Balfour Beatty

ANNUAL REPORT AND ACCOUNTS 2022

Building New Futures

Registered in England and Wales, registered number 395826

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COMPANIES HOUSE

Balfour Beatty is a leading international infrastructure group with 25,000 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.

Innovation everywhere

Across Balfour Beatty, we are harnessing the power of digital and cutting-edge technology to drive productivity, improve safety and develop sustainable solutions. Look out for this icon in the report to read about our best innovations which are helping to transform the infrastructure and construction industry.

Infrastructure opportunities

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

UK
£650bn

Positive outlook for the UK
The infrastructure market outlook is positive and is boosted by the Infrastructure and Projects Authority's £650bn pipeline, providing the highest levels of investment in decades.

US
$1.2tn

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

HK
$1tn

Stable spend in Hong Kong
The outlook is positive, supported by the Government's plan to increase land supply, speed up railway development projects and rehabilitate the city's ageing buildings.

FIND OUT MORE
READ OUR MARKET REVIEW p16

Infrastructure expertise

A breadth of in-house capability p14

Better, faster, greener through modern methods of construction p30

Towards a zero carbon construction site p44

FRONT COVER: Jay Saddington, Survey & Product Communications Support and Kasia Renc, Graduate Digital Project Delivery Engineer, with Balfour Beatty's robotic dog 'Spot' which documents construction progress using autonomous 3D data capture on site.

FINANCIAL PERFORMANCE

The Group has presented financial performance measures which are considered most relevant to the Group and used to manage the Group's performance. An explanation of these measures and appropriate reconciliations to statutory measures are provided on pages 73 and 79.

UNDERLYING REVENUE[1] £m

18	19	20	21	22
7,802	8,405	8,587	8,280	8,931

UNDERLYING PROFIT FROM OPERATIONS (PFO) £m

18	19	20	21	22
205	221	51	197	279

UNDERLYING EARNINGS PER SHARE (BASIC) Pence

18	19	20	21	22
26.3	26.7	3.7	29.7	47.5

ORDER BOOK[1] £bn

18	19	20	21	22
12.6	14.3	16.4	16.1	17.4

NET CASH £m

18	19	20	21	22
337	512	581	790	815

STATUTORY NET CASH/ (BORROWINGS) £m

18	19	20	21	22
(78)	(20)	139	418	441

STATUTORY REVENUE £m

18	19	20	21	22
6,634	7,313	7,320	7,185	7,629

STATUTORY PROFIT FOR THE YEAR £m

18	19	20	21	22
135	133	30	139	287

STATUTORY EARNINGS PER SHARE (BASIC) Pence

18	19	20	21	22
19.7	19.0	4.4	21.3	46.9

DIVIDENDS PER SHARE Pence

18	19	20	21	22
4.8	2.1	1.5	9.0	10.5

KEY Performance measures
Statutory measures

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

CONTENTS

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

OTHER INFORMATION

Our cultural framework

Our cultural framework 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.

SCAN FOR MORE INFORMATION ON OUR CULTURAL FRAMEWORK

OUR PURPOSE

Building New Futures

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

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

OUR STRATEGY

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.

p24

OUR VALUES

The norms and beliefs that drive the way we work and how we measure ourselves.

LEAN **EXPERT** **TRUSTED** **SAFE** **SUSTAINABLE**

p24

OUR BEHAVIOURS

Reflect the things we will do to consistently deliver to the standard set out in our values.

TALK POSITIVELY **COLLABORATE RELENTLESSLY** **ENCOURAGE CONSTANTLY** **MAKE A DIFFERENCE** **VALUE EVERYONE**

Group highlights

UNDERLYING REVENUE[1]

£8,931m

UNDERLYING PROFIT BEFORE TAX

£291m

NUMBER OF EMPLOYEES

25,000

DIRECTORS' VALUATION INVESTMENTS PORTFOLIO

£1.3bn

GROUP ORDER BOOK[1]

£17.4bn

- United Kingdom £8.5bn
- United States £6.0bn
- Hong Kong £2.9bn

1 Including share of joint ventures and associates.

Our divisions

	CONSTRUCTION SERVICES	SUPPORT SERVICES	INFRASTRUCTURE INVESTMENTS
	Hong Kong: A-grade office building in Causeway Bay, Mandarin Oriental Hotel Group.	UK: London Underground Piccadilly line upgrade.	US: Automated People Mover, Los Angeles International Airport.
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 include 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 and multi-family housing, and student accommodation assets
Selective bidding for contracts Our stringent gated lifecycle process allows us to carefully control our project portfolio on an ongoing basis.	ORDER BOOK[1] **£15.0bn**	ORDER BOOK[1] **£2.4bn**	DIRECTORS' VALUATION **£1.3bn**
Financial performance	REVENUE[1] **£7,482m**	REVENUE[1] **£989m**	REVENUE[1] **£460m**
	UNDERLYING PROFIT FROM OPERATIONS **£149m**	UNDERLYING PROFIT FROM OPERATIONS **£83m**	UNDERLYING PROFIT BEFORE TAX **£105m**
	STATUTORY PROFIT FROM OPERATIONS **£150m**	STATUTORY PROFIT FROM OPERATIONS **£83m**	STATUTORY PROFIT BEFORE TAX **£100m**

FIND OUT MORE
READ THE OPERATIONAL REVIEW

p32 p38 p40

1 Including share of joint ventures and associates.

Continuing to go from strength to strength

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

Dear Shareholder,

As I reflect on my first full year as Chair, and look ahead to the next, I am reminded of the words I wrote last year. I remarked then how impressed I had been on entering the business, to witness the scale of Balfour Beatty's capabilities – the complexity and critical nature of the inspiring projects it undertakes, the ingenuity of the Balfour Beatty workforce and the resilience and dedication they show as they live our values. 2022 has brought home to me the truth of those initial reflections as the Company continues to go from strength to strength. Having now visited over 100 projects across the business, I remain immensely proud of what Balfour Beatty achieves every day for all stakeholders.

When I visit a site, I take time to talk with colleagues and listen to their views. What comes across really strongly is their pride in the projects they are working on, their loyalty to and, for many, their length of service with Balfour Beatty.

During 2022, the Group regained momentum as it moved further away from the significant impacts of COVID-19. Led by a strong management team, Balfour Beatty continues to deliver strong financial performance with an enhanced focus on positioning for growth in critical national infrastructure.

The Board was delighted that Group Chief Executive Leo Quinn was recognised at London Build's inaugural awards ceremony for Outstanding Industry Leadership. The award is testament to his leadership of the industry as well as Balfour Beatty's transformation under the Build to Last strategy over the last seven years.

> "Led by a strong management team, Balfour Beatty continues to deliver strong financial performance with an enhanced focus on positioning for growth in critical national infrastructure."

Board developments

We continue to evolve the Board to ensure that it has the right balance of knowledge, experience and outside-in perspective. We welcomed Louise Hardy as a non-executive Director in April 2022. Louise brings with her over thirty years of business and leadership experience in the construction and infrastructure industry and is a strong addition to the Board.

Prioritising health, safety and wellbeing

Health, safety and wellbeing is paramount for Balfour Beatty. The Group's focus remains uncompromising, guided by a Zero Harm approach that has delivered a downward trend since 2014 in both our lost time injury and major injury rates.

The Board's Safety and Sustainability Committee reviews the Health, Safety and Environment strategy, monitors progress and ensures accountability across the Group's operations. The Committee ensures that Balfour Beatty is never complacent and continues to work proactively to strengthen the Zero Harm approach.

While the number of health and safety incidents in 2022 remains low, we continue to work vigilantly to prevent all incidents.

Balfour Beatty's 2022 performance is underpinned by a strong health and safety culture which has seen observations reach their highest rate ever of 4.0 per 1,000 hours worked, up from 2.99 in 2021, with total observations raised in 2022 reaching 380,000. A culture where our workforce is empowered to share observations means we are learning lessons, sharing best practice, gathering data, and improving the odds of preventing incidents or near misses in the future.

Balfour Beatty's back-to-basics focus has seen it continue to upskill and support project and contract supervisors and has included the launch of initiatives such as the Supervisor Task and Finish Forum to enable continuous learning from and development of health and safety critical site supervisors.

In 2022 Balfour Beatty launched *What3Things?*, a short, digestible summary of three key measures that must be in place to prevent each fatal risk – providing a quick and easy prompt for our teams to use (for more detail see page 49).

Health continues to be given the same importance as safety, with Balfour Beatty leading the industry through the Health in Construction Leadership Group and promoting cross-industry collaboration on health issues. I am proud of the strong progress Balfour Beatty has made since 2017 in providing and promoting the help available for its employees and supply chain partners on critical issues such as mental health. In 2022, Balfour Beatty implemented new initiatives such as *Make it Visible*, partnering with Ford to launch a new suicide prevention campaign, as well as continuing work with Mates in Mind, supporting their endeavours to create bespoke mental health support for apprentices across the industry.

Continued focus on sustainability

The Board gives close consideration to environmental, social and governance (ESG) factors when assessing the impact of the decisions it makes and supports. Balfour Beatty is committed to acting responsibly and to having a positive impact on the planet, the lives of its people and the communities in which it operates. Balfour Beatty's view is that this contributes to the long-term sustainability of the business and its ability to deliver for its stakeholders.

Balfour Beatty's approach is guided by its sustainability strategy, Building New Futures, which includes a firm 2030 target of halving its 2020 carbon emissions, including Scope 3 emissions, and a 2040 ambition of Going Beyond Net Zero.

Despite considerable progress in applying innovative technologies and accessing renewable energy sources, the Group has seen an increase in its carbon emissions in Scopes 1 and 2 in 2022. There are a number of reasons for this increase; the impact of global supply chain issues, rising energy prices and the fallout from COVID-19, which have reduced opportunities to drive low-carbon solutions as the Group has sought to keep costs down for customers and; an increase in workload involving tunnelling and earthworks, which are amongst the most carbon intensive elements of construction.

INNOVATION IN ACTION

Industry-leading innovations on the M25

In 2022, I visited Connect Plus Services' Scratchwood Depot to gain a better understanding of the contract and to learn about its industry-leading innovations.

The team has developed the Optimatics System to help manage road closures effectively on one of the busiest motorways in the UK, the M25. The system uses computer algorithms to create an optimised road space plan which enables the team to review and quickly re-plan activities to help minimise disruption for road users when factors such as the weather forecast change.

I also saw a live demonstration of the innovative Automatic Cone Laying Machine, a new pioneering technology designed to reduce the risks associated with cone laying activities, improving safety for colleagues working on highways. Find out more about this industry-leading innovation on page 51.

Continued focus on sustainability continued

With seven years remaining before the 2030 target, Balfour Beatty's intention is to accelerate progress, ensuring that sustainability is built into every day operations, and that the business is making the right corporate, social and environmental choices. The steps the business needs to take to achieve this have been identified and integrated into its business plans.

Balfour Beatty's sustainability strategy commits the Group to take a holistic approach and consider the long-term impacts of the decisions it makes. Rather than using transitional options such as hydrotreated vegetable oil (HVO), which run the risk of creating a worse environmental issue than they aim to solve, the Group is committed to phasing out diesel and other fossil fuels by using renewable and other low carbon sources. I am proud that Balfour Beatty has the courage to show leadership and make decisions such as this.

I am pleased to report that the social value the Group delivers to society continues to increase and that it made significant progress towards its ambition to Positively Impact More than 1 million People by 2040. This area of Balfour Beatty's work goes from strength to strength as it boosts local economies around its projects in all of its geographies.

A principles-led Code of Ethics

The Board takes its role in overseeing Balfour Beatty's ethics and compliance very seriously. To strengthen its approach, in 2022 Balfour Beatty evolved its rules-based Code of Conduct into a principles-led Code of Ethics: a framework providing clear direction on the standards, values and expectations that guide the behaviours of all its employees and supply chain partners in the UK and US. Rooted in the values set out in Balfour Beatty's cultural framework, the intention is that the Code of Ethics empowers employees and supply chain partners to do the right thing; from prioritising health, safety and wellbeing, to standing against bribery and corruption, supporting human rights, and fostering inclusion and respect. I was heartened to see in the 2022 employee engagement survey that 96% of responders in the UK and US said that they were familiar with the Code of Ethics, following a multi-channel communication campaign and learning programme.

Building a skilled, diverse and inclusive workforce

Talent is a key focus for the Board. Balfour Beatty's people are at the heart of everything the Group does and achieves. Having the right people with the right skills, at the right time, is a priority. During 2022 we continued to monitor and track Balfour Beatty's talent development programmes, with a focus on ensuring that the Group has the right capabilities for the future and a strong, diverse succession pipeline across leadership positions.

In 2022, as further recognition of the Group's ongoing commitment to creating lifelong careers, Balfour Beatty's Gold accredited membership of The 5% Club – an employer-led organisation committed to 'earn and learn' opportunities for employees – was renewed. At December 2022, 6.5% of our UK workforce comprised apprentices, graduates and sponsored students in 'earn and learn' positions.

77% of employees responded to the annual Group engagement survey (up from 65% in 2021) and the Group engagement score was 80%, up from 76% in 2021. In such volatile times, it is important that the Group continues to maintain these levels of engagement, ensuring a two-way conversation and enabling employees to achieve their career and development goals.

The Board is committed to ensuring that Balfour Beatty has a supportive, diverse and inclusive culture and working environment where all colleagues feel they belong, with diverse representation across all levels. This is an area that I am deeply committed to and so I am pleased to see progress being made. Key developments in 2022 included the launch of a new set of 2030 UK Diversity & Inclusion targets to accelerate the pace of change; and strengthened family friendly policies, available to all UK colleagues to make sure they feel supported through important life events.

In the US, colleagues hosted their third Together Allies conference dedicated to improving Diversity, Equity and Inclusion (DE&I). The virtual summit included a series of panel discussions and keynote speakers on the positive impact that DE&I initiatives have on operational improvement and advancement, helping to foster Balfour Beatty's people-first culture.

I was delighted to see that, in the 2022 employee engagement survey, 86% of people across the UK and US agreed that the Company culture is inclusive to everyone, regardless of difference, up from 83% in 2021, showing that the business continues to make progress in this important area.

Delivering a multi-year capital allocation framework

Balfour Beatty is in the third year of delivering a multi-year capital allocation framework and is increasingly confident of delivering significant future capital returns. This is evidenced by the announcement of an additional £150m share buyback programme for 2023. The Board is also recommending a final dividend of 7.0 pence per share, giving a total recommended dividend of 10.5 pence per share for the year.

The Board is pleased the Company was in the top decile for FTSE 250 share price performance for 2022.

TO FIND OUT MORE ABOUT OUR NEW CODE OF ETHICS, SEE PAGE 52

> "Key developments in 2022 included the launch of a new set of 2030 UK Diversity & Inclusion targets to accelerate the pace of change."

Looking ahead

At the time of writing, we know there will continue to be many challenges ahead due to the war in Ukraine. The Board continues to consider and monitor potential risks and impacts. My thoughts continue to be with all those impacted by this devastating situation.

For businesses, trading conditions will undoubtedly remain challenging throughout 2023, as the world continues to grapple with high energy costs and the related economic aftershocks and high levels of inflation. Balfour Beatty has plans in place to mitigate the worst of the inflationary impacts on the business.

Balfour Beatty is well positioned with differentiated capability and leading positions in growth markets across the UK, US and Hong Kong – all markets where governments are making significant investments in infrastructure. The Group has clear strategic priorities for growth, an ambitious plan and the resources, world-class capability and credibility to pursue them.

As the world continues to tackle climate change, delivering a global energy system that can generate affordable, secure, low-carbon energy is key. In 2022, Balfour Beatty has taken decisive steps to align itself to the energy transition and security market, leveraging its significant capability and scale to capitalise on the exciting opportunities ahead.

Against a challenging backdrop, Balfour Beatty delivered a strong set of results for 2022. This could not have been achieved without the efforts of its 25,000 people. Their hard work, ingenuity and integrity have once again shone through. On behalf of the Board, I want to thank them for everything they have done, and continue to do, for Balfour Beatty. I also want to thank and acknowledge our shareholders and other stakeholders for their continued support.

I very much look forward to reporting on our progress this time next year.

Charles Allen, Lord Allen of Kensington CBE
Non-executive Group Chair
15 March 2023

"The Group has clear strategic priorities for growth, an ambitious plan and the resources, world-class capability and credibility to pursue them."

Throughout 2022, our expert engineers delivered complex projects and vital work at the heart of communities.

SCAN TO WATCH SOME OF OUR HIGHLIGHTS

Section 172 statement

The Directors take their responsibilities to stakeholders very seriously. Throughout 2022, the Board reviewed existing engagement mechanisms across each of the Group's key stakeholder groups. The Board ensures all complementary and divergent stakeholder views are understood and embedded into Board discussions and the decision-making process. 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 for high standards of business conduct.

The Directors seek to act in good faith in the way most likely to promote the long-term success of the Company for the benefit of its shareholders, and to act fairly between all of its stakeholders. Through the Board and the Board Committees, Directors have taken action to promote and support these objectives across the Group, details of which can be found throughout this Annual Report as set out here:

- the Company's purpose, values and behaviours on pages 2 and 24;
- a description of key stakeholder groups and how the Group has engaged with stakeholders on pages 26 to 29;
- the range of activities undertaken across the Group relating to sustainability matters on pages 55 to 63;
- details of how high standards of integrity are maintained on pages 52 and 53;
- the proactive and pragmatic approach of the Group toward risk on pages 84 to 96;
- the framework of the Company's decision making on pages 122 to 125; and
- details of the Company's governance processes and practice on pages 107 to 129.

A diversified portfolio delivering on all fronts

Leo Quinn
Group Chief Executive

2022 results significantly ahead of 2021

The Group's continued progress is highlighted by the increased profitability in 2022, with underlying profit from operations from the earnings-based businesses (Construction Services and Support Services) rising by 28% to £232 million (2021: £181 million). £208 million of cash was returned to shareholders during the year (2021: £179 million) through a combination of dividends and share buybacks, while average net cash increased to £804 million compared to £671 million in 2021.

Diversified portfolio delivering in challenging economic conditions

The strong results in 2022 are a testament to Balfour Beatty's transformation into a well-balanced and lower risk group. The diversified portfolio, both geographically in the UK, US and Hong Kong; and operationally across Construction Services, Support Services and Infrastructure Investments, plus the strength of its balance sheet and cash management, have provided the resilience for the Group to deliver results ahead of expectations through the global instability seen in 2022.

The Group continues to focus on higher quality and lower risk opportunities which utilise its end-to-end capabilities and large-infrastructure project experience. At Construction Services, UK Construction delivered profit within the 2-3% UK industry standard margin target range, and US Construction and Gammon have both produced strong results once again. Support Services delivered ahead of the 6-8% margin target range set in 2021, and the Investments portfolio valuation grew by 17% as the high levels of inflation and consequent increase in rental rates in the year benefitted the valuation of most assets.

"The strong results in 2022 are a testament to Balfour Beatty's transformation into a well-balanced and lower risk group."

Order book growth while maintaining lower risk profile

The Group's order book has grown by 8% in the year to £17.4 billion (2021: £16.1 billion). In the UK, the proportion of the order book signed on lower risk target-cost or cost-plus contracts compared to higher risk fixed-price contracts has significantly increased over the past four years and now represents 90%. These lower risk contract structures utilised in the UK are uncommon in the US, where the early issuing of subcontracts for buildings jobs and bonding of the supply chain protects the Group's US margin. These approaches are not only prudent to protect against job specific issues, but also mitigate against escalating labour and material costs in high inflationary conditions, such as those faced in 2022.

There is a significant level of work which the Group has been awarded but is not yet contracted (ABNC) and therefore was not recorded in the year end order book. This includes the £1.2 billion Lower Thames Crossing project awarded in January 2023, the seven-year £297 million contract for highways maintenance in East Sussex and the US$222 million Jacksonville International Airport terminal project in Florida.

Increased Directors' valuation independently reviewed

The Directors' valuation of the Infrastructure Investments portfolio has grown considerably in the year from £1.1 billion to £1.3 billion, resulting from an exchange rate benefit and a strong correlation with inflation, partially offset by the disposal of five assets as well as ongoing project distributions. The half-yearly review of the methodology and assumptions used in the Directors' valuation resulted in the discount rates used for the UK portfolio and US military housing being reduced. In addition, changes were made to the forecast growth rate, overhead and tax methodology used for valuing US military housing. The methodology and assumption changes resulted in a net £28 million increase in the value of the portfolio.

Following year end, a third-party valuation expert independently reviewed the portfolio and the Directors' valuation is consistent with their conclusions.

All disposals made in the year were sold at above the Directors' valuation and contributed to a gain on disposals of £70 million. The Group continues to invest in new opportunities (targeting a minimum 2x end to end multiple) whilst optimising value through the disposal of further operational assets.

2022 PERFORMANCE

Exceeding expectations

- **Strong performance across all divisions**
- **Increase in Directors' valuation of Investments portfolio, correlated with inflation**

Positioning for growth

- **£17.4 billion lower risk order book**
- **Unique capabilities aligned to critical national infrastructure**

Delivering for shareholders

- **17% growth in dividend**
- **Third consecutive year of £150 million share buyback**

Well-balanced lower risk Group positioned for future infrastructure growth

"Balfour Beatty's unique capabilities and the positive outlook in its chosen markets will enable it to deliver ongoing profitable managed growth."

ABOVE: Leo's site visit to SSEN Transmission's Port Ann to Crossaig overhead line project in Scotland.

INNOVATION FOR SUSTAINABILITY

Mandating sustainable solutions

Balfour Beatty has identified over 130 ways to reduce its energy consumption, including use of the EcoNet tool which manages the power of site compounds by controlling and reducing the energy output from key appliances.

In addition, Balfour Beatty has deployed over 600 EcoSense cabins which boast a range of sustainable applications and components including occupier-activated extractor fan sensors and lower kilowatt heaters with built-in, self-regulating digital thermostats. These cabins will reduce carbon emissions on site by up to 30%. EcoNet and EcoSense are two of five solutions mandated across our UK business to drive down emissions and build a more sustainable future. When combined, EcoNet and EcoSense will deliver an additional 4,000 to 5,000 tonnes of CO_2 savings annually.

SCAN TO WATCH OUR VIDEO

Exciting opportunities in chosen infrastructure markets

Governments in the Group's three chosen markets have all committed to driving post-pandemic economic recovery by boosting spend on infrastructure and sustainability. In the 2022 Autumn Statement, the UK Government reaffirmed its commitment to the £650 billion National Infrastructure Strategy (NIS) set out in 2020, but recognised in March 2023 that the impact of inflation and supply chain disruption will result in some transport schemes, including the Road Investment Strategy and HS2, taking longer than expected.

This expansion of state-backed infrastructure provides a positive landscape for the Group. Given its proven track record of delivering world-class projects, Balfour Beatty is particularly well-placed to benefit from the growing focus on infrastructure which can enhance GDP, deliver energy security and mitigate climate change. These requirements dictate a significant transition in national energy infrastructure spanning renewable electricity generation and storage, electric vehicle charging, smart grids and carbon capture to hydrogen and nuclear. With its strong expertise, Balfour Beatty has already started exploring these opportunities.

Engagement of expert workforce continues to improve

Attracting and retaining an expert workforce remains vital to Balfour Beatty. The results of the annual employee engagement survey improved for the fifth consecutive year, to the highest level recorded since the survey started in 2015. The overall Group engagement score increased from 76% in 2021 to 80%, placing Balfour Beatty 6bps above the industry average and 13bps above companies of a similar size. Employee satisfaction remains of utmost importance and is one of the primary factors which the Group can influence to maintain its capability.

As part of this, Balfour Beatty always looks to pay its people fairly and at a competitive rate. 2022 was a particularly challenging time with the cost-of-living crisis and the Group has supported its people as appropriate. Additionally, improvements were made to the Group's family policies with enhanced maternity and paternity leave and a new set of UK diversity and inclusion targets were launched. The Group's commitment to train the next generation of employees continues to grow, with 6.5% of the UK workforce at year-end comprising apprentices, graduate and sponsored students in 'earn and learn' positions, exceeding The 5% Club target.

Zero Harm culture makes further progress

Health and safety continues to be the top priority for Balfour Beatty, and a reduction to 0.03 (2021: 0.05) in the Group's major injury rate across 94 million hours worked (excluding international joint ventures) represents a milestone on the Group's journey towards Zero Harm. A back-to-basics focus in 2022 has helped reduce the Group lost time injury rate to 0.15. The logging of health and safety observations is a key part of deepening the health and safety culture within the Group's workforce and helps to keep safety front of mind, so it is particularly encouraging that the total number of observations made rose significantly to 380,000 (2021: 297,000).

One of the most impactful health and safety initiatives in the year was the What3Things? campaign, which is a practical and accessible quick reference tool for colleagues to use on sites. What3Things? is focused on the fatal risks and what can be done to help eliminate them. The Group's focus on leveraging digital solutions is reducing health and safety risks while improving productivity. During 2022, a digital permit solution was rolled out to sites across the UK aimed at improving compliance, consistency and transparency of the thousands of permits submitted each year. This web-based system has not only enhanced efficiency, but has also reduced unnecessary pedestrian movement around sites, making them a safer place to work.

Focus on sustainability intensified

Balfour Beatty's sustainability strategy, Building New Futures, was launched in 2020 to improve the Group's approach to environment, materials and communities by setting firm 2030 targets and longer-term ambitions for 2040. The 2030 targets set were the achievement of a science-based carbon reduction target, a 40% reduction in waste generated and the delivery of £3 billion in social value. It also outlines the Group's 2040 ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People.

"Balfour Beatty has delivered attractive total cash returns to shareholders while maintaining an appropriate balance between investment in the business, and a strong capital position."

BELOW:
Leo's site visit to HS2's Old Oak Common station project in London.

In the year, the UK business delivered £816 million of social value and 96% of the Group's waste was diverted from landfill.

The Group's drive to reduce carbon emissions continues to deepen, with signs of progress evident in all business units. These range from project-wide approaches, such as the use of modular construction at a 2,000 bed student hostel project in Hong Kong, to innovations such as at the A63 road improvement scheme in Hull, where the diesel generator powering the offices has been replaced by a hydrogen fuel cell generator. Despite the significant and focused efforts of the Group, carbon emissions have increased in 2022, as the Group's mix of work in the year included more tunnelling and earthworks than in 2021, with these activities being particularly carbon intensive. Additionally, the impact of global supply chain issues and rising energy prices reduced opportunities to drive low carbon solutions as some customers have looked to implement cost efficiencies. This has highlighted that more progress is required to ensure sustainability is built into everyday operations and the right choices are being made to achieve the targets set out.

Continued delivery of attractive shareholder returns

Since the introduction of the capital allocation framework in 2021, Balfour Beatty has delivered attractive total cash returns to shareholders while maintaining an appropriate balance between investment in the business, and a strong capital position. Given the favourable outlook, Balfour Beatty is confident of delivering significant future shareholder returns. As such, the Board is today recommending a final dividend of 7.0 pence per share (2021: 6.0 pence), giving a total recommended dividend for the year of 10.5 pence per share (2021: 9.0 pence). Additionally, the Company intends to repurchase £150 million of shares during the 2023 phase of its multi-year share buyback programme.

The share buyback programme and recommended final dividend announced today will bring the cumulative return to shareholders since the introduction in 2021 of the multi-year capital allocation framework to over £570 million.

Outlook

The Board expects 2023 PFO from its earnings-based businesses to be broadly in line with 2022. This includes incremental PFO improvement in UK Construction and US Construction, consistent performance in Gammon, and Support Services PFO towards the top of its targeted 6-8% margin range. Infrastructure Investments will continue to deliver attractive end-to-end returns from its recurring income, by divesting assets and making new investments in line with the Group capital allocation framework. For 2023, gains on disposal are expected in the range of £15-£30 million.

The Board expects a small increase in net finance income for 2023 and for the effective tax rates in each of the three geographies to be close to statutory rates, albeit with cash tax payments in the UK remaining below statutory levels in the medium term as losses are utilised. The Group's average cash is expected to reduce in 2023, due to a working capital unwind forecast in the range of £75-£125 million for the year.

The longer-term outlook for the Group is also positive. The further growth and de-risking of the order book delivered in 2022, combined with the opportunities identified in the Group's chosen markets, give the Board confidence in Balfour Beatty's continued ability to deliver profitable managed growth and sustainable cash generation, and in turn significant ongoing shareholder returns.

Leo Quinn
Group Chief Executive
15 March 2023

Delivering sustainable growth

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.

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.

Profitable work for construction business

Cross-selling across customer base

INFRASTRUCTURE INVESTMENTS (II)

A proven track record of developing and financing projects.

CONSTRUCTION SERVICES (CS)

We manage strong construction businesses in the UK, US and Hong Kong.

SUPPORT SERVICES (SS)

We maintain, upgrade and manage vital services across the power transmission, distribution, utilities, road and rail sectors.

Delivery skills support investment opportunities

Knowledge transfer

EXAMPLES OF THE GROUP WORKING COLLABORATIVELY CAN BE FOUND ON

p14

Why our customers choose us

The iconic cultural landmark, M+ Museum, Hong Kong.

Our experts working on the Midland Metropolitan Hospital, UK.

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.

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 Balfour Beatty a trusted construction partner for public and private sector alike.

Investing in the future generation through the Operator Skills Hub, UK.

Our teams use drone technology to safely undertake surveys and inspections.

The UK's first hydroponic 'living wall' improving air quality in Southampton.

Financial stability
Balfour Beatty's strong balance sheet is a testament to strong governance. It gives customers confidence in the Company's ability to deliver, and that Balfour Beatty is 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 seeks to leave a positive legacy in the communities it works in.

Reducing risk in our order book

As part of its Build to Last strategy, Balfour Beatty has strengthened its governance, focusing on reducing risk in its order book by selectively bidding for work it is best placed to deliver on terms that are attractive to the Group. This reduction has been most noticeable in the UK Construction business, where the proportion of fixed-price work has fallen to 10% at the end of 2022. While inflation risk is mitigated through target-cost and cost-plus contracts, for remaining fixed-price contracts, the replication of contractual terms through our supply chain mitigates the risk of rising labour and material prices.

4%

HY2018

£2.7bn

UK Construction order book

50% 46%

10% 16%

FY 2022

£6.1bn

UK Construction order book

74%

HY 2018		FY 2022
4%	● Cost plus	16%
46%	● Target cost	74%
50%	● Fixed price	10%

Projects that are utilising a breadth of capability across the project lifecycle

CS SS

Littlebrook substation, Kent, UK

As part of National Grid's transformation programme, Balfour Beatty is replacing the high-voltage Littlebrook substation to ensure power supply in the Southeast for years to come. This project combines multiple aspects of the Group's capabilities, including ground engineering, construction, steel fabrication, M&E, cabling and overhead line connections.

II CS SS

M25, UK

In 2009, Balfour Beatty, with its joint venture partners, was awarded the design, build, finance and operate contract for the M25, and has subsequently upgraded, widened and enhanced sections of the London orbital motorway. The Group continues to operate and maintain the M25 through its stake in Connect Plus Services.

A breadth of in–house capability

Utilising capabilities from across the Group, our one-stop solution improves efficiencies and delivers certainty for our customers.

Balfour Beatty invests in a wide range of in-house solutions, capability, equipment and innovation, and in developing our own homegrown, expert skilled workforce, with 6.5% of the UK workforce on formal 'earn and learn' schemes.

The Company operates across the project lifecycle – from owner support with front-end engineering design and programme management, through to construction and commissioning. Alongside a track record of delivering complex multi-disciplinary infrastructure projects in the UK and around the world, is an in-house capability across a wide range of specialist disciplines providing customers with a one-stop solution.

This approach offers customers reduced risk in areas including quality and delivery; increased programme certainty; greater cost predictability; and higher productivity, particularly on the most complex or time-pressured schemes.

End-to-end capability

Commercial and technical	**Design and planning**	**Ground engineering**	**Civil and rail engineering**	**Mechanical and electrical**	**Power transmission and distribution**

MAIN IMAGE: Littlebrook substation, Kent, UK.

Operating divisions

II **CS** **SS**

CS **SS**

II **CS**

Hinkley Point C, Somerset, UK

Delivering the UK's first nuclear power station in a generation has drawn on a breadth of capabilities from across the UK business. Construction Services is carrying out the tunnelling and maritime works package, plus the mechanical and electrical works through the MEH Alliance. Support Services is delivering the 48km, 400kV overhead line connection project on behalf of National Grid.

Los Angeles International Airport (LAX) Automated People Mover, US

Balfour Beatty and its joint venture partners in LAX Integrated Express Solutions (LINXS) are responsible for the design, build, finance, operation and maintenance of the LAX Automated People Mover project. To construct this 2.25-mile above-ground airport transport system connecting passengers with the airline terminals, LINXS is utilising expert capabilities from its US construction businesses with the financial expertise of Balfour Beatty Investments.

Photo credit: Los Angeles International Airport

Well positioned in our chosen markets

Balfour Beatty operates in a number of chosen markets, based on level of opportunity and the competitive advantage of its multi-disciplinary capabilities.

Macro trends

Despite challenging market conditions, Balfour Beatty's chosen markets show strong underlying drivers and continue to deliver significant opportunities to the Group. The principal markets in which Balfour Beatty operates, the UK, the US and Hong Kong, are showing strong signs of enhanced growth on the back of government infrastructure stimulus. Balfour Beatty manages inflationary risks through target-cost and cost-plus contracts and by ensuring contractual terms are replicated through its supply chain in the case of fixed-price contracts.

FORECAST INCREASE IN THE UK, THE US AND ASIA INFRASTRUCTURE SPEND ON CURRENT TRENDS
2020-2040 (US$ nominal)

	United Kingdom	United States	Asia
Increase	+30.5%	+26.2%	+43.8%
2040	US$77bn	US$390bn	US$2.3tn
2020	US$59bn	US$309bn	US$1.6tn

Source: Global Infrastructure Hub.

UK public sector spend

In both the short and long term, the infrastructure market outlook is positive, driven by the Infrastructure and Projects Authority's plan to invest £650bn in the 10 years to 2031. The level of investment is further enhanced by the government's Net Zero Strategy, bringing major infrastructure projects to market. Public buildings market growth is mainly supported by a combined investment of approximately £6bn in the healthcare and education sectors.

Strong infrastructure stimulus in the US

As a result of the US$1.2tn Infrastructure Investment & Jobs Act and US$370bn Inflation Reduction Act, the buildings market in the US is expected to continue to grow in the short and medium term. The Acts are driving infrastructure growth by delivering projects in a wide range of sectors.

Stable spend in Hong Kong

In the public and private sectors, the construction outlook in Hong Kong is positive in the short and medium term, supported by the government's plan to increase land supply, speed up railway development projects and rehabilitate ageing buildings.

Strong market drivers

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

Increasing emphasis on decarbonisation and sustainability – The COP26 and COP27 conferences played a key role in accelerating many policies that countries already had in place. In the UK, the government's new Net Zero Strategy has set out the path to halving carbon emissions in the next decade and reaching net zero carbon emissions by 2050. This is driving an ever-increasing demand for efficient, decarbonised infrastructure solutions able to meet the country's current and future needs. The same sentiment is echoed in the US, with the President having re-joined the Paris Agreement, establishing the same two targets as the UK and committing to make historic investments in modern clean energy solutions and decarbonisation. Balfour Beatty's focus on being a sustainable contractor, as set out in its sustainability strategy, Building New Futures, makes the Group a suitable partner to deliver this green infrastructure work.

Resilient infrastructure prospects driven by major projects and frameworks within regulated sectors – Governments are increasingly turning to fiscal stimulus through infrastructure investment to drive economic growth. In the UK, infrastructure spend continues to reach high levels and is expected to maintain that trajectory in the short term as a result of the government's £600 billion National Infrastructure Strategy (of which £200 billion is planned to be delivered by 2024/25). While in the US, the infrastructure market is expected to recover to pre-pandemic levels in 2023, supported by the US$1.2 trillion Infrastructure and Investment Jobs Act. The Act is expected to bring highways and rail projects that will support strong short-term growth prospects. 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 need for greater collaboration to successfully deliver complex infrastructure programmes – As client organisations mature, Balfour Beatty is increasingly able to work collaboratively to develop mutually beneficial models of working, sharing risk and upside appropriately. This is exemplified by the UK Government's Construction Playbook which allows the Group to assist government, as a customer, to create better outcomes – for example by focusing on an appropriate allocation of risk between contractor and customer, focusing on the whole life cost of infrastructure, and increasing the social value impact of projects. In the US, the fiscal stimulus packages introduced encourage a greater number of public and private relationships by increasing the opportunities for joint investment into infrastructure projects.

Demographic changes will necessitate sustained infrastructure investment – A growing and increasingly urbanised global population will require investment in new infrastructure including utilities supporting energy generation and supply, water and wastewater, data and communications and transportation to construct the modern living conditions required to meet this growth. In the US, domestic migration out of big metro areas and continued international migration to the Group's chosen regions necessitate increased investment in new and upgraded infrastructure, particularly within healthcare and transportation segments.

Growing recognition of the need for infrastructure investment to deliver the low-cost energy transition and provide energy security – The persistence of high, rising, and volatile energy costs and commodity prices will be dependent on how the geopolitical dynamics in Europe continue to play out, which is clearly uncertain. We expect that markets will price continuing uncertainty into expectations. Given the increase in both energy costs and commodity prices in 2022, Balfour Beatty does not anticipate further significant increases unless there are further external shocks. Beyond the cost effects, rising gas and electricity prices have highlighted the need for increased investment in the network infrastructure to support the transition to decarbonised power systems and the establishment of greater energy security. Balfour Beatty's energy and power capabilities mean the UK business is well positioned to capture the opportunities in this growth segment.

MANAGING INFLATION RISK

Balfour Beatty faces inflationary pressures in each of its core geographic markets:

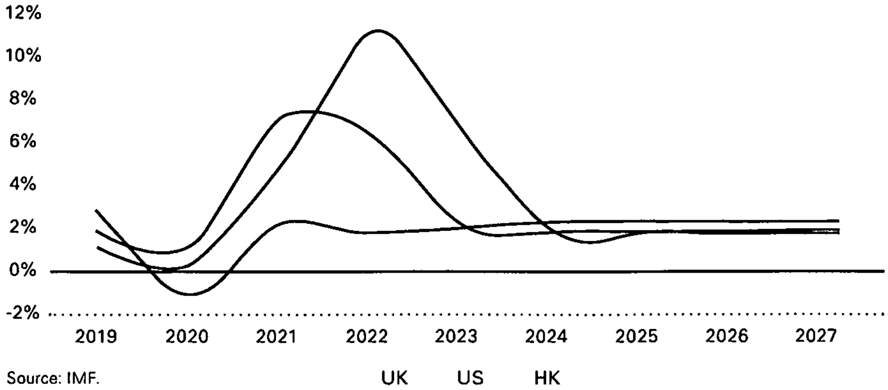
- **UK** - Inflation is being driven by rising energy costs combined with labour and material shortages, but is expected to ease in the second half of 2023, with the Bank of England forecasting a stabilisation of energy and imported goods prices and a lowered demand for goods and services.
- **US** - Inflation shows signs of slowing amid Federal Reserve tightening and a modest slowdown of the labour market after significant job and wage growth throughout 2022.
- **Hong Kong** - Experienced moderate price inflation in overall terms throughout 2022, mitigated by the government introducing several relief measures to support both businesses and individuals.

Whilst general inflationary pressure in Balfour Beatty's core markets is expected to reduce over the next two years, the actual pressure on the business is more complex and determined by price trends for specific input costs.

Balfour Beatty manages inflationary risks through target-cost and cost-plus contracts and by ensuring contractual terms are replicated through its supply chain in the case of fixed-price contracts.

The Group is selective in its bids to ensure it is best placed to deliver the projects it takes on and that the terms of the contracts are suitable. Over the years, this approach has lowered the risk in Balfour Beatty's order book and the Group will continue to monitor and manage inflation risk in a similar fashion.

CONSUMER PRICE INDEX (CPI) INFLATION RATES 2019 – 2027



Source: IMF.

UK: Construction Services and Support Services

Strong underlying growth

NATIONAL HIGHWAYS' ROAD INVESTMENT STRATEGY

The current multi billion pound spend under the UK Government's Road Investment Strategy, including £8 billion over the next two years, continues to be a strong driver for the sector. Through its positions on the Regional Delivery Programme (RDP) Balfour Beatty is well positioned to deliver projects on both existing and future schemes.

Following a Department for Transport announcement in March 2023, the majority of RIS2 (schemes are continuing within their existing defined timescales between 2020-2025. All schemes earmarked for RIS3 (2025-30) are continuing to be developed and considered for inclusion within RIS4, which will run from 2030-2035.

Regional Delivery Partnership

M25 J10

A19 N-W

A19 NTC

A63

A57

A66

Smart Motorway Programme

M3 J9-14

DHS M4/M5

DHS M1

ERA

Complex Infrastructure Programme

Lower Thames Crossing roads North

Manchester North ~~West Quadrant~~

M25 Connect Plus Services

Manage and Operate

INVESTMENT IN THE RAIL NETWORK

Investment in Britain's rail network is supported by the Integrated Rail Plan, with a £96 billion package of rail construction and upgrades for the Midlands and the North, including the electrifying and upgrading of the Midlands Main Line and the Transpennine Main Line, as well as upgrading the East Coast main line. Further support comes from the pledged £500 million for the Restoring Your Railway programme, which includes building and reopening lines and stations closed during the Beeching cuts, supporting the development or delivery of over 45 schemes across England and Wales. As an agile operator offering a range of rail capabilities, Balfour Beatty is well placed to deliver both maintenance and core construction work within these schemes.

£10.1bn
P.A.

CP7 + TfL + TfW (2024-2029)

Central Rail Systems Alliance

Northumberland Line

Crewe Hub

Euston

Domestic Renewals

Transport for London

HV PLU Batch A

ITT BP05

Piccadilly Line Depots

Track Procurement

Transport for Wales

Core Valley Lines Track

Global Centre of Rail Excellence (GCRE)

Rail Systems

Midlands Main Line Electrification

Midlands Rail Hub

CP7 Eastern

CP7 North-West & Central

Plant

Stone blower Service

Tampers

Multi-purpose Vehicles

UK TRANSMISSION MARKET

Strong power pipeline

The power transmission and distribution industry is experiencing a wave of new demand driven by the environmental agenda. Programmes such as the SSE Network Options Assessment and the National Grid New Infrastructure Delivery Onshore Programme and the overhead line, underground cable and substation projects within the RIIO-T2 and ED2, are expected to drive growth over the next 10 years and could be further enhanced by transmission and distribution connections from new build green generation. Balfour Beatty is a trusted and safe contractor and is well placed to deliver these works and the associated infrastructure to enable the networks to support this influx of new, green power generation.

£2bn
P.A.

RIIO-T1 (2013-20)

£5.7bn
P.A.

RIIO-T2 (2021-26)
NOA & NIODP (2023-30)

National Grid Electricity Transmission

Hinkley OHL

London Power Tunnels 2

Littlebrook Substation

Other Overhead Line Schemes

Other Underground Cables Schemes

Other Substation Schemes

Scottish and Hydro Electricity Transmission

Peterhead GIS Substation

East Coast OHL

Other Substation Schemes

Other Overhead Line Schemes

Other Underground Cables Schemes

National Grid

Viking Link

Other Underground Cables Schemes

● Construction Services – Secured work

○ Construction Services – Future opportunity

● Support Services – Secured work

○ Support Services – Future opportunity

Exciting local roads market
The local highways maintenance market has seen significant growth, driven by an additional £2.5bn in pothole repair funding, providing £500m a year to local authorities between 2020 and 2025. Further, Balfour Beatty continues to see additional capital funding to transform cities and town centres to improve the public realm, encourage active transport such as walking and cycling and meet Local Authorities' objectives to reach Carbon Net Zero. There are several contracts coming to market between 2023 and 2026, and with long-term security from its ongoing contracts, Balfour Beatty is well positioned to capitalise, win new work, and achieve sustainable growth.

Investment in public buildings
Public buildings market growth is supported by the £3.7bn New Hospital Programme which aims to build 40 new hospitals by 2030 and the School Rebuilding Programme, which targets to build and refurbish 500 primary, secondary and further education establishments over the next decade, including the £2bn Learning Estate Investment Programme in Scotland.

Smarter procurement
The UK Government's Construction Playbook continues to be rolled out, with the principles of creating social value from, and ensuring value for money for, public sector projects increasingly being adopted. This new focus matches well with Balfour Beatty's Build to Last values and given its strong track record, Balfour Beatty is well positioned to continue to support these goals. This is strengthened further by Balfour Beatty's sustainability strategy, Building New Futures, which focuses on three specific areas: Environment, Materials and Communities.

Growth of public sector frameworks
Innovative frameworks in the UK such as the Crown Commercial Services (CCS), the NHS Shared Business Services (SBS) and the SCAPE Civil Engineering frameworks continue to evolve and redefine how construction is procured nationwide. Balfour Beatty is participating as a major contractor on these frameworks and it has recently officially signed as the sole contractor to both the new SCAPE Scotland and SCAPE England, Wales and Northern Ireland Civil Engineering frameworks. Both SCAPE schemes will deliver a wide variety of projects to the market with a combined value of up to £4bn over the coming years.

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

Artist's impression of a Holtec SMR-160 nuclear power plant.

Balfour Beatty joins with Holtec to fuel the UK's nuclear energy drive

Balfour Beatty has signed a memorandum of understanding with Holtec Britain, a subsidiary of Holtec International – a supplier of equipment and systems to the global energy industry – and Hyundai Engineering and Construction (HDEC), to support the planning advancement for the construction of Holtec's SMR-160 pressurised light-water reactors in the UK.

Balfour Beatty will act as the main UK construction partner and collaborate with HDEC on the civil construction and installation of the Mechanical, Electrical and Heating, Ventilation and Cooling systems as well as the equipment required for Holtec International's innovative SMR-160 reactors.

Holtec International is planning to start the UK regulatory acceptance process for SMR-160 reactors in 2023, which, when granted, will enable the start of the construction of the first UK unit in as early as 2028.

Once approved, the SMR-160 power plant units are poised to play a key role in the delivery of the UK Government's Energy Security Strategy, targeting 5GW of clean electricity to the National Grid by 2050.

Transformational green infrastructure agenda
To meet its target of net zero carbon emissions by 2050, the UK Government has prioritised the decarbonisation of the transport and energy sectors with a generational investment in infrastructure through the £600bn National Infrastructure Strategy to make this a reality. This is further underpinned by £26bn of government capital investment under the government's Net Zero Strategy designated for the environmental agenda. Balfour Beatty's Building New Futures sustainability strategy supports this agenda, with Beyond Net Zero Carbon, Generate Zero Waste and Positively Impact More than 1 million People as ambitions for 2040.

Transportation
In March 2023, the UK Government reaffirmed its commitment to over £40bn of capital investment in transport across the next two financial years, which will drive significant improvements to rail and road across the country. Balfour Beatty is already playing a pivotal part in this transformation through its HS2 work on both Old Oak Common station and the main civil works for Area North and through the Group's work on the Road Investment Strategy.

New nuclear
The UK Government is investing £525m to bring forward the next generation of new nuclear power stations, while also confirming £679m of funding for a 20% stake towards the building of the Sizewell C nuclear plant. Balfour Beatty is currently playing a critical role in constructing Hinkley Point C and is well placed for the proposed Sizewell C nuclear plant. The government's Nuclear Energy (Financing) Act enabled the Regulated Asset Base model for new nuclear projects, which encourages a wider range of private investments. Furthermore, Balfour Beatty has signed a memorandum of understanding with Holtec Britain, a supplier of equipment and systems to the global energy industry, and Hyundai Engineering and Construction (HDEC) to support the planning advancement for the construction of Holtec's SMR-160 pressurised light-water reactors in the UK.

US: Construction Services

Growth is expected across all our markets

Transportation
Strong growth is expected in the transportation sector, with US$639bn of the US$1.2 trillion Infrastructure Investment and Jobs Act designated to road and rail. Compared to the FAST Act that was in effect from 2016 to 2020 and had a total amount of authorised funding of US$305bn, this is a 108% increase.

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

Education
School building construction spend is expected to see steady growth; significant deferred maintenance will drive increased K-12 construction, whilst investment in higher education will be challenged by declining enrolment in the short term.

Multifamily housing
While the multifamily housing market still experiences strong occupancies and has potential future growth, a slowdown over the short term is expected because of increased prices and interest rates. As the market settles down, demand rises in lower density and lower cost markets combined with continuing migration to Balfour Beatty's chosen states and core metropolitan areas such as Seattle and Washington D.C. are expected.

Offices
While businesses are currently grappling with continued inflationary pressures, office space demand is expected to recover slowly. Existing traditional office space overcapacity means that demand will favour newer, more desirable offices, coupled with the repurposing of older spaces. There are opportunities within the offices market, as headquarters relocations are expected to accelerate.

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

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

> "Strong growth is expected in the transportation sector, with US$639bn designated to road and rail."

LEFT:
The Southern Gateway reconstruction and improvement project for the Texas Department of Transportation, US.

Growth in Balfour Beatty's chosen states outpaces the overall US market

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

OUR CHOSEN STATES

Selected states are poised for growth

Our sectors are receiving support through the US$1.2 trillion Infrastructure Investment and Jobs Act.

The Transport sector is receiving US$639 billion, of which a third is for roads, bridges, and major infrastructural projects.

The Education sector is receiving US$170 billion through the 2021 American Rescue Plan Act, a portion of which will be used for school repairs and improvements.

> "Favourable demographic changes and large government spending programmes will continue to drive growth in our chosen states."

MARKET SIZE

Nationwide

-0.6% P.A.

US$1,761bn US$1,717bn

2022 2026

Our chosen states

+5.9% P.A.

US$329bn US$414bn

2022 2026

Source: FMI and Dodge Market Forecast.

Gammon

Stable core market

Strong growth in the public sector is expected in Hong Kong. The current pipeline of infrastructure projects is mainly driven by investments into major expansions of Hong Kong Airport and the MTR subway system. The Government's announcement to materially increase investment in the medium term further supports this growth. Private sector construction demand is expected to gradually pick up after lifting of the COVID-19 travel restriction between Mainland China and Hong Kong. Gammon, with a diverse set of capabilities across both the building and civils sectors, is well placed to benefit from the increased level of investment.

HONG KONG

Key trends

Hospital development plans
Over HK$500bn earmarked to expand, redevelop and construct new hospitals to serve 500,000 more patients by 2036. The Hong Kong Hospital Authority is implementing the first HK$200bn 10-year Hospital Development Plan (HDP) and is planning the second 10-year HDP.

Long-term aviation investment
The HK$141.5bn Three Runway System (3RS) development at Hong Kong Airport marks the beginning of a long-term investment in aviation, with a further HK$9bn expansion programme already underway.

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

Rail and residential land sale programme
Currently, 13 residential sites have been designated for sale in 2022-23. Together with housing projects of the railway operator and public housing, it is estimated this will provide a capacity to produce about 17,940 units in 2022-23. The Government's 10-year housing supply target remains at 430,000 units by 2032-33.

Source: Construction Industry Council Hong Kong, Hong Kong Budget 2022-23.

Total construction output

+2.6% P.A.

	2022	2026
Total construction output	HK$280bn	HK$310bn

Source: Construction Industry Council Hong Kong.

INNOVATION IN SUSTAINABILITY

Gammon is the first company in its sector to commit to SBTi in Hong Kong

Gammon is proud to have committed to setting its own science-based emissions reduction targets in a bid to drastically reduce its carbon footprint and propel its drive for net zero. This not only marks a watershed moment for the company but for Hong Kong itself, as Gammon has become the city's first construction and engineering company to make such a pledge. In the wider Asia region, only thirty other companies in the sector are taking similar action. Leading by example, Gammon plans to make major interventions in Scope 1, 2 and 3 emissions, targeting specific carbon commitments that will see the business move away from carbon intensive behaviours and processes towards longer-term, sustainable approaches and solutions.

Gammon recognises that every individual and organisation has a role to play in the battle against climate change. In October 2022, Gammon committed to set near-term company-wide emission reductions in line with climate science under the Science Based Targets initiative (SBTi). Gammon is proud to be the first company in the construction and engineering sector to commit to SBTi in Hong Kong.

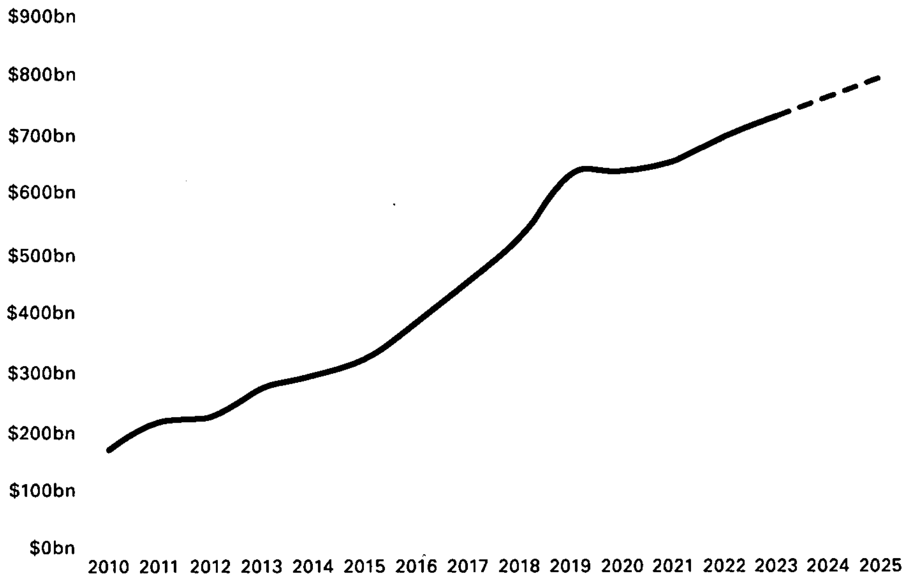
Investments: UK & US

Continued demand for infrastructure assets

As inflation rates continue to exceed interest rate rises, infrastructure asset will remain attractive to yield-seeking investors who are experiencing low rates of real return in other asset classes. Infrastructure generally offers inflation protection to investors, with the degree of protection varying by asset. Most infrastructure assets have an explicit link to inflation through regulation, concession agreements or contracts; Balfour Beatty's public and private infrastructure projects include an explicit revenue link to inflation. Other assets within Balfour Beatty's portfolio without explicit inflation links through formal contractual arrangements typically have the pricing power to deliver similar, or better, outcomes. For example, the rental model of multi-family housing creates an indirect inflation-linked income stream.

GLOBAL UNLISTED INFRASTRUCTURE ASSETS UNDER MANAGEMENT AND FORECAST, 2010 - 2025

US$bn



Source: Preqin.

Attractive range of opportunities continue to come to market

Student accommodation: strong US and UK demand

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

Energy transition

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

Housing opportunities

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

States, counties and cities using P3

The US has become an increasingly exciting market for public-private partnership, and, to date, 41 states (plus DC) have passed legislation allowing P3 projects. The US$1.2 trillion Infrastructure Investment and Jobs Act provides funding for local governments to evaluate P3 opportunities which is expected to drive increased adoption of this approach.

TARGET SEGMENTS

UK TARGET SEGMENTS

Student accommodation and residential
- Student accommodation: University procured or direct let
- Residential: Build to rent accommodation in focused markets

Energy transition
- Nascent energy transition markets

US TARGET SEGMENTS

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

P3 social and transport
- Courthouses, schools, and other government buildings
- Mass transport

Military housing
- Military personnel housing renovations and improvements

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

Delivering Build to Last

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

Our values

Lean

We create value for our customers and drive continuous improvement

Expert

Our highly skilled colleagues and partners set us apart

Our strategy

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

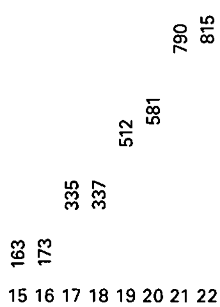
Lean: We're thoughtful and agile, continuously challenging our ways of working to improve health and safety and productivity, eliminate waste and enhance quality to make us more competitive.

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

Our KPIs

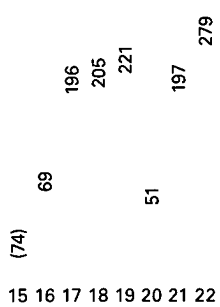
The Build to Last strategy is measured against our five values – Lean, Expert, Trusted, Safe and Sustainable.

NET CASH £m
excluding non-recourse borrowings



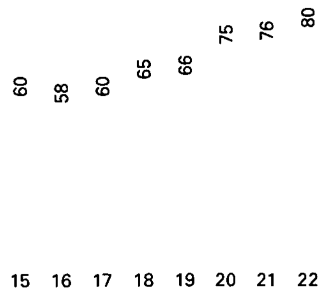
2022:
£815m

UNDERLYING PROFIT/(LOSS) FROM CONTINUING OPERATIONS £m



2022:
£279m

EMPLOYEE ENGAGEMENT INDEX %



2022:
80%

More information

Find out how our strategy is supported by the current market on pages 16 to 23. For the risk appetite in the context of the Company values see page 87.

p80

p64

"The results of the annual employee engagement survey improved for the fifth consecutive year, to the highest level recorded since the survey was first completed in 2015."

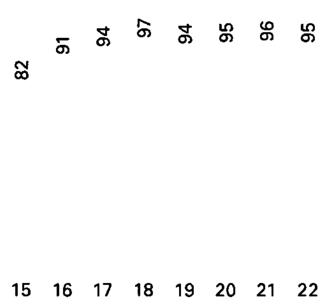
Leo Quinn, Group Chief Executive

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.

CUSTOMER SATISFACTION AVERAGE %



2022:

95%

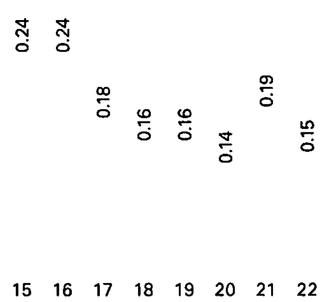
p52

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



2022:

0.15 LTIR

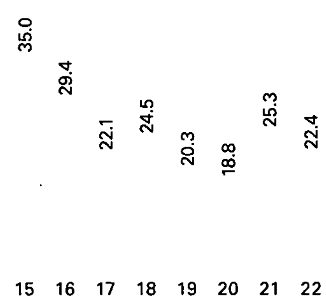
p46

Sustainable

We act responsibly to protect and enhance our planet and society

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

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



2022:

22.4 tCO_2e/£m

p55

Sharing the value we create

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

Customers

FIND OUT MORE
READ THE BUSINESS MODEL SECTION p12

Why are they important?

