Balfour Beatty Group Ltd	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Construction, LP	Canada
Balfour Beatty Infrastructure Inc	US
Infrastructure Investments	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Campus Solutions LLC	US
Balfour Beatty Investments, LP	Canada
Balfour Beatty Communities, LP	Canada
Other	
Balfour Beatty Holdings Inc.	US
Delphian Insurance Company Ltd*	Isle of Man

(b) Principal joint ventures and associates

	Country of incorporation or registration	Ownership interest %
Construction and support services		
Gammon China Ltd	Hong Kong	50.0
Infrastructure Investments (Note 41)		
Connect Plus (M25) Ltd		15.0

(c) Principal joint operations

The Group carries out a number of its larger contracts in joint arrangements with other contractors so as to share resources and risk. The principal joint projects in progress during the year are shown below.

	Country of incorporation or registration	Ownership interest %
M25 Maintenance		52.5
M4 Junction 3–12		60.0
HS2 – Area North		50.0
Skanska/Balfour Beatty	US	50.0
Driscoll/Balfour Beatty	US	35.0
Greenline Extension	US	25.0
LAX Integrated Express Solutions	US	30.0

Notes

(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.

(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.

* Indicates held directly by Balfour Beatty plc.

A full list of the Group's related undertakings is included in Note 43.

41 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK

Roads

Balfour Beatty is a promoter, developer and investor in 13 road and street lighting projects to construct new roads, to upgrade and maintain existing roads and to replace and maintain street lighting. The principal contract is the project agreement with the governmental highway authority. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Connect M1-A1 Ltd	30km road	290	20%	JV	March 1996	30	1999
Connect A50 Ltd	57km road	42	25%	JV	May 1996	30	1998
Connect A30/A35 Ltd	102km road	127	20%	JV	July 1996	30	2000
Connect M77/GSO plc (ii)	25km road	167	85%	JV	May 2003	32	2005
Connect Roads Sunderland Ltd	Streetlighting	27	20%	JV	August 2003	25	2008
Connect Roads South Tyneside Ltd	Streetlighting	28	20%	JV	December 2005	25	2010
Connect Roads Derby Ltd	Streetlighting	36	100%	Subsidiary	April 2007	25	2012
Connect Plus (M25) Ltd	J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	1,309	15%	JV	May 2009	30	2012
Connect CNDR Ltd	Carlisle Northern Development Route	176	25%	JV	July 2009	30	2012
Connect Roads Coventry Ltd	Streetlighting	56	20%	JV	August 2010	25	2015
Connect Roads Cambridgeshire Ltd	Streetlighting	51	20%	JV	April 2011	25	2016
Connect Roads Northamptonshire Ltd	Streetlighting	64	20%	JV	August 2011	25	2016
Aberdeen Roads Ltd	Aberdeen Western Peripheral Route	665	33.3%	JV	December 2014	33	2020

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Connect M77/GSO plc and Aberdeen Roads Ltd which are registered in and conduct their principal operations in Scotland.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

Healthcare

Balfour Beatty is a promoter, developer and investor in three healthcare projects to build hospital accommodation and to provide certain non-medical facilities management services over the concession period. The principal contract is the project agreement between the concession company and the NHS Trust and in the case of the Irish Primary Care Centres, the Irish Government. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	JV	June 2006	40	2011
Woodland View Project Co Ltd	Mental health hospital in Irvine	58	100%	Subsidiary	June 2014	27	2016
Healthcare Centres PPP Ltd	Primary health care centres	158	40%	JV	May 2016	26	2019

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Woodland View Project Co Ltd which is registered in and conducts its principal operations in Scotland and Healthcare Centres PPP Ltd which is registered in and conducts its principal operations in Ireland.

Student accommodation

Balfour Beatty is a promoter, developer and investor in four student accommodation projects. On Holyrood, Sussex and Aberystwyth, the principal agreement is between the concession company and the university and the assets transfer to the customer at the end of the concession. On Glasgow Residences the building is owned outright by Balfour Beatty and rooms will be let to individual students.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Holyrood Student Accommodation SPV Ltd	Edinburgh	82	20%	JV	July 2013	50	2016
Aberystwyth Student Accommodation Ltd	Aberystwyth	51	100%	Subsidiary	July 2013	35	2015
Glasgow Residences (Kennedy Street) SPV Ltd	Glasgow	40	100%	Subsidiary	April 2016	n/a	2017
East Slope Residences Student Accommodation LLP	Sussex	218	80%	Subsidiary	March 2017	50	2020

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales except Holyrood Student Accommodation SPV Ltd and Glasgow Residences (Kennedy Street) SPV Ltd which are registered in and conduct their principal operations in Scotland.

41 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK continued

Other concessions

Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex. Balfour Beatty Fire and Rescue NW Ltd is contracted by the local authority to design, construct, fund and provide facilities for 16 community firestations in Merseyside, Cumbria and Lancashire. UBB Waste (Gloucestershire) Ltd has a contract with the local authority to design, build and operate a sustainable waste treatment facility. Thanet involves the operation of transmission assets for the 300MW offshore windfarm project located off the Kent coast. Gwynt y Môr involves the operation of transmission assets for the 576MW offshore wind farm in the Irish Sea. Humber involves the operation of transmission assets for the 219MW offshore wind farm in the North Sea. Thanet, Gwynt y Môr and Humber operate and maintain the transmission assets under the terms of perpetual licences granted by Ofgem which contain the right to be paid a revenue stream over a 20-year period on an availability basis. Welland Bio Power involves the design, construction, financing, operation and maintenance of a 10.4MW waste wood gasifier located at Pebble Hall Farm, Thredingworth. The East Wick and Sweetwater development is a London Legacy Development Corporation project which will result in the creation of two communities, East Wick and Sweetwater, at the Queen Elizabeth Olympic Park in London. With the exception of the Welland Bio Power plant and the Eastwick and Sweetwater project, all assets transfer to the customer at the end of the relevant concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Pevensey Coastal Defence Ltd	Sea defences	3	25%	JV	July 2000	25	n/a
Balfour Beatty Fire and Rescue NW Ltd	Fire stations	55	100%	Subsidiary	February 2011	25	2013
East Wick and Sweetwater Projects (Phase 1) Ltd	Property development	90	50%	JV	January 2019	3	2021
UBB Waste (Gloucestershire) Ltd	Waste processing plant	223	49.5%	Associate	January 2016	25	2019
Thanet OFTO Ltd	Offshore transmission	197	20%	JV	December 2014	20	n/a
Gwynt y Môr OFTO plc (ii)	Offshore transmission	256	60%	JV	February 2015	20	n/a
Welland Bio Power Ltd	Waste wood gasifier	17	25%	JV	March 2015	n/a	2018
Humber Gateway OFTO Ltd	Offshore transmission	187	20%	JV	September 2016	20	n/a

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

(e) Balfour Beatty Investments North America

Military housing

Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 55 US government military bases which includes 55 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 43,000 housing units once development, construction and renovation are complete.

The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), seven projects with the United States Department of the Air Force (Air Force) and two projects with the United States Department of the Navy (Navy). In addition, there is one unaccompanied personnel housing (UPH) project with the Army at Fort Stewart.

Contractual arrangements The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, however it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC. On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, could potentially extend for up to an additional 25 years. The 50-year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the government.

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual minimum preferred return. On most existing projects, this annual minimum preferred return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Military housing continued

Allocation of remaining operating cash flow Operating cash flow remaining after the annual minimum preferred return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service.

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the applicable military service.