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

Our priorities

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

How we engage

- Regular communications with our customers at operational, management, executive and Board level
- In the UK, our MAP process includes electronic surveys and in-person reviews and is aligned to ISO 44001, the international accreditation for collaborative business relationships.
- Customer account management plans
- In Hong Kong, Gammon hosts customer partnering events to understand perceptions and identify areas of improvement

How we create value

Balfour Beatty is trusted to 'do what we say we will do' and is measured on this by customer satisfaction. In 2022, over 2,100 customer satisfaction reviews were carried out with the Group's customer satisfaction score standing at 95%.

We strive to leave positive lasting legacies in the communities in which we operate, through local employment opportunities, working with SMEs and engaging in volunteering and fundraising schemes. In 2022, over £1.5bn was spent with SMEs and local businesses in the UK.

We use the latest technologies to solve our customers' challenges. Following the launch in 2021 of our Operational Control Hub (OCH) in Herefordshire, which uses a digital management system to create cross-service, real-time visibility of our activities, we have since rolled out a further OCH in Southampton, providing cost and efficiency savings for our customer. OCHs will also be set up on the East Sussex and Buckinghamshire contracts. In its first year, Herefordshire's OCH delivered significant support to the client, providing over 1,900 emergency responses and completing over 41,500 jobs, and resulted in a 16% increase in productivity and 61% of reported defects and issues actioned and completed ahead of schedule.

"We strive to leave positive lasting legacies in the communities in which we operate, through local employment opportunities, working with SMEs and engaging in volunteering and fundraising schemes."

Employees

FIND OUT MORE
READ THE PEOPLE SECTION p64

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

Our priorities
- Zero Harm – no injury, ill health or environmental incident caused by our work
- Deliver the Group's sustainability 2030 targets and 2040 ambitions to go Beyond Net Zero Carbon, Generate Zero Waste and Positively Impact More than 1 million People
- Attraction and retention of talented people from a diverse range of backgrounds
- Improved employee engagement

How we engage
- A full range of communications channels, both digital and in-person, enable us to broadcast need-to-know, time-sensitive messages, and encourage feedback, conversation and connections across the Group
- Group-wide surveys to measure and understand employee engagement and identify improvement priorities
- Well-established employee-led affinity networks across the Group to build a better understanding of diversity and inclusion
- My Contribution, our employee-led change programme to crowd source ideas

How we create value
The key metric for our Expert value is employee engagement. In 2022, our Group employee engagement score was 80%, up from 76% in 2021. Our surveys are run by an independent company and when benchmarked, our engagement score for 2022 was 6 basis points (bps) above the industry average and 13bps above companies of a similar size.

During our Group-wide September safety stand up, our workforce stopped to come together to renew their collective and individual focus on safety. The safety stand ups adopted a mandated multi-communications channel approach across the UK encompassing in-person and virtual events, written and rich media content and training.

We also launched our Group-wide *What3Things?* initiative – a simple summary of three key measures to be applied to each of our fatal risks. Find out more on page 49.

Our efforts were recognised with a 5 bps increase on the employee engagement question "I feel able to discuss my wellbeing and safety at work", up to 87% in the UK and US.

In 2022, more than 1,600 My Contribution ideas were submitted, with those delivered generating over £2.6 million of cash, £12 million of cost savings, 101,000 hours of time saved, and 273 ideas delivered in the Better Place to Work category.

The Group celebrates and takes part in a range of diversity and inclusion focused events to help create an inclusive workplace. In 2022, this included Hispanic Heritage Month, Women's Equality Day and Black History Month in the US, International Women's Day in Hong Kong and the UK, and International Day of People with Disabilities, Pride Month and International Women in Engineering Day in the UK.

For details on how the Board engages with employees see pages 116 to 120.

Shareholders

FIND OUT MORE
READ THE STAKEHOLDER ENGAGEMENT SECTION p116

Why are they important?
Balfour Beatty's shareholders, as the owners of the Company, are a critical stakeholder for the Group. More generally, shareholders are categorised into two groups: retail investors, individual or non-professional investors who buy and sell shares personally; and institutional investors who invest money on behalf others. The Board places great importance on building and maintaining positive relationships with all shareholders and seeks to ensure there is an appropriate level of regular and informative dialogue with them.

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

How we engage
- Regular briefings via regulatory announcements, webcasts and presentations as well as annual reporting
- Regular face-to-face and virtual meetings with major shareholders including new or prospective investors
- Dedicated Investor Relations department responsible for the day-to-day engagement with shareholders and leading a comprehensive investor roadshow programme
- Regular updates to the Investor Relations web pages

How we create value
Balfour Beatty has established one of the strongest balance sheets in its sector. From its position of strength, Balfour Beatty announced a new capital allocation framework in March 2021. This provides a balanced approach between the investment needs of the business, regular dividend payments and additional returns to shareholders. The Board expects dividends to grow over time with underlying profit. In addition, the Company delivered £150m share buyback programmes for both 2021 and 2022 with a further £150m share buyback underway in 2023.

Throughout 2022, around 50 meetings were held with shareholders across all geographies both virtually and face-to-face.

For details on how the Board engages with investors see pages 120 and 121.

Governments

Why are they important?
Governments set the policy and legislative context within which we operate, which has significant implications for our operations.

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

In the US, we work on projects for a number of federal and state agencies. Our US construction business works for the US Army Corps of Engineers, the Naval Facilities Engineering Systems Command (NAVFAC) and the General Services Administration (GSA). Balfour Beatty Communities is one of the largest military housing owners in the US, working closely with the US Department of Defense, and is a joint venture partner with the US Army, Navy and Air Force in projects that manage housing on 55 military installations across the country.

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

How we engage
- 1:1 relationships with key government decision makers
- Sharing views on key topics using media, social media, engaging events and thoughtful written collateral
- Responses to government consultations, inquiries and hearings

How we create value
Thanks to the relationships we have established with key stakeholders across the UK Government, we are able to engage with Whitehall departments in order to improve our ability to deliver vital public sector projects efficiently.

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

Communities

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

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

How we engage
- In the UK, we employ a network of community engagement specialists who plan and deliver activities to engage and enhance local communities
- Community engagement plans for projects including local employment opportunities and local spend
- Communication with communities under the Considerate Constructors Scheme (UK)
- Developing training programmes for apprentices, graduates and work experience

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

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

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

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

In the UK, we have partnered with The Prince's Trust, Groundwork and Project RECCE and continue to work with local charity partners too. This provides an opportunity for our people, particularly project teams, to positively impact local communities and volunteer to support good causes.

In the US, we have partnered with over 20 charitable organisations and we encourage our employees to raise money and volunteer their time with these organisations.

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

Across the UK, our teams attend careers fairs and other similar events to raise awareness of the types of careers available in our industry and promote local job opportunities.

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

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
- Deliver the Group's sustainability 2030 targets and 2040 ambitions to go Beyond Net Zero Carbon, Generate Zero Waste and Positively Impact More than 1 million People
- Improve transparency through digital tools and automation
- Mitigate and manage risks through collaboration
- Be the customer of choice
- Keep cash flowing through our supply chain

How we engage

- We host webinars, conferences and events to engage with our supply chain partners and provide support in emerging areas such as cybersecurity
- Regular performance reviews with our supply chain partners across the Group to identify areas of good practice, learning and improvement and provide them with support to upskill
- Collaborative and well-established relationships at operational, management, executive and, in most instances, Board level with joint venture partners
- Local 'Meet the Buyer' supply chain events

How we create value

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

We support the creation of a best-in-class supply chain in the UK through our membership of the Supply Chain Sustainability School, a collaboration between customers, contractors and supply chain partners who want to build a skilled supply chain. For the second year running, we have partnered with the Supply Chain Sustainability School, undertaking a joint survey targeting hundreds of supply chain partners across the UK to understand the barriers and opportunities faced in decarbonising the sector. We have shared our findings and recommendations for policy makers, customers, and the industry more widely in our paper '2022 Greening the Supply Chain'. Moving forward, we are looking to take the learnings from the survey to understand what more can be done to support the industry in tackling the barriers it currently faces, bringing our supply chain on the journey and encouraging other industry partners to do the same.

In line with the UK's Prompt Payment Code, we are committed to paying all of our supply chain partners on time and to mutually agreed terms. We continually invest in our processes and procedures to improve our payment performance and enhance accuracy and transparency. In 2022, the percentage of invoices we paid within 60 days has increased from 93% to 96% and the percentage of invoices not paid to terms reduced from 20% to 15%.

INNOVATION IN SUSTAINABILITY

Next-generation of clean power for construction sites

Our Hong Kong joint venture, Gammon, has collaborated with a Hong Kong based start-up, Ampd Energy, to develop the next generation of clean energy for construction sites.

The result is the Enertainer – a blending of 'energy' and 'container' – a lithium-ion battery storage system intended as the primary source of power for machinery with high peak demand on site, which significantly reduces CO_2 generation and reduces noise pollution. In 2022, the innovation was a finalist for the 'Clean our Air' category at the prestigious The Earthshot Prize awards, which were launched in 2020 by William, The Prince of Wales.

Better, faster, greener

Rapidly evolving modern methods of construction are revolutionising how the built environment is designed, constructed and maintained.

Balfour Beatty plays a vital role in the integration of the design, manufacturing, logistics and onsite assembly of a construction project. Powered by our digital tool set, the integration of the various work packages in any project is fundamental to managing risk and building better, faster and greener than ever before – all whilst ensuring the safe operation and sustainability of an asset through its lifecycle and into decommissioning.

Digital first is ingrained in Balfour Beatty's DNA, helping us to continuously improve every element of how we work through data-driven decision making that creates game-changing efficiencies and entirely new ways of working. To ensure our workforce is ready for the digital era, we deliver a range of in-house training programmes and have helped develop professional courses designed to benefit the industry as a whole for generations to come.

Utilising industry-leading technologies on our projects

Main picture: 360 cameras

In the US, our team working on the 2000 & 2001 South Bell Street residential scheme for Zom Living took part in OpenSpace's lunch and learn at National Landing in Arlington.

OpenSpace is a hands-free 360 camera which captures project-based photo and video documentation. This digital tool streamlines the photo capture process to provide remote, accurate and instant project updates for both site teams and their customers.

Modular integrated construction (MiC)

Gammon, our 50:50 joint venture in Hong Kong, successfully adopted a modular integrated construction approach to deliver a new vaccination pop-up centre within a tight timeframe with minimal disturbance to the local community. The centre comprised 13 modular units which were prefabricated in a factory in mainland China, with production and delivery to Hong Kong taking only seven days. The related mechanical, electrical and plumbing elements of this project were also prefabricated offsite.

Watch our video
to learn more

SCAN TO WATCH

MAIN IMAGE: Sarah Bubak, Digital Delivery Coordinator using the 360 BIM field tool to access digital drawings and review the real-time project progress.

Digital rehearsal

Through digital rehearsals, our team at Hinkley Point C successfully lowered six 5,000 tonne intake heads into the Bristol Channel. Working within tight 21-hour weather windows, our team of technical specialists began the operation by transporting each head on a 91m by 27m barge from its berth in Bristol docks out to the two waiting floating cranes code-named Gulliver and Rambiz – a journey that takes six hours. Once in position in the Bristol Channel, the head was hooked to the cranes and tandem-lifted from the barge before the barge was then manoeuvred out of the way to allow the huge structure to be lowered to its final location on the seabed. Using survey instruments digitally connected to a station onshore, the team ensured that the structure was accurately placed sideways to the tidal flow with a high degree of precision.

Strong performance across all divisions

Construction Services

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

Financial review

Underlying revenue of £7,482 million represents an 11% increase (2021: £6,746 million), or 4% at CER. Underlying profit from operations increased to £149 million (2021: £79 million), driven by the return to profitability in UK Construction. Statutory profit for the year was £150 million (2021: £30 million). The order book increased by 10% to £15.0 billion (2021: £13.6 billion), a 3% increase at CER.

UK Construction: Revenue in UK Construction increased by 7% to £2,763 million (2021: £2,593 million) due to increased volumes at HS2 and Hinkley Point C more than offsetting reduced regional volumes. In 2022, 91% of UK Construction revenue was from public sector and regulated industry clients (2021: 90%).

The return to profitability of UK Construction was the key driver of the improvement in the Group's results. Underlying profit from operations for UK Construction of £59 million (2021: loss of £2 million) represented a PFO margin of 2.1%, which is within the 2-3% UK industry standard range.

The UK Construction order book grew by 9% to £6.1 billion (2021: £5.6 billion) and, increasingly, consists predominantly of work for public sector and regulated industry clients (2022: 95%; 2021: 91%) and lower risk target-cost and cost-plus work (2022: 90%; 2021: 86%).

UNDERLYING REVENUE[1]

£7,482m

2021: £6,746m

STATUTORY REVENUE

£6,409m

2021: £5,920m

UNDERLYING PROFIT FROM OPERATIONS

£149m

2021: £79m

STATUTORY PROFIT FROM OPERATIONS

£150m

2021: £30m

ORDER BOOK[1]

£15.0bn

2021: £13.6bn

1 Including share of joint ventures and associates

TOTAL REVENUE[1]

FY 2022

84%

2021: 81%

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

US Construction: Revenue in US Construction increased by 9% to £3,651 million (2021: £3,344 million), largely due to the strengthening of the US dollar during the year. Revenue decreased by 1% at CER. The business operates in the buildings and civils markets, with roughly 80% of revenue earned from buildings. Underlying profit from operations for US Construction increased by 14% to £58 million (2021: £51 million), resulting in a small PFO margin improvement to 1.6% (2021: 1.5%), which is within the 1-2% US industry standard range.

The US Construction order book increased by 11% to £6.0 billion (2021: £5.4 billion), flat at CER. The business currently has an unusually high amount of work which has been awarded but not contracted, as clients wait for some clarity in uncertain economic conditions. This work is not included in the order book until the client agrees to proceed.

Gammon: At Gammon in Hong Kong, the Group's 50% share of revenue from the joint venture increased by 32% to £1,068 million (2021: £809 million) or 20% at CER, driven by an increase in major civils volumes, including the Terminal 2 expansion at Hong Kong Airport. Underlying profit increased by 7% to £32 million (2021: £30 million), however profit margins reduced to 3.0% (2021: 3.7%) due to the phasing of contracts.

The Group's 50% share of Gammon's order book increased by 12% to £2.9 billion (2021: £2.6 billion) but reduced by 3% at CER.

Operational review

UK Construction

As part of the Autumn Statement announced in November, the UK Government reconfirmed its commitment to deliver major infrastructure projects, highlighting investment in infrastructure, alongside investment in people and innovation, as a key route to boosting growth and productivity. This included the pledge to deliver Sizewell C, HS2 to Manchester and core Northern Powerhouse rail links and is aligned to the £650 billion National Infrastructure Strategy (NIS) set out in 2020. On 9 March 2023, the UK transport secretary announced that £40 billion will be invested in transformational transport schemes over the next two financial years, however inflation and supply chain disruption have made it difficult to deliver some capital programmes. This has resulted in some schemes, including the Road Investment Strategy and HS2, taking longer than expected.

Balfour Beatty's market-leading position in the UK infrastructure market is built on its unmatched scale and vertically integrated capability for delivering major and regional projects. In 2022, 91% of UK Construction revenue was from public sector and regulated industry clients (2021: 90%). Balfour Beatty will continue to be selective in the work that it bids, through increased bid margin thresholds and utilisation of risk frameworks and contract governance.

SCAN TO WATCH THE VIDEO

CONSTRUCTION SERVICES

	2022			2021		
	Revenue[1] £m	PFO £m	Order book[1] £bn	Revenue[1] £m	PFO £m	Order book[1] £bn
UK	**2,763**	**59**	**6.1**	2,593	(2)	5.6
US	**3,651**	**58**	**6.0**	3,344	51	5.4
Gammon	**1,068**	**32**	**2.9**	809	30	2.6
Underlying[2]	**7,482**	**149**	**15.0**	6,746	79	13.6
Non-underlying	**–**	**1**	**–**	–	(49)	–
Total	**7,482**	**150**	**15.0**	6,746	30	13.6

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

INNOVATION IN OPERATIONS

SCAN TO WATCH THE VIDEO

The world's longest box bridge slide

In a huge feat of engineering, our Balfour Beatty VINCI HS2 team has delivered the world's longest box slide to move a 12,600 tonne bridge into place over the M42 in Warwickshire.

The site team worked around the clock to move HS2's Marston Box bridge into place over the M42. The operation took 40 hours, at a speed of four metres per hour, during a 10-day closure of the motorway between junctions J9 and J10 (northbound and southbound).

The 86 metre-long structure was built on land next to the motorway over a six-month period. The structure has a base, three walls and top slab. The sliding mechanism allowed the box to be pushed into place on a guiding raft over a distance of 163 metres.

On completion, the whole structure will be around 190 metres in length, and will carry trains on the HS2 line over the motorway.

> "During 2022, the Group took further steps in its commitment to address the growing demand for clean energy across the UK by signing memorandums of understanding with partners in wind and nuclear energy."

Operational review continued

UK Construction continued

The UK Construction business comprises:

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

On major project work, the HS2 works at Area North and Old Oak Common station continue to make good progress. In July, a 2,000-tonne tunnel boring machine completed its one-mile journey underneath an ancient Warwickshire wood. The machine, which started boring under Long Itchington Wood in December 2021, made the first tunnel breakthrough on the London to Birmingham route. The second tunnel at Long Itchington Wood is underway and expected to complete in the summer. Over the Christmas period, a 12,600-tonne bridge was guided 163 metres into place over the M42 in Warwickshire, which is believed to be the world's longest bridge box slide. The 86-metre structure, which will carry trains on the HS2 line over the motorway, was built on land next to the motorway over a six-month period. The box slide solution meant there was only a ten-day closure of the motorway required in the year, dramatically reducing disruption for road users. At Old Oak Common station, good progress is being made on the main box construction, with the successful installation of a conveyor to transport 800,000m^3 of London clay 1.7 miles to Willesden Euroterminal, where it is loaded onto freight trains.

At Hinkley Point C, six reinforced concrete heads were lowered onto the seabed of the Bristol Channel requiring tandem lifts using specialist marine plant. The heads are a vital part of the architecture at Hinkley, allowing sea water into the tunnels as part of the cooling water system for the new nuclear power station. Following these installations, the focus has turned to the offsite fabrication of the liners required for the 2023 offshore campaign, when the shafts to the six heads will be drilled and installed.

During November, the secondary lining works at Thames Tideway were completed on the 7km main tunnel from Acton in West London to Fulham in Southwest London ahead of the target date, bringing to an end 800 sequential concrete pours which had begun in March 2021.

During 2022, the Group took further steps in its commitment to address the growing demand for clean energy across the UK by signing memorandums of understanding with partners in wind and nuclear energy:

- In October, the Group signed an agreement with Aker Solutions to deliver end-to-end design and construction solutions for the concrete floating and gravity-based UK offshore wind industry,
- In December, the Group signed an agreement with Holtec Britain and Hyundai Engineering and Construction to support the planning advancement for the construction of Holtec's SMR-160 pressurised light-water nuclear reactors in the UK.

Major highways achievements in the year include the completion of the 32-mile upgrade of the M4 from Junction 3 at Hayes to Junction 12 at Theale. The four-and-a-half-year motorway upgrade project included permanent conversion of the hard shoulder, new variable message signs, lower noise surfacing, upgraded environmental noise barriers and new gantries. The A63 project, which will reduce traffic congestion in Hull city centre and improve access to the port of Hull, continued to progress well and work has begun on the major improvement scheme at Junction 10 of the M25.

In January 2023, Balfour Beatty was awarded a £1.2 billion contract by National Highways to deliver the 'Roads North of the Thames' package of works for the proposed Lower Thames Crossing. The Group will utilise modular construction techniques to build the structures offsite in a controlled factory environment, significantly reducing carbon emissions by minimising the number of lorry movements and material deliveries to and from site. Following the announcement by the UK transport secretary on 9 March 2023 regarding the impact of budgetary constraints on public infrastructure spend, the notice to proceed from the Department for Transport is not expected prior to 2026.

For regional work, Balfour Beatty was once again appointed as the sole contractor to both the SCAPE Civil Engineering framework covering England, Wales and Northern Ireland, and the SCAPE Scotland Civil Engineering framework covering the entirety of Scotland. The frameworks are worth up to £3.25 billion and £750 million respectively. Both frameworks – which enable local authorities and other public sector bodies to commission works through a procurement process that provides a quick route to market – cover a period of four years, with two one-year extension options.

One of the hundreds of projects which the Group has procured under the SCAPE frameworks since first being appointed in 2015 is the major highways programme at Wokingham in Berkshire. The four-year package of works awarded in 2018 included the planning, design and construction of nine vital road schemes to alleviate congestion and enhance accessibility in the market town and was completed in 2022.

In February 2022, Balfour Beatty, in a 50:50 joint venture with Welsh infrastructure company Jones Bros, completed the 10km Caernarfon to Bontnewydd bypass in North Wales. The project has since been recognised for outstanding design and construction by the Institution of Civil Engineers Wales Cymru. In August, work was completed on the East Leeds Orbital Route, a new 7km dual carriageway which acts as the new outer ring road to ease congestion and is the biggest infrastructure project delivered by Leeds City Council since the completion of the inner ring road half a century ago.

INNOVATION IN MATERIALS

A one-of-a-kind, nearly steel-free bridge in North Carolina

In partnership with the North Carolina Department of Transportation (NCDOT), Balfour Beatty is replacing two 50-year-old bridges connecting the town of Straits to Harkers Island, providing increased capacity for emergency access and reduced congestion for marine vessels and vehicular traffic.

While the majority of freight in the US is moved by truck, the build team opted to transport the girders on water by barge. If the team transported the girders by truck, it would have required additional time and labour to double-handle the girders before placement. So far, the team has installed 22 of the bridge's 28 total girder spans and poured the first four bridge deck sections.

To eliminate the need to perform a full excavation before pile placement, the team leveraged a probe during the pre-drilling process. This not only met the NCDOT's quality and safety standards but also saved valuable time and money.

The team is leveraging the latest technologies including non-corroding carbon fiber reinforced polymer (CFRP) strands in place of steel on this one-of-a-kind, nearly steel-free bridge. CFRP is corrosion-free, so the new Harkers Island Bridge is expected to better withstand the elements in a coastal environment, resulting in less maintenance and a longer lifespan for the bridge.

Operational review continued

US Construction

In the US, the diversification of geographies and market segments in which Balfour Beatty operates has provided resilience against the challenge of the economic instability to date. Following the passing of the US$1.2 trillion Infrastructure Investment and Jobs Act (IIJA) in 2021 and the Inflation Reduction Act in 2022, the opportunities in the US civils market are expanding, allowing Balfour Beatty to be more selective in the work it bids for.

Unlike in the UK, most of the projects undertaken by US Construction remain on fixed price contract terms. The Group continues to focus on controlling the range of outcomes from these projects with the early issuing of subcontracts and bonding of the supply chain, which helps to reduce the loss-making portion of the project portfolio.

The Group continues to have a larger presence in US buildings than US civils, where their chosen markets are still performing strongly, particularly education in California, hospitality and aviation in the Southeast and Federal work in the Mid-Atlantic states. The level of inflation however and higher interest rates are having an impact on the release of work in Texas and generally in the Technology sector in the Northwest.

In the year, Buildings completed several notable projects including:

- The Wharf: Two ten-storey office buildings and two below ground parking garages, in Washington DC;
- JP Morgan Chase: A 540,000 square foot build-to-suit office with parking garage in Plano, Texas;
- Justin Tower Hospital: A 160-patient bed tower in Fort Worth, Texas;
- San Diego Unified School District: Three schools in San Diego, California.

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

- Washingtonian North Senior Living: A seven-storey senior living complex in Gaithersburg, Maryland that includes 302 units;
- Ilani Hotel: A 14-storey, 300-key luxury hotel development on a half block with house suites and traditional rooms, a bar, a café, a full-service spa, and a restaurant on the 14th floor located on Tribal Land in Ridgefield, Washington;
- Midtown Atlanta: A 36-storey multifamily tower project with 376 apartment units and a 34-storey student housing project with 239 housing units, together with a shared nine-level parking structure in Atlanta Georgia;
- Del Sol High School: A high school in Oxnard, California which will feature classroom buildings and a library, gymnasium and multipurpose building.

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

- Fort Meade: A US$700 million design-build contract for a federal building in Maryland, including the construction of a multi-storey 858,000 square foot facility plus a 1.2 million square foot parking garage;
- Broward County Convention Center Phase 5: A US$400 million project to build an 800-room hotel;
- Knox Street: A multi-use development project in Texas in joint venture with Andres, of which Balfour Beatty's share is 55% and US$300m of revenue;
- Data centres: US$300 million of data centres for a technology customer in Oregon.

Included in ABNC at year end, US Buildings has been made preferred bidder for a number of material projects including: five residence halls and one dining facility at The College of William and Mary in Williamsburg, Virginia; Jacksonville International Airport terminal in Florida; and two projects for the Naval Facilities Engineering Systems Command located at Point Mugu to construct an aircraft maintenance hangar and a recruit mess hall.

The US Civils business focuses on highway projects in Texas and US Southeast and mass transit rail in major US cities. During the year:

- Balfour Beatty, as part of the Green Line Extension Constructors joint venture, completed the two light-rail lines along the new 4.7-mile Green Line Extension for the Massachusetts Bay Transportation Authority;
- As part of the LINXS Constructors joint venture at Los Angeles International Airport, the Group completed the 2.25-mile Automated People Mover train guideway superstructure stage of the project;
- Balfour Beatty, as part of the Colorado River Constructors joint venture, set the first bridge beams that support widening activities east of the US 290 and SH 71 interchange in Austin on the Texas Department of Transportation's Oak Hill Parkway project;
- The Southern Gateway reconstruction and improvement project in Texas was completed by the joint venture between Balfour Beatty and Fluor;
- On the Caltrain contract for the electrification of the 52-mile rail corridor between San Francisco and San Jose, Balfour Beatty completed the last of the 3,092 foundations required for the overhead catenary system.

In February 2023, Balfour Beatty was awarded a US$242 million design-build contract to deliver improvements to Interstate US 70 between the Havelock Bypass and east of Thurman Road in Craven County, North Carolina. Construction is expected to take five years, commencing in late 2023.

"In February 2023, Balfour Beatty was awarded a US$242 million design-build contract to deliver improvements to Interstate US 70 between the Havelock Bypass and east of Thurman Road in Craven County, North Carolina. Construction is expected to take five years, commencing in late 2023."

Gammon

Gammon, Balfour Beatty's 50:50 joint venture with Jardine Matheson based in Hong Kong, continues to perform consistently, with a strong share of both the buildings and civils markets. Despite the challenge of COVID-19 restrictions in 2022, project execution and work winning remained strong and the further relaxation of those restrictions is expected to have positive repercussions in 2023. Furthermore, the new Chief Executive of Hong Kong, John Lee, announced a broader programme of major infrastructure projects as part of his inaugural policy address in October and the Mass Transit Railway (MTR), for which Gammon has a strong track record of delivering work, is also bringing to market a programme to expand the rail network. Although inflation in Hong Kong remains lower than in the UK and US, the high level of construction activity in the region has increased the demand for labour, resulting in higher salaries. Consequently, voluntary attrition remains a challenge. However, Gammon's employee satisfaction has increased from 76% in 2021 to 82% in 2022 and retention remains a priority.

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

During the year, Gammon's completed work included the Fullerton Ocean Park Hotel Hong Kong, which involved the construction of two 10-storey blocks on a three-level podium, and a 9-storey building block with a 2-storey basement, for which 75% of the prefabrication of the structural steel works and 70% of the modularisation of the Mechanical, Electrical and Plumbing works were completed offsite.

Progress has been made at Hong Kong Airport where Gammon is delivering the structures for the Automatic People Mover and Baggage Handling System in addition to working on the Terminal 2 expansion. As part of the Central Kowloon Route project, a 4.7km-long dual three-lane trunk road that will enhance connectivity between the east and west Kowloon districts, Gammon continues to deliver the Kai Tak West tunnelling contract and the route wide buildings, electrical and mechanical works contract. In December, Gammon began work on the world's largest student hostel, in terms of bed places, to be constructed using modular integrated construction. The entire student hostel consists of six buildings ranging from 13 to 18 storeys and will provide over 2,000 residential units.

Having been awarded the student hostel contract in February 2022, Gammon won a number of further notable new contracts in the year, including:

- Causeway Bay office building: A HK$2.6 billion contract for Mandarin Oriental Hotel Group to construct an A-grade office building, with a podium for retail and food and beverage shops;
- Yau Tong Ko Chiu Road residential development: A HK$1.3 billion contract to construct a 33-storey residential tower and podium, providing 792 new flats;
- Kwun Tong Composite Development: A HK$2.7 billion contract to design and build a 25-storey building for a new college and a 9-storey community and welfare amenities building, with the scope of works also including basement car parks, elevated walkways and roads;
- Ho Man Tin Station Package One Property Development: A HK$3.4 billion building contract located atop MTR Ho Man Tin station to develop five residential towers, providing 990 new flats.

INNOVATION IN PRODUCTIVITY

The world's largest student hostel built using modular integrated construction

Gammon, our joint venture in Hong Kong was awarded a contract to build the world's largest modular integrated construction (MiC) student hostel project, in terms of bed spaces, to date.

The contract includes construction of six hostel halls ranging from 13 to 18 storeys, providing over 2,100 hostel places for students, a basketball court, a gymnasium, multi-function rooms and a canteen.

MiC methods will be widely used on the project, with a total of 1,344 units manufactured offsite. To facilitate the construction process, Gammon's digital supply chain solution STAMP will be used to monitor the manufacturing, delivery and installation of the MiC units holistically. Adoption of MiC will not only shorten the construction period but will also reduce noise and waste, mitigating nuisance to neighbours and improving environmental performance.

Support Services

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

Financial review

Support Services is focused on power, plant, road and rail maintenance and is characterised by profitable recurring revenues underpinned by long-term contracts.

Revenue in Support Services reduced by 7% to £989 million (2021: £1,066 million), due to a reduction in gas and water following the Group's decision to withdraw from this sector. In conjunction with the exit from gas and water announced in 2021, the Group upgraded the margin target range for Support Services to 6-8%. A strong performance from Support Services in 2022 resulted in underlying profit from operations of £83 million (2021: £102 million), which represents a PFO margin of 8.4% and outperformance of expectations for the year.

The order book for Support Services decreased by 4% to £2.4 billion (2021: £2.5 billion).

Operational review

The UK markets for power, road and rail maintenance are all positive. In power, the RIIO-T2 spend period (2021-2026) includes £30 billion for investment in energy networks and potential for a further £10 billion on green energy projects, while the focus on improving energy security through growth in domestic generation has increased further following the Russian invasion of Ukraine. The highways maintenance market is part way through a five-year £2.7 billion scheme for road patching, which has increased local council budgets by around 50% over the period. There are also a number of Local Authorities contracts, similar to those won by Balfour Beatty for Buckinghamshire and East Sussex in 2022, coming to market in the coming years for which the Group is well positioned.

UNDERLYING REVENUE[1]

£989m

2021: £1,066m

STATUTORY REVENUE

£988m

2021: £1,046m

UNDERLYING PROFIT FROM OPERATIONS

£83m

2021: £102m

STATUTORY PROFIT FROM OPERATIONS

£83m

2021: £97m

ORDER BOOK[1]

£2.4bn

2021: £2.5bn

1 Including share of joint ventures and associates

TOTAL REVENUE[1]

2022

11%

2021: 13%

"A strong performance across the business has taken its PFO margin to 8.4%."

SUPPORT SERVICES	**2022**	2021
Order book[1] (£bn)	**2.4**	2.5
Revenue[1] (£m)	**989**	1,066
Profit from operations[2] (£m)	**83**	102
Non-underlying items (£m)	**–**	(5)
Statutory profit from operations (£m)	**83**	97

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 rail maintenance market also has a positive trajectory with an additional £10 billion of funding for maintenance and renewals as part of Network Rail's current CP6 control period (2019-2024).

During the year, the following key milestones were achieved:

- The power and rail maintenance businesses together completed the Eleclink project, providing a 1GW electricity interconnector between France and England through the Channel Tunnel;
- The power business made significant progress on the Hinkley Connection project, a 57km route of 400kV overhead lines in Somerset to connect six million homes and businesses in the surrounding area with low-carbon electricity that will be generated from the Hinkley Point C nuclear power station;
- The power business laid the final piece of UK land cable for National Grid's Viking Link project, which once complete, will be the world's largest land and subsea interconnector and will be able to import enough green power for up to 1.4 million UK homes;
- The new Littlebrook substation was energised by the power business. This will enable 2GW of low carbon and renewable energy, enough to power around 1.5 million homes, to be transmitted through the substation from cross-channel interconnectors and wind farms off the Kent coast.

The year also included notable contract awards for Support Services. The road maintenance business was awarded two new contracts, with a £176 million eight-year contract to deliver highways services for Buckinghamshire County Council and a £297 million seven-year contract for the maintenance of highways assets and the delivery of infrastructure services across East Sussex. The East Sussex contract will go into the order book in 2023 and includes an option to extend the term by a further seven years based on the successful delivery of the initial term. The rail maintenance business agreed the year four work programme with Network Rail at around £120 million as part of the 10-year Central Rail Systems Alliance (CRSA) track renewals programme, together with £87 million of further work under the CRSA, and won a £50 million contract to deliver essential upgrade works to London Underground's Piccadilly line.

INNOVATION FOR PRODUCTIVITY

Central Rail Systems Alliance adopts innovative approach to track renewal

In 2022, the Central Rail Systems Alliance team used six connected specialist railway track removal machines (TRMs) to remove sections of track in one go.

The team was able to deliver 490 yards of track renewal in a single weekend possession at Water Orton station near Birmingham.

The TRM link-up lifted five 100-yard panels which meant the Road Rail Vehicles had the headroom to start rough excavating after the first three panels were lifted. All five panels were lifted safely and re-installed, plated and lined ahead of schedule.

The innovative technique was made possible thanks to a new 4D computer planning tool which allowed our engineers to simulate the lifting and moving of the track in advance, ensuring it could be completed in the shorter time.

Infrastructure Investments

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

Financial review

Underlying pre-disposals operating profit of £11 million (2021: £14 million) and gain on disposals of £70 million (2021: £35 million) resulted in underlying profit from operations of £81 million (2021: £49 million) for Infrastructure Investments.

Balfour Beatty continues to invest in attractive new opportunities, each expected to meet its investment hurdle rates. In the year, the Group invested £30 million in new and existing projects with one new multifamily housing project added to the portfolio. Balfour Beatty also continues to sell assets, timed to maximise benefit to shareholders. Five assets were disposed of in the year, with the student accommodation at Purdue University contributing £40 million gain on disposal and four multifamily housing projects contributing a total of £30 million gain on disposals.

All transactions were above the Directors' valuation, demonstrating the strength of the secondary market for infrastructure assets during the year. Despite the economic uncertainty, demand for infrastructure assets has remained strong and Balfour Beatty will maximise shareholder value through selective disposal of assets from its portfolio.

UNDERLYING REVENUE[1,2]

£460m

2021: £468m

STATUTORY REVENUE

£232m

2021: £219m

UNDERLYING PROFIT BEFORE TAX

£105m

2021: £61m

STATUTORY PROFIT BEFORE TAX

£100m

2021: £15m

DIRECTORS VALUATION

£1.29bn

2021: £1.11bn

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

Net investment income of £24 million was higher than 2021 (£12 million), with the prior year including £14 million of impairments to subordinated debt and accrued interest receivable from joint ventures and associates (2022: £2 million), contributing to an underlying profit before tax of £105 million (2021: £61 million). Statutory profit before tax for the year was £100 million (2021: £15 million).

Operational review

Balfour Beatty's competitive expertise to finance, develop, build and maintain infrastructure puts the Group in a strong position to capitalise on new investment opportunities, with the Group's current focus on US P3 projects, US private rental and student accommodation in the UK and the US. The Infrastructure Investment and Jobs Act is expected to stimulate P3 activity in the US as it has expanded the scope of projects eligible for funding under the Transportation Infrastructure Finance and Innovation Act (TIFIA) and doubled the limit of Private Activity Bonds available to the Department of Transportation. Infrastructure Investments is well positioned in the student accommodation market where future cash flows are supported by a growing number of students, strong rental growth and partnerships with universities in both the UK and the US. The Group is currently preferred bidder on two student accommodation projects in the UK and one in the US.

Following the significant disposal gains achieved in 2022, Balfour Beatty intends to sell further selected assets to maximise value in its portfolio, with recent auction experience indicating that strong demand in the secondary market continues to exceed supply.

TOTAL REVENUE[1]

2022

5%

2021: 6%

> "Balfour Beatty will maximise shareholder value through selective disposal of assets from its portfolio."

Since Balfour Beatty Communities' (Communities) settlement with the US Department of Justice (DoJ) in December 2021, an independent compliance monitor, which formed part of the agreed resolution, has been appointed by the DoJ and commenced work.

Following the US Permanent Subcommittee on Investigations (PSI) hearing in April 2022, the subsequent US Army investigation into Communities' operations at Fort Gordon, Georgia, has now concluded. No presence of fraud, gross negligence or data manipulation was found. Communities continues to work with the US Army, Navy and Air Force to further enhance its maintenance provision to military services members and their families.

Communities is continuing to pursue opportunities for further infrastructure investment in its military housing portfolio in conjunction with its service branch partners. In July, the US Army and Communities announced the start of demolition at Fort Carson as part of a proposed multi-phased project that would see the construction of new townhomes at the base. Elsewhere, other initiatives include an energy modernisation project which resulted in 1,000 homes receiving efficiency upgrades to reduce consumption and carbon emissions, a rooftop solar programme bringing more than 10MW of photovoltaic systems to five US Navy housing communities and an exterior renovation project to upgrade ten US Army apartment buildings.

INNOVATION FOR SUSTAINABILITY

Award-winning green efforts at Los Angeles International Airport

In the US, Balfour Beatty's Los Angeles International Airport (LAX) Automated People Mover (APM) joint venture project secured the U.S. Green Building Council's Sustainability Innovation Award for Honor in Equity & Environmental Justice.' This recognises the team's commitment to a sustainably built environment by evaluating merit-based sustainable strategies that go above and beyond credit achievement.

Awarded projects reflect their emphasis on energy and water savings, air quality, waste reduction, good design, community engagement, education and equity.

Photo credit: Los Angeles International Airport

INFRASTRUCTURE INVESTMENTS

	2022 £m	2021 £m
Pre-disposals operating profit[2]	**11**	14
Gain on disposals[2]	**70**	35
Profit from operations[2]	**81**	49
Net investment income~	**24**	12
Profit before tax[2]	**105**	61
Non-underlying items	**(5)**	(46)
Statutory profit before tax	**100**	15

1 Including share of joint ventures and associates.
2 Before non-underlying items (Note 10).
~ Subordinated debt interest receivable, net interest receivable on PPP financial assets and non-recourse borrowings, impairments to subordinated debt and accrued interest receivable, and fair value gain on investment asset.

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

Strong track record of value creation

The Directors' valuation increased by 17% to £1,291 million (2021: £1,106 million). The portfolio is 58% weighted towards the US (2021: 57%). The number of projects in the portfolio decreased to 59 (2021: 64).

The half-yearly review of the Directors' valuation methodology and assumptions has resulted in changes to the methodology and the discount rates for the UK and US. The table below shows the movement in the Directors' valuation on a like-for-like basis with the prior year, and then shows the effect of the methodology and assumption changes. Following the year end, a third-party valuation expert independently reviewed the portfolio and the Directors' valuation is consistent with their conclusions.

Balfour Beatty invested £30 million (2021: £19 million) in new and existing projects. During the year, the Group added one new project, a US multifamily housing project in San Antonio, Texas.

Cash yield from distributions amounted to £89 million (2021: £62 million) as the portfolio continued to generate cash flow to the Group, net of investment. This included £22m of yield from refinancing a student accommodation project in the US.

Balfour Beatty continued disposals in the year with proceeds of £93 million (2021: £81m). This included: £50 million from the sale of its stake in Purdue student accommodation and £43m from the disposal of its stake in four US multifamily housing assets. Additionally, a residential accommodation project in the UK received its final cash flow and is therefore no longer in the portfolio.

Unwind of discount at £85 million (2021: £83 million) is a function of moving the valuation date forward by one year with the result that future cash flows are discounted by twelve months less.

Operational performance movements resulted in a £139 million increase (2021: £27 million). The operational performance movements in the UK were primarily due to high actual and 12-month forecast inflation. In the US, operational performance movements were mainly the impact of higher military housing rents agreed for 2023 and £47m of gain on the disposals noted above.

Foreign exchange movement contributed an £85m increase to the valuation of the US portfolio due to sterling weakening against the US dollar.

PORTFOLIO VALUATION DECEMBER 2022

Value by sector

Sector	2022 No. projects	2021 No. projects	2022 £m	2021 £m
Roads	**12**	12	**171**	158
Healthcare	**2**	2	**126**	108
Student accommodation	**5**	5	**128**	95
OFTOs	**3**	3	**50**	44
Waste and biomass	**2**	2	**51**	46
Other	**2**	3	**22**	23
UK total	**26**	27	**548**	474
US military housing	**21**	21	**615**	491
Student accommodation and other PPP	**3**	4	**59**	72
Residential housing	**9**	12	**69**	69
US total	**33**	37	**743**	632
Total	**59**	64	**1,291**	1,106

Value by phase

Phase	2022 No. projects	2021 No. projects	2022 £m	2021 £m
Operations	**55**	60	**1,239**	1,070
Construction	**3**	3	**47**	34
Preferred bidder	**1**	1	**5**	2
Total	**59**	64	**1,291**	1,106

Value by income type

Income type	2022 No. projects	2021 No. projects	2022 £m	2021 £m
Availability based	**17**	17	**353**	311
Demand – operationally proven (2+ years)	**36**	39	**761**	580
Demand – early stage (less than 2 years)	**6**	8	**177**	215
Total	**59**	64	**1,291**	1,106

Methodology and assumption changes

The methodology used for the Directors' valuation for valuing most investments in the portfolio remains the discounted cash flow (DCF) method. Under this methodology cash flows for each project are forecast based on historical and present performance, future risks and macroeconomic forecasts. They also factor in secondary market assumptions. These cash flows are then discounted using different discount rates, which are based on the risk and maturity of individual projects and reflect secondary market transaction experience and the Group's current assessment of the impact of recent rises in long-term interest rates. The main exception to the use of DCF is for US multifamily housing projects which, due to the perpetual nature of the assets and the depth and liquidity of the rental housing market, are now valued based on periodic broker reports for each property.

MOVEMENT IN VALUE 2021 TO 2022

									Methodology and assumption changes		
£m	2021	Equity invested	Distributions received	Sales proceeds	Unwind of discount	Operational performance	FX	**2022**	Discount rate	Other	Revised 2022
UK	474	8	(27)	–	36	43	–	**534**	14	–	**548**
US	632	22	(62)	(93)	49	96	85	**729**	40	(26)	**743**
Total	1,106	30	(89)	(93)	85	139	85	**1,263**	54	(26)	**1,291**

Both forms of valuation methodology reflect market values and therefore change with movements in the market.

The only change made to the UK portfolio was a reduction of 0.25% in the base reference discount rate applied to each project. This change has increased the valuation by £14 million. The approach to the project specific risk premia that are added to the reference discount rate remains unchanged. The resulting UK discount rates range from 6.75% to 8.75% depending on the maturity and risk of each project. The implied weighted average discount rate for the UK portfolio is 7.9% (2021: 8.1%). A 1% change in the discount rate would change the value of the UK portfolio by approximately £59 million.

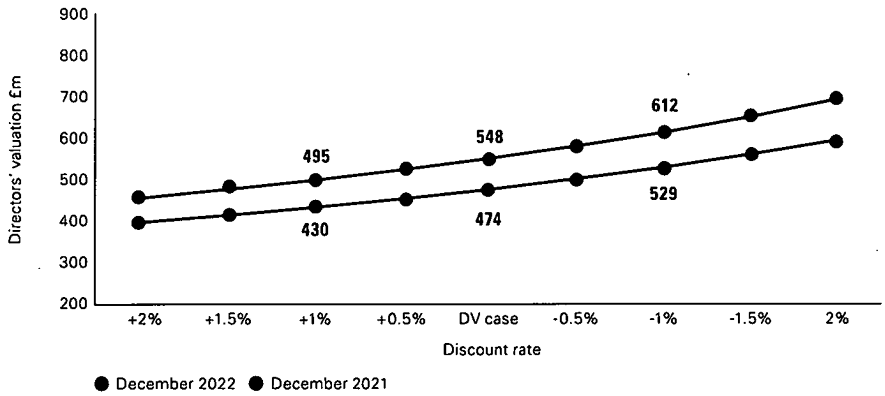
The changes to the US portfolio comprise discount rates and methodology changes for the military housing portfolio. Discount rate changes increased the valuation by £40 million. Following these changes, discount rates applied to the US portfolio now range between 6.0% and 10.5% and the implied US weighted average discount rate is 7.9% (2021: 8.3%). A 1% change in the discount rate would change the value of the US portfolio by approximately £86 million.

For the military housing portfolio, specific changes have been made to rental growth rates, overheads and tax. Rental growth rates on each project are now based on the average growth rate over the last ten years. The overheads and tax changes are based on an assessment of the minimum amount that a purchaser of the portfolio would factor in when arriving at an acquisition valuation. The rental growth, overhead and tax changes reduced the valuation by £26 million.

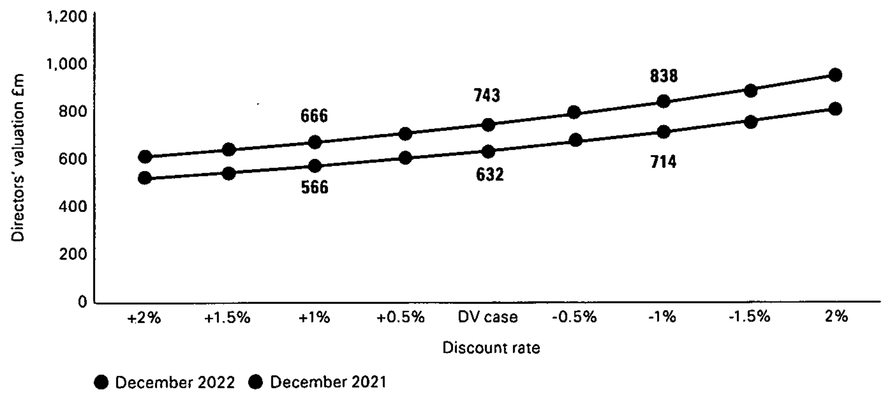
As demonstrated through the operational performance gain in the year, the portfolio remains positively correlated to inflation. A 1% change in the long-term inflation rate in the UK portfolio would change the valuation by approximately £28 million and a 1% change in the long-term rental growth rate in the US portfolio would change the valuation by approximately £80 million.

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.

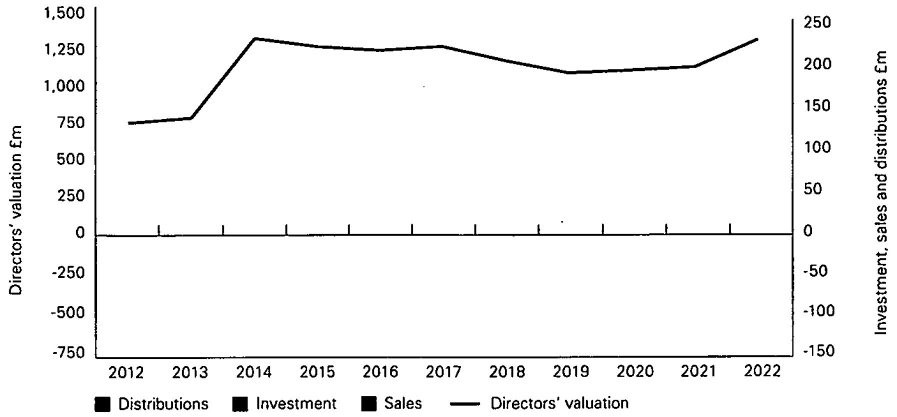
UK PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES



US PORTFOLIO VALUE AT A RANGE OF DISCOUNT RATES



PORTFOLIO INVESTMENT, DIVESTMENT AND DISTRIBUTIONS



Watch our animation to learn about our low-carbon alternatives:

SCAN TO WATCH

MAIN IMAGE:
Royal Botanic Garden Edinburgh - Biomes initiative.

Towards a zero carbon construction site

With around 39%[1] of global carbon dioxide emissions being directly associated with buildings, decarbonising the built environment sector is key to mitigating climate change.

With climate change one of the biggest global challenges, we believe our industry must work together at scale to shift the dial on decarbonising construction as a whole. That's why we have set out a roadmap to deliver a zero carbon construction site, identifying the gaps and challenges preventing zero carbon construction. Working in collaboration with our customer the Royal Botanic Garden Edinburgh, the designer and our supply chain partners, and drawing on the expertise of the whole UK business, we're trialling this live on the Biomes initiative.

From the materials used, developing our people's green skills, the logistics of transporting people, plant and products to and from the site and all the activities that take place on site during construction up until handover – we're examining every element of the project to find lower carbon options and solutions.

KEY PROJECT LEARNINGS

Geopolymer concrete

We have been working with Roisin Hyde, a Fulbright award-winning Architect and Doctoral Research Student at Queen's University Belfast in the area of Novel Materials, Architecture and Design (NoMAD), on her geopolymer concrete solution. This is a low-carbon concrete substitute made from up to 96% waste materials from mining, quarrying, metallurgy, water purification, incineration and agriculture.

Our action: We are exploring how we can bring geopolymer concrete into use on a commercial scale on our projects.

Recycling glass

We have been exploring how we can reuse the glass that will be removed from the iconic Victorian Palm house. While glass is an easy product to recycle and reuse (and is often in high demand) we are keen to use the palm house glass which is so critical to the Royal Botanic Garden Edinburgh, to demonstrate how circular economies can work at a local scale. We are working with our supply chain partners, glass specialists, research facilities and concrete producers to see if we can reuse the glass for something that would be a useful addition to the project or the wider Royal Botanic Garden.

Our action: Once the trial has concluded in mid 2023, the results will be shared with the rest of the business to ensure as many schemes as possible benefit.

Surplus topsoil

Topsoil is a precious resource and every effort should be made to reuse 100% of it. We relocated c.50 tonnes of soil to local allotments as well as supporting school's charitable initiatives. In an agreement with Scottish Environment Protection Agency (SEPA), the use of the greenfield soils is not subject to regulation as a waste activity which means we can work with the material as a clean material.

Our action: To continue to Think Global, Act Local and try and maximise the local reuse of any surplus materials from the project.

Green skills

Having a construction workforce that is trained and ready to deliver net zero is essential. We are rolling out a UK-wide Carbon Conscious Education programme to ensure employees understand the carbon costs of their behaviour and how they can play their part in helping Balfour Beatty reduce its carbon footprint – as well as reducing the carbon impact of their own activities.

Our action: We are working with partners to ensure qualifications and training frameworks reflect the importance of carbon-related knowledge and skills, and also providing training to our supply chain.

We want to encourage others across the sector to take action by sharing our progress and learnings through a publicly available online diary.

SCAN TO VIEW

1. https://worldgbc.org/article/bringing-embodied-carbon-upfront/.

Keeping our people safe

Making safety personal. Treating health like safety. Project by project, day by day.

Q&A with our Health, Safety and Environment (HS&E) Director, Lee Hewitt

Q What's your career background been so far?

I spent 25 years with National Grid where I'd say my career trophies were forming large scale, collaborative construction delivery vehicles, particularly around Alliances. I finished as Head of Procurement for the UK, before leaving to work as a contractor in various organisations including Lend Lease, the Commonwealth Games in 2014 and Gatwick Airport.

I first joined Balfour Beatty in 2017 as a Project Director and was appointed as HS&E Director in 2022.

Q What does Zero Harm mean to you?

Personally, I believe Zero Harm is our guiding principle for keeping all our people safe and well. Is it a hard-wired, data-driven target? No, it definitely isn't. But is it a vision? Absolutely. It's a real ambition that is eminently possible and is something that we will achieve, day to day, project by project, business unit by business unit. In many places we are already achieving Zero Harm. I was delighted, for example, that our Asset & Technology Solutions business celebrated zero LTIs in 2022, and we will continue to work tirelessly to make Balfour Beatty a Zero Harm organisation.

Q Working closely with Balfour Beatty's leadership teams, and the Board's Safety and Sustainability Committee, how will you use the governance framework to drive the Company's Zero Harm strategy in 2023?

I think there are two angles to our governance framework; sponsorship and accountability. The Safety and Sustainability Committee provides Board-level sponsorship and a clear mandate: to make Zero Harm a fundamental tenet of our business, and to take whatever steps are necessary to achieve it. The governance framework underpins this, and ensures we deliver against this mandate.

Within Balfour Beatty we have industry-leading health and safety processes. The governance framework holds us to account, ensuring that we have the discipline to do what we say we are going to do, to make safety personal and send people home safely.

Q What will your focus be within HS&E at Balfour Beatty?

For me it is about making sure that we extend our operational reach by collaborating consistently and effectively with key groups of people like the supervisory community, the supply chain, and joint ventures. As I mentioned earlier, we have industry-leading processes, but it's about converting the behaviours on the ground to a Zero Harm reality.

Q Health and wellbeing is an important part of Balfour Beatty's Zero Harm strategy, what do you do outside of work to look after your own wellbeing?

I am certainly not a saint when it comes to wellbeing, but I do try to eat healthily, and keep fit. Sport is a very big part of my life, and a great way to unwind. At the age of 54 I'm still playing league cricket to a reasonable level, and I managed to play rugby till I was 48 – my last season was in the same team as my son Lewis which was very special.

> "Lee's appointment, together with his regular attendance at and reporting to the Safety and Sustainability Committee, have ensured the Committee maintains its focus on health and safety, and is well-placed to understand the challenges facing the Group."
>
> **Stuart Doughty, non-executive Director and Chair of the Safety and Sustainability Committee**

Governance

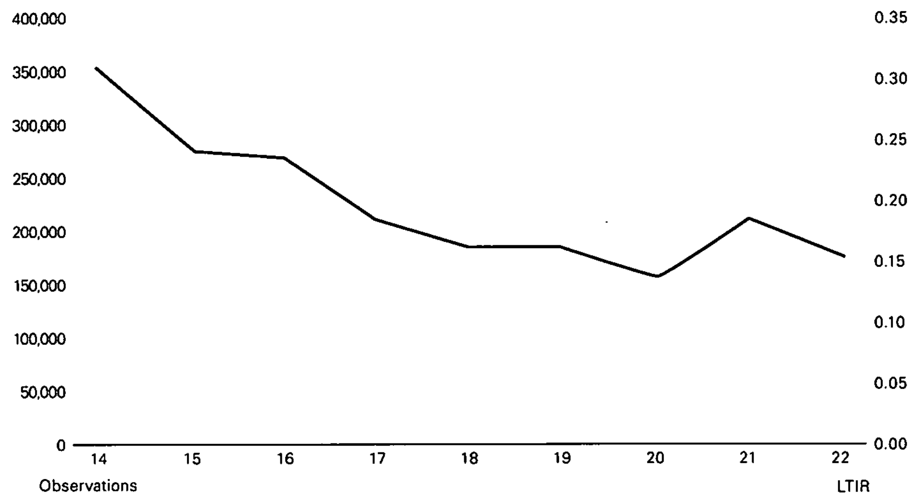
The Group's safety culture is led by the Board and the Executive Committee. The Board's Safety and Sustainability Committee (SSC) reviews the Zero Harm strategy, monitors progress against the strategy's performance indicators and ensures accountability. The Executive Committee sets strategic priorities and reviews any serious incidents, and Safety, Health & Environment Leadership Team (SHELT) meetings provide the opportunity for managing directors to offer insight and input from operations to help inform the Zero Harm strategy. Group-wide oversight and governance are delivered through the SSC and Executive Committee, while the Group Health, Safety, Environment & Sustainability Forum is a vehicle for learning, sharing and strategic development across Balfour Beatty's three geographies. Key outputs from the forum have included the roll-out of the Observation App across the US business, and the successful delivery of the new *What3Things?* initiative through Balfour Beatty worldwide. See page 49 to find out more.

Performance

Through redoubling Balfour Beatty's efforts on preventing serious incidents and injuries, and the rollout of the What3Things? initiative the Group recorded a year with no fatalities, and a 37% reduction in its major injury rate (excluding international joint ventures), from 0.05 in 2021 to 0.03 in 2022. Balfour Beatty also reduced its lost time injury rate (LTIR) to 0.15, excluding international joint ventures.

Improvement on these key lagging indicators reflects the Group's continued desire to keep colleagues and supply chain partners safe from harm. Balfour Beatty continues to establish challenging leading indicators designed to improve and enhance the organisation's safety culture. These leading indicators stretch and challenge the business on all aspects of health and safety, including the raising of safety-related observations. The Group registered 380,000 safety observations in 2022 – a 28% increase on 2021, and an increase of 79% since 2019. In the US, the continued roll-out and take-up of the Observation App has seen the number of observations double in 2022 to over 80,000. In Florida, the 'Make it Count' challenge saw teams competing to raise large numbers of high-quality observations. Balfour Beatty colleagues continue to recognise the Group's positive safety culture, with 90% of respondents to the employee engagement survey saying that they saw evidence of Zero Harm in their workplace, an increase from 87% in 2021.

LOST TIME INJURY RATE AND OBSERVATIONS



1 Pre 2022 LTIR adjusted upwards following 2023 internal re-classification of incidents within one business area.

2 Excluding international joint ventures.

INNOVATION IN SAFETY

Post pullers

Traditionally, vehicle restraint system (VRS) posts are removed using shackles and chains with operatives working near live machinery. On the Smart Motorways Alliance M3 J9-14 improvement scheme project, Balfour Beatty worked with the supply chain to introduce a post puller excavator attachment. The innovation has improved safety and efficiency by removing the need for operatives to work near machinery when removing posts, thereby reducing people/plant interface. The new process also generated a saving of 24 shifts, the equivalent of four weeks and four days, as the speed of post removal increased. The waste products are cleaner as entire concrete footings can be pulled out in one piece before being broken up, separated, and loaded into wagons which has saved the project £20,000 in mitigated tip fees and reduced the amount of CO_2 produced as each load is classed as clean concrete. Overall, the innovation saved the project over £50,000. It has been shared across Balfour Beatty and across National Highways and the SMP Alliance through the Lessons Learnt Log and Digital Efficiency register.

Performance continued

Balfour Beatty is committed to learning and continuous improvement. Serious Incident Executive Reviews, led by the enabling function, identify learnings from any incidents that occur, either within Balfour Beatty or the wider industry. In the UK, the Weekly Best Practice and Incident Report now highlights details of the relevant Golden Rules and *What3Things?* applicable to any incidents as well as key lessons learnt from previous incidents. In the US, 'Safe & Lean' briefings highlight incident trends and provide personal insights from senior leaders.

The Group's focus continues to be on risk elimination through both design and a back-to-basics focus, as well as supporting the key role of supervisors. In the US, targeted campaigns based on key risks have seen hand injuries drop by 30%, while a targeted Ladders Last campaign reduced the number of ladder incidents by two-thirds.

Key outputs of the Zero Harm strategy in 2022 included the Supervisor Task and Finish Forum, a group created to give frontline managers a voice in forming the strategy. In line with Balfour Beatty's clear, uncompromising vision of Zero Harm.

Supervisor task and finish forum (STaFF)

Balfour Beatty understands that inspirational supervision will drive improvement and safety across the business and is committed to investing in this community. In the UK, Balfour Beatty has over 1,200 supervisors who are responsible for embodying a Zero Harm culture; motivating and supporting project teams.

The Supervisor Task and Finish Forum (STaFF) was created to give supervisors a voice within the business and a platform to share their knowledge and expertise. Comprising a number of different workstreams, and focusing on competence and leadership, the forum has delivered several initiatives in 2022.

A Supervisor Development Programme Forum has been developed with colleagues across the business to give all supervisors the opportunity to complete a six-day ILM3 accredited qualification upskilling them in areas such as performance management, commercial awareness and motivational leadership. Supervisor Passports are also being introduced to give Balfour Beatty and supply chain supervisors a digital identity and record of competence, creating an online register of certified, competent supervisors. Individuals must complete 12 e-learning modules based on Balfour Beatty's Zero Harm strategy 12-point action plan to qualify for a passport. The STaFF is also piloting a structured mentoring programme to protect corporate memory within the supervisor community.

The Forum has reported on the progress of key workstreams to the SHELT and the Executive Committee.

Next steps to Build to Last for Zero Harm

Communications
Harnessing and sharing expertise

Communications
- Effective communication channels to be established including a supervisor directory for Group
- Quarterly supervisor All Hands Call to be established

Supervisor Forums
- A quarterly UK forum to bring together supervisors from across different business units with managing directors
- Forums established within different business units

Competence
Right skills and support

Supervisor Development Programme 'A career not just a job'
- 100 nominations for a bespoke Balfour Beatty ILM3 qualification for supervisors
- Obtain support across Balfour Beatty including at Board-level
- Link into job families

Mentorship and cross-learning
- Mentoring to be a personal development review objective for experienced and aspiring supervisors
- A digital peer review form for supervisors

Supervisor Passports for our supply chain
- Passports to ensure supply chain have the correct training and competency
- Digital access to be rolled out in 2023

Community
Planning ahead

Gated Business Lifecycle (GBL) involvement
- Business units to use supervisors as a resource earlier in GBL

Resourcing
- Identify existing employees within the business who could consider the supervisor career pathway
- Identifying supervisors from different populations including those who are directly employed, freelance, and subcontracted

INNOVATION IN SAFETY

Lorry loaders

Tragically, the Group was made aware of a number of fatalities involving other contractors in the industry resulting from the use of swing-up stabilisers on lorry loaders. To help eliminate this risk for the entire sector, Balfour Beatty led a collaboration, bringing together the Association of Lorry Loader Manufacturers and Importers (ALLMI), other Tier 1 contractors, and suppliers to bring about industry-wide change.

Balfour Beatty issued a safety alert to the industry, using its network and influence to raise awareness, particularly within the supply chain, of how to control the risks of operator entrapment during the operation of swing-up stabilisers. Balfour Beatty helped pilot a technical solution and promoted temporary supervision measures Until such a system could be rolled out.

The technical solution was achieved through an interlock system, which can be retrofitted to lorry loaders. While this solution was being rolled out, Balfour Beatty put in place additional competency requirements for lorry loader operators, and additional supervision. A passporting system, accessible via QR code, was introduced in conjunction with ALLMI to ensure that our sites could tell at-a-glance whether operators entering a site had fulfilled the additional competency requirements. From 1 January 2023 Balfour Beatty will not permit on its sites any swing-up stabilisers that have not been modified.

Balfour Beatty collaborated relentlessly across the industry to remove this hazard by design, recognising that it is only through industry-wide collaboration that the construction industry will move towards Zero Harm.

What3Things?

The What3Things? (W3T?) initiative was launched in 2022, acting as a natural companion to the focus on our 10 fatal risks. Balfour Beatty remains committed to designing out and eliminating risk; the Group's Fatal Risk Working Groups (FRGs) continue to focus on eliminating risk by design. W3T? was designed to complement this work by ensuring simple, effective mitigation of residual risk.

W3T? is a practical and accessible quick reference tool for colleagues to use on sites, which highlights the three key safety measures for each fatal risk. These measures range from checking permits and personal protective equipment, to ensuring appropriate exclusion zones and specific systems of work. They were identified from a variety of sources, including the incident review process, horizon scanning of the industry, and the observation app.

When used alongside the Golden Rules, the simplicity of W3T? empowers everyone on site to make safety personal. Colleagues, clients and supply chain partners can use the quick reference W3T? pocket cards and posters to check work activities and challenge anything they think might be unsafe.

Each region of the Group has adapted the W3T? concept to suit their work activities, risk profiles and local regulatory requirements. For example, in the US W3T? tied into the OSHA 'Fatal Four' risks, and in Hong Kong key messages around working in hot and humid conditions were added to the W3T? topics.

The Group's Safety Stand Up activities in September 2022 focused on W3T?. Each site was encouraged to take ownership of the initiative by engaging with the fatal risks and associated W3T? most applicable to their work activities.

While specific themes have varied across the Group's geographies, the impact of the clear, simple message of W3T? has already been felt across the business, and is reflected in the Group's positive lagging indicator trend. With its focus on operative-level communication, simplicity of message and clarity of purpose, it was estimated the application of W3T? could prevent 80% of incidents on construction sites. Indeed, analysis of the trends of high-potential incidents across Balfour Beatty showed that the application of W3T? could have prevented 96% of high-potential incidents that occurred in June and July 2022. Recognising its position and responsibility as a respected industry leader, Balfour Beatty shared the W3T? initiative with other Tier 1 contractors in September 2022.

Watch our video
on *What3Things?*

SCAN TO WATCH

ABOVE: colleagues from across the Group stop work for the Safety Stand Up events to discuss *What3Things?*
Also, included above examples of our What3Things? communication materials.

Leading the industry on health

Balfour Beatty recognises that a healthy and safe workforce is essential to achieve a successful, sustainable business and remains committed to treating health like safety. It is pivotal to the Group's success that innovations to improve the health of the workforce are shared and promoted across the industry, protecting the health of the shared supply chain.

In the UK, the ongoing work on health is underpinned by the Health and Wellbeing Maturity Matrix, which allows each project and business unit (BU) to benchmark against best practice for 10 categories including wellbeing, mental health, and governance. At the beginning of 2022, each project and BU was required to self-assess its level of progress (beginner, committed, established, or advanced/leader) and create a detailed plan of how to improve to reach the next stage. Demanding performance expectations have been set, with all projects and BUs tasked with achieving Level 4 (advanced/ leader) in each category by the end of 2023. The matrix has successfully driven improvement as 93% of business units achieved on average either established or advanced status in 2022.

Balfour Beatty continues to support and co-chair the Health in Construction Leadership Group (HCLG) and actively participates in its sub-groups. Building on the organisation's strong affiliation with construction mental health charity Mates in Mind, colleagues from Balfour Beatty took over the chair of the Mental Health Working Group in 2022. In the HCLG's Respiratory Risk Group, Balfour Beatty has been working with 3M to develop a respiratory protective equipment (RPE) standard. Designed to remove reliance on disposable respiratory protection, this folded pocket card provides guidance and instruction for the end user on more effective respiratory equipment, and can be distributed to the supply chain.

The Group is also committed to improving awareness of health issues among its frontline workforce. A new e-learning health course, Managing Health Risks in Construction, was launched in 2022. Designed to effectively manage health risks in the workplace, this eight-part course is an enhanced, bespoke evolution of the course Balfour Beatty designed in conjunction with the British Occupational Hygiene Society. In keeping with the Group's focus on relentless collaboration, the course has been shared with colleagues from across the Group, and will be shared with the wider industry and contractor groups.

Suicide prevention awareness

Balfour Beatty US took an active part in Suicide Prevention Awareness Month in September to raise awareness of mental health and to create a supportive culture where colleagues and supply chain partners can help support those experiencing mental health challenges. In addition to hosting a suicide prevention webinar with the founding leader of the Construction Industry Alliance for Suicide Prevention (CIASP), Balfour Beatty launched a new dedicated mental health website, Suicide Prevention Awareness, to provide ongoing support to those experiencing difficulties. It is designed to connect individuals to leading support organisations and associated resources, and is available to employees and supply chain partners in both English and Spanish. It provides quick access to the 988 Suicide & Crisis Lifeline, the Substance Abuse and Mental Health Services Administration (SAMHSA) National Helpline, the National Domestic Violence Hotline and resources from the Construction Industry Alliance for Suicide Prevention (CIASP).

SCAN HERE TO VISIT THE WEBSITE

Mental health

Our Golden Rules are the cornerstone of Zero Harm, they are: be fit for work; always receive a briefing before starting work; report all unsafe events and conditions; and stop work if anything changes. The Group's focus on Be Fit for Work looks at not only good physical health, but also positive emotional and mental health.

Balfour Beatty has invested heavily in its frontline response to mental health in the workplace. In the UK, over 500 trained Mental Health First Aiders support colleagues, while in the US over 300 colleagues have completed the 'Question, Persuade, Refer' mental health training. Trained first responders are the first line of support for those struggling and therefore can find themselves in challenging situations. To help support these colleagues, Balfour Beatty's occupational health professionals have developed in-house trauma support training to provide post-incident mental health support.

In the UK, Balfour Beatty marked Mental Health Awareness Week with a campaign on the week's theme of loneliness. It covered a series of related themes, such as bereavement, and identified specific sources of support for people at higher risk of loneliness in our industry, including young people, carers, parents and returning workers. The campaign's focus on sources of support saw an increase of 26% in support requests to the employee assistance programme in the UK, through heightened confidence and knowledge of what it provides to employees. In the US, colleagues were signposted to resources during Stress Awareness Week and educated about the link between stress and physical health.

In the UK, Balfour Beatty maintains a strong partnership with Mates in Mind, and cohosted a stand at the Safer Highways Live event. Balfour Beatty supports the charity's ambition to tackle mental health in apprentice populations. Committed to relentless collaboration wherever it operates, and recognising the vital importance of charities, contractors and industry groups working together to tackle mental ill health, Balfour Beatty worked with supply chain partner Ford, to support the launch of the mental health campaign 'Make it Visible'. The initiative is designed to raise awareness and promote the support available for individuals struggling with mental health. A fleet of branded cars signposting individuals to support will transport Mental Health First Aiders to sites across the country. Balfour Beatty piloted the scheme at Lewisham Gateway, London and was invited to participate in a panel discussion at the Commercial Vehicle Show at the launch of the campaign.

Awards

Balfour Beatty's health and safety performance has been recognised by a wide array of industry bodies and clients in 2022.

In the UK, Crossrail C530 Woolwich won the Health & Safety Excellence Award at the Construction News Awards. The Balfour Beatty-led project team achieved six years of work, just over five million hours, without a statutorily reportable incident and two years and five months without a lost time incident. The judges commented: "Often, our industry thinks that to deliver success, they have to do something new, but this team has demonstrated that focusing on the delivery of the basics and being unrelenting in the approach to doing them well has transformed the culture, behaviours, and standards they expect to deliver every day."

In the UK, Balfour Beatty, in collaboration with Flannery Plant Hire, won the Training Excellence Award for the Operator Skills Hub. The Hub was created to raise industry standards, respond to the shortage of skilled workers in the construction sector, and gear up the industry to tackle the large, ambitious infrastructure projects in its pipeline.

In bespoke, state-of-the art facilities, the Hub offers health and safety management training and enhanced training to meet the needs of the industry such as a two-day advanced engineers' utility detection course in a custom-made area that mirrors a live site environment.

In Hong Kong, Gammon received a CT Good Jobs health and wellbeing award for the third year running, receiving the Grand Best Corporate Wellbeing Programme Award. Flagship commercial development project, Anton Street, won no fewer than six awards from the CIC, including a Gold Considerate Contractor award and a Gold Innovation for Safety and Excellence Award. Three individuals on the project were also recognised with 'model worker' awards.

At a national level, Balfour Beatty US received the AGC Safety Award from the Texas Highway, Heavy, Utilities & Industrial Branch of the Associated General Contractors of America for the 25th time in 27 years. This award recognises contractors that achieve a recordable incident rate that is 25% below the national average.

INNOVATION IN SAFETY

Automatic Cone Laying Machine

In the UK, Balfour Beatty became the first construction company to roll out an Automated Cone Laying Machine (ACLM). The unit was piloted in collaboration with National Highways across Balfour Beatty's Connect Plus Services consortium, which operates and manages the M25 and its key arterial routes on behalf of National Highways. Cone laying traditionally puts roadworkers at risk from exposure to live traffic and potential musculoskeletal injury, with operatives lifting up to five tonnes of equipment per shift. The ACLM has automated this process. The machine can lift and deploy cones in under 10 seconds, both eliminating the need for manual handling and reducing the amount of time operatives are directly exposed to the live road environment. Balfour Beatty continues to lead the industry in setting new standards for safety and moving towards achieving Zero Harm.

Watch our video to see the machine in action.

SCAN TO WATCH

> "In Hong Kong, Gammon received a CT Good Jobs health and wellbeing award for the third year running, receiving the Grand Best Corporate Wellbeing Programme Award."

Doing the right thing

Every day we are trusted by customers, business partners and the communities we work with and for, to do the right thing, make a difference and to behave responsibly. That includes treating each other fairly, respecting our business partners and caring for our communities – leaving a legacy we can be proud of. It also means being transparent and acting with integrity.

Ethics programme

Under the ownership of the Board, the ethics and compliance programme implements a framework of policies and procedures to ensure the Group's commitment to doing the right thing.

In addition to launching a new Code of Ethics in June 2022, other improvements to the ethics and compliance programme have included enhancement of the team, with the hiring of dedicated ethics and compliance personnel in both the UK and US. In relation to the US military housing business, Balfour Beatty continued to cooperate with the US Department of Justice under the terms of a Monitorship Agreement entered into on 6 September 2022.

During 2023 the ethics and compliance programme will be enhanced with the completion of an external and independent risk assessment across the Group. Further focus will also be given to improving speak-up reporting and analysis with a retender and anticipated consolidation of the Group's ethics management systems, together with the engagement of a new ethics and compliance e-learning and training content partner to enhance the focus, effectiveness and usability of training content.

Speak Up helpline

Fostering a speak-up culture, in which employees feel empowered to talk about any issue, is essential. Balfour Beatty actively encourages speaking up in the event of a question or concern and provides a variety of channels through which employees and stakeholders may do so, including the Balfour Beatty Speak Up helpline. The 2022 employee engagement survey showed that 83% of UK and US responders felt able to express concerns, with 82% of responders confident that reports of unethical, dishonest or unacceptable behaviour would be acted upon. The Group's no retaliation policy encourages the reporting of possible ethical breaches and offers protection for individual employees.

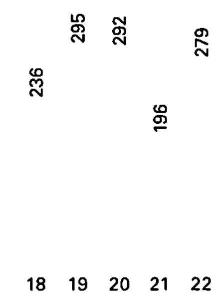
In 2022 a total of 279 reports were received across the Group, an increase of 42% from 2021. Substantiated cases also saw a significant increase from 9% in 2021 to 23% in 2022. This is a positive trend attributable in part to the launch of the new Code with improved employee awareness of doing the right thing and the importance of speaking up.

Employee conduct continued to constitute the majority of cases received (45% in 2022, 44% in 2021) followed by cases relating to: Code of Ethics violations; fraud, deception and dishonesty; and health and safety. Confirmed breaches of the Code of Ethics may result in disciplinary action, including termination of employment for serious breaches. A substantiated breach by a supply chain partner may result in termination of their contract.

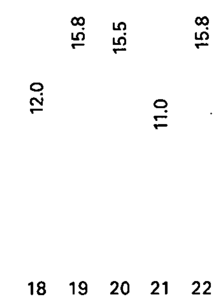
Data privacy

Balfour Beatty continues its efforts to ensure a defensible position against the requirements of data protection law, including compliance with the UK GDPR. Recent activities include rolling out a new method for assessing the severity of personal data breaches, a more comprehensive approach to delivering training, developing new guidance notes and updating existing privacy notices. Going forward, we will review our accountability measures including documentation obligations and ensuring processing activities are accurately mapped and risk-assessed if required.

SPEAK UP HELPLINE CASES NUMBER



CASES PER 1,000 EMPLOYEES (BALFOUR BEATTY) NUMBER



Improving industry standards

The Group plays its part in supporting others too, and strives to help improve ethical business standards across the industry, regularly interacting and supporting industry bodies for ethics such as the Institute for Business Ethics and the Business Ethics Leadership Alliance.

Modern slavery

Balfour Beatty is a member of the Modern Slavery Construction Protocol and works closely with the Gangmasters and Labour Abuse Authority to prevent exploitation of workers. During 2023 efforts will be focused on improving governance in this area through the creation of a cross-functional steering committee to set and approve the Group's strategic objectives in relation to modern slavery, and oversee the activities of the modern slavery working group.

Find more information on Balfour Beatty's approach to modern slavery including the Group's modern slavery statement at: www.balfourbeatty.com/services/modern-slavery/.

CODE *of* ETHICS

In June 2022 Balfour Beatty launched a new Code of Ethics across the Group. Underpinned by the values and behaviours in our cultural framework, the Code sets out clearly the principles that should guide everyday decision making to ensure that we all do the right thing. It is there to support everyone in the decisions we make, empowering us to hold each other accountable and challenge when we feel Balfour Beatty's standards are being undermined or our reputation put at risk. The Code applies everywhere, every day to everyone who works with and for us. It tells others what they can expect of and from us – the standards that we set ourselves in being 'Trusted' and how we ensure that our decisions and actions are consistent with our Values.

Mandatory ethics training was rolled out across the Group to support launch of the new Code. For senior leaders this involved workshops that used real-life scenarios to discuss why business ethics matters and the critical role senior leaders play in setting the tone and promoting a culture of doing the right thing. 97% of in-scope senior leaders completed the training.

All-employee training included tool-box talks for frontline project-based teams and a new e-learning module for all other employees. All training included scenarios tailored and relevant to the audience to help bring the Code's principles to life. 95% of in-scope employees completed the e-learning.

As a principles-based document the Code applies equally to our external business partners. Details of the new Code and Supplier Standards were issued to all supply chain partners. Business leaders were also equipped with talking points to communicate Balfour Beatty's approach to ethical business and the new Code with key customers and partners.

In 2023 we will continue to embed understanding of the Code's principles through further targeted communications and training, together with appointing an independent organisation to conduct a wider ethical culture survey.

ABOVE: examples of the Code of Ethics campaign posters.

96%

of responding UK and US employees confirmed they were familiar with the new Code of Ethics in the employee engagement survey.

Watch our Code of Ethics video:

SCAN TO WATCH

Being a responsible taxpayer

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

Being a responsible taxpayer

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

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

Tax governance

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

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

Tax risk appetite

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

Balfour Beatty does not tolerate tax evasion or the facilitation of tax evasion. 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.

Any tax risks are included in the Group Risk Register as part of Balfour Beatty's Group-wide approach to risk management, as set out in further detail on pages 84 to 88.

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 for a new future

Introduction

As one of the world's biggest economic engines, the construction and infrastructure industry has a major part to play in achieving the United Nations Sustainable Development Goals. Since Balfour Beatty launched its refreshed sustainability strategy – Building New Futures – in 2020 the Group has made significant advances in key areas, including achieving almost 50% of its 2030 £3 billion social value target. It has also prioritised pushing technological boundaries given one of the main barriers to progress is the gap in the technology that is available to help drive down carbon emissions.

Balfour Beatty is now focused on moving from the ambition phase of reduction strategies to updating action plans in line with the latest scientific basis for sustainable management, following the clear pathway set by the UN Sustainable Development Goals.

Balfour Beatty is aware of the Transition Plan Taskforce (TPT) disclosure framework and its proposed development of sector specific guidance documents during 2023. The Group will work towards integrating the TPT disclosure framework guidance as it develops its own Transition Plan. To support with the development of this plan, the UK business has formed a cross-functional ESG leadership group consisting of its senior leadership which have the biggest role to play in delivering ESG commitments and compliance requirements.

Governance

The Board's Safety and Sustainability Committee (SSC) reviews the Group's sustainability strategy and monitors progress on sustainability and climate-related issues including carbon emissions, materials and waste management, and social and community matters. The Group Chief Executive has overall responsibility for setting Balfour Beatty's sustainability policy and overseeing how Environmental, Social and Governance (ESG) related matters are managed.

The Executive Committee sets the Group's sustainability ambitions and targets, directing each strategic business unit (SBU) to develop its own sustainability action plan. Each SBU has a sustainability lead, who is responsible for developing bespoke sustainability action plans aligned to the Group's 2030 targets and 2040 ambitions.

The senior leadership of each SBU is responsible for agreeing its sustainability action plan and ensuring it is delivered and adequately resourced. The plans detail how projects should deliver sustainability at a local level, recognising that Balfour Beatty has a responsibility to ensure it is not negatively impacting the environment and bringing about environmental benefits wherever possible.

Areas of focus within the sustainability action plans include reductions in waste and water, using responsibly sourced timber, reducing GHG emissions, supporting local employment and skills including local businesses, and community engagement through charitable fundraising, volunteering, and mentoring.

PricewaterhouseCoopers LLP (PwC LLP) provides limited assurance over selected greenhouse gas and social value performance data for annual reporting purposes.

HOW WE MANAGE SUSTAINABILITY

Safety and Sustainability Committee

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

Executive Committee

The Executive Committee sets overall sustainability targets and ambitions.

Strategic Business Units

Each strategic business unit has a sustainability lead who is responsible for bespoke sustainability action plans that are aligned to the Group's 2030 targets and 2040 ambitions. They ensure projects are managed sustainably while reviewing and sharing best practice and identifying opportunities for improvement.

Internal audit and external assurance

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

Q&A with our Group Director of Sustainability Jo Gilroy

Q What has your career background been so far?
My career as a sustainability professional is diverse having worked across multiple geographies and sectors. I began my career working for IKEA in Sweden before moving to Australia. I returned to the UK to take up a position with the FTSE 100 distribution and logistics group, Bunzl, as their Head of Sustainability & Corporate Responsibility. I worked closely with Government and key customers in the hospitality and retail sectors to help address ocean pollution from single use plastics. I entered the construction sector as Group Head of Sustainability & Environment at Kier before joining Balfour Beatty in April 2022.

Q What is your vision for 2023 and beyond?
There are no 'silver bullet' solutions when it comes to sustainability. In 2022, we began to enhance our focus on an 'every person, every decision, every time' approach, with the aim of embedding a sustainability mindset across the workforce in all of the Group's core geographies.

Q What does the sustainability team have in store for Balfour Beatty?
We need to widen our focus to address the Group's environmental impact beyond carbon emissions. For example, biodiversity is not a lesser goal than carbon reduction – they must go hand-in-hand. Balfour Beatty took a principled stand in 2022, declining to transition from diesel to hydrotreated vegetable oil (HVO) in heavy plant.

Procuring HVO at scale while remaining transparent, traceable and sustainable is a significant challenge. There is real risk that doing so would create a worse environmental problem in the process – with the impact on biodiversity in parts of the world like South East Asia not yet understood.

Our priority is therefore not to be distracted by transition options such as HVO but to move as quickly as possible to decarbonise Balfour Beatty's operations and to develop the use of genuinely sustainable alternatives to diesel – guided by the Fuel Hierarchy[2] we set out in 2022. Developed by our in-house energy management experts, this easy-to-understand tool will support everyone at Balfour Beatty and its supply chain partners to select the right energy sources for plant, equipment, vehicles and buildings – which generate the vast majority of the Group's Scope 1 and 2 emissions.

Q How does your regular attendance at the Safety and Sustainability Committee and direct engagement with the Board enable you and your function to embed a culture of sustainability across the Group, and deliver against the challenges of achieving Zero Waste and Net Zero?
To be truly effective, sustainability in any organisation must be led from the top down. The active engagement of the Board, and in particular the Safety and Sustainability Committee, provides an additional layer of governance, and enables me to draw on the extensive expertise of the Board and Committee members to ensure that our sustainability strategy is embodying Balfour Beatty's core values, and ultimately doing the right thing.

2 https://balfourbeatty.com/media/319635/balfour-beatty-fuel-hierarchy.pdf

OUR SUSTAINABILITY STRATEGY - BUILDING NEW FUTURES

	ENVIRONMENT	MATERIALS	COMMUNITIES
	Responding to climate change and managing our impact on the environment	Choosing the right materials, using less materials and creating value from the materials we no longer need	Improving the prosperity and wellbeing of individuals and communities
2040 AMBITIONS			
2030 TARGETS	**Achieve our science-based carbon reduction target**	**40% reduction in waste generated**	**£3bn social value generated**

Local Sustainability Action Plans

> Balfour Beatty continues to make a meaningful contribution to the communities it works in."

Beyond Net Zero Carbon

In its sustainability strategy, Building New Futures, published in 2020, Balfour Beatty set out its 2030 target of halving 2020 carbon emissions (Scope 1, 2 and 3) and an ambition of going Beyond Net Zero Carbon by 2040 on an absolute reduction basis.

The Group continues to implement and explore new opportunities to reduce Scope 1 and 2 greenhouse gas (GHG) emissions and its reliance on fossil fuels. Examples include:

- using low or no carbon technologies and algorithms to assist decision making and to drive sustainability performance improvement,
- reducing onsite generation of electricity from fossil fuels in diesel generators through early adoption of temporary electricity supplies and battery storage technologies; and
- electricity purchased via the UK-wide supply contract is backed by renewable energy guarantee of origin (REGO) certifications from solar and wind renewable technologies.

In November 2022, Gammon, our joint venture in Hong Kong, mobilised the Causeway Bay office project deploying the Enertainer, an electric-powered battery storage system developed in partnership with its key supply chain partner, AMPD Energy.

In the UK, many of the energy efficiency improvements and related innovations have been driven by an in-house team which is certified to ISO 50001, the Energy Management System standard. Gammon, our joint venture in Hong Kong, is also certified to that standard.

Despite significant progress in reducing material emissions, applying new technologies and accessing renewable energy sources, the Group's absolute carbon emissions increased in 2022.

Construction is an innately carbon intensive industry and the reasons for the increase are complex. The balance between economic design, satisfying general public requirements for the built environment and delivering against environmentally satisfactory requirements that align to net zero emissions remains a challenge given two of these three elements are outside of the Group's control.

In addition, there is a lack of proven low-carbon scalable technology solutions, the impact of global supply chain problems, rising energy prices and the fallout from the COVID-19 pandemic which has reduced opportunities to drive low carbon solutions as customers have looked to drive efficiencies and in 2022 Balfour Beatty also saw an increase in the amount of tunnelling and earthworks which are amongst the most carbon intensive elements of construction.

To meaningfully decarbonise, the Group must secure buy-in from clients and design partners to design carbon out from the beginning. The Group will also continue to engage with supply chain partners to drive innovation to plug technology gaps.

2023 actions to cut emissions

- Implementing business-by-business improvement plans, supported by better carbon data and clear annual improvement targets.
- Where appropriate, mandating low-carbon solutions in the UK so business units need to 'opt out' rather than 'opt in', including deploying EcoSense cabins on all new project sites; linked into the EcoNet energy management tool, and using the Power Profiler tool to identify low-carbon equipment options.
- Completing the validation process for a science-based target validated by the Science Based Targets initiative (SBTi) as aligning with limiting global warming to 1.5C or <2C as advised by climate scientists.
- Sharing knowledge across the workforce, and analytics and performance-reporting capabilities where this is necessary for their role.

The UK business has also published a Carbon Reduction Plan (available on its website) to illustrate carbon reduction initiatives and provide further information on its carbon performance and actions to improve. As part of this plan, the UK business has also committed to a 1.5 degree decarbonisation pathway and will be submitting its reporting methodology to the SBTi for validation in 2023.

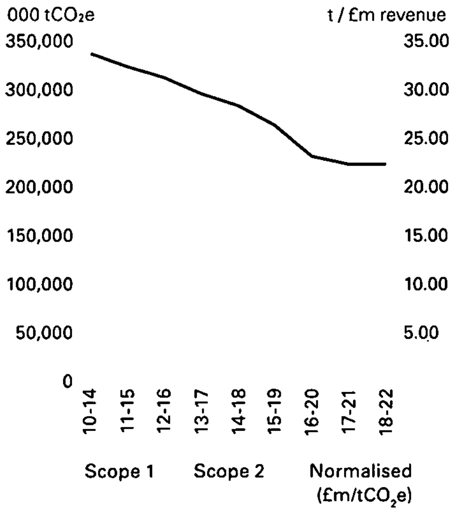
Scope 1 and 2 GHG emissions

Balfour Beatty operates in three principal geographies – the United Kingdom, the United States, and through Gammon in Hong Kong.

Since establishing its initial sustainability strategy over a decade ago in 2010, Balfour Beatty has reduced its total Scope 1 and Scope 2 GHG emissions from 357,983 tonnes of carbon dioxide equivalent (tCO_2e) to 253,695 tCO_2e or a 29% reduction.

Since the rebaselined absolute reduction target of 2020, the Group's Scope 1 and 2 emissions have increased from 205,517 tCO_2e to 253,695 tCO_2e or a 23% increase. Whereas the 2020 Scope 1 and 2 absolute emissions are significantly lower than those in 2010, consistent increases in the past two reporting years beyond the baseline demonstrate that the construction industry is still heavily reliant on fossil fuels. These increases in its Scope 1 and 2 emissions incentivise the Group to go further and deeper with alternative low or no carbon technologies, implementing these as standard, adopting modern methods of

FIVE-YEAR ROLLING AVERAGE, SCOPE 1 AND 2 GHG EMISSIONS



construction and influencing the supply chain to provide low or no carbon solutions.

From prior year 2021 to 2022 the Group's total Scope 1 and Scope 2 GHG emissions increased when using a location-based approach from 240,781 tCO_2e to 253,695 or 5%. Using the market-based approach there is a similar upward trend from 2021 by 8%.

The Group's GHG emissions intensity in 2022 decreased by 11% in comparison to 2021 from 25.3 tCO_2e/£m revenue to 22.4 tCO_2e/£m revenue when using a location-based approach. Using the market-based approach, there is a smaller 9% reduction to 22.3 tCO_2e/£m revenue from 24.5 tCO_2e/£m revenue.

GHG emissions increased in the UK compared to prior year by 15%, and in the East Asia region increased to a lesser extent by 5%. The US decreased overall by 14%.

Scope 3 emissions

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

The Group engaged the Carbon Trust in 2021 to support the development of a robust and replicable reporting methodology for Scope 3 Category 1, defined as the most material of the 15 Scope 3 categories to the Group's operations.

Beyond Net Zero Carbon continued

Achieving net zero emissions throughout the Group's entire supply chain will require effective and coordinated collaboration across many diverse stakeholders, the ability to share information and correctly designed incentives. In 2023, Scope 3 net zero roadmaps will be developed for the largest Scope 3 categories.

While Balfour Beatty has made significant progress in collecting Scope 3 data and establishing a 2020 baseline, the final figures remain subject to internal data quality control checks as well as external validation by the SBTi. For this reason the Group is disclosing the Group's Category 1 Scope 3 emissions only to illustrate the scale of these emissions of this scope in comparison to Scope 1 and 2 emissions.

In the 2023 Annual Report a full breakdown of the Scope 3 emission categories will be provided. The Group has determined that Scope 3 emissions have accounted for more than 90% of the Group's total carbon footprint in 2020, 2021 and 2022. Scope 3 emissions are measured using the GHG Protocol Corporate Value Chain (Scope 3) Standard.

SCOPE 1, 2 AND 3 GHG EMISSIONS

Carbon emissions (tCO_2e)	Base year 2020	2021	2022
Scope 1	162,816	199,002	**217,757**Ⓐ
Scope 2 (location-based)	42,701	41,779	**35,938**Ⓐ
Scope 2 (market-based)	38,596	34,340	**34,629**Ⓐ
Total Scope 1 and 2 carbon emissions (location-based)	205,517	240,781	**253,695**
Total Scope 1 and 2 carbon emissions per £m revenue (location-based)	18.8	25.3	**22.4**Ⓐ
Total Scope 1 and 2 carbon emissions per £m revenue (market-based)	18.4	24.5	**22.3**Ⓐ
Scope 3	3,699,647	3,588,073	**3,288,390**

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

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

Note 3: The Group's Greenhouse Gas disclosure metrics and descriptions can be found in Part 2 of the Global Sustainability Reporting Guidance version 1.6 https://balfourbeatty.com/ sustainabilityreporting.

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

Note 5: To calculate the carbon intensity an adjustment to the final revenue has been made from £9,243,759,515 to £11,301,238,688. This includes inter company revenue and revenue from operations where Balfour Beatty has operational control in line with the Group's GHG reporting operational control methodology. Where Balfour Beatty does not have operational control, the Group does not account for any associated emissions or the associated revenue. Where Balfour Beatty has operational control of a joint venture or joint operation, the Group reports 100% of the emissions and adjusts the revenue to account for 100% of the associated revenue; an example of this is the Gammon joint venture in Hong Kong where an adjustment is made accordingly.

Ⓐ Included within PwC LLP's limited assurance scope.

GHG reporting methodology 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 2022 to report emissions from its operations around the world.

In 2022, alongside the location-based method, Balfour Beatty reported against the GHG Protocol Scope 2 market-based reporting methodology. This method allows the application of an emissions factor of zero tCO_2e per kWh to supply contracts from suppliers of purchased electricity from renewable sources with a guarantee of origin certificate. For example, in 2022 in the UK circa 16,000 MWh of Renewable Electricity Guarantees of Origin (REGO) certificates for electricity were procured for electricity purchased through the Group's utility procurement contract. A residual mix emission factor is applied to electricity where a REGO is not available. For electricity which does not come from a renewable source and a country specific residual mix emission factor is not available, Balfour Beatty has applied either the appropriate supplier factor based on the supplier's published fuel mix where it is known and can be evidenced, or the country average electricity emission factor provided by the IEA, EPA or Defra (as appropriate). Balfour Beatty's total energy consumption in MWh is shown on page 59 to allow readers to make more informed comparisons of the Group's energy use.

Although Balfour Beatty's Scope 1 and 2 emissions measured in tCO_2e increased by 5% (12,914 tCO_2e) from 2021 to 2022, energy use measured in MWh decreased by 2% (21,460 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. The MWh table does not include fugitive emissions.

The energy use table illustrates that there has been a significant shift from the predominant use of red diesel in 2020 to 5% biodiesel use in 2022. This is reflective of the reform of red diesel and other rebated fuels entitlement in the UK and the replacement of dyed diesel for 5% biodiesel blends in Hong Kong. Whereas comparatively biodiesel blends are less carbon intensive this displacement reiterates the significant challenges faced by the sector in terms of adopting low-carbon alternative technologies for large operational plant and onsite generation.

Balfour Beatty's Scope 1 and 2 GHG emission sources include emissions from assets that are otherwise not referred to across the rest of the financial statements, such as energy provided by landlords or customers that Balfour Beatty does not pay for. In 2022, the Group generated 173 MWh of renewable electricity from the widespread adoption of solar cabins, solar tower lights, solar mobile signage and hybrid generation on project sites. A further 413 MWh was generated from green hydrogen, see the case study below for more information.

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 2022, to calculate its emissions into equivalent tonnes of carbon dioxide (tCO_2e) and the IEA's 2022 international conversion factors for electricity (Scope 2) except for the UK and the US where the UK Government and the US EPA conversion factors were applied as they more accurately reflect geographical carbon intensities of local grids.

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

ENERGY USE IN MWH

Fuel	2020	2021	2022
Electricity purchased - green tariff	12,536	15,812	**21,758**
Electricity purchased - other	76,984	78,623	**73,733**
Electricity from solar renewables	35	372	**173**
Electricity from green hydrogen	–	–	**413**
Electricity total	89,555	94,807	**96,077**
Natural gas (includes CNG)	8,147	8,867	**12,878**
Industrial gases	4,687	3,358	**3,666**
5% biodiesel blend	245,452	305,510	**675,875**
5% biofuel petrol blend	54,799	123,906	**53,284**
Biodiesel	53	33	**83**
E85 petrol	188	886	**221**
Gas oil (red diesel)	344,754	437,246	**111,871**
100% mineral diesel	14,071	14,614	**14,281**
100% mineral petrol	3,701	3,988	**3,261**
LPG	57	143	**113**
GTL	–	3,154	**3,432**
Boiler fuel	454	472.27	**423**
HVO	–	–	**61**
Global total	765,917	996,986	**975,526**
UK energy use % of total	50%	33%	**40%**
MWh per £m revenue	70	105	**86**

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

Note 2: The MWh per £m revenue is calculated using the adjusted revenue figure disclosed in Note 5 to the Scope 1, 2 and 3 GHG emissions table on page 58.

TOTAL SCOPE 1 AND 2 CARBON EMISSIONS PER £m REVENUE (MARKET-BASED)

● **Base year 2020**

18.4

● **2021**

24.5

● **2022**

22.3

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

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

INNOVATION IN SUSTAINABILITY

Hydrogen fuel cell generator

On the A63 road improvement scheme we energised Balfour Beatty's first ever hydrogen power unit, which has replaced the 100kVA diesel generator powering site welfare and office accommodation. Using a combined heat and power (CHP) unit, the HPU recycles waste heat (usually rejected to the atmosphere) to provide space and water heating to the cabins. This innovation has been achieved through collaboration, from concept to delivery, by the A63 project team and Balfour Beatty's Highways business with the support of the Asset & Technology Solution team. The unit is fuelled with green hydrogen, produced by an electrolyser powered by renewable electricity and will save 59,000 litres of diesel and 164 tCO_2e GHG emissions.

Biodiversity

Climate change and biodiversity loss are mutually reinforcing global issues, often referred to as twin crises. Biodiversity loss impairs ecosystem functionality. This adversely impacts ecosystems from delivering a range of services fundamental to the quality of human life, such as carbon sequestration, supporting air and water quality, food production and flood prevention.

The Group works with its customers and design partners to carefully measure and minimise impacts and to deliver extensive and innovative Green Infrastructure (GI) to protect and enhance biodiversity.

In the UK, Balfour Beatty provided all clients on the SCAPE frameworks with a free Biodiversity Net Gain (BNG) feasibility options report which detailed the opportunities to deliver BNG on each project.

The Group is collaborating with leading technical experts to earn a reputation in multiple GI disciplines such as sustainable soil management, habitat creation, habitat translocation and delivery of innovative, multipurpose interventions such as green bridges, green walls and sustainable urban drainage.

Business unit sustainability action plans are being developed to incorporate more detailed supporting actions covering carbon emissions reduction, materials and waste efficiency, biodiversity, responsible sourcing and social impact.

Environmental impacts and risk management

Balfour Beatty's business management systems include environment and sustainability policies, procedures and tools for identifying and managing environmental impacts and risks at an organisational and project level. In 2022 the Group had no breaches in environmental compliance. However, the case raised against Gammon's project joint venture, Sanfield-Gammon Construction JV limited, for a suspended soilds exceedance in their water discharge in July 2021 was concluded. The joint venture was issued a summons in early 2022, pleaded guilty to the charge and was fined HK$15,000.

> “The Group works with its customers and design partners to carefully measure and minimise impacts and to deliver extensive and innovative Green Infrastructure (GI) to protect and enhance biodiversity.”

Environmental Social Governance (ESG) ratings and scores

In 2022, Balfour Beatty plc achieved a FTSE4Good ESG score of 3.3 on a scale from 0 of 5 (higher scores are better) compared to 3.1 in 2021.

In September 2022, Balfour Beatty plc received an ESG Risk Rating of 28.9 from Sustainalytics and was assessed to be at medium risk of experiencing material financial impacts from ESG. The industry average rating is 37.6.

In January 2022, Balfour Beatty plc received a rating of AA (on a scale of AAA-CCC) in the MSCI 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 2022, Balfour Beatty achieved a CDP rating of B which demonstrates that it is taking coordinated action on climate issues.

Generate Zero Waste

The Group's sustainability strategy includes a 2040 ambition to generate zero waste from operations and a 2030 target to reduce the amount of waste generated per £1m of revenue by 40%. The target is against a 2021 baseline.

Conservation of natural resources and materials used for its projects is a priority for Balfour Beatty. The Group's approach to materials and waste management encompasses avoiding waste by better design through Design for Manufacturing Assembly and Modern Methods of Construction, the procurement of materials and products, and better management of residual waste by applying the waste hierarchy. Taking this holistic approach helps to support a circular economy by using materials efficiently, keeping them in use and retaining their value for as long as possible. The Group's sustainable procurement strategy is aligned to ISO 20400 in the UK and Hong Kong, embedding sustainability into the procurement process.

2,149,769 tonnes of waste that Balfour Beatty produced was avoided from landfill in 2022, representing 96% of total waste generated, but this does not include materials that were reused directly without entering the waste stream.

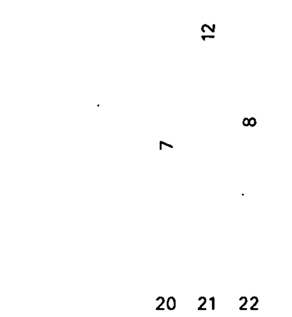
WASTE AVOIDED FROM LANDFILL

2,149,769

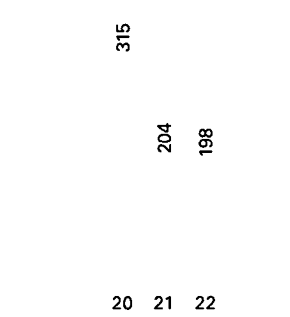
tonnes

Comparing waste data year-on-year will vary depending on the type of projects the Group undertakes and the stages of those projects. Balfour Beatty is working with all business units to improve its waste data and support projects to implement waste and materials management plans.

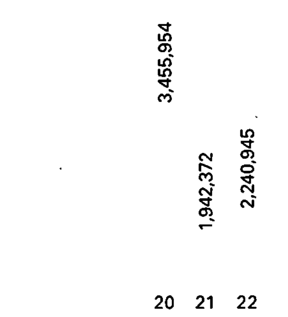
WASTE LANDFILLED (TONNES/£m REVENUE)



WASTE GENERATED (TONNES/£m REVENUE)



WASTE GENERATED (TONNES)



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

Note 2: The Group's Waste disclosure metrics and descriptions can be found in Part 1 of the Global Sustainability Reporting Guidance version 1.6 https://balfourbeatty.com/ sustainabilityreporting

Note 3: The waste intensity calculations follow the same principles as the carbon intensity calculations as described in Note 5 on page 58.

INNOVATION IN SUSTAINABILITY

Carlyle Crossing (formerly Hoffman Tower)

At the Carlyle Crossing project in Alexandria, Virginia, the team's commitment to sustainability paid off in a big way. This US$300 million joint venture project with Walsh Construction includes five floors of garage space, three residential towers and a retail base, totalling 980,000 square feet of mixed-use space.

From the outset of the project, sustainability was top of mind for the owners and project team, and they established a goal of recycling at least 75 percent of project waste as well as reducing the project's carbon footprint. This required meticulous tracking of waste in both pre- and post-consumer material. The team also focused diligently on onsite cleanliness and housekeeping to limit the amount of debris inadvertently produced. The team exceeded their recycling goal, with 81% of construction waste diverted from landfill. The project is also on track to become LEED® Gold certified.

In addition to reducing and recycling construction and demolition waste, the team also placed an intentional focus on sourcing local and regional materials. By doing so, they reduced the transportation of materials and truck emissions, while stimulating the local economy.

Positively impact more than 1 million people

Balfour Beatty continues to make a meaningful contribution to the communities in which it operates. The Group's sustainability strategy includes a 2040 ambition to Positively Impact more Than 1 million People and a 2030 target to generate £3 billion of social value.

The Group has made significant progress in this area, achieving almost 50% of its 2030 £3 billion social value target already.

Using the National Social Value Measurement Framework, as a method of reporting and measuring social value to a consistent and recognised standard, Balfour Beatty's UK business delivered £816m® of social value in 2022. A consistent method for measuring the social value generated for both the US and Gammon is currently being developed.

To benefit local areas, the Group uses local supply chain partners and employees wherever possible and invests in future talent through apprenticeship schemes and work placement opportunities. In the UK over £1.5bn was spent with SMEs in 2022.

Social value reporting and assurance

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

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

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

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

Community investment through volunteering and charitable fundraising
Balfour Beatty has a long and proud history of supporting charities and social enterprises.

In the UK, Balfour Beatty employees volunteered 19,645 hours for charitable causes and £339,835 in charitable donations were made.

SOCIAL VALUE GENERATED TO DATE

2030: £3bn (target)

2022: £816m ®

2021: £717m

This included £100,000 to support its three Corporate Charity Partners, The Prince's Trust, Groundwork and Project RECCE.

In addition, The Group's US business donated US$504,262 to charitable causes and our Hong Kong joint venture Gammon contributed HK$2.1m.

In December, Balfour Beatty made a significant donation of £24,000 to FareShare, a charitable food redistributor in the UK, and in the US US$29,500 was donated to Feeding America, a charity helping to end world hunger. Balfour Beatty also made a donation of £24,500 to the British Red Cross General Fund Appeal in response to the humanitarian crisis in Ukraine.

Balfour Beatty continues to work with associate charity partners who support its business objectives, including The 5% Club, Mates in Mind and Women into Construction, as well as local charity partners which provide the opportunity to positively impact local people and communities within the areas we operate.

Scan to find out more about our UK Corporate Charity Partners.

Project Together

To help support communities Gammon, our 50:50 joint venture in Hong Kong, joined Link REIT in 'Project Together'. This initiative partners with social welfare organisations, helping to strengthen their facilities' function as social hubs, creating happy spaces for the community to enjoy and thrive in.

Activities so far include improvement works for two NGOs in Tai Po, including repainting, floor levelling and ventilation window replacement. Gammon also supported in painting murals on the walls surrounding the facilities.

Supply chain

The supply chain are key stakeholders in enabling the Group to deliver against its sustainability targets and ambitions. The UK and Hong Kong businesses align to the ISO 20400 sustainable procurement standard to embed sustainability into their procurement strategies. The Supply Chain Environment and Sustainability Requirements document was updated during 2022 to bring greater clarity for the supply chain on the Group's expectations.

In 2022 Balfour Beatty launched a new Code of Ethics, which applies through Supplier Standards to all suppliers of goods and services and was supported by communications to the supply chain to make them aware of the new expectations.

The Supply Chain Sustainability School

Balfour Beatty continues to work closely with the Supply Chain Sustainability School in the UK and participates in 14 working groups to further knowledge of sustainability and the work of the school. During 2022, priority supply chain partners received 5,302 hours of training from the Supply Chain Sustainability School and accessed over 14,000 e-learning modules.

Strategic Design Partnership

Balfour Beatty recognises that influencing decision making at design stage to encompass sustainability criteria has a significant influence on sustainability impact during delivery. In 2022, the UK business developed and trialled a series of minimum reporting requirements to embed sustainability into design through its Strategic Design Partnership with Atkins, Mott MacDonald and WSP.

The minimum requirements cover carbon, material efficiency, social value, biodiversity, and Equality Diversity and Inclusion. Furthermore, during 2022 the Strategic Design Partnership co-created a Carbon Charter to improve collaboration on this agenda.

Greening the Supply Chain

In 2022, Balfour Beatty and the Supply Chain Sustainability School conducted a follow-up survey to the construction supply chain survey carried out in 2021 in advance of COP26 for England, Ireland and Wales, and a separate survey for Scotland, which has a different net zero approach.

Despite the positive steps that have already been taken across the industry, 68% of respondents said that the sector is not well enough prepared to achieve net zero carbon, 53% said that the development pipeline for low-carbon materials is not sufficient to meet demand and 81% indicated that construction practices are changing too slowly.

In addition, 96% of those who responded said that they are experiencing a shortfall in access to skilled people, specifically relating to carbon, sustainability, digital and other related roles, which risks holding back efforts to decarbonise the sector. The survey results were communicated widely to customers, Government, supply chain partners and to our own workforce, particularly our frontline Procurement and Sustainability teams, to ensure that the findings were understood and could help shape our future approach in this area.

> "Balfour Beatty recognises that influencing decision-making at design stage to encompass sustainability criteria has a significant influence on sustainability impact during delivery."

Scan to read the results of our supply chain surveys:

England, Ireland and Wales

Scan to read the results of our supply chain surveys:

Scotland

SCAN TO FIND OUT MORE ABOUT OUR STRATEGY AND TO READ OUR BEST CASE STUDIES.

Helping our people thrive

People contribute to the strength and success of our business. Pride and passion, diversity of expertise, background and thinking, combined with collaborative behaviours ensure we can deliver and innovate for our customers.

Against a backdrop of global skills shortages and a competitive labour market, our people offer and culture are vital 'magnets' to help our ability to attract and retain. We are uniquely placed to offer job security and career opportunities with our pipeline of work. Our HR Plan embraces this context and drives focus on the retention of people and 'Growing our Own' skills, how we refresh and diversify our talent pools to attract new employees and nurturing a great place to work to enable everyone to perform, grow and thrive.

OUR STRATEGIC PEOPLE PILLARS

Attract	Retain	Grow	Thrive
Understanding the skills we need now and in the future and attracting and recruiting the best people	Ensuring that great people with critical skills choose to stay in the business	Growing our own talent and skills and developing great careers for our people to meet business needs	Build an inclusive culture where people flourish and can bring their whole self to work and perform to their highest ability

Attract

Balfour Beatty wants to be the employer of choice to all and is increasingly using more innovative approaches to how and where it attracts talent, so that the Group becomes attractive to a broader spectrum of candidates to deliver its future pipeline of work while proactively addressing the industry skills shortage.

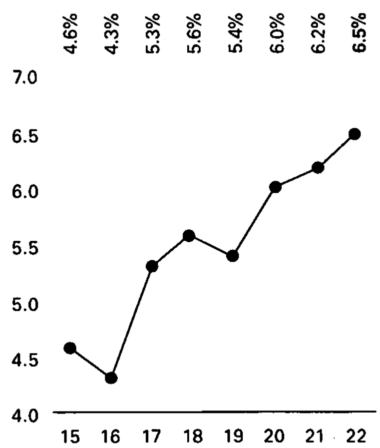
Broadening channels for recruitment

New strategies have been developed to widen talent pools, aimed at securing the right skills and increasing the diversity of the Group's work force.

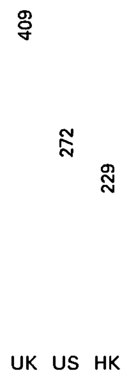
In 2022, the UK business continued its work to ensure it is reaching diverse audiences, developing its partnerships with organisations such as Evenbreak (disability), Rest Less (older workers), Association for Black and Minority Ethnic Engineers (AFBE) and Women into Construction. The UK business also continued to work with Renaisi, a Social Enterprise, hiring a number of refugees. So far six individuals have been successfully integrated into the business and this partnership will be developed further in 2023 as part of Balfour Beatty's commitment to social value and inclusion.

The US business continued to specifically target recruitment efforts in 2022 on historically black colleges and universities such as Florida A&M University and North Carolina A&T University (NCA&T).

% OF OUR UK WORKFORCE IN EARN AND LEARN POSITIONS



2022 EARLY CAREERS HIRES: GRADUATES, APPRENTICES, TRAINEES, INTERNS AND INDUSTRIAL PLACEMENTS



FEMALE EMPLOYEES ACROSS THE WORKFORCE %*

* Excluding international joint ventures in 2020 and earlier years.

Investment in Early Careers

The Early Careers programme is a key part of the Group's 'Growing our Own' strategy, bringing fresh talent, perspectives and energy into the business – Balfour Beatty is proud to continue its long-term investment in young people and skills development. In 2022, the Early Careers cohort was significantly large and the Group continued positive progress on the diversity of hires, with 39% of UK graduates from a minority ethnic background and 32% female, while 17% of Gammon graduate engineers hired in 2022 were female.

In the UK, in addition to the large graduate and apprentice intake, 50 'year out' and 51 summer placements were taken up, representing an investment in the pipeline of talent for future Early Careers programmes.

With 6.5% of UK employees in 'earn and learn' positions at December 2022, Balfour Beatty retained its Gold Membership of The 5% Club in its Employer Audit for 2022-23. In addition, Balfour Beatty was placed 23rd in the Top 100 Apprentice Employers by RateMyApprenticeship for 2023, a significant improvement on previous rankings.

Beyond formal programmes, the Group has focused on inspiring the next generation to join the construction and infrastructure sector in all of its geographies. Balfour Beatty has participated in a wide range of events and programmes to ensure it stands as a destination for enriching careers which leave a lasting legacy.

The US Buildings business developed a summer intern programme where 168 interns were given the opportunity to work alongside the teams on key projects. The programme is designed to help participants expand their networks and get a true sense of what it is like to work for Balfour Beatty and in the industry. In addition, the business enabled a colleague to volunteer their time as Camp Director to deliver a construction camp for 35 middle school girls, teaching them construction skills. The camp was organised by the Austin chapter of the National Association of Women in Construction and garnered national media attention, highlighted in an Inspired Life article on The Washington Post's website as well as in Texas Contractor.

Gammon continued its programme of secondary school visits with the aim of inspiring students to choose engineering subjects and careers. Two of Gammon's female engineers shared their career journey to attract more young women to join the construction industry.

Military Talent Pathway – bridging the skills gap

Building on existing Armed Forces Covenant activity and working with our Armed Forces Steering Group, our Military Talent Pathway (MTP) was a new initiative in the UK in 2022. The Pathway provides structured 'transition in' support for career changers with transferable skills into a range of our key roles.

Balfour Beatty recognises and values existing experience and leadership skills and builds on this to develop the technical, professional skills relevant to each role.

The business recruited 32 ex-military personnel through our pilot for a variety of different roles ranging from Construction Plant Operative to Site Supervisor. The recruits have now transitioned into our business, benefitting from a bespoke six-month formal pathway based on 70/20/10 learning experiences.

The next step is to review options to scale up from the pilot.

> "I'm really pleased to see the MTP launched. I'm sure that this is going to make a difference to veterans leaving the armed services and help to bridge the skills gap in Balfour Beatty."

Graham Martin,
Work Winning Director

Retain

Balfour Beatty remains focused on being a great place to work. At the heart of this is nurturing a culture of respect; valuing employees for who they are and the individual experience and perspectives they bring to Balfour Beatty. This is achieved by driving the Company's cultural framework, creating a sense of team and investing in employees so they have the opportunity to grow, learn and be the best they can be.

Outstanding levels of employee engagement

Engaged employees are more likely to perform strongly and stay with the business, which is why employee engagement is a core element of Balfour Beatty's people and retention strategy. A variety of channels are used to gather feedback on what employees need to support them in being at their best and ensuring a great place to work. In the UK, a new starter survey was relaunched which provides actionable insights to help refine the approach for the next cohort of new starters to make a great first impression and enable them to hit the ground running from day one. A leaver survey was also introduced together with exit conversations to better understand why people might choose to leave and factors that might enable retention. This insight enables action to be taken on root cause issues and continuous improvement in employee experience.

88%

OF RESPONDERS ACROSS THE GROUP TOLD US THAT THEY SEE THEMSELVES WORKING HERE IN 12 MONTHS' TIME

ENGAGEMENT INDEX SCORES %*

* Excluding international joint ventures in 2020 and earlier years.

Reward and recognition

Balfour Beatty was delighted that the 2022 annual engagement survey delivered best ever results. The Group engagement index score, which measures satisfaction, motivation, advocacy and retention increased for the fifth consecutive year to 80% (76% in 2021) Response rates were also up to 77% (from 65% in 2021).

These outstanding results have bucked the industry trend on engagement: Balfour Beatty is 6 basis points (bps) above the industry average and 13bps above companies of a similar size.

Importantly, 88% of responders across the Group said that they see themselves working here in 12 months' time (85% in 2021) and 75% of UK and US responders trust their leadership teams to lead Balfour Beatty in the right direction. Trust and psychological safety are known to be important factors for employees in a world that can feel full of challenge and change.

The Group believes in a fair, transparent and sustainable approach to employee reward and recognition, to demonstrate to employees that they are appreciated and valued. As part of this, Balfour Beatty ensures competitive pay and recognition of professional qualifications and memberships as well as access to development opportunities in an environment of support and encouragement.

The Group is committed to taking proactive action in response to feedback from employees. "I feel recognised for doing a great job" has historically been a lower scoring result in the engagement surveys in the US and UK. In response, recognition strategies were examined and refreshed in both geographies in 2022.

- The UK business has developed a recognition framework that will be launched in 2023, which provides a simple guide to support the business and line managers with a range of activities that will aid better recognition of teams and individuals. Covering small, regular actions that really matter to people to more specific awards, it empowers managers to provide monetary and non-monetary thank-yous to their team as recognition.
- In the US, a number of Company-wide employee recognition programmes have been implemented which offer employees the opportunity to recognise and thank each other. The US Buildings business received 1,472 submissions in 2022 using the KUDOS online recognition system and 2,587 recognitions have already been submitted to the BRAVO REWARDS system launched in July 2022 by the Investments business.

Award-winning employee engagement

We were delighted to receive the UK Engage Award for 'Best Use of Technology in Employee Engagement Award' in partnership with Inpulse. We won the award for our innovative use of technology to evolve our employee listening approach and elevate employee engagement, supporting our aim to attract and retain talent in a highly competitive market.

Grow

Balfour Beatty encourages, supports and empowers its people to create their own future. Helping employees to grow is critical for positive engagement and equally important to ensure the Group has the critical skills needed for today and tomorrow.

In the UK, the Balfour Beatty Academy continues to evolve its development offer to remain fresh, relevant and aligned to business needs. In 2022 the focus was on broadening the accessibility and inclusivity of learning, empowering people to take ownership of their learning, unlock their untapped potential and shape their career at Balfour Beatty. In December 2022, the UK business celebrated Learning at Work Week designed around the theme of 'learning for all'. Balfour Beatty encourages employees at every level to develop their skills and ensures resource and support are made visible in pursuit of this.