Military concession company (i)	Projects	Total project funding US\$m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson Family Housing LLC	Army base	176	November 2003	46	2004
– Fort Carson expansion		130	November 2006	43	2010
– Fort Carson GTA expansion		99	April 2010	39	2013
– Fort Carson GTA II expansion		68	June 2015	34	2018
Stewart Hunter Housing LLC	Two Army bases	374	November 2003	50	2012
Fort Hamilton Housing LLC	Army base	61	June 2004	50	2009
Fort Detrick/Walter Reed Army Medical Center Housing LLC	Two Army bases	112	July 2004	50	2008
Northeast Housing LLC	Seven Navy bases	496	November 2004	50	2010
Fort Eustis/Fort Story Housing LLC	Two Army bases	175	March 2005	50	2011
– Fort Eustis expansion		8	July 2010	45	2011
– Fort Eustis – Marseilles Village		26	March 2013	42	2015
Fort Bliss/White Sands Missile Range Housing LP	Two Army bases	427	July 2005	50	2011
– Fort Bliss expansion		46	December 2009	46	2011
– Fort Bliss GTA expansion phase I		156	July 2011	44	2014
– Fort Bliss GTA expansion phase II		146	November 2012	43	2016
Fort Gordon Housing LLC	Army base	109	May 2006	50	2012
Carlisle/Picatinny Family Housing LP	Two Army bases	84	July 2006	50	2011
– Carlisle Heritage Heights phase II		21	October 2012	44	2014
AETC Housing LP	Four Air Force bases	359	February 2007	50	2012
Southeast Housing LLC	11 Navy bases	558	November 2007	50	2013
Vandenberg Housing LP	Air Force base	155	November 2007	50	2012
Leonard Wood Family Communities LLC	Army base	231	Acquired June 2008	47	2014
AMC West Housing LP	Three Air Force bases	428	July 2008	50	2015
West Point Housing LLC	Army base	220	August 2008	50	2016
Fort Jackson Housing LLC	Army base	181	October 2008	50	2013
Lackland Family Housing LLC	Air Force base	105	Acquired December 2008	50	2013
Western Group Housing LP	Four Air Force bases	328	March 2012	50	2017
Northern Group Housing LLC	Six Air Force bases	427	August 2013	50	2019
ACC Group Housing LLC	Two Air Force bases	56	June 2014	50	2018
Military unaccompanied personnel housing					
Stewart Hunter Housing LLC		36	January 2008	50	2010

Note

(i) Registered in the US and the principal operations of each project are conducted in the US.

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts was evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects and accounts for these projects as investments in associates.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Hospitals

Summary Balfour Beatty is a developer, operator and investor in one hospital project in Canada.

Contractual arrangements The principal contract is the project agreement between the concession company and the authority. An inflation-indexed payment is primarily based upon availability of the hospitals subject to any performance related deductions. The construction services for the project were subcontracted to a joint venture in which the Group had a 50% participation and the facilities maintenance services were subcontracted to a joint venture in which the Group has a 50% participation. The payments for the soft facilities management services are initially market adjusted after the third year of operations and then every six years thereafter. All assets transfer to the authority at the end of the concession.

Hospital	Project	Total project funding C\$m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Affinity Partnerships (i)(ii)	BC Children's and BC Women's Hospitals	454	70%	JV	April 2014	33	2017

Notes

(i) Registered in the province of Manitoba in Canada and the principal operations of each project are conducted in British Columbia, Canada.

(ii) Balfour Beatty has joint control over the project through unanimous consent from all shareholders over all significant operating and financing decisions, and therefore does not consolidate the project.

Aviation

Summary Balfour Beatty is a developer, operator and investor in an automated people mover at the Los Angeles airport. The people mover will be a 2.25-mile above ground airport transport system.

Contractual arrangements The principal contract is the project agreement between the concession partnership and the authority. All assets transfer to the authority at the end of the concession.

Concession partnership	Project	Total project funding US\$m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
LAX Integrated Express Solutions LLC (i)	LINXS	2,506	27%	JV	June 2018	30	2023

Note

(i) Registered in the US and the principal operations of the project are conducted in the US.

Residential investments

Summary Balfour Beatty is a developer, operator and investor in 12 multifamily residential projects.

Contractual arrangements Balfour Beatty has formed joint ventures to acquire residential apartment buildings for 12 multifamily residential projects. For all residential projects, the joint ventures entered into agreements with Balfour Beatty Communities LLC to perform the operations and renovation work.

Residential investments (i)	Total project funding US\$m	Shareholding	Method of accounting	Financial close	Renovation completion
Carolina Cove (Wilmington) Owner LLC (North Carolina)	48	50%	JV	December 2017	2018
Riverchase Landing (Hoover) Owner, LLC (Alabama)	44	8%	JV	March 2018	2025
Zephyr Ridge (Zephyrhills) Owner, LLC (Tampa, Florida)	31	50%	JV	August 2018	2025
Lexington (Ridgeland) Owner, LLC (Jackson, Mississippi)	27	50%	JV	August 2018	2025
Southwind (Memphis) Owner, LLC (Tennessee) (ii)	40	20%	JV	December 2018	2025
Waterchase (Largo) Owner, LLC (Florida)	36	50%	JV	April 2019	2025
Wolfchase (Bartlett) Owner, LLC (Tennessee)	48	50%	JV	June 2019	2025
Landings (Jacksonville) Owner, LLC (Florida)	48	50%	JV	August 2019	2025
Retreat at Schillinger (Mobile) Owner, LLC (Alabama)	33	50%	JV	December 2019	2026
Paces Brook (Columbia) Owner, LLC (South Carolina)	27	50%	JV	December 2019	2026
Chenal Pointe (Little Rock) Owner, LLC (Arkansas)	34	50%	JV	October 2020	2027
Moretti (Homewood) Owner, LLC (Alabama)	34	50%	JV	December 2020	2027

Notes

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) Under the joint venture terms, Balfour Beatty maintains a 20% voting ownership interest in the entity and a 15% economic ownership in regard to distributions.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Student accommodation

Summary Through its subsidiary, Balfour Beatty Campus Solutions LLC, Balfour Beatty is a manager on one student accommodation project, where it also acted as a developer. Balfour Beatty is also a developer and owner of five additional student accommodation projects.

Contractual arrangements The principal contract in the Florida Atlantic University project is the property management agreement with the state university setting out the obligations for the operation and maintenance of the student accommodation. The principal contracts in the other student accommodation projects where Balfour Beatty is an owner are the ground leases, development leases and operating agreements with the state universities setting out the obligations for the construction, operation and maintenance of the student accommodation including lifecycle replacement during the concession period.

Concession company (i)	Total project funding US\$m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
C-BB Management LLC/C-BBC Development LLC (Florida)	100	(ii)	JV	March 2010	30	2011
Northside Campus Partners LP (Texas Dallas)	54	10%	JV	March 2015	61	2016
Northside Campus Partners 2, LP (Texas Dallas)	67	10%	JV	February 2017	61	2018
Northside Campus Partners 3, LP (Texas Dallas) (iii)	36	70%	JV	June 2019	61	2020
Northside Campus Partners 4, LP (Texas Dallas) (iii)	70	65%	JV	December 2019	61	2021
Balfour Beatty-Walsh Housing LLC (Purdue) (iii)	88	67%	JV	January 2018	45	2019

Notes

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) 50% holding in the management company.

(iii) Due to the shareholders'/partnership agreement between Balfour Beatty and the other shareholder/partner requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this undertaking, the Directors consider that the Group does not control this undertaking and it has been accounted for as a joint venture.

(f) Balfour Beatty Investments UK and North America

Total future committed equity and debt funding for Infrastructure Investments' project companies

Concessions	2021 £m	2022 £m	2023 £m	2024 onwards £m	Total £m
UK					
Other concessions	7	–	–	–	7
	7	–	–	–	7
North America					
Aviation	–	–	21	–	21
Multifamily housing	3	–	–	–	3
	3	–	21	–	24
	10	–	21	–	31
Projects at financial close	3	–	21	–	24
Projects at preferred bidder stage	7	–	–	–	7
Total	10	–	21	–	31

42 Audit exemptions taken for subsidiaries

The following subsidiaries are exempt from the requirements under the Companies Act 2006 relating to the audit of individual financial statements by virtue of Section 479A of the Act.

	Company registration number
Education Investments Holdings Ltd	6863458
Consort Healthcare Infrastructure Investments Ltd	6859623

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020

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 2020 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 2020 and are wholly owned and consolidated into the Group's results, except where indicated.