After successfully launching its core Human Resources Information System (HRIS) 'MyGammon' in 2021, Gammon introduced a learning module in March 2022. The launch of this system has made e-learning, external training approvals and training records become more accessible to its whole team.

66,718

TRAINING COURSES FOR 10,321 UK EMPLOYEES

52,668

TRAINING COURSES FOR 5,342 US EMPLOYEES

Technical competence and professional development

Growing core technical competence remained a strong focus for all parts of the Group's business.

Gammon has placed significant focus on increasing the competence of its team, with 6.4% of employees taking part in sponsored training programmes in 2022. 23 people also attended the Gammon Project Management Programme (the 3rd cohort) with an enhanced programme offering. This included new topics such as megatrends, coaching and a visit to Gammon's immersive smart lab which contains a Building Information Modelling Computer-Aided Virtual Environment (BIM). To support the increased use of BIM, Gammon has focused on upskilling its people to obtain BIM qualifications. Promotion of the BIM Viewer course by the Construction Industry Council (CIC) put Gammon first on the CIC leader board for BIM Viewer, with over 1,000 Gammon employees now holding this accreditation.

Gammon also launched a new Carbon Essential and Science-based Target course for project managers with the aim to improve carbon literacy with over 250 attending to date.

Within the UK, professional competence remains a priority with 18 programmes on offer supporting Project Management, Design Engineering, Win Business, Planning and Commercial. A Modern Methods of Construction (MMC) development programme has also been created in the UK. Business experts and the Learning & Development team collaborated to create a new programme to support influential leaders in the organisation to continue to develop a 'modern methods mindset', moving to offsite construction and a manufacturing, assembly-led approach. The pilot was held at an MMC research centre, thereby enabling learners to see real-life examples in action and broadening the learning experience beyond the expertise in the business.

Leaders, line managers and supervisors

Supervisors and managers play a crucial role in supporting employee wellbeing and engagement, helping their teams to perform, develop and thrive, and ultimately to keep talented people and skills in the business.

Following the success of the UK Line Manager Development Pathway, a refreshed Supervisor Development Programme was designed and piloted, certified by Institute of Leadership Management level 3 and signed off by the Supervisor Task and Finish Forum. 10 supervisors were supported to develop their leadership, technical and digital skills to gain professional accreditation.

100%

OF DELEGATES SAID THEY WERE VERY LIKELY OR EXTREMELY LIKELY TO RECOMMEND THE SUPERVISOR DEVELOPMENT PROGRAMME TO OTHERS

Balfour Beatty's talent development strategy enables progression and internal mobility for employees with the potential and motivation to become senior leaders. In 2022, the UK business welcomed a further 54 highly engaged individuals, across four business units, to participate in the Aspiring Leaders Programme which focuses on emotional intelligence, authentic leadership and technical development.

In the US, a year-long Propel programme was launched for 60 managers. It consisted of six face-to-face sessions and pre-programme and post-programme independent 360 work with an executive coach. In addition, the US Executive Leader Development Programme was expanded to employees from all divisions in 2022. This year's programme consisted of 41 participants, each completing two multi-day sessions. The programme offers opportunity to grow as a leader at Balfour Beatty and support the Group to develop its strong succession pipeline.

Thrive

Balfour Beatty's engagement strategy has support for the whole person at its heart, with a focus on enabling people to thrive and be their best at work and ensuring that employees' physical and mental health and wellbeing are supported.

It is great to see that these efforts are bearing fruit – with 95% of UK and US responders feeling cared for at work and acknowledging this formally in the engagement survey.

We are also proud to report a continued increase in UK engagement scores for diverse groups. Female colleagues had an engagement score of 85% and multi-cultural colleagues had the highest engagement score of 86%; disability 73%; LGBTQ+ 73%; carer 76%. These results demonstrate Balfour Beatty's commitment to supporting all employees and creating an inclusive culture.

Supporting work and life

Balfour Beatty encourages and supports a healthy work-life balance, enabled by its 'smart working' approach. Feedback has confirmed that this is important to employees and it is equally key to being able to attract and hire into the business. In 2022, to further improve its people offer, the UK business enhanced its Family Friendly Policies, making them available to all colleagues, regardless of gender or family structure. Maternity, Adoption and Surrogacy Leave was increased to 28 weeks at full pay, plus 11 weeks statutory pay, and Paternity and Partners Leave has been increased to four weeks' full pay.

Upskilling our workforce

Gammon received the Gold Award of 'Actively Supporting Contractor and Outstanding Training Employer (semi-skilled)' from the Construction Industry Council in appreciation of its efforts to upskill workers. Gammon also won a Grand Award from CTgoodjobs: Best Innovative L&D Initiative for its BIM training initiatives.

Supporting work and life
continued

Shared Parental Leave has been made available to all colleagues who are starting or growing their family: it allows two parents to share up to 50 weeks of leave and up to 28 weeks' full pay between them. Support has also been increased for employees undergoing fertility treatment and those who give birth to a baby requiring neonatal care.

Balfour Beatty recognises that employers have an important role to play in helping staff who are victims of domestic abuse. In the UK, 14 trained Allies Against Domestic Abuse are supporting employees with confidential conversations, providing guidance and signposting, as well as helping line managers to identify and support any team members who may be in need of help.

At Balfour Beatty, mental health is a vital pillar of the Zero Harm culture that prioritises the holistic wellbeing of colleagues and partners. The US business has focused on building a positive and open culture on mental health, raising awareness about its importance, and de-stigmatising mental health issues through information, understanding and acceptance. Find out more in the health, safety and wellbeing section on page 50.

Balfour Beatty's caring and inclusive strategies have earned a number of awards. The UK business was awarded Menopause Friendly Employer accreditation – one of only 30 UK employers to achieve this status and the only one in the construction industry. The US business was recognised as a Best Place to Work by Sacramento Business Journal, San Diego Business Journal and Orange County Business Journal.

Creating a sense of team
Across the UK and US, the value of promoting a sense of team is recognised. Work on this was positively reflected in the engagement survey with 83% responding positively to "I feel a strong connection to my team and colleagues."

Continuing a long-standing tradition, throughout 2022 the US business' BBSpirit! programme focused on celebrating its people-first culture by organising 181 group events for its colleagues. These localised events included community service opportunities and employee-centric team building activities. The UK business relaunched BBLife, a social scheme which encourages inclusion and networking, empowering employees to get involved in localised committees which develop and offer office or site events. These programmes help to engage employees and create opportunities for them to connect.

Giving something back
Balfour Beatty encourages employees to see the link between their effort and role and the positive impact its business has in the world, helping to Build New Futures. This nurtures a sense of purpose and positive engagement around how as individuals and a collective we can 'give back' to society. To further enable giving something back, the UK business allows employees to take 16 hours of paid leave to volunteer for charities in line with its volunteering policy. 3,888 volunteering hours/486 volunteering days were used for 2022. In the UK, there was an increase from 62% in 2021 to 77% in the engagement survey score for "At Balfour Beatty, if I want to, I'm able to give something back to the community or a charity."

The US business has also significantly improved its engagement result, with 81% of responders feeling that they had the opportunity to give something back in 2022 (up from 72% in 2021), and has continued to facilitate opportunities for employee involvement in the community. In 2022, US employees volunteered 4,144 hours/518 days.

Creating an inclusive culture
To help it to develop core and new capabilities and improve the diversity of its business, Balfour Beatty must be able to attract from as wide a talent and skills pool as possible. All people, including those from underrepresented groups, must be supported to both perform and thrive in the business. With this in mind, Balfour Beatty has continued its work to nurture an inclusive and supportive workplace culture. The UK business has actively invested in career development for underrepresented groups; via the Empower programme for female employees, and its equivalent Thrive programme for other underrepresented groups.

Throughout 2022, the UK business has developed and piloted 'Right to Respect' and pilots will follow in the US business. This focuses on creating a respectful, inclusive culture, making clear the behaviours expected and empowering colleagues and partners to hold each other to account.'Right to Respect' will be rolled out throughout 2023.

Balfour Beatty Communities Foundation

Balfour Beatty Communities Foundation hosted its 14th annual Swing 4 Scholarships Golf Tournament & Vendor Summit. Swing 4 Scholarships is the premier fundraiser for the non-profit's charitable efforts, including their annual scholarship programme which helps support the post-secondary educational goals of residents who live at properties owned and managed by Balfour Beatty Communities.

Since 2008, Balfour Beatty Communities Foundation has awarded more than US$1.5 million in scholarships to its residents.

Diversity and inclusion
Balfour Beatty has continued to focus on diversity and inclusion.

In 2022, the US business addressed feedback from the 2021 DE&I employee survey by launching a DE&I Executive Steering Committee comprising two senior leaders from each of the three business units and shared services to identify focus areas and priorities to attract and retain top diverse talent and listen to employees' voices.

The UK business has continued to implement its Value Everyone Action Plan and progress with its Black Inclusion Plan.

In 2022, a new set of ambitious high-level 2030 UK Diversity and Inclusion targets was published to accelerate the pace of change. These are underpinned by more granular internal targets and action plans. Progress against these targets will be formally reported to the Board and Executive Committee and in the Annual Report.

Using the UK headcount on 31 December 2021 as the benchmark, we're committing to:

50%

INCREASE IN FEMALE COLLEAGUES BY 31 DECEMBER 2030

As at 31 December 2022: 20.1% female

60%

INCREASE IN MINORITY ETHNIC COLLEAGUES BY 31 DECEMBER 2030

As at 31 December 2022: 10.6% minority ethnic

60%

INCREASE IN BLACK EMPLOYEES BY 31 DECEMBER 2030

As at 31 December 2022: 2.8% black

Gammon held an inaugural Diversity & Inclusion event with the theme 'Building Belonging through Allyship', raising awareness of what an ally is and how to become one. 'Allyship' plays an important role in achieving an inclusive culture.

The Group's Affinity Networks (AF) continue to grow, with membership of just over 10% of UK employees, raising awareness of issues for diverse groups across the business and helping to shape our approaches to ensure inclusivity. In 2022 for example, the Gender AF introduced a female mentoring scheme to create connections between women at Balfour Beatty and increase the visibility of senior women across the business.

The US business hosted a Together Allies Diversity Summit focused on understanding the value DE&I brings to its operations and how intentional actions make it 'Stronger Together'. Following the feedback from this initiative, the Investments business will conduct a DE&I employee survey in early 2023 to identify areas of opportunity.

Balfour Beatty's UK gender pay gap increased slightly in 2022 compared to 2021, although both the mean and median measures show a narrowing of the gap compared to the pre-COVID reporting period. The focused activity implemented through the Value Everyone Action Plan remains pivotal in our aims to narrow the gap. Detailed analysis has been undertaken to further understand how specific actions impact the pay gap which highlights that a significant reduction will only be achieved over the longer term. We will continue to develop this analysis to support the identification of targeted activities moving forward. Details of this can be found in Balfour Beatty's gender pay report on: www.balfourbeatty.com/investors/results-reports-and-presentations/.

VALUE EVERYONE ACTION PLAN

BLACK INCLUSION PLAN

GENDER BREAKDOWN

At 31 December 2022	Male	Female	Total	% Male	% Female
Board	6	3	9	66.7%	33.3%
Senior managers[1]	95	31	126	75.4%	24.6%
Directors of subsidiaries not included above[2]	30	13	43	69.8%	30.2%
Employees[3]	20,277	4,953	25,230	80.4%	19.6%

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.

Innovation through My Contribution

Engaging our employees and their ideas to bring about positive business change.

My Contribution (MyC) is the way in which all employees can connect to Build to Last, enabling each and every one of them to make a difference and help build a stronger business from the inside out.

My Contribution is the tool used to crowd source good ideas, harness collective expertise and directly engage every colleague at every level of the business by enabling them to suggest and drive positive changes. It was launched across Balfour Beatty in 2015 as a fundamental way of working that enables and encourages employee-led innovations.

The scheme was relaunched in 2019 across the UK using a new Yammer-based platform to make it easier for the Group's thousands of employees across multiple locations to share their ideas and develop them through conversation with their colleagues.

In July 2022, My Contribution was relaunched in the US following a successful three-month pilot using a new platform, Microsoft Teams, for a collaborative approach to developing ideas with colleagues and supporting employees to bring their ideas to life.

2022 MyC Kudos awards

In April 2022, Leo Quinn, Group Chief Executive hosted Balfour Beatty's first in person annual MyC Kudos Awards at the prestigious Royal College of Physicians in London.

The event brought together sixty finalists to celebrate the creativity of the eleven teams who made it through to the final, competing for three awards – the People's Vote, Most Creative Video and the CEO Building New Futures Award.

The competition was open to all UK employees. Submissions needed to clearly demonstrate both the benefits delivered as well as the potential future impact for wider roll out across the business.

The finalists were chosen by the Executive Committee (ExCom) members who each sponsored their chosen idea with their personal endorsement as to why it represented such a great example of My Contribution in action.

Watch our video to find out more about our winners.

SCAN TO WATCH

Leigh Clark's award winning MyC idea

In 2020, Leigh Clark, Construction Manager, won the MyC Kudos People's Vote Award for her QR code permits idea. In 2022, Leigh went to the US to support their MyC re-launch.

"Winning the MyC Kudos Award has been career-changing for me. The networking opportunities have given me a level of visibility across the business I could never have imagined."

10,000 ideas milestone

In June 2022 we reached a huge milestone: the MyC 10,000th idea.

The landmark 10,000th idea was submitted by Darren Lindsay, Construction Manager from Balfour Beatty's Highways business, to improve visibility of site compounds data.

When new contracts are mobilised the property team helps project managers find land for the building of temporary offices for employees or site compounds for storing plant, fleet, equipment and materials.

Darren's idea was to create a visual map of where Balfour Beatty has or has previously had, site compounds, as well as a register of the local people who have been part of the enabling works phase, making it easier to re-use or co-share compounds across the business.

Reflecting on his idea, Darren said: "My idea will help provide precise data for important locations such as egress and access points. Going to the correct location first time saves time, improves safety and reduces carbon too, by not wasting fuel."

MyC 10,000 idea celebration events

The significant 10,000 ideas milestone was celebrated with 17 local MyC celebration events in some of our larger offices in partnership with BBLife, Balfour Beatty's social scheme which encourages inclusion and local networking. The events focused on recognising the great impact MyC has had across Balfour Beatty and all the efforts of the people who have made it happen.

The celebrations kicked off in Raynesway, Derby, with 220 attendees enjoying the food market hosted by local vendors and a showcase of good ideas delivered through MyC, and taking part in a MyC quiz.

IN 2022

1,600
My Contribution ideas were submitted

>460
solutions were implemented

GENERATING

£12m
of cost savings

101,000
hours of time saved

360
ideas delivered to make Balfour Beatty a Better Place to Work

BELOW: A selection of photos from the MyC 10,000 ideas celebration events.

NON-FINANCIAL DISCLOSURE SECTION

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	Additional information necessary to understand impact	Page
Anti-corruption and bribery matters	Code of Ethics	Ethics and compliance	52
	Supplier Standards		
Human rights	Modern Slavery Statement	Ethics and compliance	52
	Code of Ethics		
Employees	Code of Ethics	Health, safety and wellbeing	46
	Health and safety policy	Our people	64
		Stakeholder value: Employees	27
		Ethics and compliance	52
Environmental matters	Our sustainability strategy – Building New Futures	GHG reporting	www.balfourbeatty.com/ILA
	Sustainability policy	Sustainability: Beyond Net Zero Carbon	57
	Sustainable procurement policy	Climate change and Task Force on Climate-related Financial Disclosures (TCFD)	98
	Environmental policy	Carbon Reduction Plan (PPN 06/21)	www.balfourbeatty.com/carbon-reduction-plan
	ISO 14001:2014 & ISO 20400:2017		
Social and community matters	Our sustainability strategy – Building New Futures	Social value reporting	www.balfourbeatty.com/ILA
	Social value policy	Ethics and compliance	52
	Code of Ethics	Stakeholder value: Communities	28

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

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 investment income and is the key measure used to assess the Group's performance in the Construction Services and Support Services segments. This is also a common measure used by the Group's peers operating in these sectors.

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

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

These returns take the form of subordinated debt interest receivable, interest receivable on PPP financial assets and fair value gains on certain investment assets, which are included in the Group's income statement in investment income. These are then offset by the finance cost incurred on the non-recourse debt associated with the underlying projects and any impairment of subordinated debt and accrued interest receivable, 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 2020, 2021 and 2022 PSP awards. Refer to pages 161 to 163.

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 have been prepared in accordance with International Accounting Standards and in accordance with UK-adopted International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006.

Where a standard allows certain interpretations to be adopted, the Group has applied its accounting policies consistently. These accounting policies can be found on pages 187 to 193.

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

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

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

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

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

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

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

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

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

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

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

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

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

A reconciliation has been provided on page 75 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

	2022 £m	2021 £m
Order book (performance measure)	**17,390**	16,057
Less: Share of orders included within the Group's joint ventures and associates	**(3,275)**	(2,974)
Less: Estimated orders under framework agreements included in the order book disclosure	**(25)**	(60)
Add: Transaction price allocated to remaining performance obligations in Infrastructure Investments*	**2,009**	1,664
Transaction price allocated to remaining performance obligations for the Group* (statutory measure)	**16,099**	14,687

* Refer to Note 4.3.

Reconciliation of 2022 statutory results to performance measures

		Non-underlying items			
	2022 statutory results £m	Intangible amortisation £m	Release of Heery provision £m	UK deferred tax assets revaluation £m	**2022 performance measures £m**
Revenue including share of joint ventures and associates (performance)	**8,931**	–	–	–	**8,931**
Share of revenue of joint ventures and associates	**(1,302)**	–	–	–	**(1,302)**
Group revenue (statutory)	**7,629**	–	–	–	**7,629**
Cost of sales	**(7,202)**	–	–	–	**(7,202)**
Gross profit	**427**	–	–	–	**427**
Amortisation of acquired intangible assets	**(6)**	**6**	–	–	**–**
Other net operating expenses	**(251)**	–	**(2)**	–	**(253)**
Group operating profit	**170**	**6**	**(2)**	–	**174**
Share of results of joint ventures and associates	**105**	–	–	–	**105**
Profit from operations	**275**	**6**	**(2)**	–	**279**
Investment income	**50**	–	–	–	**50**
Finance costs	**(38)**	–	–	–	**(38)**
Profit before taxation	**287**	**6**	**(2)**	–	**291**
Taxation	–	**1**	–	**(2)**	**(1)**
Profit for the year	**287**	**7**	**(2)**	**(2)**	**290**

Reconciliation of 2022 statutory results to performance measures by segment

		Non-underlying items		
Profit/(loss) from operations	**2022 statutory results £m**	Intangible amortisation £m	Release of Heery provision £m	**2022 performance measures £m**
Segment				
Construction Services	**150**	**1**	**(2)**	**149**
Support Services	**83**	–	–	**83**
Infrastructure Investments	**76**	**5**	–	**81**
Corporate activities	**(34)**	–	–	**(34)**
Total	**275**	**6**	**(2)**	**279**

Measuring the Group's performance continued

Performance measures continued

Reconciliation of 2021 statutory results to performance measures

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

Reconciliation of 2021 statutory results to performance measures by segment

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

c) Underlying profit before tax

As mentioned on page 40, the Group's Infrastructure Investments segment is assessed on an underlying profit before tax (PBT) measure. This is calculated as follows:

	2022 £m	2021 £m
Underlying profit from operations (section (b) and Note 5)	**81**	49
Add: Subordinated debt interest receivable*	**27**	23
Add: Interest receivable on PPP financial assets*	**2**	5
Add: Fair value gain on investment asset*	**6**	9
Less: Non-recourse borrowings finance cost*	**(9)**	(11)
Less: Impairment of subordinated debt receivable*	**–**	(4)
Less: Impairment of accrued interest receivable*	**(2)**	(10)
Underlying profit before tax (performance)	**105**	61
Non-underlying items (section (b) and Note 5)	**(5)**	(46)
Statutory profit before tax	**100**	15

* Refer to Note 8 and Note 9.

d) Underlying earnings per share

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

Reconciliation from statutory basic EPS to performance EPS

	2022 Pence	2021 Pence
Statutory basic earnings per ordinary share	**46.9**	21.3
Amortisation of acquired intangible assets after tax	**1.2**	0.6
Other non-underlying items after tax	**(0.6)**	7.8
Underlying basic earnings per ordinary share (performance)	**47.5**	29.7

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 statement of cash flows (page 185).

Reconciliation from statutory cash generated from operations to OCF

	2022 £m	2021 £m
Cash generated from operating activities (statutory)	**168**	353
Add back: Pension payments including deficit funding (Note 30.2)	**43**	42
Less: Repayment of lease liabilities (including lease interest payments) (Note 28)	**(58)**	(59)
Add: Operational dividends received from joint ventures and associates (Note 19.5)	**89**	60
Add back: Cash flow movements relating to non-operating items	**(12)**	1
Less: Operating cash flows relating to non-recourse activities	**(11)**	(5)
Operating cash flow (OCF) (performance)	**219**	392

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 (£43m): 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.

Measuring the Group's performance continued

Performance measures continued

f) Operating cash flow (OCF) continued

Repayment of lease liabilities (including lease interest payments) (£58m 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 (£89m 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 (£12m): 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 (£11m): the Group's OCF measure is specifically targeted to drive performance improvement in the Group's earnings-based businesses and therefore any operating cash flows relating to non-recourse activities are removed from this measure. Under IFRS, there is no distinction between recourse and non-recourse cash flows.

g) Recourse net cash/borrowings

The Group also measures its performance based on its net cash/borrowings position at the year end. This is analysed by excluding elements that are non-recourse to the Group as well as lease liabilities.

Non-recourse elements are cash and debt that are ring-fenced within certain infrastructure concession project companies and are excluded from the definition of net debt set out in the Group's borrowing facilities. In addition, lease liabilities which are deemed to be debt in nature under statutory measures are also excluded from the Group's definition of net cash/borrowings as these are viewed to be operational in nature reflecting payments made in exchange for use of assets.

Net cash/borrowings reconciliation

		2022 statutory £m	Adjustment £m	2022 performance £m	2021 statutory £m	Adjustment £m	2021 performance £m
Total cash within the Group		**1,179**	**(19)**	**1,160**	1,033	(17)	1,016
Cash and cash equivalents	– infrastructure concessions	**19**	**(19)**	**–**	17	(17)	–
	– other	**1,160**	**–**	**1,160**	1,016	–	1,016
Total debt within the Group		**(738)**	**393**	**(345)**	(615)	389	(226)
Borrowings	– non-recourse loans	**(261)**	**261**	**–**	(260)	260	–
	– other	**(345)**	**–**	**(345)**	(226)	–	(226)
Lease liabilities		**(132)**	**132**	**–**	(129)	129	–
Net cash		**441**	**374**	**815**	418	372	790

h) Average net cash/borrowings

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

The average net cash/borrowings measure excludes non-recourse cash and debt and lease liabilities, and this performance measure shows average net cash of £804m for 2022 (2021: £671m).

Using a statutory measure (inclusive of non-recourse elements and the lease liabilities recognised) gives average net cash of £430m for 2022 (2021: £279m).

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 42 and 43, the Directors' valuation has been undertaken using forecast cash flows for most investments on an asset by asset basis, based on progress to date and market expectations of future performance. These cash flows have been discounted using different discount rates depending on project risk and maturity, reflecting secondary market transaction experience. As such, the Board believes that this measure better reflects the potential returns to the Group from those investments.

The Directors have valued the Investments portfolio at £1.29bn at year end (2021: £1.11bn).

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

	2022 £m	2021 £m
Net assets of the Infrastructure Investments segment (refer to Note 5.1)	**593**	599
Less: Net assets not included within the Directors' valuation – Housing division	**(30)**	(24)
Comparable statutory measure of the Investments portfolio under IFRS	**563**	575

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

	2022 £m	2021 £m
Statutory measure of the Investments portfolio (as above)	**563**	575
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	**728**	531
Directors' valuation (performance measure)	**1,291**	1,106

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 42, the Directors' valuation for most investments is calculated using discounted cash flows. In deriving these cash flows, assumptions have been made and different discount rates used which are updated at each valuation date.

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

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

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

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

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

2022 statutory growth compared to performance growth

	Construction Services						
	UK	US	Gammon	Total	Support Services	Infrastructure Investments	Total
Revenue (£m)							
2022 statutory	2,763	3,646	–	6,409	988	232	7,629
2021 statutory	2,593	3,327	–	5,920	1,046	219	7,185
Statutory growth	**7%**	**10%**	–	**8%**	**(6)%**	**6%**	**6%**
2022 performance*	2,763	3,651	1,068	7,482	989	460	8,931
2021 performance retranslated*	2,593	3,702	890	7,185	1,066	500	8,751
Performance CER growth	**7%**	**(1)%**	**20%**	**4%**	**(7)%**	**(8)%**	**2%**
Order book (£bn)							
2022	6.1	6.0	2.9	15.0	2.4	–	17.4
2021	5.6	5.4	2.6	13.6	2.5	–	16.1
Growth	**9%**	**11%**	**12%**	**10%**	**(4)%**	–	**8%**
2022	6.1	6.0	2.9	15.0	2.4	–	17.4
2021 retranslated	5.6	6.0	3.0	14.6	2.5	–	17.1
CER growth	**9%**	–	**(3)%**	**3%**	**(4)%**	–	**2%**

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

Out performance in 2022, with growth in profit and order book

Philip Harrison
Chief Financial Officer

Group financial summary

The underlying profit from operations for the year increased to £279 million (2021: £197 million), primarily due to the improved profitability in Construction Services. Within the Construction Services underlying profit of £149 million (2021: £79 million), the significant improvement arose from the return to profitability in UK Construction following write-downs on private sector property projects in central London in 2021, with the increases in US Construction and Gammon supported by exchange rate movements. Support Services underlying profit from operations was lower at £83 million (2021: £102 million), however its 8.4% PFO margin exceeded the 6-8% margin target range set by the Group in 2021. At Infrastructure Investments, underlying profit increased to £81 million (2021: £49 million) due to higher gains on investment disposals.

Statutory profit from operations was £275 million (2021: £97 million).

The order book has increased by 8% to £17.4 billion (2021: £16.1 billion), up 2% at constant exchange rates (CER), largely due to an increase in the UK Construction order book.

Underlying revenue increased by 8% to £8,931 million (2021: £8,280 million), or 2% at CER. Within this, Construction Services revenue increased by 11% (4% at CER), while Support Services revenue reduced by 7% following the exit from the gas and water sector. Group statutory revenue, which excludes joint ventures and associates, was £7,629 million (2021: £7,185 million).

RESULTS FOR THE YEAR

	2022 £m		2021 £m	
	Underlying[2]	**Total**	Underlying[2]	Total
Revenue[1]	**8,931**	**8,931**	8,280	8,263
Profit from operations	**279**	**275**	197	97
Pre-tax profit	**291**	**287**	187	87
Profit for the year	**290**	**287**	194	139
Basic earnings per share	**47.5p**	**46.9p**	29.7p	21.3p
Dividends per share		**10.5p**		9.0p

UNDERLYING PROFIT/(LOSS) FROM OPERATIONS[2]

	2022 £m	2021 £m
UK Construction	**59**	(2)
US Construction	**58**	51
Gammon	**32**	30
Construction Services	**149**	79
Support Services	**83**	102
Earnings-based businesses	**232**	181
Infrastructure Investments pre-disposal operating profit	**11**	14
Infrastructure Investments gain on disposals	**70**	35
Corporate activities	**(34)**	(33)
Total	**279**	197

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.

Net finance income increased to £12 million (2021: net finance costs of £10 million) as a result of higher cash balances, higher interest rates and a lower level of impairment to subordinated debt and accrued interest receivable from joint ventures and associates than in 2021. Underlying pre-tax profit was £291 million (2021: £187 million).

Tax on underlying profits was a charge of £1 million (2021: credit of £7 million), comprising a £57 million tax charge (2021: £27 million) on underlying profits and a £56 million tax credit (2021: £34 million) relating to the recognition of additional UK tax losses. Going forwards, however, the effective tax rates in each of the three geographies are expected to be close to statutory rates, albeit with cash tax payments in the UK remaining below statutory levels in the medium term as losses are utilised. Underlying profit after tax for the year was £290 million (2021: £194 million).

Total statutory profit after tax for the year was £287 million (2021: £139 million), after a net charge of £3 million from non-underlying items (2021: £55 million).

The underlying basic earnings per share were 47.5 pence (2021: 29.7 pence), which, along with a non-underlying loss per share of 0.6 pence (2021: 8.4 pence), gave total basic earnings per share of 46.9 pence (2021: 21.3 pence).

Non-underlying items

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

Non-underlying items after taxation were a net charge of £3 million for the year (2021: £55 million) and included a £6 million charge relating to the amortisation of acquired intangible assets, a £2 million credit for the release of an indemnity provision which is no longer required and a net £1 million tax credit.

Cash flow performance

In 2022, the Group delivered a net cash inflow of £25 million (2021: £209 million), with a year-end net cash balance of £815 million (2021: £790 million) and average net cash of £804 million (2021: £671 million). Cash from operations of £185 million (2021: £354 million) was largely offset by, amongst other items, the second year of the Group's multi-year share buyback programme (2022: £151 million; 2021: £151 million).

CASH FLOW PERFORMANCE

	2022 £m	2021 £m
Operating cash flows before working capital movements and pension deficit payments	**282**	127
Working capital (outflow)/inflow	**(54)**	269
Pension deficit payments+	**(43)**	(42)
Cash from operations	**185**	354
Lease payments (including interest paid)	**(58)**	(59)
Dividends from joint ventures and associates∞	**89**	60
Capital expenditure	**(31)**	(36)
Share buybacks	**(151)**	(151)
Dividends paid	**(58)**	(29)
Infrastructure Investments		
– disposal proceeds	**93**	81
– new investments	**(30)**	(19)
Other	**(14)**	8
Net cash movement	**25**	209
Opening net cash*	**790**	581
Closing net cash*	**815**	790

* Excluding infrastructure investments (non-recourse) net borrowings

∞ Excludes £59 million dividends received in 2022 in relation to Investments asset disposals within joint ventures and associates (2021: £8 million)

+ Including £2 million (2021: £3 million) of regular funding

Working capital

Changes in the Group's working capital position during the year resulted in a cash outflow of £54 million (2021: inflow of £269 million). This reduction in the negative working capital position was a net result of several movements including outflows relating to the private sector property projects in central London and the US military housing DoJ resolution and inflows relating to major infrastructure projects in the UK.

Working capital flows^	2022 £m	2021 £m
Inventories	**(6)**	11
Net contract assets	**(137)**	221
Trade and other receivables	**34**	(34)
Trade and other payables	**57**	43
Provisions	**(2)**	28
Working capital (outflow)/inflow^	**(54)**	269

^ Excluding impact of foreign exchange and disposals.

Including the impact of foreign exchange and non-operating items, negative (i.e. favourable) working capital increased to £1,167 million (2021: £1,118 million). In the medium term, the Group continues to expect negative working capital as a percentage of revenue to be in line with its historical long-term average of 11-13% (2022: 15.3%; 2021: 15.6%) with the range dependent on contract mix and the timing of project starts and completions.

Net cash/borrowings

The Group's average net cash in 2022 increased to £804 million (2021: £671 million). The Group's net cash position at 31 December 2022, excluding non-recourse net borrowings, was £815 million (2021: £790 million).

Non-recourse net borrowings, held in Infrastructure Investments entities consolidated by the Group, were £242 million (2021: £243 million). The balance sheet also included £132 million for lease liabilities (2021: £129 million). Statutory net cash at 31 December 2022 was £441 million (2021: £418 million).

Banking facilities

The Group's £375 million sustainability linked loan (SLL) facility extends to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score as determined by Sustainalytics, an ESG research, ratings and data provider for institutional investors and companies. Performance in these three areas will be monitored during the lifetime of the facility and depending on the outcomes achieved, a credit margin reduction or increase will be applicable. The purpose of the facility is to provide liquidity from a set of core relationship banks to support Balfour Beatty in its activities. The facility remained undrawn throughout the year.

In June, the Group raised US$158 million of debt in the form of new US Private Placement (USPP) notes on terms and conditions materially the same as the USPP notes issued in 2013. The new debt comprises US$35 million of notes maturing in 2027 at a fixed coupon of 6.31%, US$80 million of notes maturing in 2029 at a fixed coupon of 6.39% and US$43 million of notes maturing in 2032 at a fixed coupon of 6.45%. In December 2022, the Group secured a new £30 million bilateral committed bank facility which remained undrawn at 31 December 2022. This facility expires in December 2024, with an extension option for a further three years subject to certain specific conditions. Following the year end, the funds raised through the new USPP notes and the bilateral bank facility were utilised towards repayment of the US$209 million of USPP notes which matured in March 2023. The refinancing exercise has extended the debt maturity profile of the Group.

Going concern

The Directors have considered the Group's medium-term cash forecasts and conducted stress-test analysis on these projections in order to assess the Group's ability to continue as a going concern. Having also made appropriate enquiries, the Directors consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the full year Group financial statements. Further detail is provided in Note 2 Going Concern.

Pensions

Balfour Beatty and the trustees of the Balfour Beatty Pension Fund (BBPF) have reconfirmed their commitment to a journey plan approach to managing the BBPF whereby the BBPF is aiming to reach self-sufficiency by 2027. The Company and the trustees have agreed the principles of the 31 March 2022 formal valuation. Under these principles, Balfour Beatty will pay deficit contributions to the BBPF of £24m in 2023, £24m in 2024 and £6m in 2025. The Company and the trustees expect to take further steps over the coming months to reduce the investment risk in the scheme and the Company has agreed that additional amounts will become payable at £2m per month from March 2025 if the BBPF's performance is materially different from that expected. The next formal triennial funding valuation is due with effect from 31 March 2025.

As a result of an acceleration mechanism agreed previously between the Group and the trustees, the Group made deficit contributions to the BBPF of £35 million in 2022.

During the year, the trustees of the BBPF entered into a longevity swap covering the majority of the existing pensioner members, which removes from the BBPF the risk of these people living longer than expected and represents a further substantial step in de-risking the BBPF.

During the Gilt yield crisis in Autumn 2022, the BBPF's Fiduciary Manager, together with the BBPF's Investment Committee, closely monitored the collateral being held within the scheme's liability hedging portfolio. As Gilt yields rose, action was proactively taken to ensure that throughout the crisis the BBPF held sufficient collateral to support its liability hedging programme.

Following the formal triennial funding valuation of the Railways Pension Scheme (RPS) as at 31 December 2019, the Group agreed to continue to make deficit contributions of £6 million per annum which should reduce the funding deficit to zero by 2025. The triennial valuation of the RPS as at 31 December 2022 is in progress and is expected to be finalised in the first half of 2024.

The Group's balance sheet includes net retirement benefit assets which are broadly unchanged at £223 million (2021: £231 million) as measured on an IAS 19 basis, with the surpluses on the BBPF (£225 million) and RPS (£37 million) partially offset by liabilities in relation to other schemes (£39 million). Whilst a sharp increase in the yields on corporate bonds has significantly reduced the present value of the schemes' pension obligations, the value of the schemes' assets has also fallen in a corresponding manner.

Dividend

The Board is committed to a sustainable ordinary dividend which is expected to grow over time, targeted at a pay-out ratio of 40% of underlying profit after tax excluding gain on disposal of Investments assets.

Following the 3.5 pence per ordinary share interim dividend declared at the half year, the Board is recommending a final dividend of 7.0 pence per share, giving a total recommended dividend for the year of 10.5 pence per share (2021: 9.0 pence per share).

Going forward, the Board expects the interim dividend to be roughly one third of the prior year's full year dividend.

Philip Harrison
Chief Financial Officer
15 March 2023

Using our risk process and data to adapt

Introduction

The uncertainty and turbulence seen in 2022 undoubtedly presented increased risk to many businesses, both within the construction sector and beyond. For Balfour Beatty, this materialised as a driver in a number of existing Group risks across the portfolio in areas such as people risk, economic uncertainty and inflation. The Group's risk management processes were effective in responding to this, with the business correctly forecasting increased risk during reporting updates made in the latter half of 2021 which reflected the potential exposure to the business anticipated by the likely uncertainty in 2022. This meant these risks were adequately monitored and managed throughout the year, minimising the potential exposure posed by the instability within the economy.

Further to this, the inclusion of a specific inflation category into Balfour Beatty's Enterprise Risk Management (ERM) system, IRIS, in the first half of 2022 meant that businesses were able to track and monitor any inflation risk identified within their operational portfolios to assess the exposure and focus management actions.

As reported in 2021, the identification and capture of climate-related risks and opportunities was integrated into the existing ERM framework. In 2022, work continued to review existing processes to improve how climate-related risk is considered as part of the Gated Business Lifecycle review process within the ERM framework and how to build in prompts for climate-change considerations for both physical and transition risk into tender and project risk reviews.

This has helped enhance Balfour Beatty's risk management processes, and put them at the heart of decision making, which is underpinned by the integration of the ERM framework across the Group.

IDENTIFY

- Objective-focused risk identification linked to Operational, Business and Group objectives
- Identification of core drivers (causes) and anticipated outcomes (consequences)
- Identifies and captures current control environment and its effectiveness

ASSESS

- Assessment of the impact of the risk and the probability of it occurring, using the Group PI (Probability Impact) Matrix (page 88)
- Assessment based on the effectiveness of current controls
- Consistent assessment utilising Group PI Matrix allows risks and opportunities to be prioritised

Applying a standard process from project operations up to Group level ensures risks are captured, assessed and communicated consistently at each level of the organisation

MONITOR

- Risk environment monitored to identify change in, or emergence of, causes and consequences
- Risk response is reviewed in line with current risk assessment
- Completion of Actions and their effect on reducing exposure

RESPOND

- Response of Accept or Manage Further assigned to each risk and opportunity based on current assessment
- Response of Manage Further drives identification of Actions
- Actions are assigned ownership and due dates and are tracked for completion alongside risk exposure

During 2022, output generated from an improved understanding of operational risk profiles has allowed the Group to focus on enhanced reporting of risk and to utilise this information to improve the link between operational profiles and existing or emerging Group risks.

The Group's risk process continues to underpin the ERM framework to maintain a consistent approach and taxonomy across the organisation. As the integration of the ERM framework evolves, the central Risk Management function maintains oversight to ensure processes remain current and continues to ensure Group adherence to regulatory requirements and good practice in its approach to identifying, assessing, responding to and monitoring risk.

Our risk management process

Balfour Beatty's simple four-step process ensures the consistent identification, assessment, response and monitoring of risk across the organisation. Utilising this standard process from project operations up to Group level ensures risks are captured, assessed and communicated concisely at each level of the organisation. Embedding this process into operational and business environments ensures the consideration of risk and opportunity remains central to making decisions.

Circles of Risk

Balfour Beatty's Circles of Risk tool frames a discussion early in the Gated Business Lifecycle review process to ensure appropriate consideration of risks associated with the project such as location, customer, supply chain, project scope and contractual terms.

Circles of Risk guidance remains essential to the Work Winning approach across the Group, ensuring high-level risk profiles are understood early in the pursuit of an opportunity and are aligned to the Group's risk appetite. Building key considerations into the Gated Business Lifecycle ensures prospects do not proceed to the next stage gate without the identification of potential significant risks and the response that would be required to manage or avoid these. This guidance continues to be a core decision making tool when assessing new and/or large-scale opportunities.

The guidance reflects experience and lessons learned from a comprehensive range of projects across a diverse customer base and contains examples of specific risks and mitigations aligned to the Group's operating and commercial principles.

This approach allows Balfour Beatty to make decisions in the context of its risk appetite and stay ahead of potential exposures by ensuring:

- the opportunity aligns to Group objectives, business growth strategies and defined risk tolerances;
- all pursuits are assessed consistently so that potential opportunities that do not fit with approved business objectives are qualified out; and
- appropriate mitigation strategies are developed in order to pursue the opportunity whilst protecting the Group's operating and commercial principles.

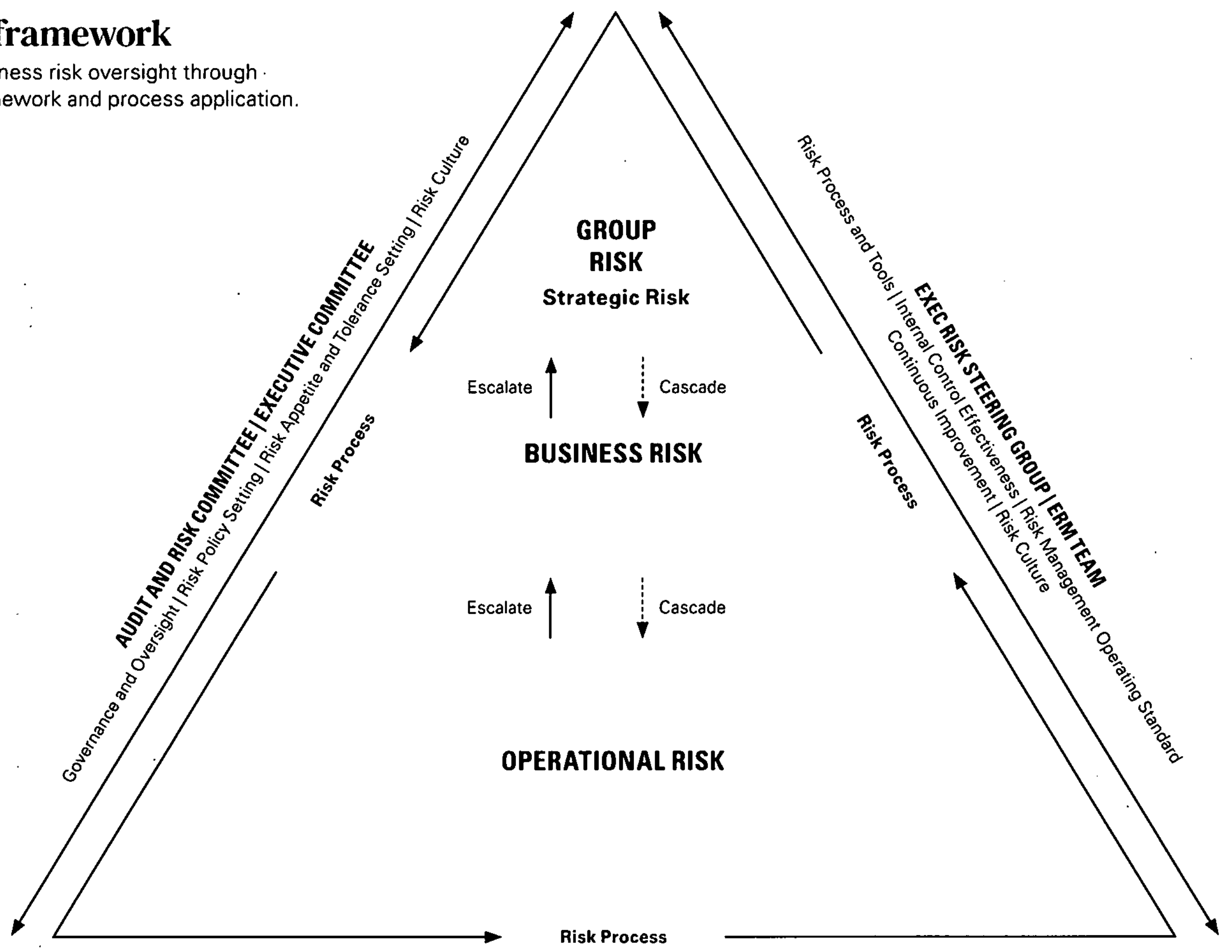
CIRCLES OF RISK

SUPPLY CHAIN
GEOGRAPHY
CONTRACT
CUSTOMER
TEAM
PROJECT

“Balfour Beatty's simple four-step process continues to underpin the consistent identification, assessment, response and monitoring of risk across the organisation.”

Our risk framework

Enhancing business risk oversight through consistent framework and process application.



Governance and oversight

The Board accepts overall responsibility for risk management and has established procedures to manage risk, oversee the internal control framework, and to determine the nature and extent of the principal risks the Company is willing to take in the pursuit of its longer-term strategic objectives. The Directors continue to review the overall 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. In addition, they undertake a full assessment biannually of the Group risk profile which includes a review of emerging and principal risks faced by the Group. 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 Group's risk management process allows the Group Chief Executive to monitor the risk profile of the business through the Executive Committee (ExCom) and the Executive Risk Steering Group (ERSG).

Executive sponsorship for risk management is provided by members of the ERSG who provide valuable input to Group risk themes based on profiles within their respective businesses and functions. Maintaining all Business, Functional and Operational risk registers alongside the Group risk register within the IRIS ERM system, enables 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. Work was undertaken in 2022 to link Business specific risks with Group risks based on their relationship as 'parent' and 'child' risks to improve reporting and insight on trends and movements.

Business risk management

Balfour Beatty's business units are distinct and diverse, meaning risk profiles differ across operations. Having a consistent approach in both UK and US based businesses is essential to gaining insight into business risk and rolling this up to Group. The comprehensive adoption of the IRIS ERM system by strategic business units (SBU) has increased transparency of operational and business risk profiles as well as increased the support for businesses in making risk-based decisions. Work commenced in 2022 to establish SBU specific risk appetites to better inform risks requiring escalation to senior management in the context of each SBU's business objectives.

Gated business lifecycle risk management

The Gated Business Lifecycle continues to be a fundamental internal control for Balfour Beatty's operations. The assessment of risk is undertaken at each review gate to ensure risk-based decision making remains at the heart of future prospect pursuits and live project reviews. Improvement to PowerBI Reporting developed in 2022 gives the business greater access and insight to risk to aid timely escalation of project risk to business leadership. The quality of risk information continues to improve, supported by alignment with internal and operational audit activities and driven by tone set from Senior Leadership on the importance of risk. The enhancement of risk library content within IRIS ensures core and common risks specific to the Group's operations reach those involved in risk assessment and suggested mitigation strategies within the library support work winning teams by leveraging existing knowledge from across the Group and outcomes of lessons learned.

Risk attitude and appetite

Risks that the Group are exposed to throughout day-to-day delivery and the longer-term pursuit of strategic objectives continue to be monitored in line with appetite – and decisions taken in line with the organisation's attitude to risk.

The Group's risk appetite continues to be aligned to its Build to Last strategy, ensuring that risk-based decision making on whether to accept or tolerate risk supports the pursuit of its objectives. The strength and ongoing effectiveness of the internal control environment within the risk structure outlined on pages 136 to 141 has been considered in setting out the below.

The Board, its sub-committees and executive management discuss and measure the nature and extent of current and emerging risks faced by the Group in achieving its long-term strategic objectives. This requires biannual review of the effectiveness of its internal control environment within the risk management structure outlined on pages 136 to 141. The outcome of this assessment represents the Group's risk appetite and can be set out in the context of the Group's values as shown below.

Build to Last strategy	Risk attitude	Appetite	Related principal risks
We create value for our customers and drive continuous improvement **Lean**	Balfour Beatty remains committed to challenging ways of working to improve outcomes and become more competitive. In delivering better for less, the Group is prepared to accept a level of operational risk. Such risks must not be at the expense of meeting customer requirements. The Group's risk appetite for efficiency remains moderate.	**M** REMAINS MODERATE	7 p93, 9 p94, 12 p96
Our highly skilled colleagues and partners set us apart **Expert**	Balfour Beatty continues to develop its expertise in engineering, computer science, robotics, data analytics, electronics and electrical and mechanical engineering to deliver the very best solutions to its customers. This drive for sustained innovation is undertaken with industry experts in managed and safe environments to minimise risk. The Group continues to have a moderate appetite for expert risk.	**M** REMAINS MODERATE	2 p89, 3 p90, 6 p92, 7 p93, 13 p96
We deliver on our promises and we do the right thing **Trusted**	Balfour Beatty must deliver on its promises to stakeholders. Aligning delivery objectives to those of the customer is critical to ensuring successful outcomes – the Group strives for Right First Time delivery. Ensuring integrity is embedded throughout the Group and its supply chain partners is key to doing the right thing. The Group retains a low appetite for risks around meeting customer expectations.	**L** REMAINS LOW	2 p89, 3 p90, 4 p90, 5 p91, 6 p92, 7 p93, 8 p93, 9 p94, 10 p95, 11 p95
We make safety personal **Safe**	Conducting business in a safe way and providing a Zero Harm environment for Balfour Beatty's people and stakeholders is paramount. The Group's appetite for health and safety risk remains at zero.	**0** REMAINS ZERO	1 p89, 7 p93
We act responsibly to protect and enhance our planet and society **Sustainable**	Balfour Beatty is committed to leaving a positive legacy for the society and communities it serves. The Group seeks to minimise its impact on the environment, working with supply chain partners, customers and communities to ensure its choices are sustainable, whilst delivering customer objectives, and pursuing new initiatives and technologies to achieve this. The Group's appetite for risk around sustainability is moderate.	**M** REMAINS MODERATE	2 p89, 3 p90, 7 p93

Emerging risks

The Group requests specific emerging risk identification by each SBU and Enabling Function (EF) as part of the Group's biannual half year and full year risk submissions. The functionality in IRIS to flag emerging risks on respective strategic risk registers enables greater visibility of emerging risks, allowing SBUs and EFs to monitor emerging risks alongside their existing review of current risks. Reports on emerging risks can also be obtained through Power BI Reporting to form part of the discussion between Group and SBU management and where required, are presented to the Executive Risk Steering Group for further review and validation.

Balfour Beatty considers emerging risks in relation to their longer-term impact and shorter-term risk velocity and examines them in the context of its viability statement. The Group has defined emerging risks as those risks faced by the business that:

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

The discussion and review of emerging risks includes 'horizon scanning' activities around potential uncertainties that are not sufficiently defined or developed to enable an informed assessment to be made of their impact on 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 changes in areas of operation);
- environmental and social factors (e.g., change in people or organisation behaviours);
- legal and regulatory risks (e.g., introduction of 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

The Balfour Beatty Group PI Matrix supports consistent assessment and prioritisation of risks across the business.

Each risk impact is assessed across three main themes: delivery; health, safety and sustainability; and financial.

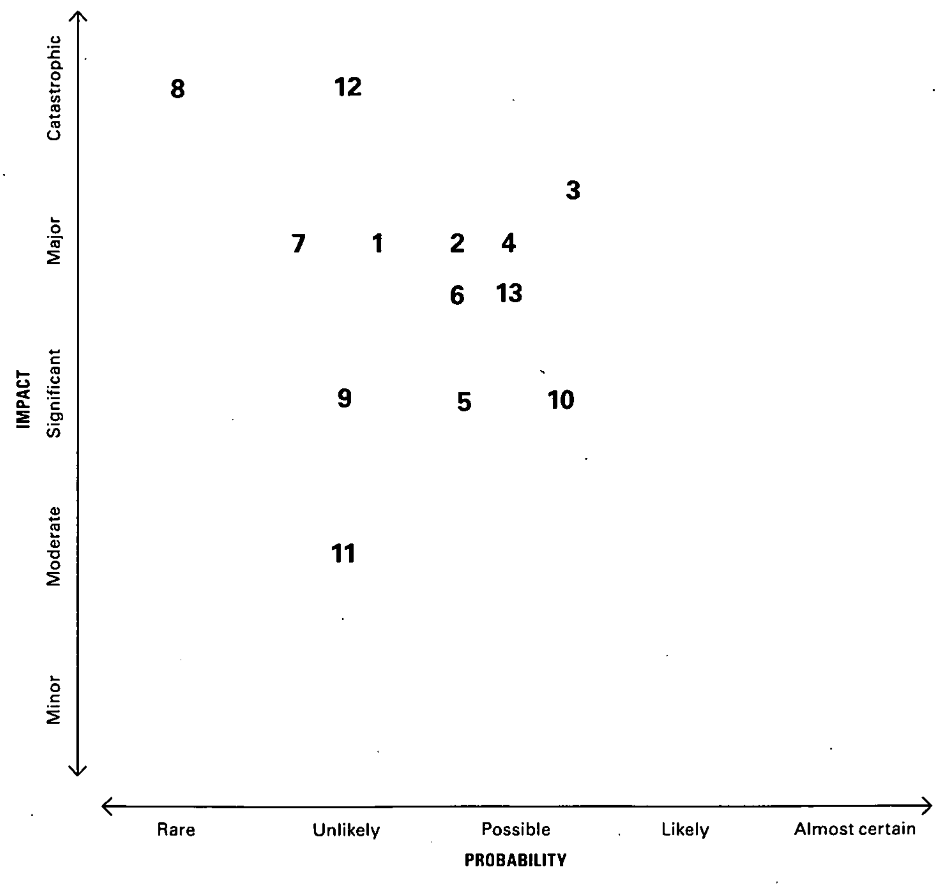
Balfour Beatty's approach that assessment should focus on the 'current' exposure – that is, the probability of the risk occurring and the potential impact it may have based on the current controls that have already been implemented to manage the risk – provides more accurate insight into the potential exposure being faced by the organisation in real-time and better positions the Group to make a decision on how to respond to the risk in line with its risk appetite.

The impact descriptors that form part of the Group PI Matrix are built into Balfour Beatty's IRIS ERM system to ensure consistency in the assessment of risks across the Group. The matrix is 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 three Principal risks that increased in the second half of 2021 have maintained their ratings throughout 2022. This is reflective of anticipating an increased exposure associated with economic uncertainty arising from post-COVID-19 factors, rising global energy prices and ongoing political and societal factors.

Whilst significant exposure has been effectively managed to date through reinforced controls, the Group remains prudent in ensuring any continued exposure is accurately assessed and that controls remain effective to maintain this position of Principal risks into 2023, reflecting minimal movement in overall risk profile.

Group Probability and Impact (PI) Matrix



1	Health and safety	p89
2	Managing commercial terms	p89
3	Project delivery	p90
4	Joint ventures	p90
5	Cybersecurity	p91
6	People and talent	p92
7	Sustaining focus on Build to Last strategy	p93
8	Financial strength	p93
9	Supply chain	p94
10	Code of Ethics compliance	p95
11	Legal and regulatory	p95
12	Legacy pension liabilities	p96
13	Economic uncertainty	p96

Principal risks

Balfour Beatty's decision making remains centred on a comprehensive and detailed understanding of the exposures faced by the organisation. Identifying risks that could impact on the achievement of business and strategic objectives, and consistently assessing and responding to these, is essential to balancing risk taken in line with risk appetite. The principal and emerging risks are mapped to strategic business plans to ensure there is comprehensive coverage of risks and allow the Board to undertake an 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, and ongoing viability (see pages 12 and 97). The Group's principal risks are described on pages 89 to 96.

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

1 HEALTH AND SAFETY

Description and impact

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 46 to 51.

Causes

Common themes which drive health and safety risks include:

- inadequate risk identification/ assessment;
- lack of competence or training;
- 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.

Mitigation

Balfour Beatty's Zero Harm strategy and its supporting policies and procedures continue to act as key controls in managing the risks presented in the industry and across the Group's operations. The strategy and associated action plans are regularly reviewed and monitored by management and external accreditation bodies.

Experienced and competent health and safety professionals provide advice and support, monitor culture and undertake regular reviews.

The Safety and Sustainability Committee of the Board and business Health and Safety executive leadership teams meet regularly throughout the year to capture lessons learnt and develop a consistent approach to health and safety best practice. KPIs are reported and closely monitored.

Training programmes (including behavioural training) are in operation across the business, including a focus on mental health and wellbeing.

Owner
Safety and Sustainability Committee

Risk movement

No movement
The risk continues to be managed by well-established and embedded controls and mitigations throughout the Group and within operational DNA to represent a stable control environment.

Appointment of new Health, Safety and Environment Director in 2022.

Multiple contemporaneous failures within this environment would be required for the risk to be realised.

2 MANAGING COMMERCIAL TERMS

Description and impact

The Group repetitively delivers high profile, complex and significant projects that regularly carry specialised deliverables together with intricate, multifaceted, and occasionally onerous commercial terms. Establishing the right contractual terms and delivering customer obligations within these terms often alongside technical complexity, can pose a risk if not managed correctly. Maintaining a balance to protect the interests of all parties, including the supply chain, whilst maintaining a profitable and sustainable order book, and delivering stakeholder value requires competency, skill and, where possible, collaboration with clients.

What impact it might have
Failure to fully understand or manage the application of commercial terms across contracts can result in potential disputes, requiring the use of valued time and associated cost of resource to manage them. Potential losses or reduction in profits and damage to relationships with key customers and supply chain partners could also impact the Group.

Failure to effectively engage and collaborate with customers and supply chain partners to manage contract terms could additionally result in opting out of certain works or may even limit access to certain targeted markets in the future.

Causes

Key causes that could drive this risk include:

- lack of clearly defined bid strategy;
- misalignment between Balfour Beatty and client approach;
- working with a new or unknown customer with no known established relationship;
- supply chain lacking the capability to accept and manage back-to-back terms, resulting in increased risk carried by Balfour Beatty;
- failure to engage in an early collaborative approach with the customer;
- clients taking a risk adverse attitude resulting in a lack of balanced approach to allocation or sharing of risk; and/or
- lack of early identification of a contracting strategy between all parties.

Mitigation

The Group Tender and Investment Committee reviews and challenges all proposals in line with minimum commercial expectations and the Circles of Risk.

Clear, defined delegated levels of authority are in place for approving all tender and infrastructure investment decisions.

Customer adoption of the UK Government Construction Playbook steers an approach towards increased collaboration, which results in reduced risk, and an increased focus on quality of bid rather than being solely cost driven.

A 'getting left early' approach adopted prior to the procurement process enables influence over contracting and procurement model and a two-stage tender, supports an early collaborative, solution-based approach with customers and minimises risk on both sides.

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

The Gated Business Lifecycle review process highlights key commercial risks closely aligned to Circles of Risk to ensure adequate qualification and early mitigation of key exposures.

Monthly business reviews pick up any early indicators with potential for disputes arising on contracts, including across the subcontractor base.

Owner
Group Tender and Investment Committee

Risk movement

No movement
Risk increased in 2021 in existing portfolio and rating is maintained in 2022. Controls to champion a more collaborative approach with customers continue to improve and remain key in seeking fair terms commensurate with risk profiles. Controls to prevent the Group from bidding for unsustainable work influence decision making, to limit any potential exposure. Regular reporting of risk profiles alongside mitigation strategies to management throughout execution remain key.

An improvement in governance controls for approvals increases alignment with Circles of Risk, improving focus on documenting tender risk profiles and achieving a more balanced-risk portfolio.