Subsidiary undertakings incorporated in the United Kingdom

Entity	Principal activity	Entity	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX			
Aberystwyth Student Accommodation Ltd	Infrastructure concession	Balfour Beatty Const Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Fire and Rescue NW Holdings Ltd	Investment holding company	Balfour Beatty Construction (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Fire and Rescue NW Intermediate Ltd	Infrastructure concession	Balfour Beatty Construction International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Fire and Rescue NW Ltd	Infrastructure concession	Balfour Beatty Construction Northern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Infrastructure Investments Ltd ⁽ⁱ⁾	Investment holding company	Balfour Beatty Engineering Services (HY) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Infrastructure Partners Member Ltd	Investment holding company	Balfour Beatty Group Employment Ltd	Employer for UK workforce
Balfour Beatty Infrastructure Projects Investments Ltd	Investment holding company	Balfour Beatty Group Ltd	Construction and support services
Balfour Beatty Investments Ltd	Agent of Balfour Beatty Group Ltd	Balfour Beatty Homes Ltd	Agent of Manring Homes Ltd
Balfour Beatty OFTO Holdings Ltd	Investment holding company	Balfour Beatty International Ltd	Agent of Balfour Beatty Group Ltd
BBI Holdings Australia Ltd	Investment holding company	Balfour Beatty Investment Holdings Ltd ⁽ⁱⁱ⁾	Investment holding company
BBPF LLP ⁽ⁱⁱⁱ⁾	Investment partnership	Balfour Beatty Management Ltd	Agent of Balfour Beatty Group Ltd
Connect Roads Derby Holdings Ltd	Investment holding company	Balfour Beatty Nominees Ltd	Nominee company
Connect Roads Derby Ltd	Infrastructure concession	Balfour Beatty Overseas Investments Ltd	Investment holding company
Connect Roads Infrastructure Investments Ltd	Investment holding company	Balfour Beatty Overseas Ltd	Investment holding company
Consort Healthcare Infrastructure Investments Ltd	Investment holding company	Balfour Beatty Property Ltd ⁽ⁱ⁾	Agent of Balfour Beatty plc
East Slope Residences Facilities Management Ltd	Infrastructure concession	Balfour Beatty Rail Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
East Slope Residences Holdings Ltd	Investment holding company	Balfour Beatty Rail Ltd	Agent of Balfour Beatty Group Ltd
East Slope Residences Partner Ltd	Infrastructure concession	Balfour Beatty Rail Projects Ltd	Agent of Balfour Beatty Group Ltd
East Slope Residences plc ⁽ⁱⁱⁱ⁾	Infrastructure concession	Balfour Beatty Rail Technologies Ltd	Agent of Balfour Beatty Group Ltd
East Slope Residences Student Accommodation LLP ⁽ⁱⁱⁱ⁾	Infrastructure concession	Balfour Beatty Rail Track Systems Ltd	Agent of Balfour Beatty Group Ltd
Education Investments Holdings Ltd	Investment holding company	Balfour Beatty Refurbishment Ltd	Agent of Balfour Beatty Group Ltd
Initial GP1 Ltd	Investment holding company	Balfour Beatty Regional Construction Ltd	Agent of Balfour Beatty Group Ltd
Manchester Residences (New Cross) Ltd	Infrastructure concession	Balfour Beatty Utility Solutions Ltd	Agent of Balfour Beatty Group Ltd
South Cambridgeshire Investments Holdings Ltd	Investment holding company	Balfour Kilpatrick Ltd	Dormant
West Stratford Developments Ltd ^(iv)	Investment holding company	BB Indonesia Ltd	Support services
5 Churchill Place, Canary Wharf, London E14 5HU			
Avatar Ltd	Dormant	Balvac Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Build Ltd	Agent of Balfour Beatty Group Ltd	Bical Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Building Ltd	Agent of Balfour Beatty Group Ltd	Bignell & Associates Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty CE Ltd	Agent of Balfour Beatty Group Ltd	Birse Group Ltd	Investment holding company
Balfour Beatty Civil Engineering (SW) Ltd	Agent of Balfour Beatty Group Ltd	Birse Metro Ltd	Dormant
Balfour Beatty Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd	Bnoms Ltd ⁽ⁱ⁾	Nominee company
Balfour Beatty Civils Ltd	Agent of Balfour Beatty Group Ltd	BPH Equipment Ltd	Agent of Balfour Beatty Group Ltd
		Cowlin Group Ltd	Dormant

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020 continued

Subsidiary undertakings incorporated in the United Kingdom continued

Entity	Principal activity
Devonshire House Dormant Three Limited	Dormant
Guinea Investments Ltd	Investment holding company
Haden Building Services Ltd	Dormant
Haden Young Ltd ⁽ⁱ⁾	Dormant
Hall & Tawse Western Ltd	Dormant
Laser Rail Ltd	Agent of Balfour Beatty Group Ltd
Lonsdale Electric Ltd	Dormant
Manning Homes Ltd ⁽ⁱ⁾	Property investment
Multibuild (Construction & Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Office Projects (Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Omnicom Engineering Ltd	Construction services
Raynesway Construction Ltd	Agent of Balfour Beatty Group Ltd
Strata Construction Ltd	Dormant
W.T. Glover & Company Limited	Dormant

Hereford Steel Works, Holmer Road, Hereford HR4 9SW

Painter Brothers Ltd	Agent of Balfour Beatty Group Ltd
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Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ

Balfour Beatty Pension Trust Ltd ⁽ⁱ⁾	Pension fund trustee
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C/O Mc Griggors LLP, Arnott House, 12–16 Bridge Street, Belfast, BT1 1LS, Northern Ireland

Balfour Kilpatrick Northern Ireland Ltd	Dormant
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The Curve Building, Axis Business Park, Hurricane Way, Langley, Berkshire SL3 8AG

Balfour Beatty Ground Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Living Places Ltd	Agent of Balfour Beatty Group Ltd
Sunderland Streetlighting Ltd	Agent of Balfour Beatty Group Ltd
Testing and Analysis Ltd	Agent of Balfour Beatty Group Ltd

Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ

Balfour Beatty Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Scottish & Southern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Kilpatrick Limited	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Residuary Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
BBPFS LP ⁽ⁱⁱⁱ⁾	Investment partnership
Glasgow Residences (Kennedy Street) Holdings Ltd	Investment holding company
Glasgow Residences (Kennedy Street) LLP ⁽ⁱⁱⁱ⁾	Infrastructure concession
Glasgow Residences (Kennedy Street) SPV Ltd	Infrastructure concession
Hall & Tawse Ltd	Dormant
Initial Founder Partner GP1 Ltd	Investment holding company

Entity	Principal activity
Woodland View Holdings Co Ltd	Investment holding company
Woodland View Intermediate Co Ltd	Infrastructure concession
Woodland View Project Co Ltd ^(iv)	Infrastructure concession

Midmill Business Park, Tumulus Way, Kintore, Aberdeenshire AB51 0TG

Balfour Beatty Engineering Services (CL) Ltd	Agent of Balfour Beatty Group Ltd
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Q14, Quorum Business Park, Benton Lane, Newcastle upon Tyne NE12 8B

Balfour Beatty Rail Corporate Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty WorkSmart Ltd	Agent of Balfour Beatty Group Ltd

C/O Mazars, Tower Bridge House, St Katharine's Way, London E1W 1DD

Balfour Beatty Power Construction Ltd	Dormant
Balfour Beatty Power Networks (Distribution Services) Ltd	Dormant
Birse Construction Ltd	Investment holding company – in liquidation
Birse Rail Limited	Dormant – in liquidation
Dean & Dyball Workforce Ltd	Dormant – in liquidation
Edgar Allen Engineering Ltd	Dormant – in liquidation
Eastern Infrastructure Maintenance Company Ltd	Dormant – in liquidation
Mansell Maintenance Limited	Dormant – in liquidation
Mansell plc	Investment holding company – in liquidation

West Service Road, Raynesway, Derby DE21 7BG

Balfour Beatty Plant & Fleet Services Ltd	Agent of Balfour Beatty Group Ltd
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C/O Mazars LLP, 100 Queen Street, Glasgow G1 3DN Scotland

Balfour Beatty Engineering Services (LEL) Ltd	Dormant – in liquidation
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Lumina Building, 40 Ainslie Road, Hillington Park, Glasgow G52 4RU

Shaw-Petrie Limited	Dormant
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42-44 Clarendon Road, Watford, Hertfordshire, WD17 1DR

Barlow & Young, Limited	Dormant
Haden International Ltd	Dormant

Fourth Floor, 130 Wilton Road, London, SW1V 1LQ

00158345 Ltd	Dormant
01198171 Ltd	Dormant
BICC Dormant One Limited	Dormant
Devonshire House Dormant One Limited	Dormant

Third Floor Devonshire House, Mayfair Place, London, W1X 5FH

BICC Cables (Kenya) Ltd	Dormant
BICC Thermoheat Limited	Dormant

Notes

- (i) Held directly by Balfour Beatty plc.
- (ii) 80% owned.
- (iii) Partnership interests held.
- (iv) 31 March year end.
- (v) 99% owned.