Close monitoring of inflation risk in 2022 across existing portfolio coupled with negotiating inflation mechanisms in new contracts.

Principal risks continued

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

3 PROJECT DELIVERY

Failure to deliver projects consistent with customer expectations and required specifications and/or quality, in line with schedule and budget. and minimise the risk of increased costs, delay related damages and defect liabilities.

What impact it might have
Failure to manage and/or deliver against customer expectations, scope specifications and key deliverables to schedule and budget could result in concerns such as design issues, contract disputes, rejected claims, liquidated damages, cost overruns and failure to achieve anticipated customer savings which in turn could reduce the Group's profitability and damage its reputation.

The Group may also be at risk of longer-term exposures including litigation and costs to rectify defective or unsafe work. Such failure may also result in liability under the new Building Safety Act 2022.

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 Business Lifecycle reviews) allowing:

- lack of comprehensive understanding of contract obligations;
- inadequate resource (people, plant and materials) or competency of resource;
- unrealistic project schedules;
- unrealistic progress assessments and cost to complete judgements which could arise due to poor training, lack of supervision, or lack of accountability;
- overly optimistic claim recovery assumptions;
- incomplete visibility and appreciation of scale of commercial judgements;
- failings in administering the contract terms to safeguard or protect future claims, change orders and extensions of time (EOTs); and/or
- poor management, selection and governance of subcontractors.

Customer intervention and additional pressure to complete could also be a driver to this risk.

The Gated Business Lifecycle continues to maintain focus on identifying and reporting risks, including planning, programme accuracy, cost and cash forecasting and resource reviews.

Early engagement of integrated work winning and project delivery teams across the Gated Business Lifecycle processes ensures customer expectations are understood and realistic.

Deployment and ongoing monitoring of strong commercial management and contract administration processes through the project lifecycle.

Optimal scheduling of key staff and associated competencies within project delivery teams and senior management, with ongoing and focused training.

The site mobilisation hub facilitates early and effective start-up on site.

Drive for Right First Time delivery including digital progressive assurance of project delivery championed by UK Quality Leadership Team with Executive Committee sponsorship.

Pre-qualification and competency/capacity verification of supply chain partners, close monitoring of subcontractor and supplier performance throughout the project lifecycle.

Professional indemnity cover in place to provide further financial safeguards.

Owner
Group management

Risk movement

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.

UK Quality Leadership Team (QLT) champions a consistent approach to improving quality awareness and champions the organisation's Right First Time approach to project delivery.

Verification of the effectiveness of controls remains key to managing this risk together with an enhanced focus on quality performance.

4 JOINT VENTURES

Failure to implement robust controls around the selection of joint venture (JV) partners, define a clear governance structure to monitor delivery or establish a 'one team' culture may result in failure to deliver expected returns and minimise the risk of unexpected liabilities.

What impact it might have
Inability to select the right JV partner, aligned to Balfour Beatty's culture and values, may result in a mismatch of partner objectives, with a knock-on impact on the effective delivery of contract requirements, and a misalignment in approach. This could result in a significant impact to profitability and reputational damage.

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

Disputes with JV partners could impact the Group's ability to operate successfully and/or expand within its chosen markets.

Failure to align and integrate with the Group's health and safety management expectations could result in increased potential for injury and/or fatality.

The risk could be realised through:

- ineffective assessment of potential JV partners including liquidity, capacity and capability;
- failure to ensure 'fit for purpose' terms with the right JV partner;
- lack of clarity of the delegated levels of authority between partners;
- delayed and fettered decision-making process between partners;
- segregation of management systems (financial and operational);
- lack of understanding of contract requirements and expectations;
- lack of oversight over JV reporting and application of processes implemented across the project; and/or
- failure to align Balfour Beatty and JV partner cultures, values and practices.

The Group Tender and Investment Committee process applies to all joint venture proposals.

The Group's primary course is to self-deliver projects where possible rather than as part of a JV, whilst recognising that establishing the right partnership can be an opportunity to deliver work.

Appointment of an appropriately constituted JV board to act as the main governance vehicle for the Group.

The Gated Business Lifecycle provides governance over the selection of JV partners, and highlights partner-related risks closely aligned to Circles of Risk including those related to capacity, capability, previous experience with the Group and liquidity.

Experienced project directors are appointed to manage the JV and provide an ongoing assessment of operational delivery risk.

Good practice, including the use of joint reporting systems where appropriate, is shared between all partners to embed the Group's expectations and culture throughout JV delivery teams.

Balfour Beatty monitors the performance of its JV partners throughout the lifecycle of a project.

Owner
Group Tender and Investment Committee

Risk movement

No movement
New joint venture arrangements are subject to strong governance controls that underpin decision making.

Monitoring of health and safety progress of existing key and high-profile JVs continues.

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

5 CYBERSECURITY

Failure to protect key Group and employee data or other confidential information due to a breach of system security.

What impact it might have
Realisation of this risk could result in:

- reputational harm (loss of market and customer confidence);
- potential fines and prosecution;
- loss of intellectual property and competitive advantage; and
- operational impact restricting ability to carry out business critical activities (disruption to business as usual).

For more information please see 'Ethics and compliance' on pages 52 to 53.

CAUSES

There are several internal and external factors that could contribute to the realisation of this risk including:

- poor internal governance;
- failure to embed preventative culture;
- lack of or inadequate staff training and awareness;
- increased exposure to phishing attacks and ransomware due to increased use of personal devices and remote working;
- lack of retention policy applied to data;
- operational failure;
- inconsistent approach to data security with joint venture / external partners;
- increased use of cloud services without equivalent investment in modern threat prevention; and/or
- cyber-attack.

MITIGATION

The risk is managed via the following controls:

- network and endpoint protection, encryption, patching and data back-up;
- awareness training with mandated annual refresher in place across all users;
- employee vetting;
- data governance framework regularly reviewed, and supported by policies and certifications;
- incident management feedback mechanism (embeds lessons learnt);
- partner and supplier controls in place including vendor risk management assessments and established relationships with external security authorities;
- infoSec actively monitoring for security incidents and remediating where necessary;
- access to all core systems subject to multi-factor authentication;
- systems are subject to 24/7 monitoring;
- strong focus on supply chain partners to ensure they are resilient to fraud and cyber-attacks;
- knowledge sharing initiatives with supply chain partners and wider industry;
- reviewing core controls to provide additional protection in areas which have potential to be new attack paths; and
- cyber-security maturity assessment providing assurance and oversight of the operation and effectiveness of the cyber controls.

Owner
Group management

Risk movement

No movement
The risk posed by cyber-attack is continually growing and increasing in sophistication but a continuous improvement in control environment remains commensurate with the increased exposure to reduce the likelihood of a major incident. Ongoing monitoring and review of controls remains key in managing this risk.

Principal risks continued

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

6 PEOPLE AND TALENT

Inability to attract and retain the required levels of skilled and competent staff and capability, as well as develop emerging talent, to deliver current and future pipeline and meet the Group's objectives.

What impact it might have
Failure to recruit and retain appropriately skilled people or grow in-house talent could harm the Group's ability to win or perform specific contracts, manage delivery cost increases, grow business and/or meet strategic objectives including acquisition of future order book.

A high level of staff turnover or low employee engagement could result in a loss of competency, reducing business confidence within the market, a loss of stakeholder confidence and an inability to drive business growth or improvements.

For more information please see 'Our people' on pages 64 to 69.

The failure to effectively mitigate the Group's people risks may arise through:

- overheating of market causing significant increase in demand or competition for people, specifically in certain sectors and regions;
- overbidding or ineffective workload and location scheduling;
- lack of visibility of long-term pipeline or perceived career progression resulting in existing workforce leaving the Group or sector;
- inability to recruit and retain strong performers;
- failure to maintain a culture of pride and advocacy across the workforce;
- ineffective and/or lack of adequate investment and decision making in the development of existing skills and capabilities;
- lack of a diverse workforce;
- issues throughout labour supply chain including onerous immigration controls;
- cost of living pressures and other economic factors driving increase in attrition and people movement; and/or
- pressure from wage inflation and increase in competitive offers from other infrastructure opportunities.

Providing a positive working environment to support the development of its employees has been central to Build to Last.

Specific controls to mitigate this risk include:

- implementation of HR strategy and plan and associated measurement of KPIs to inform decision making against budgets;
- an increased focus on longer term resourcing needs and solutions with a Group overview to overcome the risk of siloed thinking and action;
- a focus on strategic workforce planning protocol to prevent resource conflicts;
- work winning and project delivery aligned to internal and external recruitment activities, with early review of people and resourcing needs via the Gated Business Lifecycle to ensure adequate capability and capacity to deliver work prior to bidding;
- competency frameworks within core job families identify and support the development of key knowledge, skills and expertise;
- increased focus on internal mobility to develop broader careers and redeploy people post project completion. New careers portal launched in July and internal mobility measurement and targets established;
- recruitment and retention rates are measured and regularly reviewed across all parts of the business, with succession plans identified for core roles and disciplines;
- annual OPR (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;
- benchmarking of total remuneration package versus peers and participation in industry forums to track position in market;
- 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 (including COMAEA) identify role capability requirements and highlight development gaps to inform investment decision making;
- strong employee communication channels are in place celebrating individual, business and Group-level successes and increasing visibility of future pipeline and opportunities;
- affinity networks established to create a diverse and inclusive working environment; and
- increased investment in emerging talent such as strong graduate, apprenticeship, trainee, conversion programmes and industrial placement/internship schemes.

Owner
The Board

Risk movement

No movement
Risk rating increase in 2021 has been held throughout 2022. This reflected an increased upturn in people movement and increasing pressure on wage inflation within the sector and wider economy. Whilst risk is anticipated not to increase further currently, retention of key skills alongside future access to required talent pool, remains a key focus, reflecting no reduction in current risk exposure.

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

7 SUSTAINING FOCUS ON BUILD TO LAST STRATEGY

Failure by the Group to sustain and build upon the strong foundation and culture created through its Build to Last strategy and incorporating its core values of Lean, Expert, Trusted, Safe and Sustainable.

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.

Delivering against the Group's core values of Lean, Expert, Trusted, Safe and Sustainable is integral to its longer-term viability.

For more information please see 'Our strategy: Build to Last' on pages 24 to 25.

Causes

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) with the right level of skill and competency;
- lack of joined up approach across each of the geographies of operation and to cater for varying customer demands;
- 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).

Mitigation

Ensuring Build to Last continues to drive business improvements and 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;
- cultural framework under Build to Last is embedded in systems and processes, aligning the UK and US under one unified cultural framework and reinforcing expected values and behaviours;
- clear and frequent senior leadership engagement across the businesses and functions;
- upskilling, training, and business and development initiatives at key levels throughout the business to reinforce Build to Last strategies, values and behaviours for all employees and in key job families i.e. commercial, project management, engineering etc;
- induction, recognition and PDR approach heavily weighted around Build to Last values and behaviours;
- Zero Harm provides a consistent approach for the Group on the health and safety agenda and delivery against the Safe value;
- Building New Futures strategy provides a consistent approach for the Group on the Sustainability agenda and delivery against the Sustainable value; and
- regular programme of communications to reinforce strategic priorities across the Group. In 2022 this included a Group Leadership conference with an audience of circa 1,000 to align leadership around business priorities and business strategy.

Owner
The Board

Risk movement

No movement
The Build to Last strategy is key to the continuing success of the business and underpins the Company culture across all operations.

The importance of delivering against the Group's Build to Last strategy will continue to be essential to the success of the business.

8 FINANCIAL STRENGTH

The Group's inability to maintain the financial strength required to operate its business and deliver its objectives.

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

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

Causes

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.

Mitigation

The Group continues to operate with a low level of financial risk as evidenced by the robust net cash position.

The Group operates with a centralised Treasury function that is responsible for managing key financial risks, cash resources and the availability of liquidity and credit capacity.

The Group maintains significant undrawn term committed bank facilities with a banking group of high credit quality to underpin the liquidity requirements of the Group.

The Group maintains significant bank and surety bonding facilities to deliver trade finance requirements of the Group on an ongoing basis.

The Group operates standardised reporting, forecasting and budgeting financial processes. This allows monitoring of the impact of business decisions on financial performance over future time horizons.

Assets from the Investments portfolio can be sold to generate cash.

Owner
The Board

Risk movement

No movement
Robust controls within Finance and Treasury functions continue to demonstrate a clear ability to manage existing and anticipated risk.

Principal risks continued

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
9 SUPPLY CHAIN			
Supply chain partners fail to meet the Group's operational expectations and requirements in relation to capacity, competency, quality, financial stability, safety, environmental, social and ethical. **What impact it might have** Failure to effectively manage or monitor the delivery of subcontractors or suppliers would result in the Group becoming involved in disputes, being forced to find an alternative provider or undertaking/ redoing the work itself. This could result in delays, business disruption, additional costs or a reduction in quality/increased defects owing to lack of expertise or competency. Mistreatment of suppliers, subcontractors and their staff, or poor ethical standards in the supply chain, could lead to legal proceedings, investigations or disputes resulting in business disruption, losses, fines and penalties, reputational damage and debarment.	Lack of capacity, competency or stability within the Group's supply chain may arise through: • lack of capacity or failing to retain subcontractors in a buoyant market, over-reliance on a limited number of suppliers or a failure of key supplier relationships; • failure to embed the Group's expectations within the procurement process; • inadequate assessment of supply chain partner capabilities, capacity and process (including liquidity, quality, safety, ethics, materials stewardship, child labour, forced labour and modern slavery); • lack of supplier resilience (arising from rising global energy prices, after effects from the UK's exit from the EU, prolonged effects seen as a result of COVID-19 and/or recovery following any natural disaster or political event); • failure to accurately assess project resource requirements and key deliverables; • including increased tariffs and border delays for the UK's exit from the EU; • logistical impacts causing delays resulting from HGV shortages and warehousing issues; • inflation and/or the rising cost of energy driving up prices; • lack of adequate oversight, supervision or management during delivery; and/or • unethical treatment of the supply chain.	The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations and dependencies. This includes relationship mapping with strategic suppliers, lessons learnt from previous projects together with briefing on order book requirements. The risk management framework and the Gated Business Lifecycle 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. Market trends and insights closely monitored and distributed to relevant businesses. 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 Ethics launched in 2022, with targeted training programmes and related policies and procedures in place. Detailed assessment process across supply chain following any major natural disaster/ political incident to identify any disruption or discontinuation of supply.	**Owner** Group management **Risk movement** **No movement** 2022 has seen volatility in the market driven by inflation and rising energy prices, however robust controls implemented during and post the COVID-19 pandemic have worked to build and maintain strong relationships with key supply chain partners. Close monitoring of supplier health, key risk indicators and tracking of core commodities, has resulted in no material increase in this risk.

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

10 CODE OF ETHICS COMPLIANCE

Description and impact

Failure to comply with the Code of Ethics across the Group including employees, JV partners, and within the supply chain.

What impact it might have
Failure to comply with the Code of Ethics and Balfour Beatty values could leave the Group exposed to:

- instances of bribery and corruption;
- fraud, deception, false claims or false accounting;
- unfair competition practices;
- human rights abuses, such as child and other labour standards generally, illegal workers, human trafficking and modern slavery;
- unethical treatment of and by the supply chain; and/or
- ethics and values being compromised as a result of commercial pressures.

Failures could result in legal investigations or disputes, resulting in business disruption, losses, fines and penalties, reputational damage and debarment.

For more information please see 'Ethics and compliance' on pages 52 to 53.

Causes

Failure to comply with the Code of Ethics and Balfour Beatty values could arise from:

- failure to adopt a compliance risk approach;
- failure to establish appropriate corporate culture;
- failure to embed the Company's values and behaviours throughout the organisation and across joint ventures;
- lack of effective training programme and compliance monitoring;
- failure to have a robust testing and monitoring programme in place;
- lack of appropriate whistleblowing processes including ensuring awareness of such outlets across the organisation; and/or
- deliberate or reckless non-compliance.

Mitigation

New Code of Ethics and associated training programme deployed Group-wide in 2022. Related policies, procedures and training are refreshed as appropriate.

Ethics and Compliance updates are provided to the Audit and Risk Committee biannually. Each business unit, supported by the Ethics and Compliance function, is responsible for embedding the Code of Ethics and the Company's values and behaviours within its operations.

The Group has a range of operational controls (commercial, including procurement, due diligence and risk assessment) that are designed to identify and manage risks internally and with third parties.

An independent third-party whistleblowing helpline and dedicated email contact are in place and actively promoted. All in-scope complaints are independently investigated by the Internal Audit and Compliance teams and appropriate action is taken, where necessary.

Balfour Beatty works with a limited number of agents, all of whom are, in addition to the Group's due diligence and approval process, subject to specific contractual clauses, policies and agreements.

Use of a central database to track supplier and subcontractor performance history providing insight into their internal operating processes, governance and values.

Owner
The Board

Risk movement

No movement
The risk continues to be managed by well-established controls and mitigations throughout the Group to represent a stable control environment, enhanced by the launch of the new Code of Ethics and associated training programme in 2022 across all geographies.

11 LEGAL AND REGULATORY

Description and impact

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.

Causes

A failure to recognise or adapt to potential impacts arising from changes in applicable laws affecting the Group's businesses may result from:

- lack of awareness of 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.

Mitigation

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

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

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

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

Owner
The Board

Risk movement

No movement
Unforeseen exposure to legal and regulatory change is considered extremely unlikely. The controls embedded across the Group are considered effective in managing this risk.

Principal risks continued

DESCRIPTION AND IMPACT	CAUSES	MITIGATION	
12 LEGACY PENSION LIABILITIES			
The Group is exposed to and must therefore effectively manage significant defined benefit pension risks. **What impact it might have** Failure to manage these risks adequately could lead to the Group being exposed to significant additional liabilities due to increased pension deficits. This has the potential to affect the ongoing sustainability of the Group as well as incur reputational harm.	The Group is unable to ensure that the trustees of the pension funds react effectively to or manage: • changes in interest rates or outlook for inflation; • an increase in life expectancies; • regulatory intervention or legislative change; • prudent funding assumptions; and/or • investment performance of the funds' assets.	The Group continues to constructively and regularly engage with the trustees of the pension funds to ensure that they are taking appropriate advice and the funds' assets and liabilities are being managed appropriately. This includes quarterly performance reporting and investment committee meetings in which the Company is represented. The funding and investment arrangements of the pension funds are subject to an in-depth triennial valuation and funding review with regular monitoring in years between. The Group's main UK fund has hedged in excess of 80% of its exposure to interest rate and inflation movements and around 40% of its exposure to an increase in life expectancies. Following the triennial funding review at 31 March 2022 agreement has been reached with the trustees to substantially de-risk the investment portfolio over the next twelve months.	**Owner** The Board **Risk movement** **No movement** Regular review of the trade-off between risk and cost continues. No change in risk.
13 ECONOMIC UNCERTAINTY			
The effects of national or market trends including political, societal or regulatory change, may cause customers to re-evaluate existing or future infrastructure expenditure and the procurement of services. It may also lead to changes in the price and availability of labour, products and services. **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 associated with funding or planning constraints or to meet 'greener' solutions; • impact of inflation arising from a multitude of factors including rising global costs of energy, strained supply chains, rising demand and residual impacts from the UK's exit from the EU; • pressure on public finances caused by inflationary pressures and strained public finances more generally; • increased competition (e.g. in the UK from foreign investors acquiring competitors); • political change or uncertainty; • recessionary pressures; and/or • increased supply chain risks (e.g. solvency, people and materials).	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 and is involved in Government Affairs activity to anticipate future direction of Government spend. 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** The increase in global inflation in 2022 continues to present economic uncertainty across all markets. Government commitments in 2021 to further infrastructure spend in the UK and US and recent major project awards support the Group's strong order book in current market. However, headwinds remain in all territories, so reflects that this risk is being maintained at its current position.

Other risks

Climate change and sustainability

Failure to manage and mitigate climate change is identified as a risk on the Group register. The business continues to acknowledge that understanding the impact of climate change on the organisation and deploying the right strategies to mitigate any exposure is key. This includes allocation of adequately skilled expertise and resources to manage this consistently across all geographies and understanding the longer-term impact that this risk may have on the business model, including on underlying project cost-base and broader Group strategy.

Delivering sustainability requirements is also identified as a Group risk which recognises the varying pace of change anticipated across geographies, the need to meet increasing and onerous reporting requirements and positioning the Group to meet future customer demands. There is also significant opportunity presented by this as the business continues to develop its expertise and capability. The Building New Futures sustainability strategy sets out a path on how Balfour Beatty plans to deliver carbon-reduction measures across its operations.

Work undertaken by the Group to date to understand the impact of climate change, as well as potential risks and opportunities considered by the business, are further outlined in the TCFD section found on pages 98 to 105.

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, anticipated change in legislation or policy, 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 2025.

Assessing the Group's long-term prospects

The Group operates primarily in the UK, US and Hong Kong, specialising in multiple facets of the construction and services industry. The Group also maintains an Investments portfolio which provides a strong underpin to the Group's balance sheet.

The Group has many elements necessary for future business success – expertise in technology and innovation, strong customer relationships and a talented workforce. The Group seeks to build on these strong foundations with continued investment in technological advances, not only to ensure that projects are delivered on time and as efficiently as possible whilst maintaining the utmost focus on safety, but also to remain market leaders in the way construction is conducted and to push the boundaries of innovation in line with achieving industry-leading margins.

In doing so, the Group is also mindful of the effects it has on the environment. The Group strives to adapt to the emerging demand to deliver innovative and sustainable solutions which ensure the impact of any adverse environmental impact is appropriately mitigated against. The Directors have assessed the impact of climate change on the Group's viability and have concluded that whilst no significant impact is expected in the medium term, the Directors will continue to monitor and assess any impact of climate change that may threaten the Group's viability in the longer term.

Assessing the Group's viability

The Directors have assessed the Group's viability over a three-year period and consider this to be appropriate because this is the period aligned to the current order book and for which there is a good visibility of the pipeline of potential new projects. This period also allows greater certainty over the forecasting assumptions used in labour and material pricing, skills and availability. In the longer term, there is also significant political uncertainty. There is inherently limited visibility of contract bidding opportunities beyond the three-year period, and the accuracy of any forecasting exercise is also impeded by uncertainties around the costs involved in delivering contracts. Consequently, the Group performs its medium-term planning over three years.

The Directors and the Executive Risk Steering Group continue to monitor the principal risks facing the Group, including those that would threaten the execution of its strategy, its business model, future performance, solvency and liquidity. As part of assessing the Group's future viability, the Directors have considered these principal risks and the mitigations available to the Group. These principal risks and the consequent impact these might have on the Group as well as mitigations that are in place are detailed on pages 89 to 96.

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 24 and 25. The Group's progress in relation to Build to Last for continuous improvement remains critical to future success, although success is also dependent on the Group's ability to selectively win new contracts which will be partly impacted by political changes.

The Directors have assessed the Group's viability in conjunction with its current financial position as well as projections of its debt facilities and associated covenants. These financial projections are based on the Group's Three-Year Plan, which has been built on a bottom-up basis with a Group overlay to provide a more top-down view and alignment to the Group's strategic objectives.

The Group raised US$158m in June 2022 through the issue of new US private placement (USPP) notes which will mature in tranches in 2027, 2029 and 2032. In December 2022, the Group secured a new £30m bilateral committed bank facility which remained undrawn at 31 December 2022 and expires in December 2024 with an extension option for a further three years subject to certain specific conditions. The funds raised through the new PPP notes and the new bilateral bank facility were utilised towards repayment of the US$209m USPP notes that were due in March 2023. The Group's only other debt repayment obligations in the viability assessment period are US$50m of USPP notes due in March 2025.

The Group has access to its £375m committed bank facility, which was undrawn throughout the year to 31 December 2022 and remains fully available to the Group until October 2024.

The Group's 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.

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

- failure to manage effectively any adverse economic impact including any continuing effects caused by the UK's exit from the European Union;
- an operating event that damages the Group's reputation and results in significant penalty; and
- failure to maintain progress made in relation to Build to Last.

The above scenarios result in: a reduction in revenue; a reduction in margin; an increase in operating costs; a slowdown in the Group's investments asset disposal programme; and/or negative changes to working capital.

The Directors also assessed a 'perfect storm' scenario by combining multiple scenarios and modelling the resulting downside to stress-test the Group's viability if these cash flows were to immediately and simultaneously come under severe threat. This scenario is aimed to test the viability of the Group if it was to experience a catastrophic failure and to allow the Directors to assess the mitigations available to avoid this.

In assessing the Group's viability under these severe but plausible scenarios (including in the instance of a 'perfect plausible but severe storm'), the Directors have also considered the Group's projected cash position (which excludes cash that is not immediately available to the Group), bank facilities and their maturity profile and covenants, the borrowing powers allowed under the Company's Articles of Association and the fact that the Group's PPP investments comprise reasonably realisable securities which could be sold to meet funding requirements if necessary.

It is unlikely, but not impossible, that the crystallisation of a single risk would test the future viability of the Group. However, it is possible to construct scenarios where either multiple occurrences of the same risk, or single occurrences of different principal risks, could put pressure on the Group's ability to meet its financial covenants. The Directors have considered the strength of the mitigations available and whether these are sufficient to avoid a catastrophic outcome to the Group's viability and believe that there are sufficient mitigations immediately available to minimise this risk.

Based on the assessment undertaken to stress-test the Group's viability against severe but plausible scenarios, and taking into account the strength of mitigations that are immediately available to the Group, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2025.

Our 2022 Strategic report, from pages 1 to 105, was approved by the Board on 15 March 2023.

Philip Harrison
Chief Financial Officer
15 March 2023

Climate change and TCFD

It is widely accepted that action to limit future global greenhouse gas emissions will help restrict future changes to our climate system. Impacts from climate change are already being felt today and will continue to increase in the future.

In response to the climate emergency, Balfour Beatty has an ambition to go beyond 'net zero' greenhouse gas (GHG) emissions by 2040. By signing the Business Ambition for 1.5°C, a global coalition of UN agencies, businesses, and industry leaders, in partnership with the UN Race to Zero campaign, the business has committed to halve its greenhouse gas emissions by 2030 on an absolute basis.

The business acknowledges the scale of the transformative action and all-encompassing nature of the changes required to achieve net zero and the role the construction and infrastructure sector plays to support the wider economy in becoming more resilient to threats posed by climate change.

For Balfour Beatty this means identifying and managing climate change risks now and in the future. It requires meaningful collaboration with infrastructure value chain members, trialling and adopting new technologies, materials and processes, raising the bar on educating the Group's workforce on climate-related issues, and working together with industry peers to overcome the barriers we collectively face.

Physical risks such as increased severity of extreme weather events, are likely to disrupt supply chains, halt operations and damage valuable assets. Transition risks such as creating capacity in power networks to keep up with the demand for electric charging infrastructure or the introduction of carbon pricing policies will put pressure on operating costs.

The transition to a low-carbon economy also presents significant opportunities. Diversification into new markets shaped by the global transition to a low-carbon economy such as the construction and management of infrastructure for green-hydrogen power, renewable and other low-carbon energy generation, storage, transmission and distribution or energy efficient and net zero buildings will generate new revenue streams and result in the creation of new jobs and skills.

The Group's TCFD disclosure continues to evolve. Building on last year's disclosures, further work has been undertaken during 2022 to analyse different climate scenario impacts on the business, identifying indicators of change to assess any vulnerability or advantage for the business, and to gather data to enable modelling of the impact of physical risk on Group's work or asset sites. Financial drivers of potential risks and opportunities were identified to support sensitivity analysis and to start to provide an indication of the inherent risks and opportunities.

The disclosures are consistent with the TCFD core elements areas of Governance, Strategy, Risk Management and Metrics and Targets and cover the 11 specific recommended disclosures. They reflect where the business currently is on its TCFD journey.

While the Group has addressed all of the TCFD recommendations and financial analysis has been undertaken, this disclosure does not set out financial impact figures. Further details are provided on page 102.

Furthermore, this disclosure takes account of updates to TCFD guidance changes, such as those set out in the October 2021 Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures publication[2].

Some elements of these disclosures are addressed elsewhere in the report and the table below outlines where this information can be found. Further signposting is indicated in the sections that follow.

Pillar	TCFD recommendation	Section name	Page
Governance	a) Board oversight	Division of responsibilities	p122
	b) Management role	Audit risk and internal control	p136
		Sustainability	p55
Strategy	a) Risks and opportunities	Division of responsibilities	p122
	b) Impact on organisation	Board composition, succession, and evaluation	p126
	c) Resilience of strategy	Sustainability	p55
Risk management	a) Risk identification and assessment process	Risk management	p84
	b) Risk management process		
	c) Integration into overall risk management		
Metrics and targets	a) Climate-related metrics	Sustainability	p55
	b) Scope 1, 2, 3 GHG emissions		
	c) Climate related targets		

2 https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

Governance

Balfour Beatty's governance structure and organisation hierarchy underpin all Group activities and ensure that the business is managed and operated effectively. The structure allows the Board, its sub-committees and senior management to embed climate-related risks and opportunities into strategic and local decision making and operational activities. See page 55 for illustration.

Board oversight

The Board is responsible for setting the cultural framework of the business including its purpose, strategy, values, and behaviours. Together with its sub-committees, the Board provides leadership and oversight ensuring climate-related risks and opportunities are effectively assessed and managed.

The Safety and Sustainability Committee (SSC) reviews the Group's sustainability strategy, Building New Futures[1], and monitors progress on climate-related issues. The Group Chief Executive and two non-executive Directors are members of the SSC. The Group Chief Executive has overall responsibility for climate-related risks and issues as well as setting Balfour Beatty's sustainability policy and overseeing how ESG matters are managed. The SSC agenda is separated into two specific areas of focus: (i) Health and Safety; and (ii) Sustainability, allowing for more time and emphasis on climate-related matters.

The Audit and Risk Committee (ARC) supports the Board in its oversight of all Group risks, which include climate-related risks and opportunities. The ARC assesses the effectiveness of the Group's risk management framework, risk strategy and risk appetite and considers this alongside the risk profile and compliance with regulatory requirements. Further information related to all Board meetings held and attended can be found in the Division of responsibilities section on page 122. Where climate-related matters were discussed, this is evidenced accordingly in meeting minutes.

Management role

The Executive Committee's (ExCom) responsibility includes setting ambitions and targets in relation to climate-related matters under the Building New Futures sustainability strategy and supporting businesses to develop action plans. The ExCom is also responsible for monitoring climate-related business risks and opportunities. To support them in this role during 2022, members of the Executive Committee attended a Carbon Literacy training session which covered climate science and climate policy fundamentals as well as carbon reporting and management requirements. Strategic business unit (SBU) managing directors have responsibility for the identification and management of climate-related risks relevant to their business and arrange ownership of targeted controls and actions. SBU sustainability leads enable oversight and management of sustainability matters, which include climate-related risks and opportunities at the operational level. An illustration of this governance can be found in the Sustainability section on page 55. Carbon performance information is also presented to senior leaders throughout the year allowing them to make decisions about carbon reduction initiatives required to achieve targets. During 2022, each SBU produced a carbon action plan allowing management to track progress. Additionally, climate-related risks are highlighted by each SBU as part of the half year and full year internal control reporting process.

A TCFD working group oversees the implementation of climate-related risk management processes and reporting. The ExCom is updated by the Director of Audit and Risk and the Director of Sustainability as part of the ongoing assessment of risk management and internal control. The Director of Sustainability and Director of Audit and Risk are new to the business, joining in May and October 2022 respectively.

Climate-related issues are discussed with the ExCom as part of the sustainability updates provided by the Director of Sustainability. Throughout 2022, carbon reduction action plan requirements were discussed with the ExCom and subsequently developed or are in progress with the support of SBU managing directors.

The TCFD working group, led by the Director of Risk and Audit, includes senior management representation from Finance, Risk, and Sustainability, and draws on functional support from the wider business. It engages with business management across all geographies ensuring climate-related risks and opportunities are adequately identified and incorporated into the Group's Enterprise Risk Management (ERM) system.

The key objectives of the TCFD working group are: to communicate TCFD reporting requirements to key stakeholders within the business; to build awareness of climate-related risks and opportunities that could impact the Group; to identify, analyse and disclose high priority or potentially material climate-related risks and opportunities; and to deliver ongoing review of climate-related risks and support integration into operational risk management processes.

1 https://www.balfourbeatty.com/media/318683/balfour-beatty-building-new-futures-sustainability-strategy.pdf.

Vulnerability/advantage assessment

Exposure

VA

Sensitivity

Adaptive Capacity

The Vulnerability/ Advantage (VA) assessment is utilised to determine the level of disruption or benefit the business could be exposed to and the resources required to mitigate or promote it. The assessment considers criteria across Sensitivity, Exposure and Adaptive Capacity.

- **Sensitivity**

Considers the impact of a physical or transition risk event in terms of disruption to operations or core functions and the severity of this impact. For opportunities, it considers the potential financial gain to the business.

- **Exposure**

Considers the portion of the business that is physically located or directly impacted by a risk event or that could be related to the opportunity.

- **Adaptive Capacity**

Considers the Group's ability to adjust to the projected impact, considering potential cost and intervention or investment. This also considers any cost or business model changes needed to exploit or pursue an opportunity.

Strategy

The Build to Last strategy is fundamental to how the organisation shapes a market-leading Balfour Beatty for the next 100 years. Build to Last is a platform for sustainable growth and productivity and is well placed to enable Balfour Beatty to build resilience against the impacts associated with climate change over the short, medium, and long term. The Building New Futures sustainability strategy sets out the business' 2040 ambition to go Beyond Net Zero carbon emissions. It also details a 2030 target to reduce emissions by 50%.

A comprehensive risk review is conducted annually in relation to climate-related risks and opportunities that could impact Balfour Beatty's strategy and financial planning across the Group's operations under different climate scenarios and to identify any new events. The scope of this review includes all key geographies in which the Group operates (the UK, the US and Hong Kong) as well as key market segments in Construction Services, Support Services and Infrastructure Investments. The review identified 35 (16 transition and 19 physical) potential risks and opportunities.

In assessing the potential risks and opportunities, it is recognised that impacts and benefits to the Group will be proportional over time. Balfour Beatty's diverse operating portfolio and geographical spread mean that the likelihood of a number of climate-related risks occurring at the same time is low and they are unlikely to impact the Group's short-term financial viability or ability to operate in a business-as-usual state.

The nature of the Group's business model at present provides partial protection from negative financial risk where contractual mechanisms are in place. This will continue to change in the medium term as customers develop and embed more stringent procurement evaluation criteria and commercial contractual clauses in line with the developing climate agenda. To monitor this, the Group engages with customers and participates in relevant industry body working groups and technical advisory panels.

Many of the risks identified are an indirect consequence of how Balfour Beatty's complex supply chain operates. The more successful the supply chain is at addressing direct climate risks, the greater the reduction in impact for Balfour Beatty. Collaborating with supply chain partners on this issue, as well as clients and industry peers, remains a priority.

The risks and opportunities are considered over the short, medium and long term. These time horizons refer to when the risk is likely to have an impact.

- Short term (0 – 3 years): Aligns to Balfour Beatty's immediate pipeline of projects, contracts and current asset investments and their associated climate-related risks and opportunities.
- Medium term (3 – 10 years): Aligns to longer-term projects and investments decisions with risks driven by government policy, infrastructure needs and market conditions.
- Long term (10 – 30 years): Focuses on factors that could impact Balfour Beatty's business plans and longer-term strategy and business resilience.

On completion of the review a vulnerability/ advantage assessment (VA) was developed as a means to prioritise climate-related risks and opportunities.

Vulnerability was used to assess the climate risks and is defined as the degree to which the business is susceptible to, and able to deal with, the impacts of climate change. Vulnerability answers the question: what portion of the business would be disrupted by the risk and what resources would be needed to mitigate it?

Advantage was used to assess climate opportunities and is defined as the degree to which the business can capture the potential value from the low-carbon transition opportunity. Advantage answers the question: what portion of the business would benefit from the opportunity and what resources would be needed to exploit it?

The VA used both quantitative and qualitative information to assess the questions above and took a top-down approach to identify the key transition and physical events that could most significantly impact the Group's operations. Scores for each component, exposure, sensitivity and adaptive capacity, were assigned on a scale of 1 (low) to 5 (high). Definitions for each of these components are provided in the illustration above.

SCENARIO BUILDING

	Physical		Transition		
Scenario	Warming by 2100	Future emissions	Energy sources	Policy narrative	Rationale for scenario
Business as Usual (BAU)	~ 2.7°C	Medium	Mix of fossil fuels and renewable energy	Achievement of Nationally Determined Contributions (NDC) under Paris Agreement and other policy commitments	Represents possible future risks if there is minimal additional action Most significant impacts from physical risks
Low Carbon	< 2°C	Low	Mostly renewables and low-carbon fuels	Ambitious policy agenda leading to transformation of the energy system Many advanced economies reach net zero emissions by 2050, with the rest of the world reaching net zero by 2070	Aligns with best-case scenario and current recommendation from the IPCC Most significant impacts from transition risks

Based on the work carried out to date the remaining risks and opportunities identified in the VA are less likely to materially impact business resilience.

Eight of the top ten risks and opportunities identified in 2022 are related to the two risk events and one opportunity identified in last year's report. These are outlined on the table on the following page.

The top ten risks and opportunities (including six risks and four opportunities) with the highest ratings were then taken forward. The financial drivers for each were identified and the impact scope was defined in the short, medium and long-term for each of the key geographies. Specific monetisation approaches were agreed with relevant stakeholders together with the inputs required. The approaches were refined dependent on data availability and validation review. Based on the work performed to date, the ten risks and opportunities identified are considered applicable to varying degrees over time across the different Balfour Beatty market segments and operating geographies.

Scenario analysis: resilience of strategy
To assess the resilience of the business strategy and model, two climate scenarios were applied to model the financial impacts on the business – Business as Usual (BAU) and Low Carbon (LC).

Under the BAU scenario, it is anticipated that the global mean temperature will increase by approximately 2.7°C, a mix of fossil fuels and renewables will be adopted as energy sources, carbon pricing will remain low, and legislation will be unchanged compared to today, resulting in a medium emissions future.

Under the Low Carbon scenario, it is anticipated that global mean temperature will increase by less than 2°C, mostly renewables and low-carbon fuels will be adopted as energy sources, carbon pricing will increase and ambitious carbon policies will be adopted globally, resulting in a low emissions future.

For Physical Scenarios, the IPCC AR6 SSP 2-4.5 Middle of the Road (Business as Usual), and SSP1-2.6 Sustainable (Low Carbon) projections were adopted. For Transition Scenarios, the IEA Stated Policies Scenario (Business as Usual), and Sustainable Development Scenario (Low Carbon) were adopted.

These scenarios were modelled out to 2025, 2030 and 2050 assuming the Group's business activities remain unchanged from today.

Each risk and opportunity scenario was assessed pre-mitigation activities. The level of potential risk or opportunity will therefore change once management takes action to mitigate or realise related outcomes.

Financial impact/value analysis

On completion of the VA, the key financial drivers that could be influenced by the shortlisted risks and opportunities were identified to estimate the high-level financial implications for the Group. These included revenue, losses, operating expenses, capital expenses, penalties/fines and asset impairment.

During 2022, the Group commenced the process of developing quantitative analysis as far as practically possible. In line with the findings of the 2021 TCFD status report, the Group is disclosing financial impacts on a qualitative basis.

Until further consistent and definitive guidance around quantification methodologies for climate-related financial impacts is available, the Group is only able to disclose the likelihood of financial impact categories for each of the risks and opportunities, which indicates directional outcomes under the applied climate scenarios, BAU and Low Carbon. The anticipated financial impact category to the business is also included. These can be viewed in the table above.

Top rated climate-related risks and opportunities

2021 Risk and Opportunity Disclosure	Shortlisted Risk/Opportunity	Potential Impacts to the Business
Expanding existing revenue streams from green infrastructure projects into new green infrastructure assets and built environment markets	Increase in demand for renewable and low-carbon energy generation, storage, transmission and distribution deployments increases number/size of awarded project contracts	• Increased revenue and positive impact on ESG scores • Opportunity to expand business capability and skillsets • Development of new low-carbon construction design methods to support the wider sector and built environment • Collaboration with new and sustainable customers
	Increase in demand for green, energy efficient, and net zero buildings increases number/size of awarded project contracts	
	Increase in demand for climate disaster adaptation/ climate resilient infrastructure increases number/size of awarded project contracts	
New opportunity	Increase in efficiency reduces energy consumption and material use	• Reduced impact on natural resources • Reduced operating costs through reduced energy use
New risk	Carbon pricing increases prices of energy and raw materials	• Increased cost to the business and supply chain • Potential pipeline reduction if major infrastructure projects become too costly to fund
Transitioning materials, products and services, and technology, to lower carbon alternatives	Transitioning Balfour Beatty owned plant and equipment to lower-carbon options results in higher prices for fossil fuel-based equipment replacements	• Increased capital expenditure to replace existing plant and fleet • Increased research, innovation and implementation costs may present risks associated with bringing new technologies to market resulting in new skills development and training required to deploy low-emission technology alternatives • Lifecycle of existing assets may be reduced resulting in early impairment and retirement or write-off of plant, equipment and fleet assets. Investment in newer replacement assets earlier than planned • Technology does not innovate as fast as required in order to meet planned carbon reduction targets
Increased severity of weather events	Insurance premiums increase/ become unavailable due to higher expenditure on adaptation measures and more stringent insurance policies	• Pipeline reduction of major infrastructure projects become too costly to fund or cannot be insured • Diminished returns across infrastructure investment assets
	High-speed wind leads to damage to physical assets and disruption at own sites	• Delays to project delivery to stand-down sites and / or to rectify damage caused by flooding or high-speed winds • Lower production capacity and revenue due to unexpected disruption and/or delays in the transportation and delivery of goods • Challenging or unsafe working conditions for employees • Potential increased exposure to environmental incidents and fines • Impact on valuation to assets in known flood zones • Pipeline reduction as major infrastructure projects become too costly to fund due to drought-driven cost increases
	Increased precipitation (only rainfall) leads to damage to physical assets, disruption at own sites, and chance of excess silt run off at project sites	
	Droughts lead to increase in operation costs at own sites due to higher water prices and restrictions on water consumption	

		BAU SCENARIO	LOW CARBON SCENARIO
Potential Adaptation and Mitigation/Realisation	Financial Impact Category	Likelihood	Likelihood
• Enhanced collaboration and dialogue with value chain members • Promotion of research and development in green infrastructure technologies • Creation of partnerships to promote new green infrastructure	Increased Revenue	Almost Certain	Almost Certain
	Increased Revenue	Almost Certain	Almost Certain
	Increased Revenue	Almost Certain	Almost Certain
• Implementation of Group approved energy-demand reduction solutions • Implemention of project-level material management plans to eliminate waste	Reduced OPEX	Almost Certain	Almost Certain
• Monitoring of current carbon pricing to determine impact to business and supply chain across geographies	Increased OPEX	Likely	Almost Certain
• Assess the viability of construction projects that utilise low-carbon emission materials and technology • Enable capability by providing training for low-carbon design optioneering and use of new technologies • Material price sensitivity assessments and contingency plans for procurement • Develop capacity to satisfy customer preferences and improve collaboration with value chain members • Diversify product, material and technology portfolios; source materials more widely, engage with suppliers, and explore circular economy options	Increased CAPEX	Almost Certain	Almost Certain
• Review of insurance arrangements and monitor insurance market shifts	Increased OPEX	Unlikely	Possible
• Close monitoring of weather forecasts to ensure employee safety and adequate preparation • Evaluation of physical climate risk exposure specifically to asset and project locations near waterways or coasts. • Utilising third-party expertise for support with climate modelling to understand physical risk impacts • Increase resilience of sites to extreme weather events by improving defences and implementing contingency plans • Consideration of where manufacturing may require move	Expected Asset Impact	Possible	Possible
	Expected Asset Impact	Possible	Possible
	Increased OPEX	Possible	Possible

Top prioritised climate-related risks and opportunities continued

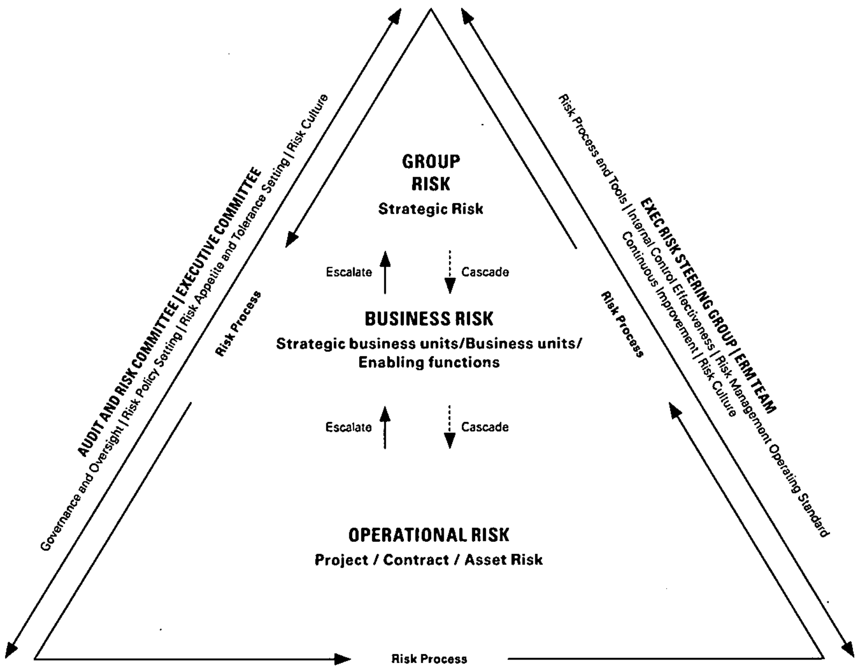
To provide further context as to why the Group is disclosing a qualitative financial impact assessment at this time, several important caveats concerning the underlying financial impact/value approaches established to date and corresponding results need to be considered. These include:

- the financial quantification is indicative based on climate scenarios of how the future may look at different points in time. They are not yet projections or forecasts that can or should be used in isolation or for decision-making purposes;
- the financial impact results are subject to significant uncertainty at the current stage of development of the methodology. Educated assumptions were utilised to compensate for lack of publicly available or robust, consistent and comparable internal data;
- the financial quantification is unmitigated. Once management takes action to mitigate or realise the related outcomes, the level of potential risk or opportunity will change. It is likely that some climate-related risk mitigation is partially built into management plans to address other business risks. For opportunities, given the market segments in which the business currently operates, it is likely that climate-related opportunities are being pursued as part of ongoing work winning plans. These activities are not yet considered in the financial impact/value assessment calculations;
- the financial impact results represented the estimated annualised change figures (i.e., increase or decrease) of a specific cost or revenue stream in different timeframes (2025, 2030, 2050). They are not the total value in that year, nor are they cumulative from the base year used (2021); and
- each of the risks and opportunities are viewed individually (i.e. they are not cumulative).

To evolve reporting practices and understanding under different climate scenarios and climate-related financial impacts, the Group is now working on improving internal processes to collect consistent and reliable data and information across all SBUs and geographies to support financial analysis. This will allow the Group to strengthen the financial impact/value assessment approaches described on page 103.

Furthermore, to support future assessments of materiality in the context of climate-related impacts, the Group is engaging with stakeholders and regulatory forums to evolve definitions of materiality over the medium and longer term.

CLIMATE-RELATED RISK INTEGRATION INTO ERM FRAMEWORK



Group

- Climate-related and sustainability risks identified in Group risk register.
- Mapping of climate-related risk as a potential driver to existing Group risks.
- Incorporation of climate-related risk into half year and full year risk and internal control reporting.

Business

- Capture of climate-related risk on BU and SBU strategic risk registers.
- Stand-alone enabling function sustainability risk register (inc. climate-related risks).
- Grouping of climate-related categorised risks in ERM system issued to Sustainability function.

Project

- Grouping of project short-term climate-related categorised risks in ERM system issued to Sustainability function and used to inform BU and SBU risk profiles.
- The IRIS Risk Library prompts capture of core and common short-term climate-related risks at both project and business level.

Risk management

Mitigation of and adaptation to climate change is identified as a risk on the Group risk register. This includes assessment of current and future climate-related regulatory changes. This risk is monitored by the ExCom as part of the half year and full year reviews of the Group's risk profile (see page 86 for further information). A mapping exercise is conducted and reviewed to identify where climate change may be a cause to or further compound impacts on other Group risks.

The methodology applied to identify and assess the impact of climate change on Balfour Beatty's business model aligns with the existing Enterprise Risk Management (ERM) framework and Risk Management process as outlined on pages 84 to 86.

The process ensures a consistent approach to the identification and management of climate-related risks and opportunities in line with all other risks identified across the business. SBUs assess climate-related risks relevant to their plans and strategy as part of regular strategic risk register reviews.

The process for managing climate-related risks is aligned to the existing risk process which considers how to respond to risk events. Current management plans are largely focused on exploring and understanding the full impacts of risks to develop appropriate mitigation and control strategies which are incorporated as part of sustainability action plans. The figure above outlines how consideration of climate-related risk is incorporated into Balfour Beatty's ERM framework.

Balfour Beatty's IRIS ERM system captures risk data at each level outlined in the ERM framework and includes climate change as a specific category, providing insight to trends on operational and business level risk data.

Metrics and targets

Full details of climate-related metrics and targets, including Scope 1, 2 and 3 emissions, can be found in the Sustainability section on pages 57 to 61.

Transition Plan

Balfour Beatty is aware of the Transition Plan Taskforce (TPT) disclosure framework and its proposed development of sector specific guidance documents during 2023. The Group will work towards integrating the TPT disclosure framework guidance as it develops its own Transition Plan.

Promoting the long-term, sustainable success of the Company

IN THIS SECTION

Group Chair's introduction

Dear Shareholder

On behalf of the Board, I am delighted to present my second Balfour Beatty Corporate Governance report.

Following my appointment as Group Chair in July 2021, and with the support of the Company Secretary and the Directors, I have had the opportunity to complete a comprehensive 12-month induction programme and lead a full annual cycle of Board meetings throughout 2022.

As part of my induction, I have had the opportunity to undertake several site visits across the UK and the US. It has given me great pleasure to experience first-hand the realities of Balfour Beatty life on the ground and witness its employees living and breathing the Group's culture and values.

Workforce engagement has been a crucial component of my induction. Having the opportunity to listen and engage with our workforce on what matters to them, to understand what we do well, and where we need to do more, has been instrumental in building my understanding of the Group's operations and the employee experience. This, together with the insights derived from workforce engagement initiatives carried out by the wider Board, led to the Board making the important decision to enhance its approach to workforce engagement in 2022. This is discussed in more detail on page 116.

I have also had the pleasure of witnessing the Board's effectiveness first-hand; demonstrated through constructive debate, a spirit of openness and mutual respect, and a measured approach to decision making. As noted on pages 128 and 129, our internal Board effectiveness review concluded that the Board and its Committees continued to operate effectively throughout 2022.

The Board's focus throughout 2022 has been the continued pursuance and delivery of the Group's strategic objectives, whilst remaining agile and

KEY ACTIONS FROM 2022:

- Enhanced the Board's approach to workforce engagement.
- Devised and implemented a new Code of Ethics across the Group.
- Set targets to improve diversity and inclusion across the Balfour Beatty Group.
- Reviewed and updated the Directors' Remuneration Policy.
- Conducted succession planning for the Executive Committee to build a diverse pipeline of candidates.
- Supported the delivery of a thorough induction programme for Louise Hardy (appointed 1 April 2022).

PRIORITIES FOR 2023:

- Implement and embed the Board's workforce engagement strategy.
- Monitor progress against the 2030 Value Everyone UK Action Plan diversity targets.
- Enhance the approach to Executive Committee succession planning, and oversee the continued professional development of a diverse pipeline of candidates.
- Review Board balance and composition, and conduct Board succession planning with a view to enhance Board diversity.
- Complete the actions arising from the 2022 Board effectiveness review.

"It has given me great pleasure to experience first-hand the realities of Balfour Beatty life on the ground and witness its employees living and breathing the Group's culture and values."

BOARD OVERVIEW

Board members by gender

- Male 6
- Female 3

Balance of the Board

- Non-executive 7
- Executive 2

responsive to significant macro-economic headwinds and opportunities, including the impact of the Russian invasion of Ukraine, inflationary pressures, rising interest rates, disruption of global supply chains, and ongoing impacts of the COVID-19 pandemic and Brexit.

The Board remains focused on utilising the Company's corporate governance framework to promote the long-term sustainable success of the Group, embedding stakeholder needs and consideration of broader environmental and social matters as integral components within the decision-making process. The Company's corporate governance framework remains critical to the Group successfully capitalising on the opportunities of net zero and energy security in its key markets and the delivery of our sustainability strategy.

On 1 April 2022, the Board welcomed Louise Hardy as a new independent non-executive Director. Louise is an industry heavyweight with a wealth of construction and infrastructure experience, and her strategic mindset and fresh perspective have already contributed positively to the Board. Louise's appointment also takes the Board a step further in diversifying its composition, achieving compliance with the Hampton Alexander Review target of 33% female representation on the Board. However, we need to do more. The Board and I are committed to compliance with the targets set by the Parker Review and the FTSE Women Leaders Review and intend to address those targets as part of our Board succession planning in 2023 as two long-standing members of the Board are set to reach the end of their nine-year tenure in 2024.

At Balfour Beatty, diversity and inclusion is not simply a compliance tick-box exercise, it is part of who we are and the foundation of our Value Everyone culture. In 2022 we launched the refreshed Value Everyone UK Action Plan to set out the steps we are taking to boost the diversity of our business. This starts with the launch of 2030 diversity and inclusion targets to increase female and ethnic minority representation within the business. As the Board, we need to lead by example to ensure we are representative of the workforce and the communities in which we operate. It is my intention therefore as Group Chair, and Chair of the Nomination Committee, to continue to change and evolve our Board composition, enabling the Board to continue to effectively support the execution of our strategy and enhance value for our shareholders.

Workforce engagement

The Board recognises the importance of workforce engagement in driving informed and robust decision making that promotes the long-term sustainable success of Balfour Beatty. It is also a vital mechanism to ensure we are an employer of choice, to ensure we recruit and retain talented individuals, and to provide the Board with the means to meaningfully measure our culture.

During the year the Board undertook an effectiveness review of its existing approach to workforce engagement, and agreed that a new targeted, thematic and outcomes-based approach was required. In accordance with the best practice recommendations of the UK Corporate Governance Code, the Board took the decision to appoint a designated non-executive Director, Louise Hardy, as Workforce Engagement Lead.

Further information on workforce engagement can be found on pages 116 to 120.

Executive remuneration

After the triennial review of the Directors' Remuneration Policy carried out by the Remuneration Committee, an updated version of the policy will be presented for approval by shareholders at the 2023 AGM.

More details on the approach taken to review and update the Directors' Remuneration Policy can be found on page 143, and the policy itself can be found on page 147.

Succession planning

The Board undertook succession planning for both the Board and the Executive Committee.

In support of the refreshed Value Everyone UK Action Plan, the Board remains focused on developing a more diverse pipeline amongst those in management and senior positions.

In succession planning and reviews of Board and executive-level composition, the Board considers a range of different aspects of diversity, including age, disability, gender, ethnicity, education and social background.

Charles Allen, Lord Allen of Kensington, CBE
Non-executive Group Chair
15 March 2023

Compliance with the UK Corporate Governance Code

The Company is subject to the Financial Reporting Council's 2018 UK Corporate Governance Code, which can be found at: www.frc.org.uk. This report, together with the reports from the Audit and Risk, Nomination, Remuneration and Safety and Sustainability Committees, provide details of how the Company has applied the spirit of the principles of the Code (pages 130 to 145).

In 2022, the Company complied with the UK Corporate Governance Code with the exception of provision 38, which the Company complied with in part. For further information on Code compliance please refer to page 168 to within the Director's Report.

Diversity of nationalities

- UK 8
- US 1

Non-executive Directors' tenure

- 0-3 years 2
- 4-6 years 3
- 7-9 years 2

Age diversity
(as at 31 December 2022)

- 51-60 1
- 61-70 7
- 71-80 1

BOARD AND COMMITTEE MEETING ATTENDANCE AT SCHEDULED MEETINGS DURING THE YEAR

KEY Attended Board / Attended Committee

DIRECTOR	B BOARD	A AUDIT AND RISK	N NOMINATION	R REMUNERATION	S SAFETY AND SUSTAINABILITY
Charles Allen	●●●●●●●●		●●●		
Leo Quinn	●●●●●●●●		●		●●●
Philip Harrison	●●●●●●●●				
Stephen Billingham	●●●●●●●●	●●●●●	●●●		
Anne Drinkwater	●●●●●●††			●●●●	●●●
Stuart Doughty	●●●●●●●●	●●●●●	●●●		●●●
Barbara Moorhouse	●●●●●●●●	●●●●●	●●●	●●●●	
Michael Lucki	●●●●●●●●	●●●●●		●●●●	
Louise Hardy*	●●●●●●				●●

* Louise Hardy was appointed 1 April 2022, she attended all Board and Committee meetings following her appointment.

† Unable to attend due to prior business commitments.

Leo Quinn stood down as a member of the Nomination Committee as of 9 February 2022.

BOARD AND COMMITTEE SCHEDULED MEETINGS DURING THE YEAR

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
	B	B		B		B	B	B		B	B
		A		A			A	A		A	
	N	N								N	
	R	R			R					R	
	S					S				S	

Leading with experience

The Directors hold the necessary skills and experience relevant to the sectors in which the Group operates, enabling the Board to effectively set the strategic direction and purpose of the Group and promote its long-term sustainable success.

1 2 3 4 5 6 7 8 9

1. CHARLES ALLEN N
Non-executive Group Chair

Appointed	Nationality
13 May 2021	British

Experience
Lord Allen has extensive corporate experience across a range of sectors, most notably in support services and media. His previous positions include chair of ISS A/S, executive chair of EMI Music, chief executive of ITV plc, chief executive of Compass Group, chief executive of Granada Group and chief adviser to the British Home Office.

Charles was awarded a CBE in 2002, was knighted in 2012 and was ennobled in 2013.

Key external appointments
Lord Allen sits in the House of Lords and currently holds positions as chair of THG PLC, chair of Global Media and Entertainment Ltd and chair of the Invictus Games Foundation.

2. LEO QUINN S
Group Chief Executive

Appointed	Nationality
1 January 2015	British

Experience
Leo has strong leadership expertise and significant experience of successfully delivering transformation strategies for large multi-national companies. Leo is a civil engineer and began his career at Balfour Beatty. He was educated at Portsmouth University and Imperial College, London, where he completed his MSc in Management Science. Before being appointed as Group Chief Executive at Balfour Beatty, Leo spent five years as group chief executive of QinetiQ Group plc and, prior to that, five years as chief executive officer of De La Rue plc. Before this, he spent almost four years as chief operating officer of Invensys plc's production management business, headquartered in the US and 16 years with Honeywell Inc. in senior management roles across the UK, Europe, the Middle East and Africa, including global president of H&BC Enterprise Solutions. Leo was previously a non-executive director of Betfair Group plc and Tomkins plc. Leo was also a member of the Build Back Better Business Council in 2021, which brought together Government and business leaders to drive economic recovery and growth across the UK.

Key external appointments
Leo is the founder of The 5% Club, a dynamic movement of employers committed to 'earn and learn' as part of building and developing the workforce needed for a socially mobile, prosperous and cohesive nation. In 2021, Leo's contribution to business was recognised through his appointment as a visiting professor at the College of Business and Social Science at Aston University.

3. PHILIP HARRISON
Chief Financial Officer

Appointed	Nationality
1 June 2015	British

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.

4. DR STEPHEN BILLINGHAM CBE I A N
Senior Independent Non-executive Director

Appointed	Nationality
1 June 2015	British

Experience
Stephen has significant recent and relevant financial experience and has worked in the construction, infrastructure and support services industries for over 30 years. Stephen was the chief financial officer of British Energy Group plc and the chief financial officer of WS Atkins plc. He was also executive chairman at Punch Taverns plc. He played instrumental roles in the financial and operational transformation of all companies. He was also non-executive chairman of Anglian Water Group. He was chairman of the Royal Berkshire NHS Foundation Trust. Stephen spent 11 years with Balfour Beatty, when it was BICC plc, in corporate finance and other roles. He is a fellow of the Association of Corporate Treasurers. He was awarded a CBE in 2019 for services to Government owned, public and regulated businesses and awarded an honorary doctorate from Aston University in 2016.

Key external appointments
Stephen is currently non-executive chairman of Urenco Ltd, where he also chaired the Urenco Ltd audit committee from 2009 to 2015.

5. ANNE DRINKWATER I R S
Non-executive Director

Appointed	Nationality
1 December 2018	British

Experience
Anne has significant experience in heavy industry including multiple large capital expenditure projects with infrastructure considerations and knowledge of doing business in the UK and US. She was at BP plc for over 30 years, holding a number of senior strategic and operational roles across multiple jurisdictions including the US, Norway, Indonesia, the Middle East and Africa culminating in the role of president and CEO of the Canadian business. Anne was previously a non-executive director at Aker Solutions A.S.A. and at UK listed Tullow Oil plc, where she served on a number of board committees. She was previously oil and gas adviser to the Falkland Islands Government.

Key external appointments
Anne is a non-executive deputy chair of Equinor ASA where she is chair of the audit committee and a member of the safety, sustainability and ethics committee.

6. STUART DOUGHTY CMG I S A N
Non-executive Director

Appointed	Nationality
8 April 2015	British

Experience
Stuart has over 50 years experience in the civil engineering, construction and infrastructure sectors. Stuart was chief executive of Costain Group plc between 2001 and 2005. This followed executive positions in Welsh multi-utility Hyder plc, Alfred McAlpine plc and Tarmac Construction, where he represented the company on the Channel Tunnel board, following 21 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, chairman of Alstec Ltd, Somero plc and Beck, Pollitzer Limited, and as non-executive director representing AustralianSuper (the largest pension fund in Australia) on the board of King's Cross Development Partnership LLP. He is a chartered engineer and a fellow of both the Institution of Civil Engineers and the Institute of Highway Engineers. Stuart was honoured with a CMG in 2004 and received an honorary doctorate from Aston University in 2018.

Key external appointments
Stuart does not hold any external appointments.

7. BARBARA MOORHOUSE I A N R
Non-executive Director

Appointed	Nationality
1 June 2017	British

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 the independent chair of Agility Trains East and Agility TrainsWest. Barbara is also senior independent non-executive director and chair of the remuneration committee of Aptitude Software Group plc, and senior independent non-executive director and chair of the audit committee of Medica Group plc. Barbara was also appointed as non-executive director and chair-designate of the quality and safety committee of the board of Glas Cymru.

8. MICHAEL LUCKI I A R
Non-executive Director

Appointed	Nationality:
1 July 2017	American

Experience:
Michael has over 40 years of business and leadership experience in the US and internationally in the engineering and construction sector. He has held a number of leadership and finance roles, including that of chief financial officer, executive vice president and board member at CH2M HILL. He was formerly an audit partner at Ernst & Young LLP and as its global industry leader for infrastructure, construction and engineering practices. He has recently acted as a strategic adviser to companies and private equity firms in the engineering and construction industry.

Key external appointments:
Michael is board member and chair of the audit and risk committee of Pankow Management Inc. Michael is also board member and chair of the compensation committees of Psomas Corporation and HMC Architects. Michael is a member of the Board of Governors of The California State University Foundation, and a board member of Walker Consultants and Bernards Construction.

9. LOUISE HARDY I S
Non-executive Director

Appointed	Nationality:
1 April 2022	British

Experience
Louise has over thirty years of business and leadership experience in the construction and built engineering industry. A civil engineer, she has held a range of senior roles at London Underground, Bechtel and Laing O'Rourke and as infrastructure director responsible for the portfolio of projects for the London 2012 Olympic Games. Her most recent executive appointment was European Project excellence director for AECOM, where she was responsible for monitoring project performance across a portfolio of 10,000 projects across 15 countries and eight businesses within Europe. Since then, Louise has held a number of non-executive roles in the public sector and FTSE 250. Louise is a Fellow of the Institution of Civil Engineers, the Chartered Management Institute and the Women's Engineering Society. Louise won the European Women in Construction and Engineering, Lifetime Achievement in Construction Award, 2019.

Key external appointments
Louise is currently a non-executive director of Crest Nicholson Holdings plc, Travis Perkins plc and Severfield plc. Louise is also independent chair of Oriel, the joint initiative between Moorfields Eye Hospital, UCL and Moorfields Eye Charity. She is also a keen volunteer within the industry as a STEM Ambassador and Diversity Champion.

KEY

- **I** Independent
- ○ Committee Chair
- **A** Audit and Risk Committee
- **N** Nomination Committee
- **R** Remuneration Committee
- **S** Safety and Sustainability Committee

Board activities

Throughout the year the Board met sufficiently frequently to fully discharge its duties. The Board held eight scheduled meetings in the year, as well as ad hoc and Board sub-committee meetings to manage matters arising outside the formal schedule of meetings. Individual attendance at the scheduled meetings can be found on page 109.

The Group Chair sets the Board agendas, with support from the Company Secretary, and ensures the Board receives timely and accurate papers in advance of meetings. The Group Chair ensures there is sufficient time allocated to each agenda item to promote constructive debate and support considered decision making.

The Company Secretary supports the Group Chair in annual agenda planning, ensuring that matters are scheduled for the appropriate meetings based on the business cycle and an even distribution of matters throughout the year.

A schedule of Board activities can be found opposite and further detail on key actions is set out below.

Strategy

The Board held a UK-focused strategy session in July and a US-focused strategy session in September 2022. Throughout these sessions, senior leaders across the Group presented on the following matters:

- market overview and future pipeline of opportunities;
- operational and financial performance;
- key strategic issues and actions, including risk and opportunities;
- health and safety;
- safety and sustainability; and
- workforce engagement.

Code of Ethics

The Board approved a new Code of Ethics in May 2022, replacing our previous Code of Conduct. The Code of Ethics underpins our values and behaviours, aligning the Group's cultural framework and wider strategy. The Code of Ethics sets a number of principles to guide the working behaviours and decision making of our workforce to ensure that we all do the right thing.

More information on the Code of Ethics can be found on pages 52 and 53.

> "Balfour Beatty's new Code of Ethics provides a clear direction on the standards, values and expectations that should guide our behaviour, empowering our employees to do the right thing."
>
> **Leo Quinn, Group Chief Executive**

Speak Up

An integral component of the Code of Ethics is the Group's confidential and anonymous Speak Up helpline, which enables colleagues and stakeholders to report any concerns related to unethical conduct in any area of the business. The Audit and Risk Committee receives regular reports from the Ethics and Compliance function which include:

- updates on the operational effectiveness of the Speak Up helpline;
- details of any significant reports received;
- details of any investigations that have been conducted; and
- progress against any required follow-up actions.

Further detail on the Speak Up helpline can be found on page 52.

Capital allocation

The Board remains committed to delivering strong total cash returns to shareholders, whilst maintaining an appropriate balance of investment in the business. In March 2021, the Board announced a new capital allocation framework, which comprises:

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

HOW THE BOARD SPENT ITS TIME DURING 2022

INDICATION OF TIME SPENT IN BOARD MEETINGS

11%
5%
85%

- Strategy, performance and operations
- Committee matters
- Governance and other matters

INDICATION OF RELATIVE TIME SPENT ON BOARD AND COMMITTEE MEETINGS

9%
17%
4%
9%
62%

- Board
- Remuneration Committee
- Nomination Committee
- Audit and Risk Committee
- Safety and Sustainability Committee

BOARD ACTIVITIES IN 2022

	LINK TO VALUES See pages 24 to 25 for more information	LINK TO PRINCIPAL RISKS See pages 89 to 96 for more information
PERFORMANCE • Reviewed routine reports from the executive Directors on performance • Reviewed Group strategy and approved the Group's budget • Approved the Company's Annual Report and Accounts, financial results, trading updates and ancillary documents relating to the Annual General Meeting, including the Notice of Meeting • Reviewed the capital allocation framework and its application • Approved matters where required in accordance with the matters reserved for the Board • Received 'deep-dive' presentations and reports on significant matters, key contracts and projects • Received updates on control improvements at the US military housing business • Reviewed reports from the Group's brokers	LEAN EXPERT	1 2 3 4 7 8 9 13
HEALTH, SAFETY, ENVIRONMENT AND SUSTAINABILITY • Received verbal updates from the Safety and Sustainability Committee following each Committee meeting • Received routine Group health, safety, environment and sustainability reports where a Safety and Sustainability Committee meeting was not scheduled in the same cycle of meetings • Reviewed the Group's strategies, policies and procedures in relation to safety • Reviewed the environmental impact and sustainability of the Group's operations, and the strategies and policies of the Group	LEAN SAFE SUSTAINABLE	1 2 3 4 11
AUDIT AND RISK • Received verbal updates from the Audit and Risk Committee following each Committee meeting • Received reports on financial and accounting issues and contract and commercial issues • Approved the going concern statement and assessment of viability, the Directors' valuation of the Investments portfolio and principal and emerging risks • 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 • Reviewed and monitored the Group's risk profile, undertaking a robust review of principal and emerging risks • Reviewed the effectiveness of the systems of risk management and internal control	LEAN TRUSTED	2 3 8 11
CULTURE • Monitored the Company's purpose, values and behaviours • Approved the Code of Ethics • Monitored engagement with key stakeholder groups and reviewed the effectiveness of stakeholder engagement mechanisms • Received reports from the Directors on workforce engagement activity, as well as management information on workforce matters, including analyses of Employee Survey results and insights derived from the Stakeholder Voice initiative • Received biannual updates on business integrity including reports on Speak Up, the Group's whistleblowing service • Received updates from Affinity Networks across the Group and individuals who have participated in the Reverse Mentoring programme • Approved the Group's 2022 Modern Slavery Statement	TRUSTED SAFE	1 5 6 7 10 11
PEOPLE • Reviewed effectiveness of the Board's approach to workforce engagement and appointed Louise Hardy as Workforce Engagement Lead • Received verbal updates from the Remuneration Committee following each Committee meeting • Reviewed the Remuneration Policy to be submitted for approval by shareholders at the 2023 AGM • Received updates and supported workforce diversity and inclusion initiatives • Received an annual update on pensions	EXPERT TRUSTED SUSTAINABLE	6 10 12
GOVERNANCE • Conducted an internal evaluation of the performance and effectiveness of the Board, its main Committees and individual Directors • Conducted succession planning for the Executive Committee to support the development of a diverse pipeline of candidates • Reviewed conflicts of interest of the Directors • Reviewed the formal matters reserved for the Board and terms of reference for each of the Board Committees • Convened sub-committees of the Board where necessary to deal with specific matters	TRUSTED	6 11

OUR CULTURAL FRAMEWORK

Our purpose	**Building New Futures**					p2
Our strategy	**Build to Last**					p24
Our values	LEAN	EXPERT	TRUSTED	SAFE	SUSTAINABLE	p24
Our behaviours	TALK POSITIVELY	COLLABORATE RELENTLESSLY	ENCOURAGE CONSTANTLY	MAKE A DIFFERENCE	VALUE EVERYONE	

SCAN FOR MORE INFORMATION ON OUR CULTURAL FRAMEWORK

Group Chair's visit to Connect Plus Services' Scratchwood Depot

In 2022, the Group Chair visited the Connect Plus Services' Scratchwood Depot to meet with site employees and learn about how the site team are utilising industry-leading technologies to manage motorway road closures, minimise disruption for road users, and reduce safety risk for our employees working on highways. During the site visit, Charles had the opportunity to engage with Balfour Beatty colleagues directly on a number discussion topics, including health and safety, site culture, and technology and innovation.

"It was brilliant to witness the site team's passion for technology, and to see how we are using innovative technologies like automated cone laying to create safer working environments for our employees and support and embed a culture of Zero Harm."

How the Board monitored culture in 2022

DIRECTOR REPORTS

Action taken

Directors are required to provide feedback to the full Board following site visits and direct employee engagement events

Link to culture

- The Group Chair, supported by the Company Secretary, ensures culture reports regularly feature on the Board agenda and ensures sufficient time is allocated to discussions on monitoring Group culture
- Sharing experiences of site 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

DIRECT ENGAGEMENT

Action taken

The Board undertook a number of site visits, participated in employee events, and met with employee networks

Link to culture

- This provides the Board with direct insights into working environments, workforce attitudes, behaviours and practices, and the practical application of policies and standards on the ground

WHISTLEBLOWING

Action taken

The Audit and Risk Committee and the wider Board review whistleblowing statistics, as well as details of any serious cases raised through the Speak Up helpline and the progress of related investigations

Link to culture

- Speak Up reports provide the Board with a view of the nature of employee concerns and trends in behaviours of the workforce

SAFETY MANAGEMENT INFORMATION

Action taken

The Board receives management information from a wide array of sources to monitor safety culture across the Group. This includes insights derived from:

- statistics and trends of lost time injury rates;
- metrics on safety observations reported by employees; and
- analysis of Employee Survey data.

Link to culture

- Enables the Directors to assess the effectiveness of safety practices and behaviours
- Facilitates further insight into safety behaviours by evidencing the extent of individual responsibility taken by employees with regard to proactively reporting safety concerns

EMPLOYEE MANAGEMENT INFORMATION

Action taken

The Board annually reviews the results of the Employee Survey

Link to culture

- Analysis of Employee Survey data enables the Board to understand the employee experience. This provides the Board with insights into working environments, employee behaviours and attitudes, as well as the workforce's understanding of the Group's culture
- Enables the Board to assess how working practices and behaviours align with the purpose, values and strategy of the Group

INTERNAL AUDIT

Action taken

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)

Link to culture

- Provides the Board with a direct view of areas of practice, policy and behaviours that were not at the desired standard and provides details of the corrective action being taken

MODERN SLAVERY

Action taken

Reviewed and approved the Group's Modern Slavery Statement

Link to culture

- This provides the Board with a broad understanding of practices and behaviours across the Group, and how these align with the purpose, values, vision and strategy of the Group
- Provides oversight of steps taken to prevent modern slavery and human trafficking within the Group and its supply chain

Stakeholder engagement

The Board ensures that a balanced view of stakeholder needs and interests are taken into consideration and embedded within Board discussions and decision making.

The Board designs the framework within which stakeholder engagement takes place, and shapes how relationships with key stakeholders are developed and maintained. The Board is fully cognisant of the importance of maintaining an ongoing interactive dialogue with key stakeholders, understanding that this is crucial to support well-informed and high-quality decision making that creates value for all stakeholders and promotes the long-term sustainable success of the Group.

The Board undertakes a programme of stakeholder engagement initiatives throughout the year in order to understand the interests of the Group's key stakeholders, specifically its customers, workforce, supply chain and strategic partners, communities, governments and investors. The Board takes a balanced view of these complementary and divergent interests in discussions and decision making. The Board on its own however cannot engage meaningfully with every single stakeholder. To address this, the Board-led engagement strategy is supplemented by a network of mature executive and business-led stakeholder relationships across the Group. Feedback on wider stakeholder engagement is reported to the Board to support effective decision making and a timely recognition of emerging stakeholder issues.

Workforce

The Board understands that the Group's workforce is the business's most valuable resource and is pivotal to building its long-term sustainable success and delivering for clients.

In order to ensure we are an employer of choice, we are operating effectively, and creating a working environment where all employees feel safe and valued, and are given the tools to succeed and develop throughout their Balfour Beatty careers, the Board must listen and engage meaningfully with our employees.

In 2022, the Board undertook an effectiveness review of existing Board-led workforce engagement mechanisms. Previously, the Board had operated an alternative approach to workforce engagement. The effectiveness review concluded that:

- a more formal and structured approach was required;
- the frequency and approach to engagement activities needed to be consistent across the Group's key jurisdictions; and
- topics of engagement should be more thematic and targeted, focused on insights derived from the annual employee survey and employee feedback.

Following the effectiveness review, the Board considered a number of options to enhance workforce engagement, including the best practice methods set out by the UK Corporate Governance Code. The Board concluded to appoint a designated non-executive Director as Workforce Engagement Lead, tasked with shaping the workforce engagement strategy for the Group and for reporting to the Board on the outcomes and insights of engagement activities.

Each of the non-executive Directors were invited to apply for the role of Workforce Engagement Lead, with the role finally being awarded to Louise Hardy, given her previous experience in workforce engagement and her commitment to enhancing the employee experience, particularly for underrepresented groups.

> "Workforce engagement is a pivotal aspect of our duties as Directors, and is vital to ensure we attract, and more importantly retain, skilled and talented employees."
>
> **Louise Hardy, Non-executive Director**

Visit to Old Oak Common

In July 2022, Louise Hardy, visited HS2's Old Oak Common station in North West London, a project which will deliver six underground platforms as well as up to eight platforms on the adjacent Great Western Main Line. On completion, Old Oak Common station will become the UK's best-connected station, providing direct services to three major airports, eight of Britain's ten largest cities and forming part of one of Britain's largest regeneration projects.

Louise met with a number of colleagues whilst on site and had the opportunity to witness Balfour Beatty's health and safety policies and procedures working in practice, and a strong safety culture across the site dedicated to Zero Harm.

Shaping the 2023 workforce engagement strategy
Following Louise's appointment as Workforce Engagement Lead, Louise undertook a number of engagement activities with different employee populations in 2022 to help her develop a new Board-approved workforce engagement strategy for 2023.

The Board approved Louise's recommendations to shape the 2023 workforce engagement strategy, specifically:

- **The scope:** Initially the engagement strategy will focus on the US and UK, with the strategy to be rolled out to the Gammon workforce in Hong Kong once the UK and US programmes have been embedded.
- **Topics of engagement:** Topics of engagement will be identified each year for Board approval and will be informed by engagement surveys and various engagement activities, supported by particular areas of management focus.
- **Targeted engagement:** The Workforce Engagement Lead will conduct ongoing analysis of the employee base to identify which groups of employees should be engaged to facilitate a good cross-representation of the Group.
- **Wider Board engagement:** With the support and direction of the Workforce Engagement Lead, the wider Board will continue to conduct workforce engagement initiatives, for example through training workshops, talent activities, site visits, town halls, contract award meetings and more. Non-executive Directors will continue to ensure they devote sufficient time to engage meaningfully with employees, especially those from underrepresented groups.
- **Board reporting:** The Board will be updated at least biannually on workforce engagement, specifically to set out the topics of engagement for the year, the proposed programme of engagement activities, as well as a thematic analysis of the findings. Furthermore each Director will be required to report on the outcomes of their workforce engagement activities at each Board meeting.
- **Communications with the workforce:** The Workforce Engagement Lead will release biannual Group-wide communications providing an update on the Board's engagement activities, and more importantly, to provide an opportunity for two-way feedback from the workforce.
- **Effectiveness review:** The Board will evaluate the effectiveness of workforce engagement on an annual basis, predominantly by:
  - assessing the outcomes of engagement activities undertaken;
  - data analysis of the employee survey results and other KPIs on workforce experience; and
  - reviewing feedback from the workforce on the Board's approach to engagement.

> "It was a pleasure to visit Old Oak Common and witness our employees embodying our values and their unparalleled commitment to health and safety."
>
> **Louise Hardy, Non-executive Director**

Workforce continued

Key workforce engagement actions taken in 2022

Following the lifting of COVID-19 restrictions, members of the Board were able to resume a full calendar of site visits and in-person engagement activities with an array of employees across the Group. Directors visited a number of sites across the UK including Old Oak Common station, Lewisham Gateway and the Thames Barrier.

During the Board's visit to the US in September 2022, Director's had the opportunity to meet a large number of employees, including:

- a Board site visit to a Caltrain substation, where the Group Chief Executive and Senior Independent Director held a townhall with the Caltrain team, received a presentation from the Caltrain team on the progress of the contract, and hosted a lunch with the Caltrain workforce;
- a site visit to Los Angeles International Airport where the Board visited one of the stations that is being built and also got the opportunity to see one of the new Automated People Mover (APM) trains; and
- visited Del Sol High School where the Group Chief Executive delivered a Safety Stand Up to all site personnel.

Post-lockdown, the Group has continued to offer flexibility to office-based colleagues by operating a hybrid working model, balanced between collaborative working within the office and working from home. The Board received updates on engagement activities undertaken with employees working under the hybrid model and will continue to develop workforce engagement mechanisms to support engagement of those employees.

Board members are required to report on their findings and insights derived from site visits and engagement activities. Whilst undertaking engagement activities, they are encouraged to discuss and gather feedback on topics such as:

- health and safety;
- environment and sustainability;
- diversity and inclusion, covering all of the protected characteristics set out by the 2010 Equalities Act;
- leadership and engagement;
- culture and morale;
- resources and personal development;
- understanding of Group strategy, values and behaviours; and
- Directors' remuneration, and its alignment with workforce remuneration.

The Board continued to conduct engagement activities across the breadth of the employee population through both the Employee Survey and the Stakeholder Voice initiative.

"

To be an employer of choice, we as a Board need to listen to the views of our workforce, and invest our time to better understand the employee experience across the Group, and identify where we need to do more."

Charles Allen,
Non-executive Group Chair

"

The changes implemented in 2022 to enhance workforce engagement, and the implementation of a new workforce engagement strategy in 2023, have and will continue to ensure that the employee voice is present in the Boardroom."

Leo Quinn,
Group Chief Executive

An introduction to Louise Hardy

Q You were appointed to the Board on 1 April 2022. What were some of your key takeaways from the induction process?

I've had a really interesting and varied induction onto the Board. I've had the opportunity to meet a number of individuals working across different layers of the organisation. I've met with some of our affinity networks to learn and understand their experiences as employees, their goals and their thoughts for the future of their working life at Balfour Beatty.

I've had the opportunity to visit a number of sites across both the UK and US, and witness first hand our employees driving the delivery of powerful new solutions and building complex and critical infrastructure that supports communities across our core geographies.

One of the key takeaways from my induction was the appetite for technology and innovation across the Group. Across any function, any project, any site, there is a real tangible drive and ambition to utilise technology and innovation in problem solving, waste reduction, energy usage, drive efficiency, and to enhance the client experience.

Q Having joined the Company as a non-executive Director in April 2022, what has been your experience of Balfour Beatty's culture thus far?

One thing that has stood out for me in respect of culture at Balfour Beatty is the general approach to ways of working, specifically the constant collaboration between colleagues across different layers of the organisation, a culture of openness, and a willingness to listen, change and evolve. This is epitomised by the MyContribution platform, whereby all colleagues are actively encouraged to propose and implement their own ideas for business change. The ideas that have been proposed and delivered through the MyContribution platform illustrate that employees are not only listened to but are empowered and trusted to deliver real change.

Q As a woman that has worked in the construction and infrastructure sector, how crucial is it to encourage more women to enter the industry?

Ultimately, we want to create an inclusive business. We want to be an employer of choice, to attract the best candidates, and retain talented people regardless of their gender or any other defining characteristic such as sexuality, race, ethnicity, socio-economic background or religion. We know from all the research and all the data, that diverse and gender-balanced businesses are more successful than businesses that aren't. So not only is it the right thing to do, it's also the right thing for the long-term sustainable success of the Group.

In my view, few careers are as rewarding as those in the construction and infrastructure industry. The satisfaction of knowing you have personally made a meaningful and lasting contribution to the landscape and to society is not something you experience in any career. Furthermore, in facing a number of macroeconomic challenges in 2023 (and beyond), such as labour and skills shortages and achieving net zero and energy security across our key markets, I believe women have a crucial part to play in facing those industry challenges head on, and in defining the future success of the Group.

Q Diversity and inclusion remain areas of focus for boards across the UK. How does Balfour Beatty aim to enhance, foster and retain a diverse workforce?

The Board is committed to enhancing diversity and inclusion across the Group. In 2022, in the UK, we launched the refreshed UK Action Plan with Value Everyone diversity and inclusion targets. To achieve these targets, and to meaningfully create an inclusive culture whereby everyone can feel free to be themselves and reach their full potential at work, the Group has launched a Value Everyone Action Plan. The plan includes a number of initiatives and enhanced utilisation of our inclusive affinity networks to embed diversity and inclusivity across the Group, create new opportunities, and create and instil a culture of inclusivity, acceptance and mutual respect.

Q You were appointed as the designated Workforce Engagement Lead for the Board in 2022. Why is workforce engagement so important for a group like Balfour Beatty?

At Balfour Beatty, our people are our most valuable resource; they understand the nuts and bolts of our business; they understand the risks, the challenges, and the opportunities we face as a group; they live and breathe our Company values and behaviours; and they show up to work each day fuelled with a drive to deliver for our clients. Amidst a skills and labour shortage, it is crucial that we do everything we can to retain our talented people and attract the best candidates. This is why employee engagement is so important. As a Board, we need to have our ear to the ground and engage directly with our people to give them the opportunity to share their thoughts and perspectives and identify where we need to do more.

In our drive to being an employer of choice, and in creating an inclusive environment where everyone is given the tools to succeed and develop throughout their Balfour Beatty careers, we need to listen. Only then, can we make the changes needed to support our people and enhance the employee experience.

Q What have been some of Balfour Beatty's achievements since your appointment as the Board's Workforce Engagement Lead?

I was proud to see a rise in employee survey participation and a rise in the engagement index score across the Group for the fifth consecutive year. A trajectory I hope will continue in 2023.

We've also had some great success and recognition for workforce engagement with our win at the Engage Awards 2022 for the Best Use of Technology in Employee Engagement. The award recognised how the use of our agile and transparent platform enabled us to really engage and listen to our workforce and identify and target areas for improvement.

I was also delighted that our 'whole person' approach to engagement led to our Menopause Friendly Employer Accreditation – an industry first.

Q What are your priorities as Workforce Engagement Lead in 2023?

In 2023, it is my intention to support the wider Board to really listen to our employee voice, to better understand how we can expand our successes,and address the areas where we need to do more.

I intend to gather the insights and experiences of our workforce through a thematic programme of engagement initiatives including site visits, meetings with our affinity networks, townhalls, as well as the insights derived from our employee survey.

I also intend to monitor our progress towards achieving our 2030 diversity and inclusion targets.

In short, my key priority is for Balfour Beatty to be an employer of choice that attracts and retains the very best talent through excellent workforce engagement.

Stakeholder engagement continued

Workforce continued

Key workforce engagement actions taken in 2022 continued
Both engagement tools continue to provide insightful data on workforce views and experiences. Reporting on key performance indicators such as voluntary attrition rates, safety observations, morale, and participation rates for My Contribution (Balfour Beatty's employee-led change programme), all help to build a strong picture of life as a Balfour Beatty employee and support robust and considered Board decision making that creates value for our workforce.

The Board's Workforce Engagement Lead, Louise Hardy, met with our Affinity Networks to understand their experiences on working life at Balfour Beatty, what could be done to enhance their experience, and what approach to engagement was needed to enhance communications and develop an efficient two-way feedback loop between the workforce and the Board.

Investors

Investors play a valuable role in the corporate governance of the Company. The Board is committed to maintaining an open dialogue with its investors, which is achieved through a programme of structured engagement. A selection of investor events that took place in the year can be found within the investor calendar on the facing page. A similar programme is anticipated to be followed in 2023.

Institutional investors
The Group Chair, Group Chief Executive, and Chief Financial Officer held meetings with individual institutional investors throughout 2022. The executive Directors conducted analyst presentations following the announcement of the Group's financial results.

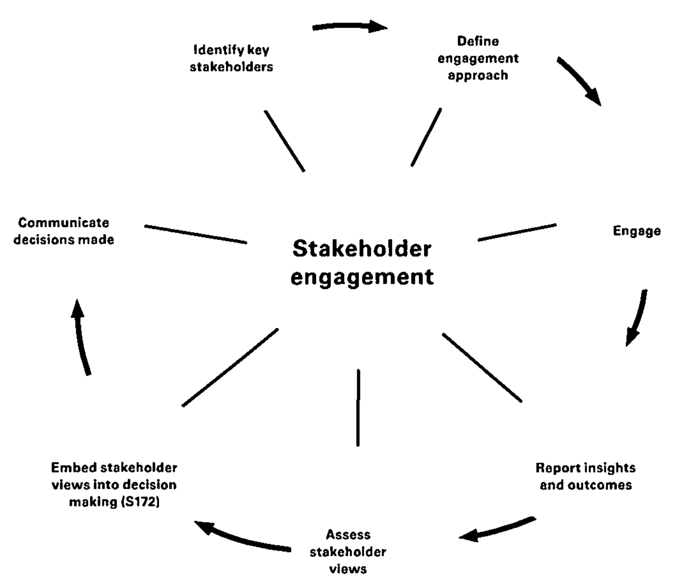
Either where requested by investors or on specific occasions, Committee Chairs will engage on matters specific to the remit of their respective committees. The Senior Independent Director is also available to shareholders as a separate channel to report any other views or concerns. In addition, management engages with proxy advisory firms to support them in their reporting to their members. The outcomes of engagement activities are reported back to the full Board.

The Board receives biannual reports from the Head of Investor Relations summarising analyst research briefings and changes to institutional shareholdings, as well as ad hoc reports on share price movements.

Engaging directly with shareholders is integral to effective Board decision making that promotes shareholder and wider stakeholder value. It provides an opportunity for candour, insight, and the means to build relationships with key shareholders. The Board concluded that the key benefits arising from direct shareholder engagement initiatives held throughout the year included:

- presented an opportunity to build transparency and trust;
- provided greater clarity over Board decisions and the decision-making process;
- provided an opportunity to showcase the Board's skills, experience, and diversity, and enabled shareholders to assess the composition and effectiveness of the Board as a decision-making unit; and
- created an opportunity for reflection for Directors, and an opportunity to enhance the Board's self-awareness and understanding of shareholder expectations.

OUR APPROACH TO STAKEHOLDER ENGAGEMENT



"It was great to speak with employees at the Thames Barrier site and observe how our sustainability strategy has been embedded into their working practices and the culture on the site."

Stephen Billingham, Senior Independent Director

Stephen Billingham's visit to the Thames Barrier

In October 2022, Stephen Billingham, Senior Independent non-executive Director, visited the Thames Barrier, an iconic steel structure located in London protecting 40,000 homes and businesses within the Capital at risk of tidal flooding. During the site visit, Stephen had the opportunity to engage with Balfour Beatty colleagues directly on a number of discussion topics, including the environment and sustainability; culture and morale; diversity and inclusion; and health and safety.

Stephen gained valuable insights into the life and culture of working as a Balfour Beatty employee, and observed positive and collaborative working relationships across the site, and a real appetite to reduce waste and work as sustainably as possible.

Approach to shareholder engagement

Retail investors
The Company's website provides access to full year and half year results information in addition to a plethora of information on the Company including in relation to the operations of the Group, governance, health and safety, and sustainability so that retail investors can keep equally as informed as institutional investors. Retail investors are also encouraged to raise any questions or queries they may have with the Company Secretary, who will arrange for an appropriate response to be provided.

Annual General Meeting (AGM)
The AGM provides an opportunity for investors to engage directly with the Board in person. Following a closed meeting in 2021 due to COVID-19 restrictions, the Board was delighted to welcome back investors to a physical in-person AGM in 2022, providing shareholders with the opportunity to ask questions and engage with the Board directly.

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 sustainability strategy, Building New Futures; and
- regulatory announcements.

Investors are consulted on an ongoing basis to ensure that the Group has a full and clear understanding of their views.

CALENDAR OF SHAREHOLDER EVENTS

March 2022

- Full year results presentation
- London roadshow

April 2022

- Annual Report and Accounts published
- US virtual roadshow

May 2022

- Annual General Meeting
- Trading update
- UBS Pan European Small and Mid-Cap Conference

August 2022

- Half year results presentation
- UK roadshow

September 2022

- UK roadshow
- US virtual roadshow
- Numis fireside chat

October 2022

- Liberum fireside chat

November 2022

- Investec best ideas conference
- UK private client virtual roadshow

December 2022

- Bank of America European Materials conference
- Berenberg European conference
- Trading update

A robust governance framework

In accordance with Principle A of the UK Corporate Governance Code, the primary role of the Board is to effectively lead the Group by promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.

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 operational running of the business through the Executive Committee. The members of the Executive Committee each have responsibility for particular functions, with authority being further delegated to appropriate individuals throughout the Group based on their role and seniority.

The framework set out below provides a high-level summary of the Group's governance framework, illustrating the flow of authority as it is delegated throughout the Group.

B BALFOUR BEATTY PLC BOARD OF DIRECTORS

- Establishes the Company's strategic direction, purpose and values
- Assesses and monitors Company culture and promotes the long-term success of the Company
- Approves the Company's financial statements, dividends and budget
- Ensures maintenance of a framework of prudent and effective controls
- Ensures effective engagement with stakeholders including employees
- Approves matters relating to the composition of the Board and Committees

N NOMINATION COMMITTEE

Oversees the structure and composition of the Board

Conducts succession planning

Oversees the appointment and induction processes of new Directors

Makes recommendations regarding Directors' independence against the Code's criteria

R REMUNERATION COMMITTEE

Reviews the Remuneration Policy for Directors and Executive Committee members

Approves the remuneration of the Group Chair, the executive Directors and Executive Committee members

Oversees the implementation of the Remuneration Policy

A AUDIT AND RISK COMMITTEE

Reviews the form, content and process for preparing the financial statements

Reviews principal risks and internal controls, and the effectiveness of the risk management framework

Monitors the independence and effectiveness of the Internal Audit function and external auditor

S SAFETY AND SUSTAINABILITY COMMITTEE

Reviews strategies, policies and performance in relation to health, safety and sustainability

Reviews the environmental impact and sustainability of the Group's operations

Reviews in detail incidents where significant harm has occurred

EXECUTIVE COMMITTEE

- The Group Chief Executive manages the operational running of the Group through the Executive Committee, members of which are responsible for various business units and enabling functions. The Executive Committee oversees the implementation of Group strategy, and matters relating to health and safety, sustainability, employee matters (including succession and remuneration), legal and governance, technology and innovation, and communications and investor relations
- Responsibility for the day-to-day running of each of the strategic business units and enabling functions is delegated to individual members of the Executive Committee

T GROUP TENDER AND INVESTMENT COMMITTEE

Responsible for the content, maintenance and operation of the Gated Business Lifecycle which forms the core process for evaluating and monitoring the governance of operational projects

F FINANCE AND GENERAL PURPOSES COMMITTEE

Approves borrowings, banking arrangements, management of interest rate and foreign exchange rate exposures, contract financing, bonding and leasing matters and guarantees

CONSTRUCTION SERVICES

- Operates across infrastructure and buildings markets in the UK, the US and in joint venture in Hong Kong

SUPPORT SERVICES

- Operates principally in the UK, designing, upgrading, managing and maintaining critical national infrastructure

INFRASTRUCTURE INVESTMENTS

- Develops and finances both public and private infrastructure projects in the UK and the US

ENABLING FUNCTIONS

- Bring together shared services (Legal, Finance, IT and Procurement, Communications, HR and HSE and Sustainability) to support the delivery of business objectives

This section sets out the defined roles and responsibilities of the Group Chair, Group Chief Executive and non-executive Directors, and outlines the support the Directors receive to assist them in discharging their duties in accordance with S171-177 of the Companies Act 2006, and their responsibilities under the 2018 UK Corporate Governance Code.

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, mutual respect and openness
- Ensures that Directors receive accurate, timely and clear information
- Leads shareholder and wider stakeholder engagement

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
- Ensures the Board is kept abreast of the views of the workforce, and any divergent views amongst members of the Executive Committee

Oversight

NON-EXECUTIVE DIRECTORS

- Oversee the Company's strategy and provide strategic guidance and expert advice to management
- Monitor Group performance against objectives, and hold management to account
- Review management proposals
- Provide effective and constructive challenge to management
- Serve on Board Committees which are responsible for specified governance roles

SENIOR INDEPENDENT DIRECTOR

- Acts as sounding board for the Group Chair
- Assumes the role of intermediary for the Group Chief Executive, non-executive Directors and shareholders as required
- Leads the 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, hold regular scheduled meetings without the executive Directors present prior to or following Board meetings.

The non-executive Directors meet annually, led by the Senior Independent Director and without the Group Chair present, as part of the Board effectiveness review to discuss the Group Chair's performance.

Governance

COMPANY SECRETARY

The Board is supported by the Company Secretary who, in accordance with Principle I of the 2018 UK Corporate Governance Code, ensures that the Board is able to function effectively and efficiently, and is available to all Directors, maintaining dialogue with each of them on an individual basis.

In addition to providing logistical support for Board and Committee meetings, the Company Secretary is responsible for advising the Board on all governance matters, supporting the annual Board effectiveness review, managing policies and processes related to the Board, supporting induction and ongoing training and development of the Directors, and ensuring that the Directors receive information in a timely manner.

Role of the Board

The role of the Board is to be effective and entrepreneurial and to promote the long-term sustainable success of the Company, whilst having regard to the interests of stakeholders and ensuring high standards of business conduct. Each Director has a defined role with individual duties; this supports a clear division of responsibilities, particularly between the Group Chair (leadership of the Board) and the Group Chief Executive (leadership of the Company's business). The balance of responsibilities at Board level set out above supports a balanced approach to decision making, ensuring that no one individual has unfettered powers.

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. Any additional external appointments are subject to Board approval in order to mitigate the risk of over-boarding and ensure they do not impact the capacity of Directors to discharge their duties. The Directors' significant commitments are set out in their biographies on page 111. Neither of the executive Directors hold any non-executive board positions at a FTSE 100 company.

The Board approved the following external board appointments:

Lord Charles Allen's external appointment to the board of THG plc as non-executive chair;

Louise Hardy's appointment as a non-executive director of Travis Perkins plc; and

Barbara Moorhouse's appointment to Dŵr Cymru Welsh Water as a non-executive director.

Philip Harrison's appointment to Dowlais Group plc as a non-executive director.

When considering the above appointments, the Board reviewed the time commitments of each appointment, considered whether any potential conflicts of interest would arise as a result, and assessed the continued ability of each Director to discharge their duties and responsibilities to the Balfour Beatty plc Board. Following these reviews, the Board concluded that each of the Directors would continue to have the capacity to devote to their role on the Board, and approved each of the above external appointments.

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 fashion.

The Company has a premium listing on the London Stock Exchange and is therefore subject to The UK Corporate Governance Code. A copy of the Code can be found on the FRC's website at: www.frc.org.uk.

The Company's compliance with the Code is set out on page 108.

The Board

The role of the Board is summarised on page 123. Principally, the Board establishes the strategic direction of the Group and assesses the basis upon which the Company sustainably generates and preserves value over the long term. The Board also sets and monitors culture and leads by example to set the right cultural tone from the top as to how the Company will achieve its strategic goals and purpose.

The Group's governance framework is designed to facilitate effective, resilient and prudent management of the business, which helps to ensure that the Board's decision making is considered, 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.

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, monitoring and delivering the Group's Build to Last strategy, specifically the drive towards the targets and ambitions, as outlined in its Building New Futures sustainability strategy, the Board ensures that risks and opportunities facing the Group are identified and, where appropriate, mitigated appropriately.

The primary responsibilities of the Board are set out in the Matters Reserved for the Board, available on the Company's website.

Key responsibilities include:

- setting 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;
- Board, Executive Committee and Company Secretary appointments and succession;
- approval of the annual accounts and financial reports to shareholders;
- setting the capital allocation framework and share capital structure;
- approval of significant bids and contracts;
- review of the pipeline of significant projects;
- engagement with shareholders, employees and wider stakeholders; and
- reviewing and monitoring the Group's culture and its alignment with Group purpose, values and strategy.

Board and Committee meetings

In order to discharge its responsibilities, the Board held eight scheduled meetings throughout 2022. Details of attendance by Board members at scheduled meetings can be found on page 109.

The Group Chair sets a structured agenda for each Board 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 2022.

The key activities of the Board in 2022 are detailed on page 113. These activities are discussed under the value pillars of Lean, Expert, Trusted, Safe and Sustainable and these underpin the Board's decision-making process.

As referenced above, the Board has a formal schedule of matters reserved for its decision making and has delegated certain responsibilities to Board Committees, each with separate Terms of Reference. There are four main Board Committees: Audit and Risk, Nomination, Remuneration and the Safety and Sustainability Committee. The principal activities of each committee during the year are set out in the Committee reports on pages 130,134,136, and 142.

The Group Chair encourages all Directors to attend all Committee meetings, with the exception of instances where there is a conflict of interest, for example, where an individual's performance or remuneration is being considered. Additional attendees are invited to attend Board and Committee meetings at the discretion of the relevant chair.

As depicted on page 123, the Executive Committee is managed by the Group Chief Executive, and includes the Chief Financial Officer and nine further senior Group executives.

The primary responsibilities of the Executive Committee include:

- developing Group strategy to recommend to the Board for approval;
- ensuring Group, regional and functional strategies and resources are effective and aligned;
- monitoring Group operating performance;
- managing the enabling functions;
- overseeing the management and development of Group talent;
- monitoring communication to Group employees and external stakeholders; and
- matters relating to health and safety, sustainability and employees.

Risk and internal control

Risk management

The Board is responsible for undertaking a robust assessment of the principal risks facing the Group, as described on pages 89 to 96 of the Strategic report and ensuring that appropriate mitigating actions are in place to manage them. This includes those risks that would threaten the Group's business model, future performance, solvency and liquidity.

The Group's approach to risk management, described in more detail on pages 84 to 96, ensures that the most significant risks to the Group's objectives are identified, assessed and managed on an ongoing basis.

The Business Management System (BMS), which forms the basis of the Group's internal control framework, contains all policies, procedures and controls. BMS is regularly updated to reflect the output and effectiveness of risk and assurance activity to ensure that there is continuous improvement to the control environment.

Internal control

The Board has overall responsibility for the Group's systems of risk management and internal control and regularly reviews their effectiveness. In accordance with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Audit and Risk Committee has undertaken this review throughout the financial year. Further details can be found on page 141 of the Audit and Risk Committee report.

The Group uses the Enterprise Risk Management (ERM) framework across the business to ensure consistency in application of systems and controls and that exposure to significant risks is managed effectively. The Board is cognisant of the fact that such a system can only manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group has an independent Internal Audit function which undertakes an annual programme of risk-based audits across all of the Group's operations. All audit reports are shared with the relevant business owners who are accountable for implementing appropriate measures to address any risks or control weaknesses.

The results of all internal audit activity are also shared with the Group Chief Executive, Chief Financial Officer, the external auditor and scrutinised by the Audit and Risk Committee on a regular basis, further details of which can be found on pages 136 to 141 of the Audit and Risk Committee report.

RISK MANAGEMENT: RESPONSIBILITIES AND ACTIONS

RESPONSIBILITIES	ACTIONS UNDERTAKEN
BOARD	
• Establishment of a framework of prudent and effective controls to enable risk to be assessed, monitored and mitigated • Determine Group appetite for and attitude to risk in pursuit of its strategic objectives	• Reviewed the Group's risk landscape, profile, principal and emerging risks, and required responses • Reviewed the effectiveness of the Group's whistleblowing (Speak Up) processes and procedures, and other channels for raising concerns about Code of Ethics breaches
AUDIT AND RISK COMMITTEE	
• Review significant accounting judgements • Review the effectiveness of Group internal controls, including systems to identify assess, manage and monitor risks • Review and assess the effectiveness of the Internal Audit function, and the Internal Audit workplan	• Received regular reports on internal and external audit and other assurance activities • Reviewed the effectiveness of Group risk management and internal control systems
SAFETY AND SUSTAINABILITY COMMITTEE	
• Review main risks in relation to safety, the environment, and the Group's overall sustainability	• Received regular reports on risks in relation to safety • Received regular risk reports on matters impacting the environment
GROUP TENDER AND INVESTMENT COMMITTEE	
• Review and approve tenders and investments, triggered by certain financial thresholds or other risk factors	• Critically appraised significant tender and investment/divestment proposals, with a specific focus on risk
GROUP MANAGEMENT	
• Strategic leadership • Review and implementation of the Group risk management policy • Ensure appropriate actions are taken to manage strategic risks and other key risks	• Strategic plan and annual budget process • Produced and monitored Group Risk Register • Reviewed risk management and assurance activities and processes • Monthly/quarterly finance and performance reviews
STRATEGIC BUSINESS UNIT MANAGEMENT	
• Maintain an effective system of risk management and internal control within its businesses • Ensure that business units' responsibilities are discharged	• Reviewed key risks and mitigation plans • Reviewed and challenged business units' internal control environment • Reviewed results of internal control testing • Escalated key risks to Group management and the Board
ENABLING FUNCTION MANAGEMENT	
• Maintain an effective system of risk management and internal control within its enabling functions	• Maintained and regularly reviewed enabling function risk registers • Reviewed mitigation plans • Planned, executed and reported on internal control testing • Escalated key risks to Group management and the Board
BUSINESS UNIT MANAGEMENT	
• Maintain a robust and effective system of risk management and internal control within its business units and projects	• Maintained and regularly reviewed project, functional and strategic risk registers • Reviewed mitigation plans • Planned, executed and reported on internal control testing • Escalated key risks to strategic business unit management

Maintaining an appropriate balance

The Board monitored its composition throughout 2022 to ensure that it remained appropriately balanced, diverse and fully equipped to lead the Group successfully into the future.

The Board has diversity of thought within the Boardroom, which drives thought-provoking constructive debate, which in turn leads to considered, prudent, risk-adjusted decision making that promotes long-term shareholder and stakeholder value.

The Board's range of technical and soft skills, sector-relevant experience, and strong balance of objectivity and independence facilitates creative thinking, innovative problem solving, and better facilitates the Board's ability to convert risks into opportunities. The range of skills and experience within the Board is demonstrated below within the skills matrix.

The Board currently consists of nine members, comprising the non-executive Group Chair, two executive Directors, the Senior Independent Director and five further independent non-executive Directors. Biographies of each Board member are set out on page 111.

Conflicts of interest and independence

The Board has a number of processes and procedures in place to assess conflicts of interest and the independence of non-executive Directors against the criteria set out in the Code:

- each Director has a duty to disclose any actual of potential conflict of interest for consideration and approval, if appropriate, by the Board;
- Directors are requested to declare any conflicts at the start of all Board and Committee meetings;
- the Nomination Committee conducts an annual review of the Conflicts of Interest Register and seeks confirmation from each Director of any changes to their external appointments; and
- there is also a formal process in place for the approval of all new external appointments of Directors. In considering such appointments, the Board will consider any conflicts of interest that may arise, as well as the Directors' capacity to continue discharging their duties effectively in order to mitigate the risk of overboarding.

KEY SKILLS AND EXPERIENCE OF DIRECTORS

SKILLS AND EXPERIENCE	CHARLES ALLEN	LEO QUINN	PHILIP HARRISON	STEPHEN BILLINGHAM	ANNE DRINKWATER	STUART DOUGHTY	BARBARA MOORHOUSE	MICHAEL LUCKI	LOUISE HARDY
CEO									
Government relationships									
Finance and audit									
Health & Safety									
ESG									
Remuneration and people									
Hong Kong experience									
US experience									
UK experience									
Construction sector experience									
CAPEX heavy									
Major contracting									
Risk									

● Experienced Some experience No experience

As a result of these assessments, the Board noted that Stephen Billingham is a member of the Company's pension scheme resulting from his employment with the Group over 20 years ago. Stephen Billingham recuses himself from any discussions relating to the Company's pension scheme.

The Nomination Committee and the Board have, after completing all of the processes detailed above, confirmed the continuing independence and objective judgement of each non-executive Director, and the overall independence of the Board in line with the recommendations of the Code.

Board succession

Board and Executive Committee succession plans are based on merit and assessed against objective criteria, whilst also being managed through the lens of promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Succession plans are reviewed annually by the Nomination Committee.

During the year, succession planning and the review of Board composition saw the appointment of Louise Hardy as an independent non-executive Director. Further information on Louise's appointment is set out in the Nomination Committee report on pages 130 to 133.

In addition to the range of technical skills and experience detailed within the skills matrix, both the Nomination Committee and the Board recognise the importance of gender and ethnic diversity. The Board remains committed to meeting the ethnic diversity targets set by the Parker Review and the targets for female representation set by the FTSE Women Leaders Review; and is aiming to achieve these as soon as practicably possible through its succession planning.

Amongst other things, Board succession planning takes into account non-executive Director tenure and, consistent with best practice, Balfour Beatty would not expect a non-executive Director to serve beyond nine years unless exceptional circumstances were deemed to exist. Non-executive Directors, Dr Stephen Billingham CBE, Senior Independent Director, and Stuart Doughty CMG, are set to reach nine-years' service in mid-2024, which (in the absence of exceptional circumstances) is expected to lead to the appointment of replacement Directors and provide an opportunity to meet the targets set by the Parker Review and the FTSE Women Leaders Review.

The Board is also committed to supporting and developing a diverse pipeline of candidates for managerial, executive and subsidiary director roles within the Group. For further information on active diversity initiatives within the Group please refer to pages 68 and 69.

> "The Board's range of technical and soft skills, sector-relevant experience, and strong balance of objectivity and independence facilitates creative thinking and problem solving and enhances the Board's ability to convert risks into opportunities."
>
> **Charles Allen,**
> **Non-executive Group Chair**

TENURE AS AT 31 DECEMBER 2022 FOR NON-EXECUTIVE DIRECTORS

DIRECTOR	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	6 YEARS	7 YEARS	8 YEARS	9 YEARS
Charles Allen									
Stephen Billingham									
Anne Drinkwater									
Stuart Doughty									
Barbara Moorhouse									
Michael Lucki									
Louise Hardy									

Director reappointment

All non-executive Directors undertake a fixed term of three years subject to annual re-election by shareholders. The fixed term can be extended, and consistent with best practice, would not go beyond nine years unless exceptional circumstances were deemed to exist.

The current length of tenure for the Group Chair and each of the non-executive Directors as at 31 December 2022 is set out on page 109.

Training and development

The Board receives a full programme of briefings and updates annually across all areas of the Company's business from the executive Directors, members of the Executive Committee, senior executives and advisers. In addition, training and development sessions are arranged on specific areas during the year as required. Examples of training and development in 2022 included, amongst others, Code of Ethics, corporate governance, digital and cyber security, the Building Safety Act and accounting developments.

Any Director can request further information to support the fulfilment of their individual duties or collective Board role and, throughout the year, the Group Chair maintains dialogue with individual Directors to identify any specific training needs. Where appropriate, such training is delivered by the topic being included at a Board meeting so that all Directors can benefit. Alternatively, training is delivered by way of formal presentations, individual meetings and site visits in order to learn more about a particular initiative or project.

Information and support

During the year, the Company Secretary advised the Board on matters related to governance, ensuring Board procedures were followed and relevant statutory and regulatory requirements were complied with. The Company Secretary has responsibility for facilitating the timely distribution of information between the Board and its Committees and the executive and non-executive Directors.

The Directors have direct access for advice to the Company Secretary who is able to arrange, at the Company's expense, for the Directors to receive independent professional advice where appropriate.

Board evaluation

In line with best practice, the performance and effectiveness of the Board, its Committees and individual Directors is assessed annually through formal performance evaluation processes. Following an externally facilitated evaluation conducted by Egon Zehnder in 2021, an internal evaluation was undertaken in 2022.

Process - Board and Committee evaluations

- The Group Chair and Committee Chairs, supported by the Company Secretary, considered the context, strategy, purpose, and approach of the internal Board and Committee evaluations respectively which were carried out by way of an anonymous questionnaire following the same format as those used in 2020 for ease of comparison. The questionnaires covered:
  - leadership;
  - effectiveness;
  - Board dynamics;
  - behaviours; and
  - risk and controls.

BOARD EVALUATION PROCESS

Year 1 (2022)

Internal assessment

- Evaluation co-ordinated internally by Group Chair, Committee Chairs and Company Secretary
- Separate questionnaires prepared on a range of issues related to the Board and Board Committees
- One-to-one meetings held between Group Chair and each Director to review responses and for individual appraisal. Senior Independent Director leads the review of the Group Chair
- Group discussion at a Board meeting and actions agreed

Year 2 (2023)

Internal assessment

- Outcomes from previous evaluation and progress against each action reviewed
- Internal evaluation questionnaires prepared by Group Chair and Company Secretary, taking account of areas of concern in previous year
- One-to-one meetings held between Group Chair and each Director to review responses and for individual appraisal. Senior Independent Director leads the review of the Group Chair
- Group discussion at a Board meeting and actions agreed

Year 3 (2024)

External assessment

- Independent external evaluation firm appointed
- Evaluator works with Group Chair to refine scope of evaluation in light of previous internal evaluations
- Evaluation conducted by use of interviews with Directors and key regular attendees at Board/Committee meetings and review of agendas/papers
- Report on evaluation discussed with Group Chair and tabled for discussion at full Board meeting
- Outcomes and actions agreed

The Company Secretariat function collated the completed questionnaires and the Group Chair and Committee Chairs obtained additional qualitative insights through private meetings held with Directors individually. The final findings were presented by the Group Chair or Committee Chair and were discussed in a Board or Committee meeting.

Process - Group Chair evaluation
The evaluation of the Group Chair was also carried out by way of an anonymous questionnaire that was designed by the Senior Independent Director in consultation with the Company Secretary. The questionnaire followed the same format as that used in 2020 for ease of comparison, and was completed by all Directors other than the Group Chair. The non-executive Directors, led by the Senior Independent Director, also held a meeting at which the evaluation of the Group Chair was discussed, following which the Senior Independent Director provided feedback to the Group Chair.

The evaluation of the Directors was carried out by the Group Chair in one-to-one meetings.

Findings
The findings of the Board and Committee evaluations concluded that the Board and Committees continued to function effectively, and identified the following key findings:

Strengths:
- the Board works well together as a team;
- Board members comprehend and respect the difference between the Board's role and the executive's responsibility for running of the Company's business; and
- the Board sets the Company's values and standards and understands the Company's beliefs, values, philosophy and mission.

Areas identified for development included:
- to improve balance of management information provided across the Group's key jurisdictions;
- to ensure the Board is kept sufficiently up to date with industry developments and the Group's relative competitive positioning; and
- to enhance the ethnic and gender diversity of composition through succession planning.

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.

Board effectiveness action plan
Led by the Group Chair, with support from the Company Secretary, the Board approved and implemented an action plan to address the findings of the Board evaluation and enhance Board effectiveness.

The key actions identified are:

- receive regular reports on talent development in the Group;
- receive and provide updates on competitors in all markets in which the Group operates;
- ensure all presentations are suitably balanced between activities in all markets in which the Company operates;
- ensure the Board is kept sufficiently up to date with industry developments and the Group's relative competitive positioning; and
- close out any ongoing actions from the 2021 external Board evaluation.

Report of the Nomination Committee

I am pleased to present my second report of the Nomination Committee, setting out the key activities undertaken throughout 2022.

In 2022, as part of its refreshed Value Everyone Action Plan, the UK business launched 2030 diversity and inclusion targets to enhance female and ethnic diversity representation. As the Board, it is vital that we set the example, lead that change agenda, and diversify ourselves.

Following a review of our Board skills matrix, our Board succession plans, and the insights derived from the externally facilitated Board evaluation conducted by Egon Zehnder in 2021, the Board agreed to recruit an additional female independent non-executive Director to better balance the Board and increase diversity and female representation.

The Committee led the appointment process, commencing with a detailed candidate specification, which set out key responsibilities, experience and qualities required, including a good understanding of the sector, previous plc experience and a passion for ESG. Egon Zehnder then identified a candidate longlist which was mapped against the role profile and the Board skills matrix. The candidates with the strongest fit were reviewed by a sub-committee established to lead the search and determine which candidates progressed to the next stage.

Egon Zehnder held discussions with the candidates to confirm time capacity, interest in the role and any potential conflicts, following which Egon Zehnder created a shortlist of candidates to meet Committee members and the executive Directors.

Following the interviews, the Committee confirmed that Louise Hardy possessed the desired construction and infrastructure experience, strong plc experience, and a strong commitment to furthering the Board's social and environmental agendas. The Board approved the Committee's recommendation that Louise Hardy be appointed as an independent non-executive Director from 1 April 2022. Louise was formally elected as a non-executive Director by shareholders at the AGM on 12 May 2022. For details on the end-to-end Director appointment process, please refer to page 133.

Louise has over 30 years of construction and infrastructure business and leadership experience, and in her short tenure has already made a meaningful impact on the Board and has taken real steps to further our workforce engagement strategy in her capacity as Workforce Engagement Lead.

Louise's appointment however is only the beginning of further change and evolution to the Board's composition. The Board remains committed to continually strengthening its diversity.

Charles Allen
Chair of the Nomination Committee
15 March 2023

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

- Make recommendations to the Board on the appointment, reappointment, retirement or continuation of any Director.
- Propose and oversee induction plans for newly appointed Board members.
- Make recommendations regarding Directors' independence.
- Monitor the balance, composition, diversity, structure, and size of the Board and Committees.
- Conduct and monitor Board and Executive Committee succession planning.