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020 continued**Subsidiary undertakings incorporated outside the United Kingdom**

Entity	Principal activity
Australia	
Allens Corporate Services Pty Limited, Level 33, 101 Collins Street, Melbourne, Victoria, 3000	
Balfour Beatty Australian Limited Partnership ⁽ⁱⁱⁱ⁾	Holding company
Balfour Beatty Australia Pty Ltd	Construction and support services
Bahamas	
The Alexander Corporate Group Limited, One Millars Court, P.O. Box N-7117, Nassau	
Balfour Beatty Bahamas Ltd	Dormant
Brazil	
Avenida Brigadeiro Faria Lima, No. 1478, Suites 105, 1st Floor, Jardim Paulistano, Sao Paulo, 01.451-001	
RHA do Brasil Servicos de Infraestrutura Ltda	Construction services
Canada	
Boren Ladner Gervais LLP, 22 Adelaide Centre East Tower Toronto ON M5H 4E3	
BB Group Canada Inc	Investment holding company
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5	
Balfour Beatty Communities GP, Inc	Infrastructure investment
Balfour Beatty Communities, LP ⁽ⁱⁱⁱ⁾	Infrastructure investment
Balfour Beatty Construction GP, Inc	Construction services
Balfour Beatty Construction, LP ⁽ⁱⁱⁱ⁾	Construction services
Balfour Beatty CWH Holdings Inc	Infrastructure concession
Balfour Beatty Investments GP, Inc	Infrastructure investment
Balfour Beatty Investments, LP ⁽ⁱⁱⁱ⁾	Infrastructure investment
Balfour Beatty THP Holdings, Inc	Infrastructure investment
BB CWH, LP ⁽ⁱⁱⁱ⁾	Infrastructure investment
BB CWH GP, Inc	Infrastructure investment
BB NIH, LP ⁽ⁱⁱⁱ⁾	Infrastructure investment
BB NIH GP, Inc	Infrastructure investment
Chile	
Vicuna MacKenna Poniente 6843 Oficina 209, La Florida, Santiago	
Balfour Beatty Chile S.A.	Construction services
China	
Beijing Landmark Towers Building 2, Room 511-514, No 8 Dongsanhuan North Road, Chaoyang District, Beijing	
Balfour Beatty Rail Electrification Equipment Trading (Beijing) Ltd	Construction services – in liquidation
Germany	
Garmischer Strasse 35, 81373 Munich	
Balfour Beatty Rail GmbH	Construction services
BICC Holdings GmbH	Investment holding company
Schreck-Mieves GmbH	Dormant
Hong Kong	
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong	
Balfour Beatty Hong Kong Ltd	Construction and support services
India	
6th Floor, N-1 Balsa Block, Manyata Embassy Business Park, Nagavara, Rachenahalli Village, Bangalore – 560045, India	
Balfour Beatty Infrastructure India Pvt. Ltd	Engineering design consultancy

Entity	Principal activity
Ireland	
City Junction Business Park, Northern Cross, Malahide Road, Dublin 17	
Balfour Beatty Ireland Ltd	Support services
Isle of Man	
Tower House, Loch Promenade, Douglas IM1 2LZ, Isle of Man	
Delphian Insurance Company Ltd ⁽ⁱ⁾	Insurance company
Jersey	
12 Castle Street, St. Helier, Jersey	
Balfour Beatty Employees Trustees Ltd ⁽ⁱ⁾	Employee trust
Malaysia	
12th Floor, Menara symphony, No 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor	
Balfour Beatty Rail Design International Sdn Bhd	Support services
Netherlands	
Rapenburgerstraat 177/B, 1011 VM Amsterdam	
Balfour Beatty Netherlands B.V.	Investment holding company
Romania	
23 General Ernest Brosteanu Street, 1st District, 010527, Bucharest	
S.C. Balfour Beatty Rail S.R.L.	Dormant
Sri Lanka	
Phase 3 Investment Promotion Zone, Katunayake, Colombo, Western Province	
Balfour Beatty Ceylon (Private) Ltd	Support services
Thailand	
9 Soi Santisuk, Sithisarn Road, Huay Kwang, Bangkok	
Asia Trade Development Co Ltd	Dormant
Balfour Beatty Construction (Thailand) Co Ltd	Dormant
Balfour Beatty Holdings (Thailand) Co Ltd	Dormant
Balfour Beatty Thai Ltd	Dormant
Linwood Co Ltd	Dormant
United States	
1011 Centre Road, Suite 310, Wilmington DE 19805	
Balfour Beatty Holdings Inc	Investment holding company
Balfour Beatty LLC	Investment holding company
300 Galleria Parkway, Suite 2050, Atlanta, GA 30339	
National Engineering & Contracting Company	Construction services
Balfour Beatty Infrastructure, Inc	Construction services
Corporation Service Company, 1127 Broadway Street NE, Suite 310, Salem OR 97301	
Balfour Beatty Rock Springs, LLC	Construction services
Corporation Service Company, 1703 Laurel Street, Columbia, SC 29201	
National Casualty and Assurance, Inc	Insurance company
Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808	
Balfour Beatty Campus Solutions, LLC	Infrastructure holding company
Balfour Beatty Communities, LLC	Infrastructure investment
Balfour Beatty Construction D.C., LLC	Construction services
Balfour Beatty Construction, LLC	Construction services
Balfour Beatty Equipment, LLC	Construction services

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020 continued

Subsidiary undertakings incorporated outside the United Kingdom continued

Entity	Principal activity	Entity	Principal activity
Balfour Beatty Investments, Inc	Investment company	BICC Cables Corporation	Business services
Balfour Beatty Management Inc	Business services	Corporation Service Company, 300 Deschutes Way SW, Suite 304, Tumwater WA 98501	
Balfour Beatty/Benham Military Communities LLC ^(vi)	Infrastructure investment	Howard S. Wright Construction Co	Construction services
Balfour Beatty/PHELPS Military Communities LLC ^(iv)	Infrastructure investment	HSW, Inc	Construction services
Balfour Beatty Military Housing Development LLC	Infrastructure investment	CSC – Nevada, C/O CSC Services of Nevada, Inc., 502 East John Street Carson City, Nevada 89706	
Balfour Beatty Military Housing Investments LLC	Investment holding company	Balfour Beatty-Golden Construction Company	Construction services
Balfour Beatty Military Housing Management LLC	Infrastructure investment	Balfour Beatty Construction Company, Inc	Construction services
Balfour Beatty – Worthgroup, LLC	Construction services	Balfour Beatty Construction Group, Inc	Construction services
BBC-D5 Investors, LLC ⁽ⁱⁱⁱ⁾	Investment company	Notes	
BBC AF Housing Construction LLC	Infrastructure investment	(i) Held directly by Balfour Beatty plc.	
BBC AF Management/Development LLC	Infrastructure investment	(ii) Partnership interests held.	
BBC-Evergreen, LLC	Investment company	(iii) 65% interest held.	
BBC Independent Member I, Inc	Infrastructure investment	(iv) 80% interest held.	
BBC Independent Member II, Inc	Infrastructure investment	(v) 89% interest held.	
BBC Military Housing – ACC Group, LLC	Infrastructure investment	(vi) 90% interest held.	
BBC Military Housing – AETC General Partner LLC ^(iv)	Infrastructure investment		
BBC Military Housing – AETC Limited Partner LLC ^(iv)	Infrastructure investment		
BBC Military Housing – AMC General Partner LLC	Infrastructure investment		
BBC Military Housing – AMC Limited Partner LLC	Infrastructure investment		
BBC Military Housing – Bliss/WSMR General Partner LLC	Infrastructure investment		
BBC Military Housing – Bliss/WSMR Limited Partner LLC	Infrastructure investment		
BBC Military Housing – Carlisle/Picatinny General Partner LLC	Infrastructure investment		
BBC Military Housing – Carlisle/Picatinny Limited Partner LLC	Infrastructure investment		
BBC Military Housing – FDWR LLC ^(vi)	Infrastructure investment		
BBC Military Housing – Fort Carson LLC	Infrastructure investment		
BBC Military Housing – Fort Gordon LLC	Infrastructure investment		
BBC Military Housing – Fort Hamilton LLC	Infrastructure investment		
BBC Military Housing – Fort Jackson LLC	Infrastructure investment		
BBC Military Housing – Hampton Roads LLC	Infrastructure investment		
BBC Military Housing – Lackland LLC	Infrastructure investment		
BBC Military Housing – Leonard Wood LLC	Infrastructure investment		
BBC Military Housing – Navy Northeast LLC ^(vi)	Infrastructure investment		
BBC Military Housing – Navy Southeast LLC	Infrastructure investment		
BBC Military Housing – Northern Group, LLC	Infrastructure investment		
BBC Military Housing – Stewart Hunter LLC	Infrastructure investment		
BBC Military Housing – Vandenberg General Partner LLC ^(vi)	Infrastructure investment		
BBC Military Housing – Vandenberg Limited Partner LLC ^(vi)	Infrastructure investment		
BBC Military Housing – West Point LLC	Infrastructure investment		
BBC Military Housing – Western General Partner, LLC	Infrastructure investment		
BBC Military Housing – Western Limited Partner, LLC	Infrastructure investment		
BBC Multifamily Holdings, LLC	Infrastructure investment		
BBCS – Northside Campus LLC	Infrastructure investment		
BBCS Development, LLC	Infrastructure investment		