SCAN TO READ THE TERMS

MEMBERSHIP

- Charles Allen (Chair)
- Stephen Billingham
- Stuart Doughty
- Barbara Moorhouse
- Leo Quinn (until 9 February 2022)

KEY ACTIONS FROM 2022

- Completed search for a new non-executive Director, Louise Hardy, and oversaw her induction.
- Reviewed Board balance, composition and diversity.
- Undertook succession planning for the Executive Committee.
- Completed an internal evaluation of the Nomination Committee (as part of the wider Board evaluation process).

PRIORITIES FOR 2023

- Review the Board's succession plans, with a focus on the short-term succession plans for Stephen Billingham and Stuart Doughty, both of whom are set to reach the end of their tenure in 2024.
- Review the Executive Committee's succession plans and the progress of professional development programmes underway to support a diverse pipeline of candidates.
- Review Board balance, composition and diversity against the short, medium and long-term needs of the Group.
- In the event of vacancies arising on the Board, the selection of new Directors.

Committee composition

The Committee comprises two independent non-executive Directors, the Senior Independent Director, and the Group Chair. In February 2022, the Group Chief Executive stepped down as a member of the Committee.

Board composition and succession

Board composition is shaped and informed by:

- succession planning activities undertaken by the Committee;
- ongoing assessments of the skills, experience and diversity required on the Board to deliver against the Group's strategy, vision and mission;
- insights derived from the Board evaluation process; and
- shareholder feedback.

The perspectives, skills and experience on the Board are mapped to the needs of the business and aligned to the Group's strategy, vision and mission. Biographies of the Directors, including details of their backgrounds and experience can be found on pages 111.

The Committee considers the length of service of the members of the Board as a whole, as well as the need for the Board to remain agile and responsive to the evolving needs of the Group and an ever-changing external environment.

Time commitment

The anticipated time commitments of the Group Chair and non-executive Directors are agreed and set out in their respective Letters of Appointment. To ensure each Director has sufficient time to conduct their duties effectively, and mitigate the risk of Director overboarding, the Committee takes the following preventative steps:

- prior to appointment, the Committee considers and assesses any existing external commitments on an individual's time. This is necessary to confirm their capacity to take on the role and discharge their duties effectively; and
- any additional external appointments are subject to Board approval to ensure Directors can continue to devote the necessary time to their duties.

Evaluation of the Committee

In 2022 the Committee undertook an internal effectiveness review as part of the wider Board evaluation process. Further details can be found on pages 128 and 129.

Re-election of Directors

All non-executive Directors undertake a fixed term of three years, subject to annual re-election by shareholders at the AGM. The fixed term can be extended, but would not exceed nine years, unless the Board deemed there to be exceptional circumstances. As part of the internal Board evaluation process, the Board undertook a review of the effectiveness and performance of each of the Directors, with a specific focus on:

- their continued ability to contribute to the long-term sustainable success of the Company; and
- their capacity to discharge their responsibilities effectively, given their external time commitments and responsibilities.

Following this review, the Committee unanimously recommends the re-election of each of the Directors at the 2023 AGM.

52% **ALLOCATION OF TIME** 48%

- Performance, balance and composition reviews
- Recruitment

Diversity and inclusion

As Balfour Beatty continues to navigate through significant macroeconomic headwinds, an ever-changing risk environment, and the global challenge to achieve net zero and operational sustainability, the Board needs to ensure it has the right balance of skills, experience and perspectives in the Boardroom to face those challenges head on. Diversity therefore must be embraced and embedded into the business, and that starts with the Board.

In 2022, the Committee took a proactive step to expand Board diversity with the recruitment of Louise Hardy, a new female independent non-executive Director. However, more needs to be done. With two of the Board's more experienced independent non-executive Directors set to reach the end of their nine-year tenures in 2024, the Committee is presented with an opportunity to take stock of the skills and experience of the Board, against the skills and experience needed to face the challenges ahead, and ensure the Group continues to deliver against its strategy and realise its vision and mission.

Looking forward to 2023, and in accordance with the new Disclosure and Transparency rules (DTR 7.2.8A) the Board has expanded its definition of diversity to cover more than gender, ethnicity, and age (as well as other protected characteristics set out within the Equalities Act, 2010) and take a more in-depth view and analysis of diversity in respect of cognitive skills, personal skills and attributes, and socio-economic backgrounds. This will be embedded into processes such as the annual Board evaluation, ongoing Board balance and composition reviews, and recruitment and succession planning. The Committee will also expand its view of diversity to cover cognitive and personal skills, as well as personal information (age, gender, ethnicity, sexual orientation, disability, educational backgrounds and professional and socio-economic backgrounds).

Gender diversity

As mentioned above, following Louise Hardy's appointment, the Board is now compliant with the Hampton-Alexander Review's target of 33% female representation on FTSE 350 boards. Expanding gender diversity on the Board is vital to increasing gender diversity throughout the Group and in breaking down barriers to inspire women to enter, and excel within, the construction and infrastructure industry. For further information on how Balfour Beatty is actively working to promote gender diversity and enhance the career trajectories of women in construction, please refer to pages 68 and 69.

As mentioned, the Board, and the Executive Committee, must lead and be the catalyst for change in respect of expanding gender diversity within the Group. The Board is therefore committed to achieving compliance with the FTSE Women Leaders Review targets by 2025, and intends to achieve compliance through short-term succession planning and professional development of its existing female independent non-executive Directors to ready them to take on more senior Board positions.

Details of the gender breakdown across the Group can be found in the People section on page 69.

Ethnic diversity

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. The Board is not yet compliant with the Parker Review and will seek to achieve compliance through short-term succession planning as two independent non-executive Directors are set to reach the end of their tenure in 2024.

The Committee acknowledges the importance of ethnic diversity on the Board, and acknowledges that for the Group to develop a truly diverse and inclusive culture, the Board needs to:

- set the right top-down example;
- be a more proportionate representation of our workforce, the communities in which we operate, and society at large; and
- foster a culture that embraces and celebrates diversity and inclusion.

As a business, Balfour Beatty must make every effort to attract and retain diverse talent and break down the barriers that stifle recruitment and progression of ethnic minorities within the industry. With the support of the HR function, the Group drives a number of initiatives to support career development of ethnic minorities within the workforce. Details of such initiatives can be found in the People section on pages 68 and 69.

Cognitive diversity

As noted above, the Committee will consider 'soft' skills (e.g. personal and cognitive attributes) to support future succession planning and enhance cognitive diversity on the Board.

> "As a business, we must make every effort to attract and retain diverse talent and break down the barriers that stifle recruitment and progression of ethnic minorities within our industry."

DIRECTOR APPOINTMENT PROCESS

When making a new appointment, the Committee takes the following steps:

1
Define recruitment criteria

Identify and articulate objectives and criteria based on its Board composition reviews and succession planning.

2
Instruct external consultant

Engage an executive search consultant to provide a diverse array of candidates for consideration.

3
Shortlist and interview

Shortlist candidates and conduct interviews.

4
Assess

Assess each candidate's existing appointments and associated time commitments, as well as any potential or conflicts of interest.

5
Recommend

Agree a recommendation for appointment to the Board, taking account of matters such as gender, social and ethnic backgrounds and cognitive and personal strengths.

See page 130 for details relating to the appointment of Louise Hardy as an independent non-executive Director.

Director induction

Following appointment, all Directors receive a comprehensive and tailored induction programme. All newly appointed Directors are required to devote the time required to complete the induction programme. The time commitments are set out in their respective Letters of Appointment. Induction programmes are designed by the Company Secretary in conjunction with the Group Chair, Senior Independent Director and Group Chief Executive.

Induction programmes are varied and include a selection of:

Meetings with the Board	One-to-one meetings with the executive Directors, non-executive Directors, and the Group General Counsel and Company Secretary.
Meetings with the Executive Committee and senior management	One-to-one meetings with members of the Executive Committee, as well as meeting 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.
Meetings with the auditors	Meetings with the Head of Internal Audit and the external audit partner (particularly for newly appointed Directors who are members of the Audit and Risk Committee).
Self-study	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.
Site visits and workforce engagements	Visits to key operational sites, offering a chance to meet the workforce. Directors continue to make regular site visits throughout their tenure, in line with the Company's Employee Voice initiative, gaining valuable insight into operations and feedback from the workforce.
Meetings with key shareholders and stakeholders	Supported by the Group Chair and the Company Secretary, the induction programme will include a schedule of meetings with major shareholders and key stakeholders in order to support newly appointed Directors' understanding of shareholder and stakeholder views, and support them in discharging their Directors' duties under Section 172 of the Companies Act 2006.
Education and training	If any skills gaps or experience are identified within the interview process, internal and external training will be provided and tailored to the needs of the Director. Directors engage in an ongoing programme of education and training throughout their tenure to continually enhance their knowledge and skills.

Safety and Sustainability Committee

Report of the Safety and Sustainability Committee

I am delighted to present the Safety and Sustainability Committee report for 2022.

As part of the evaluation of its effectiveness, the Committee considered whether separate committees should be established to deal with Safety and Sustainability respectively. The Board concluded that the Committee should continue to operate as a single committee.

The Committee Chair, with the support of the Company Secretary, ensures the agenda for each meeting is split out into two distinct sections, one covering health and safety matters, and the other covering environmental and sustainability matters. The Chair takes steps to ensure adequate time is devoted to each section, and rotates which section features first on the agenda to ensure each section receives adequate focus and attention.

The Committee met three times in 2022 and its meetings were regularly attended by other members of the Board as well as the Health, Safety and Environment Director, Lee Hewitt, and the Group Director of Sustainability, Jo Gilroy; both of whom were appointed in 2022, and both of whom provide expertise and support to the Committee on their relevant subject matters. More details on these appointees can be found on pages 46 and 56. At the discretion of the Committee, other key individuals attended the Committee, including members of the HSES Executive, the Executive Committee, business unit managing directors who are also leaders of our Fatal Risk Working Groups and HSES leads from the US business and Gammon.

In respect of the sustainability remit of the Committee, the Committee continued to focus on:

- the environmental impact of the Group's operations;
- monitoring performance against the sustainability strategy, Building New Futures;
- monitoring performance against Net Zero and Zero waste targets; and
- continued strengthening of our capability to meet increasing demands.

In respect of the safety remit of the Committee, the Committee continued to focus on:

- the Zero Harm strategy;
- reviewing any notable incidents and lessons learnt; and
- monitoring safety culture.

Stuart Doughty CMG
Chair of the Safety and Sustainability Committee
15 March 2023

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

- Reviewing strategies, policies and procedures of the Group in relation to health, safety, environment and sustainability (HSES) matters.
- Monitoring and updating the Group's control processes where appropriate.
- Approving health and safety targets and key performance indicators, monitoring the Group's performance against them and taking corrective action where necessary.
- Monitoring the Group's performance against the main health, safety, environmental and sustainability risk groups, and implementing strategies to mitigate such risks.
- Reviewing the environmental and sustainability performance of the Group, including but not limited to energy and carbon emissions, materials and waste management and social and community matters.
- Approving environmental and sustainability targets and key performance indicators, monitoring the Group's performance against them and taking corrective action where necessary.

MEMBERSHIP

- Stuart Doughty (Chair of the Committee)
- Anne Drinkwater
- Leo Quinn
- Louise Hardy (from 1 April 2022)

KEY ACTIONS FROM 2022

- Received reports on the implementation of Group initiatives.
- Reviewed findings from incidents and near misses and ensured learning was embedded across the Group.
- Received updates on regulatory developments across health and safety and sustainability matters.

PRIORITIES FOR 2023

- Monitor progress towards sustainability targets.
- Monitor progress towards carbon and waste reduction targets.
- Focus on embedding a culture of Zero Harm and Group-wide sustainability.
- Continued focus on targeted risk elimination.

Main activities of the Committee during the year

Safety performance and Zero Harm

The Health, Safety and Environment Director issued regular reports to the Committee throughout 2022 on the Group's performance against various health and safety metrics including data covering fatalities, injuries, serious and minor events, near misses, rates of lost time following an incident, and health and safety observation reporting. Following a strong performance in 2021, the Group continued to receive a high volume of workforce safety observations, indicating strong employee engagement in respect of health and safety matters. Positive employee engagement results also confirmed the continued strong Zero Harm culture within the business. Further detail on Zero Harm can be found on pages 10.

Reports were received regarding progress on Group initiatives, including:

- Supervisor Development Programme;
- locally sponsored health and safety initiatives;
- progress against the Health and Wellbeing Maturity Matrix; and
- workforce engagement on health and safety matters.

Notable incidents and fatalities

Through the Group's continued focus and ongoing commitment to Zero Harm, in 2022 no fatal incidents were recorded within the business. The Committee continued to receive regular reports on serious incidents and near misses that were deemed to have had a high potential of serious injury, including detail on learnings and actions arising. Some examples include the roll out of new controls for employees working at height to mitigate the risk of falling objects, and implementing additional safety precautions for employees working near motor vehicles, including the roll out of automated cone laying and blow up barriers to protect the workforce.

Environment and sustainability

The Committee received regular updates throughout the year on the Company's performance with regards to sustainability and environmental targets, including waste management and carbon performance, as well as monitoring the Group's social impacts and creation of social value for local communities.

The Committee monitored the embedding of a culture of sustainability across the business, specifically the building of a collective mindset and the implementation of a shared understanding of the Group's sustainability strategy through a targeted programme of education and training on sustainability and carbon literacy. The Group's cultural drive towards sustainability was visible in 2022 through the My Contribution platform, an engagement initiative whereby employees are encouraged to launch and implement their own ideas to better the business. A number of environmentally conscious ideas were launched and implemented, resulting in waste elimination, carbon reduction, use of greener technologies, lower energy utilisation, and the re-use and recycling of existing materials. For further information on workforce innovations that arose under the My Contribution platform, please refer to pages 70 to 71.

During the year, the Committee monitored performance against the Building New Futures sustainability strategy targets and ambitions and monitored progress against the Group's targeted reduction of carbon emissions. The strategy demonstrates alignment with the Sustainable Development Goals set by the United Nations and allows for consistency across the business.

Following the appointment of the new Group Director of Sustainability, Jo Gilroy, the Committee monitored the resourcing of the Sustainability function, and reviewed the appropriateness and effectiveness of the governance framework for environmental and sustainability matters.

Governance

During the year, the Committee reviewed its Terms of Reference, which can be found on the Company's website at: www.balfourbeatty.com.

Evaluation of the Committee

The Committee undertook an internal effectiveness review as part of the wider internal Board evaluation. Further details can be found on pages 128 and 129.

48% **ALLOCATION OF TIME** 52%

- Health and Safety updates
- Environment and sustainability updates

Report of the Audit and Risk Committee

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 2022. This report is intended to provide shareholders with an insight into key areas considered, together with how the Audit and Risk Committee has discharged its responsibilities and provided assurance on the integrity of the Annual Report and Accounts 2022.

The Audit and Risk Committee assists the Board in fulfilling its responsibilities related to Group financial statements, risk management and financial controls and overseeing the internal and external audit functions.

The Committee held five meetings in 2022. Further detail on attendance can be found on page 109. 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 who joined Committee meetings for specific agenda items.

During 2022, the Committee remained focused on monitoring the integrity of the Group's financial and risk reporting and continued to discharge its duties in accordance with its Terms of Reference. Further detail on the Committee's activities throughout the year is set out on the following pages.

During the year, the Committee reviewed its Terms of Reference, which can be found on the Company's website at: www.balfourbeatty.com.

Stephen Billingham
Chair of the Audit and Risk Committee
15 March 2023

MEMBERSHIP

- Stephen Billingham (Chair of the Committee)
- Stuart Doughty
- Michael Lucki
- Barbara Moorhouse

KEY ACTIONS FROM 2022

- Continued to monitor developments in the US military housing business. Reviewed progress on controls which were put in place following the resolution reached with the DoJ in December 2021 and received updates following the US Senate's Permanent Subcommittee on Investigations (PSI) hearing in April 2022 and the subsequent US Army investigation into the operations at Fort Gordon.
- Held a US-focused Audit and Risk Committee meeting, reviewing US Buildings, Civils and Investments compliance and controls.
- Monitored the roll out of the renewed Code of Ethics, including a programme of activity covering staff training and development, investment risk assessments, ethics and compliance risk assessments, and the development of a privacy project toolkit.

PRIORITIES FOR 2023

- Continue to review and challenge management's judgements on significant accounting issues including key contract judgements.
- Review progress of the independent compliance monitor and assess any related findings in association with the control environment in the US military housing business.
- Robust review of the detailed drivers and mitigation activities of the Group's principal risks.
- Support the onboarding of KPMG's new lead audit partner.

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

- Monitoring the integrity of the Group's financial statements, including providing advice (where requested by the Board) on whether the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- Reviewing the significant financial issues and judgements related to the Group's financial statements, including Investments portfolio valuations.
- Ensuring management has relevant and effective systems of risk management and internal control in place.
- Monitoring the effectiveness of the Internal Audit function.
- Overseeing the relationship with the external auditor, including annual approval of the external audit plan, review of audit opinions, setting of external auditor remuneration, and reporting the results of external audits to the Board.
- Monitoring the effectiveness, objectivity and independence of the external auditor, including factors related to the provision of non-audit services.
- Reviewing the Company's environmental, social and corporate governance reporting in line with the increasing focus in this area.

ALLOCATION OF TIME

8%

33%

29%

29%

- Financial reporting
- Internal audit, risk management and internal control
- External auditor
- Governance and other matters

COMMITTEE ACTIVITIES DURING 2022

The Committee has a substantial remit and cycle of deliverables to complete throughout the year. The Committee Chair, with the support of the Company Secretary, ensures the Committee fully discharges its responsibilities in accordance with its Terms of Reference, whilst maintaining sufficient time for discussion of ad hoc items that arise throughout the year.

		MAR	MAY	AUG	SEP	NOV
Group financial statements	Received reports on financial and accounting, contract and commercial issues and litigation					
	Approved financial results press releases and the Annual Report and Accounts to be put to the Board					
	Approved the Group's viability and going concern statements					
	Reviewed Directors' valuation of the Investments portfolio					
	Approved Greenhouse Gas Emissions representation letter to PwC					
External auditor	Reviewed the external auditor's report on the Company's full year and half year financial statements					
	Reviewed the external auditor's assessment of its objectivity and independence including a review of non-audit services (and associated fees) provided by the external auditor					
	Reviewed management representation letters related to the Company's full year and half year financial statements					
	Reviewed the external auditor's half year review plan and audit strategy					
	Audit partner rotation					
	Approved the external auditor's fees					
Risk management and financial controls (including the Internal Audit function)	Conducted assessments of the Group's systems of risk management and internal control, including a robust assessment of principal and emerging risks					
	Received updates on US military housing controls and compliance					
	Received an update on US Buildings, Civils and Investments controls and compliance					
	Internal Audit update on US military housing					
Other matters	Received updates on Group tax and insurance					
	Received updates on Group ethics and compliance, including whistleblowing reports					
	Held private meetings between the non-executive Directors, Group Risk and Audit Director and KPMG					
	Reviewed TCFD disclosures in relation to the impact of climate change					
	Reviewed live projects >£50m within UK Construction Regional					
	Updates on control enhancements from lessons learnt on London projects					

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 187 and 97 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 BENEFIT OBLIGATIONS

The key judgement relates to the assumptions underlying the valuation of retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.

DEFERRED TAX ASSETS

The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.

DIRECTORS' VALUATION OF THE INVESTMENTS PORTFOLIO

The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise. For the 2022 valuation, the Committee also reviewed the independent valuation undertaken by a third-party valuation expert to assess whether the Directors' valuation is consistent with the third-party expert's conclusions.

Committee composition

The Committee is chaired by Stephen Billingham. In accordance with the UK Corporate Governance Code, the Board has determined that Stephen has recent and relevant financial experience, and the Committee as a whole has the required skills and expertise to discharge their duties.

The Committee Chair is supported by the other Committee members in delivering the Committee's governance responsibilities. Committee members possess a range of experience relevant to the sector within which the Company operates, and also in relation to financial management, audit and risk. The Committee members' full biographical details can be found on pages 111.

Evaluation of the Committee

During the year, as part of the wider internal Board evaluation, the Committee undertook an internal effectiveness review. Further details can be found on pages 128 and 129.

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 and Internal Audit teams and the external auditor.

The Committee assessed whether the annual financial statements provide a 'fair, balanced and understandable' view of the Company's position, performance, business model and strategy, as well as:

- assessing whether the accounting policies applied, and judgements (including key contract judgements), estimates and assumptions made, by management are reasonable and appropriate based on information available (further details are on pages 187 to 193); and
- assessing whether the Company has complied with relevant financial reporting standards and other regulatory requirements, including the Code and European Securities and Markets Authority Guidelines on Alternative Performance Measures.

Going concern and viability statement

The Committee was presented with management's assessments of the Company's viability over a three-year period to 31 December 2025, 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 the Board's wider responsibility for assessing the Group's principal and other risks (see pages 89 to 96).

The Committee assessed these analyses and assumptions, taking into account cash flows, current levels of debt and the availability of future finance if required. The viability and going concern assessments, including the severe but plausible downside scenarios modelled, were discussed and the Committee concluded that the assessments were appropriate. The Committee also continued to consider the impact of climate change on the Group's viability in relation to the FSB's Task Force on Climate-related Financial Disclosures (TCFD). The Committee subsequently approved the viability statement and the going concern disclosures for inclusion in the Annual Report and Accounts 2022.

The viability statement and the going concern disclosure can be found on pages 97 and 187 respectively.

Review of compliance and controls of the US businesses

In September 2022, the Committee held a meeting which focused on the controls and compliance environment within the Group's three US businesses – Buildings, Civils and Investments.

For the construction businesses, the Committee reviewed reports setting out the risk profiles of both businesses together with the highest rated risks in each business. Alongside these risks, management described the controls in place, both for work winning and operational phases of contracts, which were centred around the Group's Gated Business Lifecycle process. Management also identified areas of internal audit findings and lessons learnt from previous failures. The reports also identified improvement areas and actions to address any shortcomings.

For the Investments business, the report presented to the Committee focused on controls in place at the US military housing business. The report sets out key control improvements which have been put in place and improvements that will be implemented in the future.

US military housing

Following Balfour Beatty Communities' (Communities) resolution with the US Department of Justice (DoJ) in December 2021, an independent compliance monitor has been appointed by the DoJ and has commenced work.

Following the Permanent Subcommittee on Investigations (PSI) hearing in April 2022, the subsequent US Army investigation into Communities' operations at Fort Gordon, Georgia, has now concluded. No presence of fraud, gross negligence or data manipulation was found. Communities continues to work with the US Army, Navy and Airforce to further enhance its maintenance provision to military services members and their families.

Financial Reporting Council

The Company's Annual Report and Accounts 2021 was subject to a limited scope thematic review of the Group's TCFD and climate disclosures. The FRC did not raise any queries, however noted some areas where improvements can be made to existing disclosures. The Group has included improvements to its disclosures in its Annual Report and Accounts 2022.

The Company remains committed to keeping abreast of good practice and changing reporting requirements and will continue to develop its reporting and disclosures.

The FRC's review provides no assurance that the report and accounts are correct in all material respects. The FRC's role is not to verify information provided, but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

The Audit and Risk Committee's role in ensuring the financial statements taken as a whole are fair, balanced and understandable

As part of the Committee's assessment as to whether the annual financial statements provide a 'fair, balanced and understandable' view, the Committee has oversight of and reviews the effectiveness of the following processes implemented by management:

- comprehensive guidance issued to all contributors;
- verification of the factual content of the financial statements;
- review of the disclosures made by the contributors to each section; and
- comprehensive reviews by senior management to ensure consistency and overall balance.

In addition to the above, the Committee also undertakes a review to determine if the entire financial statements are representative of the Group's performance in the year and challenges management on the overall balance of the report prior to recommending approval of the financial statements to the Board.

EXTERNAL AUDITOR ROTATION AND REAPPOINTMENT

2001 – 2014	2015 – 2016	2023	2026
• Deloitte incumbent external auditor	• Audit tender process conducted; KPMG appointed as external auditor at 2016 AGM	• Current KPMG lead audit partner, Paul Sawdon, will be replaced by Mike Baradell for the 31 December 2023 audit	• Next scheduled audit tender process, per Company policy

External auditor

Rotation and reappointment

The Company's external auditor is KPMG LLP. KPMG's appointment was first approved by shareholders at the 2016 AGM, following an audit tender process in 2015. KPMG replaced Deloitte, the incumbent for the preceding 14 years.

Pursuant to the provisions of the Revised Ethical Standard 2019 (as summarised below), the Company has adopted a policy that no external auditor, appointed following the implementation of the Revised Ethical Standard 2019, can remain in post for longer than 20 years. The Company has adopted a policy that the Committee will lead an audit tender process every 10 years and that this will apply to the current incumbent, KPMG. Consequently, the next external audit tender is anticipated to take place following the completion of KPMG's audit for the year ended 31 December 2025.

The Committee considers that the external auditor relationship is appropriate and productive and the Committee is satisfied with KPMG's effectiveness. The Committee considers annually the need to conduct an earlier formal tender process, where this may be required for audit quality or independence reasons. Provided the results of the annual external audit review are satisfactory, KPMG is recommended for reappointment at the AGM. There are no contractual obligations in place that restrict the Group's choice of statutory auditor.

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. Paul Sawdon completed his fifth and final year as lead partner on the audit for the year ended 31 December 2022. He will be replaced by Mike Baradell as lead partner on the audit for the year ended 31 December 2023.

The key aspects of the Revised Ethical Standard 2019 include the following:

- audit firms should have a maximum tenure of 10 years, although the UK Government proposes to allow an extension of:
  - up to an additional 10 years where a public tender is carried out after 10 years; or
  - by up to an additional 14 years where more than one audit firm is appointed to carry out the audit;
- audit firms are prohibited from providing certain non-audit services;
- where permitted non-audit services are provided by a group's auditor, they will be subject to a fees cap; and
- restrictions within any contract limiting a group's choice of auditor are prohibited

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

Independence

A formal review of the external auditor's independence is conducted by the Committee annually. The most recent review took place in March 2023, when the Committee considered a letter submitted by KPMG which sets out:

- any relationships that bear on their objectivity and independence and the safeguards implemented to address any consequent threats to independence; and
- considerations related to the provision of non-audit services, including a comparison for the prior year (further detail below).

Following review of this letter, the Committee satisfied itself that KPMG remained sufficiently independent in accordance with the relevant professional ethical standards.

Non-audit work

The Company maintains a Non-Audit Services Policy governing the provision of non-audit services. The policy sets out:

- specific services that the external auditor is prohibited from providing to the Group;
- details of any characteristics that could potentially make a service prohibited; and
- a requirement for the Chief Financial Officer to approve non-prohibited services where the fee is below £50,000, and for the Chair of the Audit and Risk Committee to approve non-prohibited services where the fee exceeds £50,000.

KPMG also operates its own internal policy that prohibits it from providing non-audit services, other than one closely related to an audit, to any FTSE 350 company.

These provisions help to safeguard the external auditor's objectivity and independence, and mitigates the risk that the external auditor will:

- audit its own work;
- make management decisions on behalf of the Group;
- act 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, and in line with the Financial Reporting Council's ethical standards, 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.

During 2022, there were fees of £0.7 million (2021: £0.5 million) paid to KPMG for non-audit services. 2022 non-audit services provided by KPMG primarily related to the review of the Group's half-year results.

Audit fees for 2022 were £4.1 million (2021: £3.5 million). Further details are included in Note 6.2 on page 199.

64% of non-audit related work provided by international accounting firms in 2022 was carried out by firms other than KPMG.

Effectiveness
As part of the Committee's annual cycle of activities, the Committee conducts an effectiveness review of the external auditor, assesses the appropriateness of the audit plan, and, assesses the external auditor's professional scepticism. From this review, recommendations for improvement are identified and communicated to the external auditor where necessary. Committee members meet privately with the external auditor and management throughout the year in order to gain feedback to support these assessments.

Risk management and internal control

The Board assumes ultimate responsibility for the effective management of risk and internal control across the Group. However, the Committee assists the Board in monitoring the Group's internal financial controls, and internal control and risk management systems, and monitoring and reviewing the work and effectiveness of the Internal Audit function.

Internal audit

The Internal Audit function plays an integral role in the Company's governance structure, providing independent assurance and advice to help the Group achieve its strategic priorities. The half yearly internal audit plans were approved by the Committee in May 2022 and November 2022 when it also assessed the adequacy of the budget and resources. Each audit plan is based on risk, strategic priorities and consideration of the strength of the control environment. Progress against the plan is monitored at each meeting. The Committee reviews the results of the internal audit reports during each meeting. Management is responsible for ensuring that issues raised by internal audit are addressed within the agreed timetable and their timely completion is reviewed by the Committee. Where internal or external circumstances give rise to an increased level of risk, the audit plan is modified accordingly.

The effectiveness of internal audit is assessed by the Committee by evaluating internal audit reports and at meetings without management present. The Committee also reviewed the resources and skills of the Internal Audit function and concluded that they are appropriate for its activities. Accordingly, the Committee is satisfied that the quality, experience and expertise of the Internal Audit function is appropriate for the business.

Internal control and risk

Details of the Group's internal controls and risk management framework are set out more fully on pages 84 to 88 in the Strategic report and pages 124 to 125 in the Governance report. The Group's principal risks are set out on pages 89 to 96.

The Committee has evaluated the effectiveness of the internal control systems operated within the Group pursuant to the FRC's guidance on internal control. The evaluation covered:

- all material financial, operational and compliance controls;
- management confirmation reports;
- reports on controls;
- reports on fraud perpetrated against the Group;
- the Group's approach to anti-bribery and corruption and whistleblowing; and
- reports from both the internal and external auditors.

The review did not identify any significant weaknesses in the system of internal control and risk management.

Whistleblowing and fraud

Throughout 2022 the Committee, on behalf of the Board, considered the confidential reporting and whistleblowing procedures the Company has in place and remains satisfied that these procedures are sufficiently robust and appropriate. The Committee also tracks any Speak Up reports received, and monitors any investigations undertaken and any restorative actions taken by the Company. The Committee also reviews any instances of fraud perpetrated against the Group and the action taken by management to prevent recurrences.

Remuneration Committee

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 2022. At the AGM in 2020, the Remuneration Policy was approved by over 93% of shareholders. In line with the normal three-year cycle, we are required to put a new Remuneration Policy forward to a binding shareholder vote at the 2023 AGM. The proposed Remuneration Policy is set out on pages 147 to 155 and a summary of how this will be implemented for the year ending 31 December 2023 is included on page 156. The remainder of the report sets out the Annual Report on Remuneration detailing how the current Remuneration Policy was applied over the year ended 31 December 2022.

Our new Remuneration Policy is proposed in the context of the continued strong performance of the Group and aligned to our Build to Last strategy for continuous improvement. Our strategy and the Remuneration Policy both continue to drive the Company forward and deliver results.

Strategic and business context

As set out in this Annual Report;

- The Group is well positioned to capitalise on the growing focus on infrastructure across the Group's chosen markets, underpinned by its unique capability and balance sheet strength. Aligned with the objective to deliver profitable managed growth and sustainable cash generation, this is reflected in the Board's commitment to a multi-year programme of strong shareholder cash returns.
- Under the leadership of Group Chief Executive, Leo Quinn, and Chief Financial Officer, Philip Harrison, Balfour Beatty has managed the economic challenges of 2022 and delivered financial results ahead of expectations reinforcing the platform for sustained growth and improved productivity. The focus on inclusive talent development ensures that Balfour Beatty has the best capability to drive performance and to deliver on its Zero Harm and Building New Futures strategies.
- The 2022 annual employee engagement survey delivered our best ever results, with higher responses rates and Group engagement index scores increasing for the fifth consecutive year. Colleagues in the UK and US responded that they feel cared for with 95% responding positively and 88% told us that they see themselves remaining with the business in 12 months' time, particularly important in a challenging market.
- During the year, the Group has closely monitored the impact of the rising cost of living on colleagues and considered how best to support them during this challenging time. Further detail is included within the wider workforce remuneration section.
- Our focus on our people, against a global backdrop of skills shortages and economic uncertainty, remains a key priority – attracting and retaining the best talent, building an inclusive culture where people thrive. The Early Careers programme is an important part of Balfour Beatty's 'grow our own' strategy and in 2022 we welcomed our largest ever cohort, with continued improvement in diversity of hires. With 6.5% of its UK workforce in 'earn and learn' positions at 31 December 2022, exceeding the 5% target, Balfour Beatty retained Gold membership of The 5% Club.

Incentive outcomes for 2022

The outcomes of the Annual Incentive Plan (AIP) for the executive Directors reflected the following (with further detail provided on pages 159 and 160):

- Stretching financial targets were set at the start of the year including a wider range and additional stretch in the cash flow targets taking into account the Committee's review of historic targets and outperformance delivered. Both the maximum profit target and cash target were exceeded, reflecting profit before tax growth of 56% and Group total cash flow of £175m.
- Representative of the strong performance and leadership of the Company by Leo Quinn and Philip Harrison, the element of bonus related to strategic business and personal objectives vested at 80% and 88% respectively.

MEMBERSHIP

- Anne Drinkwater (Chair of the Committee)
- Michael Lucki
- Barbara Moorhouse

KEY ACTIONS FROM 2022

The Remuneration Committee's time in 2022 was focused on conducting a full review of the Remuneration Policy in advance of the 2023 AGM and overseeing the implementation of the current Remuneration Policy during 2022. Key actions included:

- conducted a full review of Remuneration Policy to ensure it remains effective and aligned to the Group's strategic objectives. This will include ongoing shareholder consultation in advance of the 2023 AGM policy vote;
- considered ongoing developments in external corporate governance and best practice including the effective use of ESG measures within incentive arrangements.
- ensured the current Remuneration Policy was implemented in alignment with business strategy and culture;
- reviewed wider workforce demographics and remuneration to ensure alignment with culture and as broader context for remuneration policy; and
- reviewed and monitored remuneration practice across the Group's operations.

PRIORITIES FOR 2023

Further consideration of how to effectively incorporate ESG measures within incentive arrangements.

Ensure the implementation of the Remuneration Policy maintains alignment with culture and business strategy.

Continue to monitor remuneration practice across the Group's operations.

Continue to monitor the impact of the cost of living pressures and activity across the Group to support the wider workforce.

25%

19%

ALLOCATION OF TIME

56%

- Remuneration policy
- Remuneration of executive Directors and Executive Committee members
- Governance and other matters

ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Terms of Reference of the Remuneration Committee are available in full on the Company's website at: www.balfourbeatty.com/investors/governance/board-committees.

The Remuneration Committee's Terms of Reference were reviewed during the year to ensure compliance with the Code.

- Leo Quinn has continued to show leadership, driving the development of sustainability and carbon reporting across the business and increasing the UK social value generated to £816m from £717m. He has continued to oversee improvements in employee engagement scores, diversity and inclusion programmes and delivered improved safety performance. Further details of Leo Quinn's strategic business and personal objectives are set out on pages 159 and 160.
- Philip Harrison successfully delivered the USPP refinancing plan despite difficult market conditions, alongside establishing new banking facilities to increase bonding capacity by 27%. He has overseen the development of an improved succession pipeline and improvements in employee engagement scores and safety culture. Further details of Philip Harrison's strategic business and personal objectives are set out on page 160.
- The achievement against elements of bonus related to strategic business and personal objectives represent the strong leadership of the Company by Leo Quinn and Philip Harrison, demonstrated by the high percentage out-turns for these elements.
- The formulaic assessment of the Annual Incentive Plan against the plan targets indicated maximum pay-out against the financial targets and a high pay-out against the strategic business and personal objectives, resulting in 95% of maximum to be paid to Leo Quinn and 97% of maximum to Philip Harrison. In line with good practice, the Remuneration Committee reviewed the outcome for the executive Directors and considered this reflective of the strong performance of the Company in 2022 and not warranting any discretionary adjustment against the formulaic outcomes. In line with the Policy, 50% of the pay-out will be deferred into shares for three years.

The performance conditions relating to the 2020 PSP awards measured performance over the three years ended 31 December 2022. TSR performance over the period was above upper quartile, the maximum operating cash flow target was met and EPS exceeded maximum; as a result these awards will vest in full. In assessing the appropriateness of this outcome, the Remuneration Committee considered the overall performance of the Company over the performance period and shareholder experience, and considered the outcome reflective of the strong achievement. In addition, the Remuneration Committee also considered any potential windfall gains as a result of the award having been made during a year when businesses were experiencing uncertainty relating to the COVID-19 pandemic. The Remuneration Committee noted that the executive Directors had requested that their 2020 PSP awards were held back to June 2020 (rather than March 2020 when the other PSP awards were made). The share price used for calculating the number of shares granted for the June 2020 PSP awards was 262.4p, which was higher than the 202.3p used for the March 2020 PSP awards and more in line with the share price used for the 2018 and 2019 PSP awards, mitigating the impact of potential windfall gains.

The 2023 Remuneration Policy and key changes

Our current Policy was approved at the 2020 AGM with over 93.5% of votes in favour of it. At this time, a number of best practice features were introduced: increasing the shareholding guidelines for new executive Director appointees; including a post-employment shareholding guideline; expanding the 'malus and clawback' provisions to ensure that they can be operated in cases of gross misconduct and corporate failure; and expanding the Remuneration Committee's powers to adjust downwards the formulaic vesting outcome produced by the PSP performance conditions.

During the year, the Remuneration Committee has reviewed the current Policy taking into account: i) feedback provided by shareholders as part of previous consultations; ii) the views of the non-executive Directors and management (including themes from the Remuneration Committee's workforce engagement activities); iii) the Group's strategy; and iv) market practice. Following this review, the Committee has concluded that the current Policy remains largely fit-for-purpose and supports the strategy of the Company.

The 2023 Remuneration Policy and key changes continued

Following our consultation with shareholders and considering the feedback received, the Remuneration Committee is proposing the following changes to ensure that there is sufficient flexibility built into the Policy for the next three-year cycle:

- pension: from the end of December 2022, the pension cash allowance paid to the incumbent executive Directors will be aligned with the wider workforce, currently 7% of base salary;
- no increases to variable pay opportunity: the maximum AIP opportunity will remain at 150% of base salary. The new Policy has been updated to confirm that the on-target bonus is 50% of maximum, in line with best practice. The maximum PSP opportunities will remain at 200% of base salary for the Group Chief Executive, other than in exceptional circumstances, 175% of base salary for other executive Directors;
- AIP and PSP performance measures: the current Policy provides that a minimum 70% weighting is based on financial metrics for the annual bonus, and under the PSP a minimum of 30% of any award must be based on relative total shareholder return (TSR), with the balance being based on other financial targets. In order to provide flexibility to ensure that the AIP and PSP measures continue to be aligned with the key financial and strategic areas of business over the next three years:
  - under the new Policy, at least 50% of the AIP will continue to be based on financial measures. However, there is no current intention to increase the weighting on non-financial measures. For 2023, 75% of the AIP will continue to be based on profit and cash targets and 25% of the AIP will be based on strategic business and personal objectives; and
  - for the PSP, the requirement to have a minimum of 30% of any PSP award based on relative total shareholder return (TSR) will be retained under the new Policy. Flexibility will be introduced for the balance of the award to be based on financial or non-financial metrics provided that at least 75% of the award is based on financial and/or TSR measures.

The Remuneration Committee has also proposed some further minor and market practice changes to ensure there is sufficient flexibility built into other areas of the Remuneration Policy for the next three-year cycle. These changes are set out in full on page 147.

Remuneration for 2023

On 1 July 2022, in line with the normal salary review date, the Committee awarded a 3.5% increase in base salary for the Group Chief Executive, in line with the wider workforce, and increased the base salary for the Chief Financial Officer from £448k to £480k (a circa. 7% increase). This increase recognised the breadth of the Chief Financial Officer's role and his contribution to the success of the business, and took into account that, against sector peers, the Chief Financial Officer's base salary is positioned at the lower end of this group despite the market capitalisation and revenue of Balfour Beatty being typically higher. The next base salary review date is 1 July 2023.

At the annual review on 1 July 2022, non-executive Directors' base fees were increased in line with the wider workforce. The next review date is 1 July 2023.

As confirmed in the Remuneration Policy, the pension cash allowance for incumbent executive Directors has been aligned to the level of the wider workforce, currently 7% of base salary, with effect from the end of December 2022. No changes are proposed to the maximum incentive opportunities. The executive Directors will be able to earn a maximum bonus of 150% of base salary. 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.

During the investor consultation it was acknowledged that the inclusion of cash as a metric under both the AIP and PSP is appropriate given the materiality of the metric to the business.

Our full Remuneration Policy can be found on the Balfour Beatty website at: www.balfourbeatty.com.

> "We believe that the proposed Remuneration Policy will continue to deliver a robust link between strategy, reward and performance, supporting Balfour Beatty's drive to deliver ongoing profitable managed growth."

We have refined the proposed weighting of the metrics for the AIP for 2023 to further underpin the objective to deliver profitable managed growth, as follows:

2023 AIP weightings:

- increased weighting on Profit Before Tax to 50%;
- reduced weighting on Group Total Cash Flow to 25%; and
- 25% of the AIP will continue to be based on strategic business and personal objectives. These objectives will be disclosed in the 2023 Remuneration report and include measurable objectives aligned to delivering on our Environmental, Social and Governance, People and Quality commitments.

The 2023 PSP will be based on:

- relative TSR, Earnings Per Share (EPS) and Operating Cash Flow (OCF), each continuing with a weighting of 33.3% of the award; and
- the TSR peer group will be amended to FTSE 250 companies excluding investment trusts; a broad index that reflects Balfour Beatty's size is considered to be more appropriate than the FTSE companies ranked 51-200 (excluding investment trusts).

The Remuneration Committee will continue to be mindful of the importance of setting appropriately stretching targets for both the AIP and PSP to ensure that the incentive out-turns are commensurate with the performance delivered, wider stakeholder experience and the long-term sustainable success of the Group. The level of stretch in the targets for 2023 has been reviewed by the Remuneration Committee in light of the Group's current and expected performance over the performance period. As noted above, wider ranges and additional stretch have been applied following the Remuneration Committee's review of historic cash targets. Given the commercial sensitivity, the 2023 AIP targets will be disclosed on a retrospective basis in the 2023 Remuneration report. The EPS and OCF targets for the 2023 PSP are disclosed prospectively on page 156.

Shareholder engagement

The Remuneration Committee consulted the Company's top 20 shareholders and the main proxy voting advisory agencies to outline the proposed changes to the Policy and our remuneration proposals for 2023 and invited their feedback.

Our major shareholders who provided feedback were largely supportive of the proposals and welcomed the Remuneration Committee retaining the current level of variable pay opportunity. The key themes from the feedback related to: i) focus on our approach to supporting our people with the challenges they are facing as a result of the rising cost of living; and ii) the performance metrics and weightings for the 2023 AIP and PSP. As a result of the feedback received, the Remuneration Committee decided to retain the requirement to have a minimum of 30% of any PSP award based on relative TSR under the new Policy. We also refined the proposed weighting of the metrics for the AIP for 2023 as set out above.

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.

For the wider workforce, the main salary review for the UK (excluding collective agreements) was effective from 1 January 2022 at a time when inflation rates were progressively increasing. A total budget of 4.5% was established with the guideline that 3.5% should be allocated in January 2022 (within a range based on performance, market positioning etc). The further 1% budget was used to support in-year market adjustments.

During the year, the Group has closely monitored the impact of the rising cost of living. In addition to reviewing pay, in considering how to best support colleagues in the UK, Balfour Beatty has built greater awareness of and improvements to employee benefits and the discounts scheme, enhanced family friendly policies and provided financial education (including a financial coaching pilot planned for 2023).

For 2023, Balfour Beatty will be increasing its salary review budget ensuring a specific focus on lower paid roles, with increases in the January 2023 main review consolidated into base pay (rather than 'one-off' payments). The Group aims to consistently apply pay principles to ensure fair, equitable and market competitive pay levels, benchmarking internally and externally against general and sector-specific data, alongside other statutory and voluntary wage levels, including the Real Living Wage.

Following the 2023 annual review, all UK employees with the exception of a small number where either a further review is planned or pending for 2023 or they are part of a specific group, e.g. Apprentices, will be paid at a rate above the voluntary Real Living Wage.

Balfour Beatty's UK gender pay gap increased slightly in 2022 compared to 2021, although both the mean and median measures show a narrowing of the gap compared to the pre-COVID reporting period. The focused activity implemented through the Value Everyone Action Plan remains pivotal in our aims to narrow the gap. Detailed analysis has been undertaken to further understand how specific actions impact the pay gap which highlights that a significant reduction will only be achieved over the longer term. We will continue to develop this analysis to support the identification of targeted activities moving forward.

The Group Chief Executive to average UK employee pay ratio increased for 2022 in comparison to 2021, reflecting the fact that a greater proportion of executive Director pay is linked to annual performance through a higher annual incentive plan opportunity, and the out-turn for both the AIP and PSP in 2022 being higher when compared to 2021.

Conclusion

We believe that implementation of the Remuneration Policy will continue to deliver a robust link between strategy, reward and performance, supporting Balfour Beatty's drive to deliver ongoing profitable managed growth. The Company's remuneration policies have been, and will continue to be, implemented rigorously, aligned with the Group's strategic goals and culture. We hope you will support the Remuneration report at the 2022 AGM.

Anne Drinkwater
Chair of the Remuneration Committee
15 March 2023

REMUNERATION AT A GLANCE

Ahead of the Annual Report on Remuneration, we have summarised below the key remuneration outcomes for 2022.

Key:
- Threshold
- Target
- Maximum
- Actual

AIP METRICS AND OUTCOMES

Profit before tax and non-underlying items

Threshold	£160.2m
Target	£200.2m
Maximum	£220.3m
Actual	£291m

ACTUAL
£291m
>100%
of Maximum

Group total cash flow[1]

Threshold	£(94.5)m
Target	£(71.5)m
Maximum	£45.2m
Actual	£175m

ACTUAL
£175m
>100%
of Maximum

Strategic business and personal objectives

GROUP CHIEF EXECUTIVE	CHIEF FINANCIAL OFFICER
ACTUAL 80% of Maximum	ACTUAL 88% of Maximum

AIP out-turn

GROUP CHIEF EXECUTIVE	CHIEF FINANCIAL OFFICER
ACTUAL 95% of Maximum	ACTUAL 97% of Maximum

PSP METRICS AND OUTCOMES

Total shareholder return

Threshold	Median
Maximum	Upper Quartile
Actual	Above Upper Quartile

ACTUAL
>100%
of Maximum

Operating Cash Flow (OCF)[2]

Threshold	£135m
Target	£169m
Maximum	£203m
Actual	£219m

ACTUAL
>100%
of Maximum

Earnings per share[3]

Threshold	22p
Maximum	33p
Actual	47.5p

ACTUAL
>100%
of Maximum

PSP out-turn

CEO	100% of Maximum
CFO	100% of Maximum

EXECUTIVE DIRECTOR REMUNERATION SCENARIOS

£	GROUP CHIEF EXECUTIVE: ACTUAL	GROUP CHIEF EXECUTIVE: ON-TARGET[5]	CHIEF FINANCIAL OFFICER: ACTUAL	CHIEF FINANCIAL OFFICER: ON-TARGET[5]
Total	£4,107k	£2,381k	£2,137k	£1,280k
PSP	47%	34%	40%	31%
AIP	29%	25%	33%	26%
Fixed pay	24%	41%	27%	43%

Key:
- PSP
- AIP
- Fixed pay

EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES

(% of base salary held)	GROUP CHIEF EXECUTIVE: ACTUAL[4]	GROUP CHIEF EXECUTIVE: GUIDELINE	CHIEF FINANCIAL OFFICER: ACTUAL[4]	CHIEF FINANCIAL OFFICER: GUIDELINE
	1,348%	200%	555%	150%

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

1 Group total cash flow of £175m is the movement between opening and closing total net cash adjusted for £150m share buyback.
2 Operating cash flow of £219m is defined in the Measuring our financial performance section.
3 Underlying basic earnings per share from continuing operations.
4 In line with the Investors Association (IA) guidelines, calculations shown include shares beneficially owned at 31 December 2022 plus unvested shares, which are not subject to a further performance condition, on a net of tax basis, calculated using base salary at 31 December 2022.
5 Group Chief Executive's and Chief Financial Officer's remuneration scenarios are calculated on base salaries at 1 January 2022 of £800k and £448k respectively.

Proposed Directors' remuneration policy

The 2023 Policy was developed over the course of the year with input from Remuneration Committee members, other Non-executive Directors and management, ensuring that conflicts of interest were suitably mitigated. The Remuneration Committee also took into account the themes from its workforce engagement activities and the pay policies across the Group. The Remuneration Committee consulted with shareholders during the year on the proposals and the feedback received was largely supportive. The Remuneration Committee also assessed the 2023 Policy for clarity, simplicity, risk management, predictability, proportionality and alignment to culture, as set out on page 157.
A summary of the proposed changes to the Remuneration Policy are:-

- pension: from the end of December 2022, the pension cash allowance paid to the incumbent executive Directors has been aligned with the wider workforce, currently 7% of base salary;
- no increases to variable pay opportunity: the maximum AIP opportunity will remain at 150% of base salary. The new Policy has been updated to confirm that the on-target bonus is 50% of maximum, in line with best practice. The maximum PSP opportunities will remain at 200% of base salary for the Group Chief Executive, other than in exceptional circumstances, 175% of base salary for other executive Directors;
- at least 50% of the AIP will continue to be based on financial measures;
- for the PSP, the requirement to have a minimum of 30% of any PSP award based on relative total shareholder return (TSR) under the new Policy has been retained. Flexibility has been introduced for the balance of the award to be based on financial or non-financial metrics provided that at least 75% of the award is based on financial and/or TSR measures; and
- other minor and market practice changes:
  - clarifying that dividend equivalents on deferred share awards and performance share awards that vest for executive Directors will normally be settled in shares, with cash settlement only to be applied where the circumstances make that appropriate, for example, where there is a regulatory restriction on the delivery of shares, or in respect of the tax liability arising in relation to the award;
  - providing additional flexibility in the recruitment and promotion policy for executive Directors in line with market practice. For example, including appropriate flexibility where an interim appointment is being made to fill an executive Director role on a short-term basis; or if exceptional circumstances require that the Group Chair or a Non-executive Director takes on an executive function on a short-term basis;
  - payments for loss of office for executive Directors: the new Policy includes the ability to pay outplacement fees;
  - no substantive changes to the current Policy for leavers. Flexibility is being included in the new Policy to pay a bonus in cash rather than deferred shares on cessation of employment where this would reduce the administration of doing a simultaneous transaction i.e. granting a deferred share award which vests immediately with shares sold for cash on cessation of employment; and
  - flexibility is being included to be able to pay additional fees to Non-executive Directors for other responsibilities or time commitments. Flexibility is also being included to extend the current ability to pay a travel allowance to Non-executive Directors based outside Europe for travel to the UK on Company business to all Non-executive Directors for intercontinental travel on Company business (excluding travel within home continent).

Further context is set out in the Remuneration Committee Chair's report.

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

Element of pay	Purpose and link to Company's strategy	How it is operated in practice	Maximum opportunity	Performance metrics
Base salary	To attract and retain high-calibre individuals. To provide a competitive salary relative to comparable companies in terms of size and complexity.	Salaries are normally reviewed and set annually in July. The Committee considers remuneration levels in companies of comparable market capitalisation, revenue and industry sector. In addition, a key reference point for salary increases is the average increase across the general workforce (with the exception of promotions or significant changes in responsibility). Salaries are paid monthly.	There is no prescribed maximum annual increase. The Committee is guided by the general increase for the wider employee population. However, increases may be awarded which are different to the general increases for the wider population where appropriate. This includes the ability to award higher increases in appropriate circumstances, such as: • on promotion or in the event of an increase in scope of the individual's role or responsibilities; • where an individual has been appointed to the Board at a lower than typical market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a typical market level as the individual gains experience; • change in size and/or complexity of the Group; and/or • significant market movement. Increases may be implemented over such time period as the Committee deems appropriate.	While no performance conditions apply to fixed remuneration, a number of factors are considered, notably market competitiveness, business and personal performance.
Benefits	To aid retention and to remain competitive in the marketplace. In addition, medical benefits are provided to minimise disruption due to absence.	Private medical (including for the executive Director's family) and life assurance may be provided. A car and fuel card or car allowance are offered. Other benefits may be provided based on individual circumstances, which may include relocation costs or allowances, travel and accommodation expenses. Reimbursed expenses may include a gross-up to reflect any tax or social security due in respect of the reimbursement.	The Committee has not set a maximum level of benefits executive Directors may receive. The value is set at a level which the Committee considers to be appropriate taking into account the nature and location of the role and individual circumstances.	None.
Pension	To remain competitive in the marketplace.	Executive Directors can elect either to: • receive an employer contribution to the defined contribution (DC) section of the Group's pension fund; • receive a salary supplement in lieu of a pension; or • receive a combination of an employer contribution to the DC pension fund and a salary supplement.	The maximum employer contribution (whether by way of employer pension contribution, salary supplement, or a combination) will not exceed the level of contribution available to the wider workforce, currently 7% of base salary.	None.

Element of pay	Purpose and link to Company's strategy	How it is operated in practice	Maximum opportunity	Performance metrics
Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)	To motivate executive Directors and incentivise the achievement of key business performance targets over the financial year without encouraging excessive risk taking. Managing risk is critical, particularly given the nature of the Company's business. To facilitate share ownership, aid retention and provide further alignment with shareholders.	The payment of any bonus is at the absolute discretion of the Committee which has the discretion to override the out-turn of the bonus if appropriate to do so. It may exercise this discretion to take account of factors including, but not limited to, the underlying financial and operational performance of the Group, individual performance and HSE and Sustainability record. 50% of any payment is normally deferred into shares for three years. Deferred share awards may take the form of nil cost options, conditional awards of shares or such other form as has a similar economic effect. Both the cash and deferred share elements of the annual bonus are subject to malus and clawback provisions – see 'Malus & Clawback' below for further details. Participants may also receive an additional award of shares in lieu of the value of dividends paid over the deferral period in relation to deferred shares (this payment may assume that dividends had been reinvested in Balfour Beatty shares on a cumulative basis).	Maximum annual incentive opportunity is 150% of base salary.	Each year the Committee will select performance measures for the annual bonus that are aligned with the strategy of the Company. At least 50% of the annual bonus will be based on financial metrics. Subject to the Committee's discretion to override the bonus out-turn: • for financial measures, up to 20% of maximum is earned for threshold performance rising to up to 50% for on-target performance and 100% for maximum; and • for strategic or individual objectives between 0% and 100% of maximum is earned based on the Committee's assessment of the extent to which the relevant metric or objective has been met. The AIP performance measures and weightings for 2023 are disclosed on page 156. The choice and weighting of the metrics for future awards may be altered to reflect the changing needs of the business. The Committee retains the discretion to retrospectively amend the measures, weightings, targets and/or method of assessment for the in-year bonus to take into account a change in the business strategy, significant acquisition or disposal, change in accounting treatment or other exceptional event to ensure that the scheme is able to fulfil its original purpose.

Element of pay	Purpose and link to Company's strategy	How it is operated in practice	Maximum opportunity	Performance metrics
Performance Share Plan (PSP)	To incentivise and reward delivery of long-term performance linked to the business strategy. To facilitate share ownership and provide further alignment with shareholders. To aid retention.	The Committee may grant awards as conditional shares, as nil (or nominal) cost options, as forfeitable shares or in such other form as has a similar economic effect. PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year. Awards will ordinarily vest, subject to performance, following the assessment of the applicable performance conditions which will typically be assessed over three years. Awards will be subject to an additional two-year holding period post vesting, during which time awarded shares may not ordinarily be sold (other than for tax). Alternatively, the holding period may be operated on the basis that awards will not normally be released (so that the participant is entitled to acquire shares) until the end of the holding period of two years beginning on the vesting date. The Committee has the discretion to override the formulaic out-turn of the award if appropriate to do so. It may exercise this discretion to take account of factors including, but not limited to, the underlying financial and operational performance of the Group, individual performance and HSE and Sustainability record. Malus and clawback provisions apply to all awards made under the PSP – see 'Malus and clawback' below for further details. Participants also receive an additional award of shares in lieu of the value of dividends paid over the vesting period and, if the holding period is operated on the basis shares cannot be acquired until the end of it, over the holding period in relation to vested shares (this payment may assume that dividends had been reinvested in Balfour Beatty shares on a cumulative basis).	The limit in the rules of the PSP is 200% of base salary which will be applied to the Group Chief Executive. Other than in exceptional circumstances, the normal limit for other executive Directors will be 175% of base salary.	PSP awards will be granted in accordance with the rules of the PSP and the discretions contained therein. Performance measures will be set on an annual basis to reflect the Company's strategy and provide stretching conditions in the light of the Company's current and expected performance over the performance period. A minimum of 30% of any award will be based on relative total shareholder return (TSR). The balance of any award may be based on financial and/or non-financial metrics provided that at least 75% of the award is based on financial and/or TSR measures. Subject to the Committee's discretion to override the formulaic outturn of the award, there is up to 25% vesting for threshold performance, rising to 100% vesting for maximum performance. The PSP performance measures and weightings for 2023 are disclosed on page 156. The choice and weighting of the metrics for future awards may be altered to reflect the changing needs of the business.

Element of pay	Purpose and link to Company's strategy	How it is operated in practice
Shareholding guidelines	To align the interests of executive Directors with those of shareholders.	**In-post requirements** Executive Directors are expected to accumulate a shareholding in the Company's shares to the value of 200% and 150% of base salary for the Group Chief Executive and the Chief Financial Officer respectively. For new executive Directors, the requirement will be 200% of base salary, with the aim that this is built up within five years of employment commencing. Executive Directors are expected to retain at least 50% of shares (net of tax) which vest from awards made under the PSP and DBP until the target shareholding is attained. **Post-cessation requirements** For incumbent executive Directors, the post-vesting holding condition, which applies to PSP awards from 2019 onwards, requires the vested shares (net of tax) to be held until the fifth anniversary of grant and will continue to apply post-cessation of employment. 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. No post cessation restriction will apply to shares purchased by Directors from their own funds. The Committee retains discretion to vary the application of the shareholding guidelines in exceptional circumstances.

Malus and clawback

The rules of the PSP and the AIP (including any element deferred into shares under the DBP) include provisions for malus and clawback to apply if the Committee concludes that:

- any financial results or other performance measures used to assess the extent to which an award vested or payment was made was misstated, incorrect or misleading;
- the extent to which an award or payment was made was based on error;
- an event, act or omission occurs which results in any member of the Group suffering material reputational damage;
- any member of the Group has suffered an instance of corporate failure, which includes, but is not limited to: a material reduction in the value of the relevant company; an involuntary insolvency or similar circumstance; or any event that the Committee determines has a material negative impact on any of the stakeholders in the Company; or
- the relevant individual has committed misconduct.