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020 continued

Joint ventures incorporated in the United Kingdom

Entity	% held by the Group	Principal activity	Entity	% held by the Group	Principal activity
350 Euston Road, Regent's Place, London NW1 3AX					
BBDE Orbital Holdings, LLP ⁽ⁱⁱⁱ⁾	37.5	Investment holding company	East Wick and Sweetwater Projects (Phase 6) Ltd ^(iv)	50	Infrastructure concession
Connect A30/A35 Holdings Ltd ^(iv)	20	Investment holding company	East Wick and Sweetwater Projects (Phase 7) Ltd ^(iv)	50	Infrastructure concession
Connect A30/A35 Ltd ^(iv)	20	Infrastructure concession	East Wick and Sweetwater Finance (Holdings) Ltd ^(iv)	50	Investment holding company
Connect A50 Ltd ^(iv)	25	Infrastructure concession	East Wick and Sweetwater Projects (Finance) Ltd ^(iv)	50	Infrastructure concession
Connect CNDR Holdings Ltd ^(iv)	25	Investment holding company	Gwynt y Mor OFTO Holdings Ltd ^{(iii) (iv)}	60	Investment holding company
Connect CNDR Immediate Ltd ^(iv)	25	Infrastructure concession	Gwynt y Mor OFTO Intermediate Ltd ^{(iii) (iv)}	60	Infrastructure concession
Connect CNDR Ltd ^(iv)	25	Infrastructure concession	Gwynt y Mor OFTO plc ^{(iii) (iv)}	60	Infrastructure concession
Connect M1-A1 Holdings Ltd ^{(ii) (iv)}	20	Investment holding company	Humber Gateway OFTO Holdings Ltd ^(iv)	20	Investment holding company
Connect M1-A1 Ltd ^(iv)	20	Infrastructure concession	Humber Gateway OFTO Intermediate Ltd ^(iv)	20	Infrastructure concession
Connect M77/GSO Holdings Ltd ^{(iii) (iv)}	85	Investment holding company	Humber Gateway OFTO Ltd ^(iv)	20	Infrastructure concession
Connect M77/GSO plc ^{(iii) (iv)}	85	Infrastructure concession	South Cambridgeshire Projects LLP ^(iv)	50	Infrastructure concession
Connect Roads Cambridgeshire Holdings Ltd	20	Investment holding company	Thanet OFTO Holdco Ltd ^(iv)	20	Investment holding company
Connect Roads Cambridgeshire Intermediate Ltd	20	Infrastructure concession	Thanet OFTO Intermediate Ltd ^(iv)	20	Infrastructure concession
Connect Roads Cambridgeshire Ltd	20	Infrastructure concession	Thanet OFTO Ltd ^(iv)	20	Infrastructure concession
Connect Roads Coventry Holdings Ltd	20	Investment holding company	Blythe House, Blythe Park, Cresswell, Stoke on Trent, Staffordshire ST11 9RD		
Connect Roads Coventry Intermediate Ltd	20	Infrastructure concession	Tyseley Bio Power Ltd	37.5	Investment holding company
Connect Roads Coventry Ltd	20	Infrastructure concession	Connect Plus House, St Albans Road, South Mimms, Hertfordshire, EN6 3NP		
Connect Roads Ltd ^(iv)	25	Investment holding company	Connect Plus (M25) Holdings Ltd ^{(iii) (iv)}	15	Investment holding company
Connect Roads Northamptonshire Holdings Ltd	20	Investment holding company	Connect Plus (M25) Intermediate Ltd ^{(iii) (iv)}	15	Infrastructure concession
Connect Roads Northamptonshire Intermediate Ltd	20	Infrastructure concession	Connect Plus (M25) Issuer plc ^{(iii) (iv)}	15	Infrastructure concession
Connect Roads Northamptonshire Ltd	20	Infrastructure concession	Connect Plus (M25) Ltd ^{(iii) (iv)}	15	Infrastructure concession
Connect Roads South Tyneside Holdings Ltd	20	Investment holding company	Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown, ML1 4WQ		
Connect Roads South Tyneside Ltd	20	Infrastructure concession	Aberdeen Roads (Finance) plc	33.3	Infrastructure concession
Connect Roads Sunderland Holdings Ltd	20	Investment holding company	Aberdeen Roads Holdings Ltd	33.3	Investment holding company
Connect Roads Sunderland Ltd	20	Infrastructure concession	Aberdeen Roads Ltd	33	Investment holding company
East Wick and Sweetwater Projects (Holdings) Ltd ^(iv)	50	Infrastructure concession	Holyrood Holdings Ltd	20	Investment holding company
East Wick and Sweetwater Projects (Phase 1) Ltd ^(iv)	50	Infrastructure concession	Holyrood Student Accommodation Holdings Ltd	20	Infrastructure concession
East Wick and Sweetwater Projects (Phase 2) Ltd ^(iv)	50	Infrastructure concession	Holyrood Student Accommodation Intermediate Ltd	20	Infrastructure concession
East Wick and Sweetwater Projects (Phase 3) Ltd ^(iv)	50	Infrastructure concession	Holyrood Student Accommodation plc	20	Infrastructure concession
East Wick and Sweetwater Projects (Phase 4) Ltd ^(iv)	50	Infrastructure concession	Holyrood Student Accommodation SPV Ltd	20	Infrastructure concession
East Wick and Sweetwater Projects (Phase 5) Ltd ^(iv)	50	Infrastructure concession	Westminster House, Crompton Way, Segensworth West, Fareham, Hampshire PO15 5SS		
			Pevensey Coastal Defence Ltd	25	Infrastructure concession

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020 continued

Joint ventures incorporated in the United Kingdom continued

Entity	% held by the Group	Principal activity
C/O Pario Ltd, 2 Hunting Gate, Wilbury Way, Hitchin, Hertfordshire SG4 0TJ		
Consort Healthcare (Birmingham) Funding plc	40	Infrastructure concession
Consort Healthcare (Birmingham) Holdings Ltd	40	Investment holding company
Consort Healthcare (Birmingham) Intermediate Ltd	40	Infrastructure concession
Consort Healthcare (Birmingham) Ltd	40	Infrastructure concession
C/O FRP Advisory Group plc, 2nd Floor, 110 Cannon Street, London EC4N 6EU		
Birmingham Bio Power Ltd	37.5	Infrastructure concession – in administration
9 Amerside House Wood Lane, Paradise Industrial Estate, Hemel Hempstead, Hertfordshire, England HP2 4TP		
Pebblehall Bio Power Ltd	25	Investment holding company
Welland Bio Power Ltd	25	Infrastructure concession

Notes

- (i) Held directly by Balfour Beatty plc.
- (ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted as a joint venture.
- (iii) The Group owned a 37.5% partnership interest in BBDE Orbital Holdings LLP at 31 December 2020. Connect Plus (M25) Holdings Ltd and its subsidiaries are 40% owned by BBDE Orbital Holdings LLP.
- (iv) 31 March year end.
- (v) Partnership interests held.

Overseas joint ventures

Entity	% held by the Group	Principal activity
Bermuda		
Conyers Dill & Pearman Limited, 2 Clarendon House, 2 Church Street, Hamilton HM 11		
CP Bay Carry A LP	20	Infrastructure concession
CP Bay Carry B LP	20	Infrastructure concession
British Virgin Islands		
Vistra Corporate Services Centre, Wickhams Cay II Road Town, Tortola VG1110		
Gammon Asia Ltd	50	Management company
Gammon Construction Holdings Ltd	50	Investment holding company
Canada		
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg MB R3C 4K5		
Affinity BBL Inc	50	Infrastructure investment
Affinity General Partner Inc	50	Infrastructure investment
Affinity Limited Partnership ^{(i) (iv)}	70	Infrastructure investment
Affinity Partnerships ^(iv)	70	Infrastructure investment
CWH Facilities Management, LP ^(iv)	50	Infrastructure investment
CWH FM GP Inc	50	Infrastructure investment
CWH Design – Build GP ^(iv)	50	Construction services
Ledcor Balfour Beatty Affinity Holdings Inc	50	Investment holding company
Germany		

Entity	% held by the Group	Principal activity
Luisenstr, 38, 10117 Berlin		
InoSig GmbH	50	Construction services
Hong Kong		
22/F, Tower 1, The Quayside, 77 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong		
AsiaBuild Ltd	50	Dormant
Balfour Beatty E&M Ltd	50	Dormant
BBE&M (Macau) Ltd	50	Electrical and mechanical contracting
Digital G Ltd	50	Technology and innovation
Dongguan Pristine Metal Works Ltd	50	Manufacturing services
Entasis Ltd	50	General contractor
Gammon Building Construction (Macau) Ltd	50	Building construction
Gammon Building Construction Ltd	50	Building construction
Gammon Capital Ltd	50	Dormant
Gammon Capital Management Ltd	50	Dormant
Gammon China Ltd	50	Investment holding company
Gammon Concrete Services Ltd	50	Dormant
Gammon Construction (China) Ltd	50	Building construction
Gammon Construction (Shanghai) Ltd	50	Construction - in liquidation
Gammon Construction (Vietnam) Holdings Ltd	50	Construction and project management
Gammon Construction Consultants (Shenzhen) Ltd	50	Support services
Gammon Construction Ltd ⁽ⁱⁱⁱ⁾	50	Engineering and construction
Gammon Construction Vietnam Co. Ltd	50	Management services
Gammon E&M Ltd	50	Engineering services
Gammon Engineering & Construction Company Ltd	50	Engineering and construction
Gammon Engineering Ltd	50	Dormant
Gammon Finance Ltd	50	Finance and investment
Gammon Interiors Ltd	50	Dormant
Gammon Management Services Ltd	50	Construction management services
Gammon Plant Ltd	50	Plant and equipment hire and maintenance
Gold Tactics Investment Ltd	50	Dormant
Into G Ltd	50	Interior fit-out and contracting
Lambeth Associates Ltd	50	Management and consultancy services
Pristine Metal Works Ltd	50	Investment holding company
Sanfield-Gammon Construction JV Company Ltd	25	Construction services
Ireland		
Dunmoy House, St. Margaret's Road, Finglas, Dublin 11		
Balfour Beatty CLG Ltd	50	Support services

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020 continued

Overseas joint ventures continued

Entity	% held by the Group	Principal activity
C/O Pario SPV Management Limited, Suite 54, Morrison Chambers, 32 Nassau St, Dublin 2, D02 AP29		
Healthcare Centres PPP Holdings Ltd	40	Investment holding company
Healthcare Centres PPP Ltd	40	Infrastructure concession
Malaysia		
Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya		
Balfour Beatty Ansaldo Systems JV Sdn Bhd ⁽ⁱⁱ⁾	42	Construction services – in liquidation
Balfour Beatty Rail Sdn Bhd ⁽ⁱⁱⁱ⁾	70	Construction services – in liquidation
Unit B-9-7, Level 9, Capital 2, Oasis Square, No.2 Jalan PJU 1A/7A, Ara Damansara, 47301 Petaling Jaya, Selangor, Malaysia		
Gammon Sdn Bhd	50	Dormant
Pesaka Gammon Construction Sdn Bhd	15	Dormant
Philippines		
G/F Makati Stock Exchange, Ayala Avenue, Makati City, Metro Manila, Philippines		
Gammon Philippines, Inc.	29.99	Construction services
MG Construction Ventures Holdings, Inc.	16.65	Property services
Singapore		
239 Alexandra Road, 159930		
Digital G (Singapore) Pte. Ltd	50	Equipment services
Gammon Construction and Engineering Pte. Ltd	50	Construction services
Gammon Construction Holdings (S) Pte. Ltd	50	Investment holding company
Gammon Investments Pte. Ltd	50	Investment holding company
Gammon Pte. Ltd	50	Engineering and construction
Lambeth Associates Design & Consultancy Pte Ltd	50	Management and consultancy services
Thailand		
21st Floor, Times Square Building, 246 Sukhumvit Road, Klongtoey Sub-District, Klongtoey District, Bangkok 10110, Thailand		
Gammon Construction (Thailand) Ltd	24.5	Dormant
23rd Floor, Times Square Building, 246 Sukhumvit Road, Klongtoey Sub-District, Klongtoey District, Bangkok 10110, Thailand		
Gammon (Thailand) Ltd	24.5	Dormant
Thai Gammon Ltd	24.5	Dormant
United States		
Corporation Service Company 1201 Hays Street, Tallahassee FL 32301		
C-BB Management, LLC	50	Infrastructure investment
C-BBC Development, LLC	50	Infrastructure investment
Corporation Service Company, d/b/a CSC-Lawyers, Incorporating Service Company, 211 E. 7th Street, Suite 620, Austin TX 78701-3218		
Northside Campus Partners, LP ^(iv)	10	Infrastructure concession
Northside Campus Partners 2, LP ^(iv)	10	Infrastructure investment
Northside Campus Partners 3, LP ^{(ii)(iv)}	70	Infrastructure concession
Northside Campus Partners 4, LP ^{(ii)(iv)}	65	Infrastructure concession

Entity	% held by the Group	Principal activity
Northside Campus General Partner, LLC	50	Infrastructure concession
Construction Service Company, 251 Little Falls Drive, Wilmington DE19808		
BBC – ApexOne Caroline Cove, LLC	50	Infrastructure investment
BBC – ApexOne Chenal Pointe, LLC	50	Infrastructure investment
BBC – ApexOne Landings, LLC	50	Infrastructure investment
BBC – ApexOne Lexington, LLC	50	Infrastructure investment
BBC – ApexOne Moretti, LLC	50	Infrastructure investment
BBC – ApexOne Paces Brook, LLC	50	Infrastructure investment
BBC – ApexOne Retreat, LLC	50	Infrastructure investment
BBC – ApexOne Riverchase Landing, LLC	50	Infrastructure investment
BBC – ApexOne Southwind, LLC	50	Infrastructure investment
BBC – ApexOne Waterchase, LLC	50	Infrastructure investment
BBC – ApexOne Wolfchase, LLC	50	Infrastructure investment
BBC – ApexOne Mobile Eastern, LLC	50	Infrastructure investment
BBC – ApexOne Zephyr Ridge, LLC	50	Infrastructure investment
BBC Army Integrated, LLC	10	Infrastructure investment
Carolina Cove (Wilmington) Owner, LLC	50	Infrastructure investment
Chenal Pointe (Little Rock) Owner, LLC	50	Infrastructure investment
LAX Integrated Express Solutions Holdco, LLC	27	Infrastructure concession
LAX Integrated Express Solutions, LLC	27	Infrastructure concession
Landings (Jacksonville) Owner, LLC	50	Infrastructure investment
Lexington (Ridgeland) Owner, LLC	50	Infrastructure investment
Moretti (Homewood) Owner, LLC	50	Infrastructure investment
Northside Campus Limited Partner, LLC	10	Infrastructure concession
Paces Brook (Columbia) Owner, LLC	50	Infrastructure investment
Retreat at Schillinger (Mobile) Owner, LLC	50	Infrastructure investment
Riverchase Landing (Hoover) Owner, LLC	7.5	Infrastructure investment
Southwind (Memphis) Owner, LLC	20	Infrastructure investment
Southwind (Memphis) Holdings, LLC	20	Infrastructure investment
T-BBA Riverchase Holdings, LLC	7.5	Infrastructure investment
Waterchase (Largo) Owner, LLC	50	Infrastructure investment
Wolfchase (Bartlett) Owner, LLC	50	Infrastructure investment
Windscape (Daphne) Owner, LLC	50	Infrastructure investment

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2020 continued

Overseas joint ventures continued

Entity	% held by the Group	Principal activity
Zephyr Ridge (Zephyrhills) Owner, LLC	50	Infrastructure investment
430 Eastwood Road, Wilmington, NC 28403		
New Energy Alliance LLC	50	Construction and support services

Notes

- (i) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.
- (ii) The Group holds a 70% interest in Balfour Beatty Rail Sdn Bhd, which holds a 60% interest in Balfour Beatty Ansaldo Systems JV Sdn Bhd. Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of these companies, the Directors consider that the Group does not control these companies and they have been accounted for as joint ventures.
- (iii) Preference shares and/or deferred shares also held.
- (iv) Partnership interest held.

Associated undertakings incorporated in and outside the United Kingdom

Entity	% held by the Group	Principal activity
United Kingdom		
Newington House, 237 Southwark Bridge Road, London SE1 6NP		
Power Asset Development Company Ltd ⁽ⁱⁱⁱ⁾	25	Infrastructure concession
UK Power Networks Services Powerlink Ltd ⁽ⁱⁱⁱ⁾	10	Infrastructure concession
Ashford House, Grenadier Road, Exeter, EX1 3LH		
UBB Waste (Essex) Holdings Ltd	30	Infrastructure concession
UBB Waste (Essex) Intermediate Ltd	30	Investment holding company
UBB Waste (Gloucestershire) Holdings Ltd	49.5	Infrastructure concession
UBB Waste (Gloucestershire) Intermediate Ltd	49.5	Investment holding company
UBB Waste (Gloucestershire) Ltd	49.5	Infrastructure concession
C/O FRP Advisory Group plc, 2nd Floor, 110 Cannon Street, London EC4N 6EU		
UBB Waste (Essex) Ltd	30	Infrastructure concession – in receivership

United States

Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808

ACC Group Housing, LLC ⁽ⁱ⁾	100	Infrastructure concession
AETC Housing LP ⁽ⁱ⁾⁽ⁱⁱ⁾	80	Infrastructure concession
AMC West Housing LP ⁽ⁱ⁾⁽ⁱⁱ⁾	100	Infrastructure concession
Balfour Beatty-Walsh Housing, LLC	67	Infrastructure concession
Carlisle/Picatinny Family Housing LP ⁽ⁱⁱ⁾	10	Infrastructure concession
DFW 5 – Josey Ranch, LLC	10	Infrastructure investment
DFW 5 – Madison Parkway, LLC	10	Infrastructure investment
DFW 5 – Round Grove, LLC	10	Infrastructure investment
DFW 5 – Wimberly, LLC	10	Infrastructure investment
DFW 5 – Wimbledon Oaks, LLC	10	Infrastructure investment
DFW 5 Holdings, LLC	10	Infrastructure investment
FDWR Parent LLC	10	Infrastructure concession

Entity	% held by the Group	Principal activity
Fort Bliss/White Sands Missile Range Housing LP ⁽ⁱⁱ⁾	10	Infrastructure concession
Fort Carson Family Housing LLC	10	Infrastructure concession
Fort Detrick/Walter Reed Army Medical Center Housing LLC	9	Infrastructure concession
Fort Eustis/Fort Story Housing LLC	10	Infrastructure concession
Fort Gordon Housing LLC	10	Infrastructure concession
Fort Hamilton Housing LLC	10	Infrastructure concession
Fort Jackson Housing LLC	10	Infrastructure concession
Lackland Family Housing, LLC ⁽ⁱ⁾	100	Infrastructure concession
Leonard Wood Family Communities, LLC	10	Infrastructure concession
Northeast Housing LLC	9	Infrastructure concession
Northern Group Housing, LLC ⁽ⁱ⁾	100	Infrastructure concession
Southeast Housing LLC	10	Infrastructure concession
Stewart Hunter Housing LLC	10	Infrastructure concession
TBB Evergreen Commons, LLC	15	Infrastructure investment
TBB Evergreen Holdings, LLC	15	Infrastructure investment
TBB Evergreen Park, LLC	15	Infrastructure investment
TBB Evergreen Terrace, LLC	15	Infrastructure investment
Vandenberg Housing LP ⁽ⁱ⁾⁽ⁱⁱ⁾	90	Infrastructure concession
Western Group Housing, LP ⁽ⁱ⁾⁽ⁱⁱ⁾	100	Infrastructure concession
West Point Housing LLC	10	Infrastructure concession

Notes

- (i) The Group evaluated each of its interests in the military housing projects to determine if the associated entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts were evaluated when determining which party or parties had control over the activities that most significantly impact a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not control or jointly control them and therefore the entities have been accounted for as associated undertakings.
- (ii) Partnership interests held.
- (iii) 31 March year end.

UNAUDITED GROUP FIVE-YEAR SUMMARY

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Income					
Revenue including share of joint ventures and associates	8,593	8,411	7,814	8,264	8,368
Share of revenue of joint ventures and associates	(1,273)	(1,098)	(1,180)	(1,348)	(1,445)
Group revenue from continuing operations	7,320	7,313	6,634	6,916	6,923
Underlying profit from continuing operations	51	221	205	196	69
Underlying net finance costs	(15)	(21)	(24)	(31)	(7)
Underlying profit before taxation	36	200	181	165	62
Amortisation of acquired intangible assets	(6)	(6)	(8)	(9)	(9)
Other non-underlying items	18	(56)	(50)	(39)	(43)
Profit from continuing operations before taxation	48	138	123	117	10
Taxation on profit from continuing operations	(18)	(5)	12	45	(8)
Profit from continuing operations after taxation	30	133	135	162	2
Profit from discontinued operations after taxation	–	–	–	6	22
Profit for the year	30	133	135	168	24
Profit for the year attributable to equity holders	30	130	135	168	24
Profit for the year attributable to non-controlling interests	–	3	–	–	–
Profit for the year	30	133	135	168	24
Capital employed					
Equity holders' equity	1,336	1,368	1,231	1,056	757
Liability component of preference shares	–	110	106	103	100
Net non-recourse borrowings – infrastructure concessions	317	302	309	305	233
Net cash – other	(581)	(512)	(337)	(335)	(173)
	1,072	1,268	1,309	1,129	917
Statistics					
	2020 Pence	2019 Pence	2018 Pence	2017 Pence	2016 Pence
Underlying earnings per ordinary share from continuing operations*	3.7	26.7	26.3	20.9	7.2
Basic earnings per ordinary share from continuing operations	4.4	19.0	19.7	23.7	0.2
Diluted earnings per ordinary share from continuing operations	4.4	18.8	19.5	23.4	0.2
Proposed dividends per ordinary share	1.5	2.1	4.8	3.6	2.7
Underlying profit from continuing operations before net finance costs including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	0.6%	2.6%	2.6%	2.4%	0.8%

Note

* Underlying earnings per ordinary share from continuing operations have been disclosed to give a clearer understanding of the Group's underlying trading performance.

Financial calendar

2021	
13 May	Annual General Meeting
7 July	Provisional ordinary dividend payable
18 August*	2021 half year results announcement
6 December*	Provisional ordinary dividend payable
9 December*	Trading update

* Dates are subject to change

Registrars

Balfour Beatty's share register is maintained by Link Group, the Company's Registrars. Link Group is a trading name of Link Market Services Limited. All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Link Group, clearly stating your registered address and, if available, your shareholder reference number.

Please write to: Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL.

Telephone: 0371 664 0564. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales.

Alternatively, you can email: shareholderenquiries@linkgroup.co.uk. Link Group can help you to: check your shareholding; register a change of address or name; obtain a replacement dividend cheque or tax voucher; or record the death of a shareholder. You can also visit www.signalshares.com to manage your shareholding, and access shares-related services and share plans online.

Share certificates

In order to sell or transfer your shares, you must ensure that you have a valid share certificate. This must be in the name of Balfour Beatty plc. If you lose or misplace your share certificate, you can contact Link Group's customer support centre and request a replacement certificate. Link Group will then issue a letter of indemnity to you which you will need to sign and return for a new certificate to be produced. There is a fee charged for this service which includes an administration charge and a cover charge (the cover charge can vary depending on the value of the shareholding).

Dividends and dividend reinvestment plan

Dividends may be paid directly into your bank or building society account through the Bankers Automated Clearing System (BACS). Link Group can provide a dividend mandate form. A Dividend Reinvestment Plan (DRIP) is offered which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, are available at www.balfourbeatty-shares.com.

International payment service

Shareholders outside the UK may elect to receive dividends directly into their overseas bank account, or by currency draft, instead of by sterling cheque. For further information, contact the Company's Registrars, Link Group using the contact details above. Alternatively, you can log on to www.balfourbeatty-shares.com and click on the link for International Payment Service.

Electronic shareholder communications

The Company's website www.balfourbeatty.com provides a range of information about the Company, our people and businesses and our policies on corporate governance and corporate responsibility.

The website should be regarded as your first point of reference for information on any of these matters. The share price can also be found there.

You can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to: view your holdings and indicative share price and valuation; view movements on your holdings and your dividend payment history; register a dividend mandate to have your dividends paid directly into your bank account; change your registered address; sign up to receive e-communications or access the online proxy voting facility; and download and print shareholder forms.

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: Shareportal@linkgroup.co.uk.

Unsolicited telephone calls

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. We advise our shareholders to be wary of any unsolicited telephone calls, advice or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free annual and/or other reports on the Company.

If you receive any unsolicited investment advice:

- ▶ Always ensure the firm is authorised by the Financial Conduct Authority (FCA), is on the FCA Register and is allowed to provide financial advice before handing over your money. You can check if a firm is on the FCA's Register via <https://register.fca.org.uk/>.
- ▶ Ask the caller for their name and telephone number and inform them you will call them back. Then check their identity to ensure that they are from the firm they say are from by calling the firm using the contact number listed on the FCA Register. If there are no contact details on the FCA Register or you are told that they are out of date, or if you have any other doubts, call the FCA Consumer Helpline on 0800 111 6768.
- ▶ If you are approached about a share scam, please visit the FCA's ScamSmart website at www.fca.org.uk/scamsmart where you can access information about the various types of scam, including share and boiler room fraud, see the FCA's Warning List and reports on firms about whom consumers have expressed concerns. Alternatively, you can call the FCA Consumer Helpline (see above). If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong.
- ▶ You should also report any approach to Action Fraud, which is the UK's national fraud reporting centre, at www.actionfraud.police.uk, or by calling 0300 123 2040.

American Depositary Receipts (ADRs)

An American Depositary Receipt (ADR) is a negotiable instrument issued by a depositary bank that evidences ownership of shares in a corporation organised outside the US. Each ADR represents a specific number of underlying ordinary shares in the non-US company, on deposit with a custodian in the applicable home market.

ADRs are generally treated as US domestic securities. They are quoted and traded in USD and are subject to the trading and settlement procedures of the market in which they trade.

Balfour Beatty's ADR Programme Details

Symbol: BAFYY

ADR: Ordinary Share Ratio: 1:2

CUSIP:05845R306

ADR ISIN: US05845R3066

Underlying ISIN: GB0000961622

Depository Bank: JP Morgan Chase Bank N.A.

Country: United Kingdom

Balfour Beatty's ADR Depository Bank is JP Morgan Chase N.A. For all ADR-related enquiries, investors can contact JP Morgan via telephone, in writing or email as follows:

Telephone:

Toll free within the United States at: 1-800-990-1135 or locally at 651-306-4383.

JP Morgan representatives are available from 7.00am to 7.00pm Central Time, Monday to Friday.

In writing:

Mail

JP Morgan Shareholder Services
P.O. Box 64504
St. Paul, Minnesota 55164-0504

Overnight Mail

JP Morgan Chase Bank N.A.
1110 Centre Pointe Curve, Suite 101
Mendota Heights MN 55120-4100

Email:

jpmorgan.adr@eq-us.com

Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form.

Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £27m has been given to more than 2,600 charities. The relevant share transfer form may be obtained from the Registrars. For more information visit www.sharegift.org.

Share dealing services

Link Group provide a telephone and online share dealing service for UK resident shareholders. To use this service, telephone 0371 664 0445 from within the UK. Calls are charged at the standard geographic rate and will vary by provider. Lines are open Monday to Friday 8.00 am to 4.30 pm, UK time, excluding public holidays in England and Wales. Alternatively, you can log on to www.linksharedeal.com.

Link Market Services Trustees Limited is authorised and regulated by the Financial Conduct Authority.

London Stock Exchange Codes

The London Stock Exchange Daily Official List (SEDOL) code is: Ordinary shares: 0096162.

The London Stock Exchange ticker code is: Ordinary shares: BBY.

Capital gains tax (CGT)

For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

Consolidated tax vouchers

Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank account. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrars. A copy of the consolidated tax voucher may be downloaded from the Share Portal at www.balfourbeatty-shares.com.

Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

Balfour Beatty plc Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU. Registered in England and Wales, registered number 395826

Forward-looking statements

This document, including information included or incorporated by reference in it, may include statements that are or may be forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty's business, financial condition and results of operations. All statements other than statements of historical facts included in this document may be forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "projects", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by Balfour Beatty in good faith based on the information available to it at the date of this report and reflect the beliefs and expectations of Balfour Beatty. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 94 to 102 of this report.

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

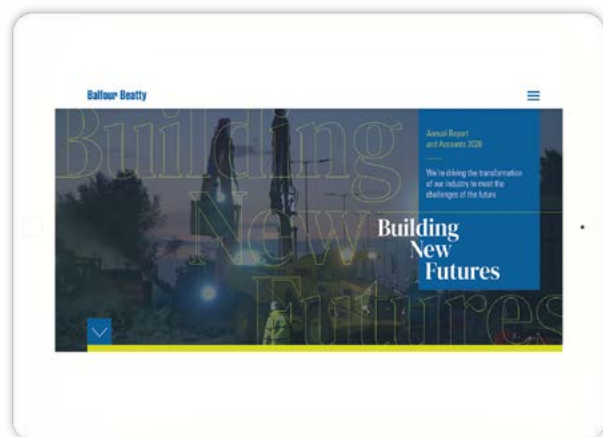
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www.balfourbeatty.com/investors

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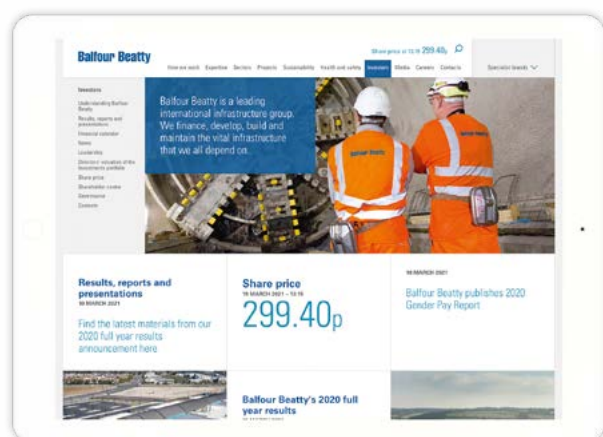
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www.balfourbeatty.com

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