Clawback generally may be applied for up to two years following payment of a cash AIP, and up to two years following vesting in respect of awards granted under the DBP and PSP.

Discretions retained by the Committee in operating the PSP and other variable pay schemes

The Committee operates the Group's various incentive plans according to their respective rules and (where applicable) in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee. These include:

- determining who may participate in the plans;
- determining the timing of grants of awards and/or payments under the plans;
- determining the quantum of any awards and/or payments (within the limits set out in the policy table above);
- in exceptional circumstances, such as where there is a regulatory restriction on the delivery of shares or in respect of the tax liability arising in relation to the award, determining that a share-based award or any dividend equivalent shall be settled (in full or in part) in cash;
- determining the performance measures and targets applicable to an award (in accordance with the statements made in the policy table above), including discretion to amend or substitute the performance measures and targets in the event of changes in accounting standards or if anything happens which causes the Committee to reasonably to consider it appropriate to do so;
- where a participant ceases to be employed by the Group, determining whether 'good leaver' status shall apply;
- determining the extent of vesting of an award based on assessment of the performance conditions, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- whether, and to what extent, awards shall be reduced pro-rata to reflect the proportion of the performance period completed in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events;
- whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply;
- making appropriate adjustments to awards on account of certain events, such as major changes in the Company's capital structure; and
- reduce, delay or impose additional conditions on payments and/or vesting of awards.

Consideration of shareholders' views

The Committee considers feedback from shareholders received at each AGM, and any feedback from additional meetings or from published investor guidelines, as part of any review of executive remuneration. In addition, the Committee engages proactively with shareholders and will ensure that shareholders are consulted in advance where any material changes to the remuneration policy and implementation of that policy are proposed. Indeed, the process surrounding the formulation of the 2023 Policy included a programme of engagement with the Company's largest institutional investors (including the top 20 shareholders) and a selection of proxy agencies in order to understand their views on the proposed approach. The major shareholders who provided feedback were largely supportive of the proposals and welcomed the Remuneration Committee retaining the current level of variable pay opportunity. As a result of the feedback received, the Remuneration Committee decided to retain the requirement to have a minimum of 30% of any PSP award based on relative total shareholder return (TSR) under the new Policy.

Consideration of employment conditions elsewhere in the Group and differences between arrangements for executive Directors and other employees

In determining the remuneration of the executive Directors, the Committee takes into account the general trends in pay and conditions across the Group as a whole. Whilst employees have not been consulted formally on executive pay, due in part to the diverse geographic disposition of the Group, the Committee also took into account the pay policies across the Group and themes from its workforce engagement activities. The Committee also seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the wider workforce are taken.

The following differences exist between the Company's policy for the remuneration of executive Directors and the Group's approach to the payment of employees generally:

- participation in the PSP is typically aimed at the executive Directors and certain selected senior managers. Other employees may be invited to participate in the Restricted Share Plan (RSP) to aid retention and recognition. Shadow PSP and RSP schemes have been introduced on a cash-settled basis which mirror the conditions of the equity-settled PSP and RSP schemes, awards under which are principally made to senior managers based in the US. All UK employees, including executive Directors, are eligible to participate in the Company's Share Incentive Plan up to prevailing HMRC limits;
- a lower level of maximum annual bonus opportunity applies to eligible employees other than executive Directors. For certain selected senior managers, a proportion of any bonus will be deferred into shares under the DBP (or a shadow cash-settled DBP for senior managers based in the US);
- benefits offered to other employees, depending on their employee grade, may include health insurance, death-in-service benefit, a company vehicle or cash allowance and access to other voluntary employee benefits.

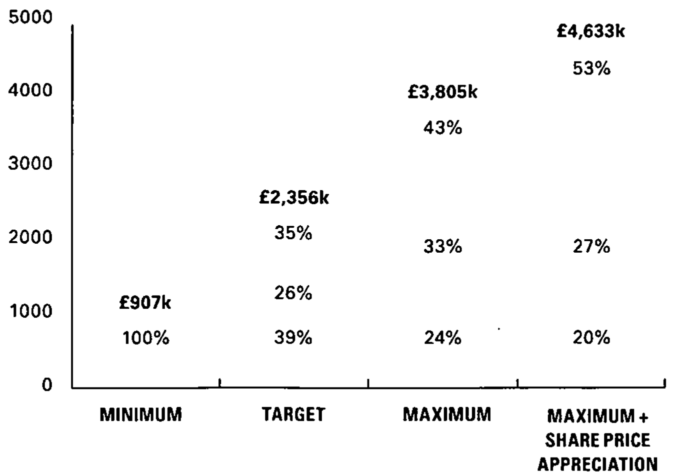
In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive Directors, a greater emphasis is placed on variable pay.

Executive Director remuneration scenarios

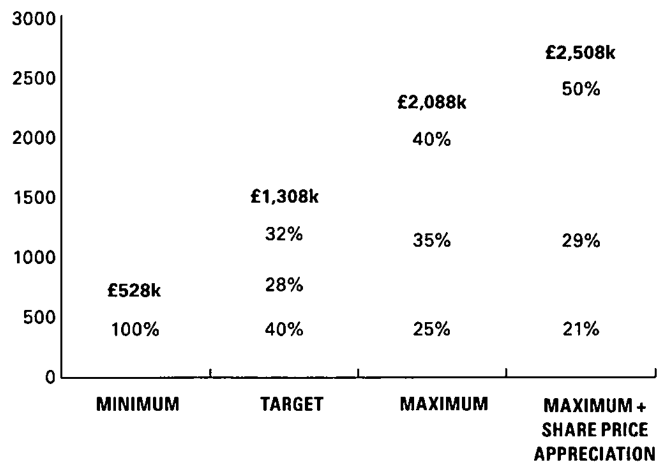
A significant proportion of executive Directors' remuneration is linked to performance, particularly at maximum performance levels.

The charts below show how much the Group Chief Executive and Chief Financial Officer could earn in future periods based on different performance scenarios in respect of awards to be made in the 2023 financial year under Balfour Beatty's remuneration policy.

CHIEF EXECUTIVE OFFICER (£000)



CHIEF FINANCIAL OFFICER (£000)



The following assumptions have been made:

- minimum (performance below threshold) – fixed pay only with no vesting under any of Balfour Beatty's incentive plans;
- target – fixed pay plus a bonus (AIP) at the mid-point of the range (giving 50% of the maximum opportunity) and vesting of 50% of the face value of the award at grant under the PSP;
- maximum (performance meets or exceeds maximum) – fixed pay plus 100% of the bonus (AIP) opportunity and 100% of the face value of the award at grant under the PSP; and
- maximum + 50% share price growth (performance meets or exceeds maximum and 50% increase in share price) – fixed pay plus maximum bonus (AIP) and maximum vesting under the PSP at a 50% higher share price than when the PSP award was granted.

Fixed pay comprises:

- salaries – base salary effective as at 1 July 2022;
- benefits – amount received in the 2022 financial year; and
- pension – cash allowance in lieu of pension at 7% of base salary.

Recruitment and promotion policy for executive Directors

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

When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate. However, this discretion is capped and is subject to the limits referred to below.

The salary would be set at a level, based on the principles above, to secure the most appropriate candidate but paying no more than is necessary and in the best interests of the Company and its shareholders. This may include agreement on future increases, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.

Pension contributions (and/or salary supplement in lieu) will not exceed the level of contribution available to the wider workforce, currently 7% of salary. The AIP potential would be limited to 150% of salary, and grants under the PSP may be up to the plan maximum of 200% of salary per annum.

The Committee will not offer non-performance related incentive payments (such as a 'guaranteed sign-on bonus', for example).

Other elements may be included in the following circumstances:

- an interim appointment being made to fill an executive Director role on a short-term basis;
- if exceptional circumstances require that the Group Chair or a non-executive Director takes on an executive function on a short-term basis;
- if an executive Director is recruited at a time in the year when it would be inappropriate to provide an incentive for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.

The Committee may also alter the performance measures, performance period, vesting period, holding period and deferral period of the AIP or PSP, subject to the rules of the PSP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' remuneration report.

The maximum level of variable remuneration, which may be granted (excluding 'buy-out' awards) is 350% of salary.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited in connection with leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure 'buyout' awards or payments on a comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above.

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

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

Fees payable to a newly appointed Group Chair or non-executive Director will be in line with the policy in place at the time of the appointment.

Service agreements and payments for loss of office for executive Directors

It is the Company's policy that executive Directors should have contracts with an indefinite term, which can be terminated on one year's notice by the Company and six months' notice by the executive Director. In accordance with the Code, all executive Directors submit themselves for re-election at the AGM.

Service agreements and payments for loss of office for executive Directors continued

In the event of termination, the following principles will apply:

Provision	Detailed terms
Notice period	One year by the Company, and six months by the executive Director. For any newly appointed executive Director, the Committee may offer a notice period of up to 12 months by either party. In the event of termination by the Company 'for cause' the executive Director would not be entitled to the period of notice specified above under his or her contract of employment or to any payment in lieu of notice.
Notice payments	If any existing contract was terminated by the Company (other than for cause), it would be liable to pay salary and contractual benefits for the notice period, including any period of garden leave. The Company may elect to make payment in lieu of any unexpired period of notice comprising salary and a cash sum in lieu of benefits. The Company reserves the right to apply mitigation to any payment in lieu of notice, for example by making phased payments where appropriate for the balance of any notice period, against which earnings from new employment would be offset.
Annual bonus	This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question, such that a bonus will be paid only in circumstances that the Committee considers are 'good leaver' circumstances. Any bonus payment would typically be pro-rated for time in active service and paid at the usual time, subject to the Committee's assessment of the extent to which the performance conditions would have been satisfied. The Committee retains discretion to pay the whole of any bonus earned in cash in appropriate circumstances. Having this ability to pay a bonus in cash rather than deferred shares on cessation of employment would reduce the administration of doing a simultaneous transaction i.e. granting a deferred share award which vests immediately with shares sold for cash on cessation of employment.
Deferred bonus awards	Any share-based entitlements granted to an executive Director under the DBP will be determined based on the relevant plan rules. For incumbent executive Directors, outstanding DBP awards will lapse on cessation of employment, except in certain good leaver circumstances prescribed by the plan rules when DBP awards will vest in full on the date of cessation. For new executive Director appointees, in certain 'good leaver' circumstances prescribed by the plan rules, DBP awards will vest on the normal vesting date. However, the Committee has discretion to determine that DBP awards will vest at cessation in appropriate circumstances.
PSP awards	Any share-based entitlements granted to an executive Director under the PSP will be determined based on the plan rules. The default treatment under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill health, injury, disability, retirement or other circumstances at the discretion of the Committee, awards will not be forfeited on cessation of employment and, subject to the satisfaction of the relevant performance conditions, will vest under the normal vesting schedule, being reduced pro-rata to reflect the proportion of the performance period actually served. However, the Committee has discretion to determine that PSP awards vest at cessation and/or to amend time pro-rating in appropriate circumstances.
Change of control	There are no provisions for enhanced termination payments in the event of change of control of the Company.
Incidental expenses and other payments	The Company may meet relocation and other incidental expenses on termination of employment, for example relocation expenses, outplacement fees, the fees of legal or other professional advisers, and accrued but untaken holiday. It may also elect to continue to provide certain benefits rather than making payment in lieu of the benefit in question. Awards under the Company's all-employee Share Incentive Plan will be treated in accordance with the rules of that plan.

Where a 'buyout' or other award is made, the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Legacy arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed:

- before the policy came into effect (provided that, in the case of any payment agreed after the Company's 2014 Annual General Meeting, they are in line with the policy in place at the time the terms were agreed or were otherwise approved by shareholders); or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company; and to satisfy contractual commitments under legacy remuneration arrangements.

For these purposes, 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

External appointments of executive Directors

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

Appointment of Non-executive Directors

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

Element of pay	Purpose and link to Company's strategy	How it is operated in practice	Maximum opportunity
Non-executive Director fees	To attract and retain high-quality and experienced non-executive Directors.	The Group Chair is paid an annual fee and the non-executive Directors are paid an annual base fee and additional responsibility fees for the role of Senior Independent Director or for chairing a Board Committee. Additional fees may be paid for other responsibilities or time commitments. Non-executive Directors may receive a travel allowance for intercontinental travel on Company business (excluding travel within home continent). The Non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes. The Company will pay any reasonable business related expenses (including tax thereon where determined as a taxable benefit). The Group Chair and Non-executive Directors may also be eligible to receive benefits such as the use of secretarial support, assistance with the preparation of tax returns, or other benefits that may be appropriate.	Fees are set taking into account the responsibilities of the role and expected time commitment. Where benefits are provided to Non-executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances.

The appointment letters for Non-executive Directors may be terminated with three months' notice (six months' notice for the Group Chair) by either party and contain no provision for payment in the event of termination in addition to such notice.

Summary of the proposed implementation of the Remuneration Policy in 2023

	Our approach for 2023
BASE SALARY	During the year the Committee reviewed the market positioning for remuneration of the Group Chief Executive and Chief Financial Officer. On 1 July 2022, in line with the normal salary review date, the Committee awarded a 3.5% increase for the Group Chief Executive from £800k to £828k, in line with the wider workforce, and increased the base salary for the Chief Financial Officer from £448k to £480k (a circa. 7% increase). The Chief Financial Officer's increase recognised the breadth of his role and his contribution to the success of the business, and took into account that, against sector peers, the Chief Financial Officer's base salary is positioned at the lower end of this group despite the market capitalisation and revenue of Balfour Beatty being typically higher. The next base salary review date is 1 July 2023.
PENSION AND BENEFITS	The pension provision for incumbent executive Directors has been aligned to the level of the wider workforce, currently 7% of base salary, with effect from 31 December 2022.
ANNUAL INCENTIVE PLAN (AIP)	For 2023, 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 (50%); • cash (25%); and • strategic business (including health & safety, environmental and sustainability measures) 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 2023 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 2023.
LONG-TERM INCENTIVE	For 2023, 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 2023 will be based on the achievement of three performance measures EPS (33.3%), cash (33.3%) and relative TSR (33.3%). The TSR peer group will be amended to be FTSE 250 companies (excluding investment trusts) as this is a broad index that reflects Balfour Beatty's size (whilst removing investment trusts that largely move more independently to the general market) and is considered to be more appropriate than the FTSE companies ranked 51-200 (excluding investment trusts).

Metric	Measure	Threshold	Target	Maximum
Total shareholder return	TSR ranking	Median	—	Upper Quartile
Cash	Operating cash flow (OCF)	£242m	£346m	£396m
EPS	Underlying basic EPS from continuing operations	33p	—	50.7p

The Committee considers that the performance measures are aligned to long-term business strategy and appropriately stretching reflecting the current environment.

SHAREHOLDING GUIDELINES	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	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 on 1 July 2022, Non-executive Directors' fees were increased in line with the wider workforce. The next review date is 1 July 2023.

	1 July 2021 (£)	1 July 2022 (£)
Group Chair[1]	290,000	300,150
Base Fee	65,000	67,275
SID Fee	10,000	10,000
Committee Chair Fee	15,000	15,000

1 Fee for Charles Allen at appointment on 20 July 2021

Louise Hardy receives a fee of £10k per annum in respect to her responsibility as Workforce Engagement Lead from 21 July 2022.

All Non-executive Directors may be paid a travel allowance for intercontinental travel on Company business (excluding travel within home continent).

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; and • the Committee has the discretion to vary formulaic outcomes for incentive vesting should outcomes not reflect the underlying performance of the Group.
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.	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 2023 under our proposed remuneration policy are set out on pages 152 and 153. The Committee is comfortable that the discretions available to it are sufficient.
PROPORTIONALITY The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	A significant proportion of an executive Director's reward is linked to performance through the incentive framework, with a clear line of sight between performance and the delivery of long-term shareholder value. Performance measures and the underlying targets are reviewed regularly by the Committee to ensure that they are directly aligned to the Group's strategic priorities, and targets are calibrated to reward for strong performance over the performance period. Executive Directors are required to build material shareholdings in the Company and are subject to a post-cessation shareholding requirement on PSP awards which will ensure that their interests are aligned to the Group's long-term performance.
ALIGNMENT TO CULTURE Incentive schemes should drive behaviours consistent with the Company's purpose, values and strategy.	The Committee is focused on ensuring that the Company's cultural framework, with its values and behaviours, is reflected across the entire business and 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 2022. 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 2022 including related notes (page 158); Outstanding share awards (page 162), PSP awards granted during the year (page 163); Payments to past Directors and payments for loss of office (page 163); and Statement of Directors' shareholdings and share interests (page 163).

Remuneration received by Directors for the year ended 31 December 2022

The table below sets out the Directors' remuneration for the year ended 31 December 2022 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2021.

		Fixed pay				Variable pay					
	Year	Base salary and fees[1] £	Taxable benefits[2,3] £	Pension cash allowance £	Sub total £	Annual incentive cash[4] £	Annual incentive deferred shares[4] £	Long-term incentives[5,6] £	Sub total £	Other £	Total[6] £
Executive Directors											
Philip Harrison	**2022**	**463,998**	**14,617**	**92,800**	**571,415**	**349,200**	**349,200**	**867,265**	**1,565,665**	**–**	**2,137,080**
	2021	441,500	14,585	88,300	544,385	285,600	285,600	425,999	997,199	–	1,541,584
Leo Quinn	**2022**	**814,000**	**21,218**	**162,800**	**998,018**	**589,950**	**589,950**	**1,929,268**	**3,109,168**	**–**	**4,107,186**
	2021	800,000	21,169	160,000	981,169	510,000	510,000	973,711	1,993,711	–	2,974,880
Non-executive Directors											
Charles Allen[7]	**2022**	**295,075**	**6,458**	**–**	**301,533**	**–**	**–**	**–**	**–**	**–**	**301,533**
	2021	142,454	135	–	142,589	–	–	–	–	–	142,589
Stephen Billingham	**2022**	**81,138**	**1,229**	**–**	**82,367**	**–**	**–**	**–**	**–**	**–**	**82,367**
	2021	79,500	134	–	79,634	–	–	–	–	–	79,634
Stuart Doughty	**2022**	**81,138**	**1,776**	**–**	**82,914**	**–**	**–**	**–**	**–**	**–**	**82,914**
	2021	79,500	1,570	–	81,070	–	–	–	–	–	81,070
Anne Drinkwater	**2022**	**81,138**	**12,706**	**–**	**93,844**	**–**	**–**	**–**	**–**	**–**	**93,844**
	2021	79,000	668	–	79,668	–	–	–	–	–	79,668
Louise Hardy[8]	**2022**	**54,332**	**1,222**	**–**	**55,554**	**–**	**–**	**–**	**–**	**–**	**55,554**
	2021	–	–	–	–	–	–	–	–	–	–
Michael Lucki	**2022**	**66,138**	**12,618**	**–**	**78,756**	**–**	**–**	**–**	**–**	**–**	**78,756**
	2021	64,500	–	–	64,500	–	–	–	–	–	64,500
Barbara Moorhouse	**2022**	**66,138**	**3,313**	**–**	**69,451**	**–**	**–**	**–**	**–**	**–**	**69,451**
	2021	64,500	1,113	–	65,613	–	–	–	–	–	65,613
Former Non-executive Director											
Philip Aiken	2021	165,677	–	–	165,677	–	–	–	–	–	165,677

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

2 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 (and also for his spouse from 1 April 2022 to 5 April 2022) and received a car allowance of £14,000 per annum. Charles Allen is eligible for a contribution to his reasonable business expenses, receiving £3,954 and taxable travel expenses of £2,504 in 2022.

3 The non-executive Directors received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column. For Anne Drinkwater and Michael Lucki this includes an allowance for travel in November 2021 which was paid in May 2022 and April 2022 respectively.

4 AIP 2022: further details of these awards are set out on pages 159 and 160. For 2021, details of the AIP awards were set out in the 2021 Remuneration report.

5 For 2022, this relates to the 2020 PSP award for which the performance period ended in 2022, with the valuation of vesting shares calculated on a three-month average share price to 31 December 2022 of 316.4p. This compares to the 262.4p 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 a benefit relating to share price appreciation since award of 54.0p per share and a value of £329,268 and £148,016 on vesting shares for Leo Quinn and Phillip Harrison respectively. Further details of the 2020 PSP awards are set out on page 161. For 2021, this relates to the 2019 PSP award for which the performance period ended in 2021, details of which were set out in the 2021 Remuneration report. For 2021, the valuation of the vesting shares for the 2019 PSP has been adjusted from the valuation included in the 2020 Remuneration report to reflect the actual valuation on the 28 March 2022 vesting date, based on a share price of 262.2p. This compares to the 259.8p average middle market price for the three dealing days before the PSP award date (which was used to calculate the number of shares granted), so there was a benefit relating to share price appreciation since award of 2.4p per share and a value of £8,913 and £3,899 for Leo Quinn and Phillip Harrison respectively. Under the rules of the PSP, participants may receive an award of shares in lieu of the value of dividends paid over the vesting period on vested shares. For the 2019 PSP award this was 14,788 shares for Leo Quinn and 6,468 shares for Philip Harrison with a valuation of £38,774 and £16,959 respectively calculated on the closing share price on the 28 March 2022 vesting date.

6 Total figures and long-term incentive figures for 2021 have been adjusted from the figures included in the 2021 Remuneration report to reflect the actual valuation on 28 March 2022 vesting date of shares vesting under the 2019 PSP.

7 Charles Allen was appointed to the Board on 13 May 2021 and took over as Group Chair on 20 July 2021.

8 Louise Hardy was appointed to the Board on 1 April 2022.

AIP awards for the year ended 31 December 2022

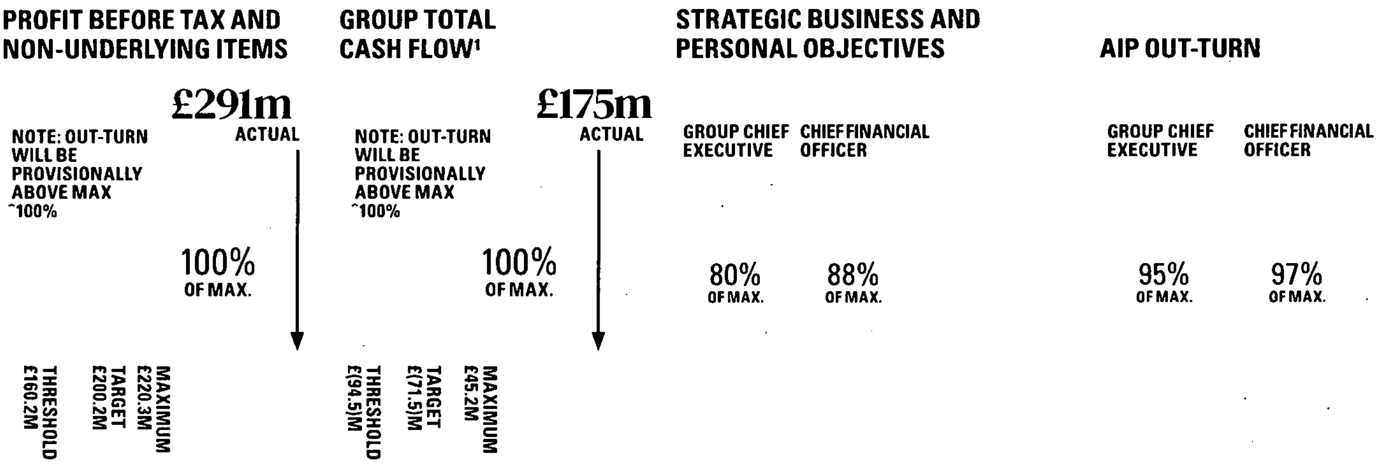
For 2022, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

- profit before tax (40%);
- cash (35%); and
- strategic business and personal objectives (25%).

The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares. For the profit before tax element, 20% of the award would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above. For the Group total cash flow element, 20% of that element would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above.

AIP metrics and outcomes

The formulaic assessment of the Annual Incentive Plan indicated 95% of maximum to be paid to Leo Quinn and 97% of maximum to Philip Harrison based on the performance described above. In line with good practice, this outcome was reviewed, specifically in the context of alignment with shareholder interests.



1 Group total cash flow of £175m is the movement between opening and closing total net cash adjusted for £150m share buyback.

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

Performance against the 2022 AIP strategic business and personal objectives as it relates to the executive Directors was:

CEO – Strategic business and personal objectives 2022

	Objective	Weight	Outcome and comments	Achievement
Environmental, Social and Governance				
Social value	Increase measured total social value generated across the UK in 2022 versus 2021	20%	Total UK measured social value increased to £816m in 2022 versus £717m in 2021, showing good progress towards 2030 target of £3bn.	20%
Safety	Continue to demonstrate safety leadership and improve overall safety culture and performance in 2022 versus 2021.	20%	Demonstrated strong safety leadership with good progress in developing the Group's safety culture, including innovations introduced to improve safety performance such as: automated cone laying; the What3Things? initiative; and digital permitting. The 2022 safety performance was strong with improvements in 2022 versus 2021 in many key Group metrics, including: • zero fatalities; • LTIR: 0.15 (improved versus 0.19 in 2021); and • observations: 380,000 (improved versus 297,000 in 2021).	20%

AIP metrics and outcomes continued

	Objective	Weight	Outcome and comments	Achievement
Environment	Develop appropriate carbon reporting arrangements across the business.	20%	Significant focus on the reporting process with progress including: • carbon action workshops and regular calls for UK business to support understanding and aid carbon accounting; • developed a sustainability dashboard for UK projects and business units; and • established annual carbon reduction targets for all key UK projects and business units.	12%
People	Continue to develop and improve employee engagement across the Group through various people programmes, including Diversity & Inclusion and Learning & Development initiatives. As a minimum, maintain the employee engagement index score at 2021 levels.	20%	Strong performance, including: Group employee engagement score (UK & US) increased to 79% in 2022 survey (from 76% in 2021); including Gammon this increases to 80%. Strong focus on delivery against Diversity & Inclusion action plans; achievements include: • UK 2030 D&I targets launched; • UK female representation increased to 20.1% (from 18.9% in 2021); UK minority ethnic increased to 10.6% (from 8.6 % in 2021); • employees in 'earn and learn' roles increased to 6.5% at December 2022, versus 5% Club target; and • UK 'Right to Respect' programme developed and piloted in advance of broader roll out in 2023.	16%
Quality	Develop and implement appropriate improvement plans within US military housing including review of management structure and culture/ethics development.	20%	• Appointment of new Investments CEO in January 2022. • Launched cultural improvement plan in US. • Launched Code of Ethics and associated e-learning programme.	12%
Total		100%		80%

CFO – Strategic business and personal objectives 2022

	Objective	Weight	Outcome/comments	Achievement
Capital restructure	Deliver effective USPP refinancing plan ahead of March 2023 maturity date.	35%	USPP refinancing plan successfully delivered, lengthening maturity profile out to ten years, despite difficult market conditions.	35%
Safety	Improve overall safety culture and performance in 2022 versus 2021.	10%	Key member of senior management team developing safety culture and performance improvement; the 2022 safety statistics show strong safety performance notably with no fatalities and improved LTIR performance.	10%
Environment	Develop appropriate carbon reporting arrangements across the Group.	10%	Demonstrated leadership to drive and support progress in carbon reporting. Carbon targets are now established across the Group and reporting has been integrated into business reviews and budget process.	4%
People	To promote continuing development across the Group and specifically within the Finance function, measured by an increase in the employee engagement index score in 2022 when compared to 2021.	20%	Good progress and improvement, measured by: • Group employee engagement score (UK & US) increased to 79% in 2022 (from 76% in 2021); including Gammon this increases to 80%; • the employee engagement index score for the Finance function increased to 84% (from 83% in 2021); and • increased focus on development within the Finance function and improved succession pipeline for key roles.	14%
Quality	To improve year-on-year UK Prompt Payment Code performance on invoices paid within 60 days. Retain appropriate levels of bank and surety facilities, targeting a 20% increase.	25%	Strong performance with improvement and changes including: • percentage of UK invoices paid within 60 days increased to 96% (full year 2022) from 93% (full year 2021), exceeding government procurement standard of 95%; and • established new facilities in 2022 to increase bonding capacity by 27%.	25%
Total		100%		88%

Vesting of PSP awards for the year under review

The PSP awards granted on 11 June 2020 were based on a performance period for the three years ended 31 December 2022. 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. In addition, the Remuneration Committee also considered any potential windfall gains as a result of the award being made during a year when businesses were experiencing uncertainty relating to the COVID-19 pandemic. The Remuneration Committee noted that the executive Directors had requested that their 2020 PSP awards were held back to June 2020 (rather than March 2020 when the other PSP awards were made). The share price used for calculating the number of shares granted for the June 2020 PSP awards was 262.4p, which was higher than the 202.3p used for the March 2020 PSP awards and more in line with the share price used for the 2018 and 2019 PSP awards, mitigating the impact of potential windfall gains. The Committee is satisfied that no discretionary adjustments were necessary.

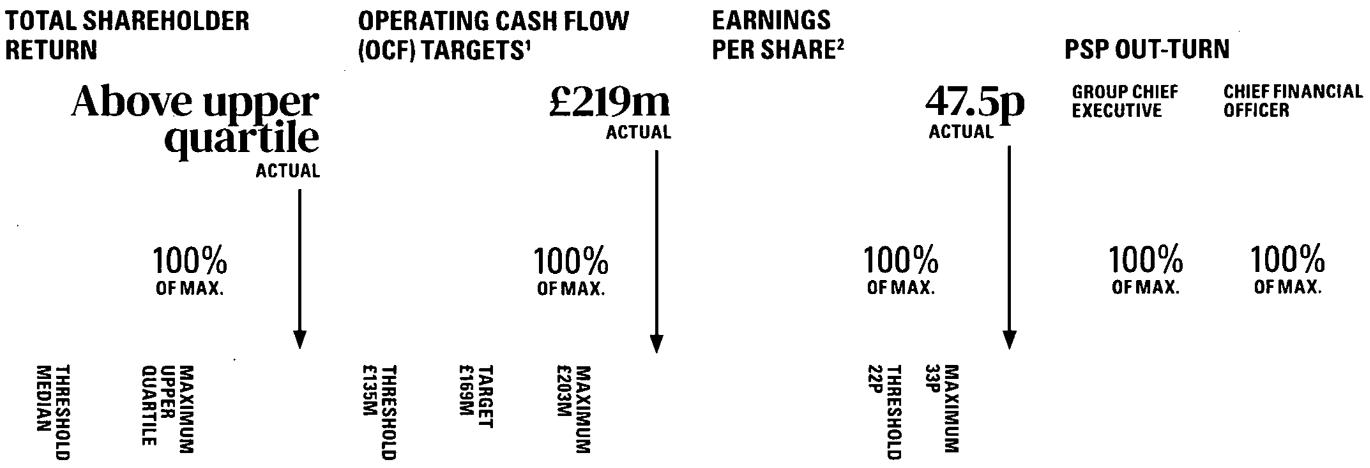
Details of the PSP awards vesting for the year under review are therefore as follows:

PSP metrics and outcomes

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	–	30.75 or above	13	100%
Cash		Operating cash flow (OCF)	£135m	£169m	£203m	£219m	100%
Earnings per share		Underlying basic earnings per share from continuing operations	22p	–	33p	47.5p	100%
Total vesting							100%

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	2020 conditional	11 June 2023	274,104	274,104	–	867,265
Leo Quinn	2020 conditional	11 June 2023	609,756	609,756	–	1,929,268

1 Valuation of vesting shares calculated on a three-month average share price to 31 December 2022 of 316.4p. This compares to the 262.4p 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 a benefit relating to share price appreciation of 54.0p per share since award.



1 Operating cash flow of £219m is defined in the Measuring our financial performance section.

2 Underlying basic earnings per share from continuing operations.

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

Outstanding share awards

Name of Director	Share award	Date granted	At 1 January 2022	Maximum number of shares subject to award: Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2022	Exercisable and/or vesting from
Philip Harrison								
	PSP[1,5,6]	28 March 2019	269,438	–	**162,471**	**106,967**	–	28 March 2022
	PSP[2,5,6]	11 June 2020	274,104	–	–	–	**274,104**	11 June 2023
	PSP[3,5,6]	19 March 2021	257,005	–	–	–	**257,005**	19 March 2024
	PSP[4,5,6,7]	1 April 2022	–	**302,119**	–	–	**302,119**	1 April 2025
	DBP[8,10,11]	1 April 2019	82,951	–	**82,951**	–	–	1 April 2022
	DBP[8,9,11,13]	31 March 2020	139,109	**4,807**	–	–	**143,916**	31 March 2023
	DBP[8,9,11,13]	31 March 2021	61,495	**2,125**	–	–	**63,620**	31 March 2024
	DBP[8,9,11,12,13]	31 March 2022	–	**113,076**	–	–	**113,076**	31 March 2025
Leo Quinn								
	PSP[1,5,6]	28 March 2019	615,858	–	**371,362**	**244,496**	–	28 March 2022
	PSP[2,5,6]	11 June 2020	609,756	–	–	–	**609,756**	11 June 2023
	PSP[3,5,6]	19 March 2021	540,175	–	–	–	**540,175**	19 March 2024
	PSP[4,5,6,7]	1 April 2022	–	**616,570**	–	–	**616,570**	1 April 2025
	DBP[8,10,11]	1 April 2019	165,904	–	**165,904**	–	–	1 April 2022
	DBP[8,9,11,13]	31 March 2020	270,772	**9,359**	–	–	**280,131**	31 March 2023
	DBP[8,9,11,13]	31 March 2021	120,208	**4,155**	–	–	**124,363**	31 March 2024
	DBP[8,9,11,12,13]	31 March 2022	–	**201,923**	–	–	**201,923**	31 March 2025

1 2019 PSP award: This award vested in part on 28 March 2022. Details of the Company's performance against the performance conditions were set out in the 2021 Remuneration report. Philip Harrison and Leo Quinn also received 6,468 and 14,788 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 262.2p.
2 2020 PSP award: Further details of this award are set out on page 161.
3 2021 PSP award: This award is subject to three performance targets over a three-year performance period commencing 1 January 2021. 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 2023 operating cash flow (OCF) is greater than £104 million. 25% to 50% will vest for OCF between £104 million and £149 million, rising to full vesting for OCF of £167 million or more. For the EPS part (33.3%), no vesting unless 2022 EPS is 18.5p, 25% vesting of this part at 18.5p, rising to full vesting at 27.7p or more.
4 2022 PSP award: Details are set out on page 163.
5 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 259.8p for the 2019 award, 202.3p for the award granted on 23 March 2020, 262.4p for the award granted on 11 June 2020, 296.2p for the 2021 award and 259.5p for the 2022 award. The closing middle market price of ordinary shares on the date of the awards was 257.1p, 197.3p, 259.0p, 298.0p and 256.8p respectively.
6 All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
7 A maximum of 3,624,249 conditional shares were awarded for all participants in the PSP in 2022, which are exercisable on 1 April 2025.
8 All DBP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
9 The DBP awards made on 31 March 2020, 31 March 2021 and 31 March 2022 will vest on 31 March 2023, 31 March 2024 and 31 March 2025 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
10 The DBP awards made on 1 April 2019 vested on 1 April 2022. The closing middle market price of ordinary shares in the Company on the vesting date was 256.8p.
11 The shares subject to the DBP awards made on 1 April 2019, 31 March 2020, 31 March 2021 and 31 March 2022 were purchased at average prices of 259.7p, 216.9p, 300.8p and 261.3p respectively.
12 On 31 March 2022, for all participants in the DBP, a maximum of 947,192 conditional shares were awarded which will normally be released on 31 March 2025.
13 On 6 July 2022 and 5 December 2022 a further 53,578 conditional shares and 23,981 conditional shares were granted in lieu of entitlements to the final 2021 and interim 2022 dividend respectively for all participants in the DBP. These shares were allocated at prices of 253.4p and 329.0p respectively.
14 The closing market price of the Company's ordinary shares on 31 December 2022 was 337.6p. During the year, the highest and lowest closing market prices were 346.0p and 215.6p respectively.

PSP awards granted during the year

On 1 April 2022, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Philip Harrison	Conditional	175% of salary of £448,000	259.5p	302,119	£784,000	25%	31 December 2024	1 April 2025
Leo Quinn	Conditional	200% of salary of £800,000	259.5p	616,570	£1,600,000	25%	31 December 2024	1 April 2025

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	£130m (25% vests)	£185m (50% vests)	£204m (100% vests)
One-third EPS	Group's EPS; straight-line vesting between points	28.7p (25% vests)	–	43.9p (100% vests)

For these PSP awards, a post-vesting holding period will apply requiring the shares (net of tax) to be retained for two years.

Payments to past Directors and payments for loss of office

There were no payments to past executive Directors or payments for loss of office made during 2022.

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 2022[1,2]	Beneficially owned at 31 December 2022[2,3,4]	Outstanding PSP awards	Outstanding DBP awards
Philip Harrison	485,948	619,271	833,228	320,612
Leo Quinn	2,612,590	2,983,726	1,766,501	606,417
Charles Allen	–	100,000		
Stephen Billingham	44,248	44,375		
Stuart Doughty	4,550	4,550		
Anne Drinkwater	4,500	4,500		
Louise Hardy	–	–		
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 14 March 2023, the latest practicable date prior to the date of this report, there had been no changes to the above.

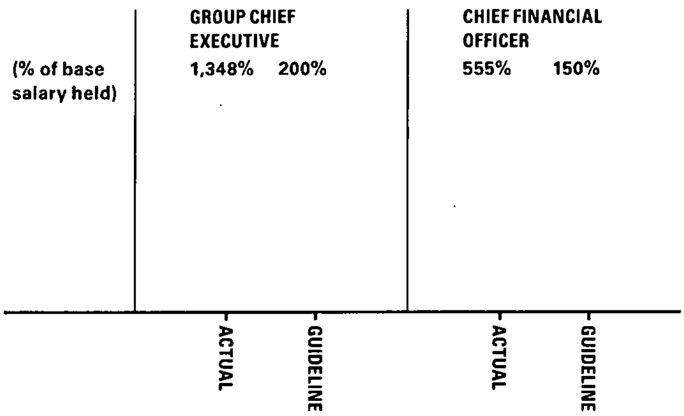
5 The closing market price of the Company's ordinary shares as at 31 December 2022, 337.6p, was used to calculate the value of shares for the purpose of the executive Directors' shareholding guidelines on page 164.

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 2022 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 2022.

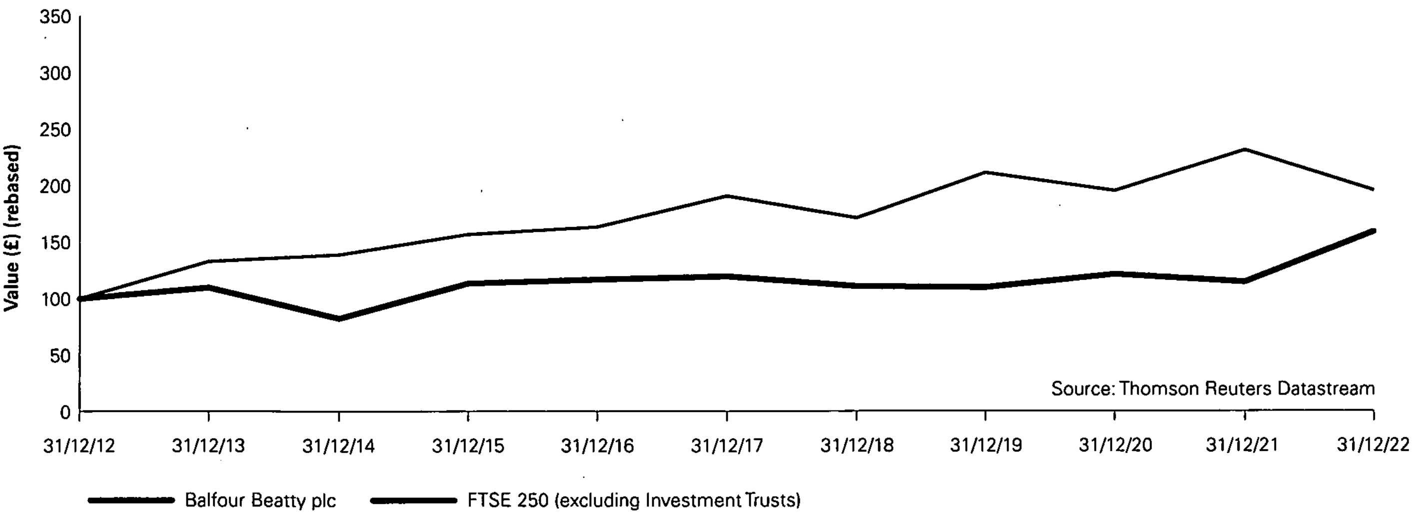
EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES



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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Total remuneration[1,3,4]	£961,350	£797,568	£1,442,070	£1,445,250	£4,124,104	£2,982,121	£3,066,624	£2,254,806	£2,974,880	**£4,107,186**
AIP (%)[2]	21.0%	0%	47.0%	47.5%	97.0%	69.06%	96.25%	59.25%	85%	**95%**
PSP (%)	0%	0%	0%	0%	88.6%	64.17%	60.92%	33.33%	60.3%	**100%**

1 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 2021 has been adjusted from the total figure included in the 2021 Remuneration report to reflect the actual valuation on the 28 March 2022 vesting date of shares vesting under the 2019 PSP.

4 The figures for 2017 and 2018 exclude the vesting of awards made under the recruitment terms for the Group Chief Executive. Full details of these were included in the 2018 Remuneration report.

Percentage change in Directors' remuneration compared with all UK employees

The table below shows the percentage change in the remuneration of the Directors undertaking the roles of Group Chief Executive and Chief Financial Officer and the Non-executive Directors between the financial years, compared with the percentage increase for the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator. Charles Allen was not a Director until 13 May 2021 and therefore his percentage change between 2021 and 2022 is shown in the table on an annualised basis. Louise Hardy was not a Director until 1 April 2022 and is therefore not shown in the table.

	% change between 2021 and 2022				% change between 2020 and 2021				% change between 2019 and 2020			
	Base salary	**Benefits[1]**	**Annual bonus**	**Total remuneration**	Base salary	Benefits	Annual bonus	Total remuneration	Base salary	Benefits	Annual bonus	Total remuneration
Leo Quinn, Group Chief Executive	**2%**	**2%**	**16%**	**9%**	3%	3%	43%	21%	(3)%	(3)%	(38)%	(22)%
Philip Harrison, Chief Financial Officer	**5%**	**4%**	**22%**	**14%**	11%	8%	57%	30%	(2)%	1%	(39)%	(22)%
Charles Allen, Group Chair	**31%**	**2,930%**	**–**	**34%**	–	–	–	–	–	–	–	–
Stephen Billingham, Senior Independent Director	**2%**	**817%**	**–**	**3%**	6%	(42)%	–	6%	(1)%	(29)%	–	(1)%
Stuart Doughty, Non-executive Director	**2%**	**13%**	**–**	**2%**	6%	77%	–	7%	(1)%	(52)%	–	(2)%
Anne Drinkwater, Non-executive Director	**3%**	**1,802%**	**–**	**18%**	5%	(87)%	–	(1)%	6%	(12)%	–	5%
Michael Lucki, Non-executive Director	**3%**	**–**	**–**	**22%**	7%	(100)%	–	(9)%	(3)%	(39)%	–	(10)%
Barbara Moorhouse, Non-executive Director	**3%**	**198%**	**–**	**6%**	7%	(5)%	–	7%	(3)%	34%	–	(2)%
All UK employees	**7%**	**13%**	**11%**	**7%**	(2)%	5%	122%	0%	0%	3%	(44)%	0%

1 Benefits for Non-executive Directors relate to taxable travel expenses and/or travel expenses which are shown in the taxable benefits column of the Remuneration received by Directors for the year ended 31 December 2022 table on page 158. The reported percentage increases in benefits in 2022 from 2021 have been impacted significantly by COVID-19 restrictions on travel in 2021.

Note: In response to the COVID-19 pandemic, the executive Directors and Non-executive Directors took a voluntary 20% reduction in salary/fees in April and May 2020.

Pay ratio of Group Chief Executive to average employee

The Regulations require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

The table below shows the relevant data for Balfour Beatty's UK employees for 2022, together with the 2021, 2020 and 2019 data, calculated using Option A as set out in the legislation.

		25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Year	Method of calculation adopted	(Group Chief Executive: UK employees)	(Group Chief Executive: UK employees)	(Group Chief Executive: UK employees)
2022	Option A	115:1	81:1	59:1
2021	Option A	84:1	57:1	40:1
2020	Option A	64:1	45:1	32:1
2019	Option A	92:1	65:1	45:1

Pay details for the Group Chief Executive and individuals whose 2022 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	£828,000[1]	£29,061	£39,900	£56,700
Total pay and benefits	£4,107,186	£35,575	£50,749	£69,777

1 Group Chief Executive base salary at 31 December 2022.

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 2022 (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 2022 that is disclosed in the above table is consistent with the pay, reward and progression policies for Balfour Beatty's UK employees taken as a whole. It reflects the fact that a greater proportion of executive Director pay is linked to annual performance through a higher annual incentive plan opportunity (a percentage of which is subject to deferral into shares) and a long-term incentive plan. The increases in the pay ratios for 2022 when compared to 2021 reflect the higher out-turn for both the AIP and PSP in 2022 when compared to 2021.

Relative importance of spend on pay, dividends and underlying pre-tax profit
The following table shows the Company's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit:

	2021	**2022**	% change
Staff costs (£m)[1]	1,187	**1,259**	6%
Dividends (£m)	29	**58**	100%
Underlying pre-tax profit (£m)	187	**291**	56%

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 2022. 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 158.

The pension contribution level for executive Directors contrasts to the wider UK workforce who currently typically receive pension contributions of up to 7% of salary. From the end of December 2022, the salary supplement in lieu of pension contribution paid to the incumbent executive Directors has been aligned with the wider workforce.

External appointments of executive Directors
No executive Director held external appointments in 2022.

Service contracts
Executive Directors' contracts are on a rolling 12 month basis and are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the Director.

The current Non-executive Directors, including the Chairman, do not have a service contract and their appointments, whilst for a term of three years, may be terminated with three months' notice (six months' notice for the Group Chair) by either party. All Non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to annual approval by shareholders.

Name	Commencement date	Unexpired term remaining
Leo Quinn, Group Chief Executive	1 January 2015	Terminable on 12 months' notice
Philip Harrison, Chief Financial Officer	1 June 2015	Terminable on 12 months' notice
Charles Allen, Group Chair	13 May 2021	Fixed term expiring on 12 May 2024 (subject to renewal) and terminable on six months' notice
Stephen Billingham, Non-executive Director and Senior Independent Director	1 June 2015	Fixed term expiring on 31 May 2024 (subject to renewal) and terminable on three months' notice
Stuart Doughty, Non-executive Director	8 April 2015	Fixed term expiring on 7 April 2024 (subject to renewal) and terminable on three months' notice
Anne Drinkwater, Non-executive Director	1 December 2018	Fixed term expiring on 30 November 2024 (subject to renewal) and terminable on three months' notice
Louise Hardy, Non-executive Director	1 April 2022	Fixed term expiring on 31 March 2025 (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);
- Michael Lucki; and
- Barbara Moorhouse.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR Director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed; and
- Deloitte LLP.

At regular intervals the Committee reviews the appropriateness and independence of the advice received from remuneration consultants. As the result of a competitive tender process in 2020, Deloitte LLP was appointed as independent remuneration consultants to the Committee. Deloitte LLP is a member of the Remuneration Consultants Group and, as such, voluntarily operates under its Code of Ethics in relation to executive remuneration consulting in the UK.

During the year, the Committee's remuneration consultants provided a range of advice to the Committee, including:

- analysis of market practice and corporate governance update;
- provision of benchmark data for senior management and Non-executive Director remuneration;
- assistance with reviewing the remuneration policy and recommendations for the new remuneration policy;
- assistance with the consultation of shareholders in respect of the new remuneration policy;
- assistance with the drafting of the Remuneration report; and
- calculation of vesting levels under the TSR element of the PSP awards.

During 2022, Deloitte LLP received fees amounting to £106,750 excluding VAT (£62,150 excluding VAT in 2021) in respect of advice given to the Committee. Deloitte also provided tax and legal services to the Group related to the operation of the Group's share plans. Other than as disclosed above, Deloitte LLP has no connection with the Company or individual Directors. The Committee is satisfied the advice provided by Deloitte LLP is independent.

Terms of reference

During the period, the Committee has agreed a number of changes to be made to its Terms of Reference, as part of the annual review. Full Terms of Reference can be found in the Investors section of the Company's website at: www.balfourbeatty.com/investors/governance/board-committees/.

Statement of shareholder voting at the AGM

At the AGM on 12 May 2022, the resolution to approve the Annual Report on remuneration received the following votes from shareholders:

	Total number of votes	% of votes cast
For	464,255,659	93.59%
Against	31,798,975	6.41%
Total votes cast	496,054,634	100%
Abstentions	42,544	

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
15 March 2023

The Directors of Balfour Beatty plc present their report, together with the audited financial statements for the year ended 31 December 2022. 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 2022.

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 105.

Corporate governance

The Governance section on pages 106 to 167, forms part of this Directors' report.

The Company complied with the UK Corporate Governance Code with the exception of provision 38, which the Company complied with in part. In compliance with provision 38 of the Code, only the basic salary of executive Directors is pensionable. As set out in the Directors' Remuneration Policy, pension contributions (or salary supplement in lieu) for new executive Directors will, in compliance with the Code, be aligned with the majority of the wider UK workforce and, from the end of December 2022, the pension contributions (or salary supplement in lieu) paid to the incumbent executive Directors was aligned with the wider workforce.

Directors and their interests

The Directors who were Directors at 31 December 2022 were Charles Allen, Leo Quinn, Philip Harrison, Stephen Billingham, Anne Drinkwater, Stuart Doughty, Barbara Moorhouse, Michael Lucki, and Louise Hardy. Further details and individual biographies for current Directors are set out on page 111.

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 163. In the period between 31 December 2022 and the date of this report Louise Hardy was appointed as a non-executive director of Travis Perkins plc and Barbara Moorhouse was appointed as a non-executive director of Dŵr Cymru Welsh Water.

At no time during 2022 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 2022 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 31December 2022 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 2022, including the rights attaching to the shares, are set out in Note 31 on page 227. No shares were issued during 2022.

The powers of the Directors to issue or buyback 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 2022 AGM and it will be proposed at the 2023 AGM that the Directors be granted new authorities to issue, allot and buyback shares.

Under the authority provided at the 2021 AGM the Company commenced its 2022 share buyback programme on 11 March 2022. Further authority for share buybacks was provided at the 2022 AGM. During the year ended 31 December 2022, the Company purchased 51,970,862 ordinary shares for a total consideration of £149,999,829.66 (exclusive of expenses). These shares were held in treasury with no voting or dividend rights. On 7 June 2022, 50,334,350 treasury shares were cancelled (comprising shares purchased in the 2021 share buyback programme), and on 20 December 2022, 51,970,862 treasury shares were cancelled leaving a balance of no treasury shares held as at 31 December 2022. The Company commenced the 2023 share buyback programme on 3 January 2023. As at the 13 March 2023 (the latest practicable date prior to the date of this document), the Company had purchased 12,665,396 ordinary shares for a total consideration of £45,489,462.30 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 which is governed by the Articles of Association and the prevailing law. Other than in respect of shares that vest under the Company's share schemes and are subject to a two-year holding period, there are no specific restrictions on 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. Dividends are waived by the trustees in relation to the shares held in trust.

Details of shares held by the Balfour Beatty Share Ownership Trust in relation to the Company's share schemes can be found in Note 32.3 on page 229.

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 2022 and as at the date of this report. Please note that percentages provided are as at the date of notification.

2022 ARA disclosure	Percentage of voting rights (%) as at 31 December 2022	Percentage of voting rights (%) as at 13 March 2023
BlackRock, Inc	6.25	6.25
Schroders plc	5.10	5.10

Dividends

An interim dividend of 3.5 pence (2021: 3.0 pence) was paid on 5 December 2022. A final dividend of 7.0 pence per share (2021: 6.0 pence) has been recommended by the Board for shareholder approval at the 2023 AGM, giving total dividends per ordinary share of 10.5 pence for 2022 (2021: 9.0 pence). The Directors will continue to offer a Dividend Reinvestment Plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service.

Branches
As the Group is an international business, there are activities operated through branches in certain jurisdictions.

Auditor
KPMG LLP has indicated its willingness to continue as auditor to the Company following the rotation of the lead audit partner. A resolution for its reappointment will be proposed at the 2023 AGM.

Company Secretary
Tracey Wood is Company Secretary and was Company Secretary throughout the year ended 31 December 2022.

Innovation, future development and research and development
Information concerning innovation, future development and research and development is set out on pages 30 and 45 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 63.

Policies
The Group's Code of Ethics and other published policies, including policies on: speak up; health and safety; conflicts of interest, sustainability; sustainable procurement; social value; environment; supply chain media, PR and marketing; quality; and information security, remain in place and can be accessed on the Company's website www.balfourbeatty.com.

Engagement with suppliers and customers
Details of the Company's approach to stakeholder engagement, including engagement with customers and suppliers can be found on pages 26 to 29.

Greenhouse gas emissions
Details of Balfour Beatty's greenhouse gas emissions and the actions which the Group is taking to reduce them are set out on pages 57 to 63 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 69 and forms part of the Directors' report disclosures. Balfour Beatty strives to provide employment, training and development opportunities for the disabled community wherever possible, does not discriminate, and is committed to supporting employees who become disabled during employment, and helping disabled employees make the best use of their skills, expertise and potential, consistent with any other employee.

The Company operates an 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 116-120.

Employees
Details on the average number of employees within the Group can be found on page 200.

Diversity
Details on the Company's Board Diversity Policy can be found in the Nomination Committee report on page 132.

Details of the Group's approach to diversity and inclusion can be found on page 69.

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 2023 on page 156.

Events after the reporting date
Events after the reporting date are set out in Note 39 on page 234.

Political donations
At the AGM held in May 2022, shareholders gave authority, for the purposes of Part 14 of the Companies Act 2006, for the Company and its subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2023 AGM.

In the US, corporate political contributions totalling US$81,000 (£65,000) were made by business units during 2022. The majority of the contributions were made by the business unit based in California to support voter approval for the issuance of school bonds.

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 Ethics.

Capitalised interest
Details of the Group's capitalised interest can be found in Note 15 on page 205.

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 235 to 239.

Going concern and viability
The Group's going concern statement is detailed in Note 1 on page 187.

The long-term Viability statement is set out on page 97.

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. 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 2023 AGM will be held at The Curve, Axis Business Park, Hurricane Way, Langley SL3 8AG, United Kingdom on Friday 12 May 2022 commencing at 10am.

Statement of Directors as to disclosure of information to the Company's auditor

We confirm that to the best of our knowledge:

- each of the persons who are Directors at the time when this Directors' Report is approved confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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 UK-adopted international accounting standards 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 UK-adopted international accounting standards;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the Annual Financial Report

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 Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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
15 March 2023

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 2022 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. The financial statements exclude the commentary provided by the Directors on pages 180, 181, 182, 184 and 186.

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 2022 and of the Group's profit for the year then ended;

» the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

» the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and

» the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the Company's shareholders on 19 May 2016. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2022.

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.

Apart from the matter noted below, we have not performed any non-audit services during the year ended 31 December 2022 or subsequently which are prohibited by the FRC Ethical Standard.

During 2023, we identified that a KPMG member firm had provided preparation of local financial statement services over the period 2017 to 2022 to an entity that is not material to the Group and over which no audit procedures were performed for the purpose of the Group audit. The services, which have been terminated, were administrative in nature and did not involve any management decision-making or bookkeeping. The work in each case had no direct or indirect effect on Balfour Beatty plc's consolidated financial statements.

In our professional judgment, we confirm that based on our assessment of the breach, our integrity and objectivity as auditor has not been compromised and we believe that an objective, reasonable and informed third party would conclude that the provision of this service would not impair our integrity or objectivity for any of the impacted financial years. The Audit and Risk Committee has concurred with this view.

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 unchanged from 2021, 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.

2 Key audit matters: our assessment of risks of material misstatement continued

The risk | **Our response**

Contract accounting Construction Services revenue £6,409 million (2021: £5,920 million), contract assets £209 million (2021: £132 million), contract liabilities £550 million (2021: £565 million), contract provisions £179 million (2021: £149 million) **Risk vs 2021: ⟷**

Refer to pages 136-141 (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)

Subjective estimates
For the majority of its contracts, the Construction Services segment recognises revenue over time and measures the progress based on the input method by considering the proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total forecast costs of the contract at completion.

The recognition of revenue and profit within the Construction Services segment therefore relies on estimates in relation to the forecast total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and amounts are re-estimated, until the outcome of the contract is known.

The revenue on contracts within the Construction Services segment may also include variations and claims, which fall under either the variable consideration or contract modification requirements of IFRS 15 Revenue from Contracts with Customers. These are recognised on a contract-by-contract basis when evidence supports that the contract modification is enforceable or when variable consideration is highly probable that a significant reversal in the amount of revenue recognised will not occur.

The effect of these matters is that, as part of our risk assessment, we determined that contract revenue within the Construction Services segment and other related contract balances have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Group financial statements as a whole, and possibly many times that amount. Therefore, auditor judgement is required to assess whether the Directors' estimates for total forecast costs and variable consideration are acceptable.

The financial statements (Note 2.27(a)) disclose the nature and extent of the estimates and judgements made by the Group.

We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balances is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the project review papers from the Group to support the estimates made and challenged the judgements underlying those papers with operational, legal, commercial and financial management.

Our procedures included:

» **Historical comparisons:** assessing the Group's ability to accurately forecast end of life contract margins by comparing the previous total forecast costs and variable consideration previously recognised to final agreed outcomes;

» **Customer correspondence scrutiny:** analysing correspondence with customers around variations and claims to challenge the estimates of claims and variations made by the Group;

» **Legal correspondence scrutiny:** analysing correspondence with lawyers, and other legal opinions including arbitration results or other legal advice obtained by the Group, around variations and claims;

» **Test of detail:** analysing the end of job forecasts on contracts selected and challenging the estimates within the forecasts by considering the amounts already procured, the amounts still to be procured, the site and time related cost forecasts against programme and run rates, and any contingency held;

» **Test of detail:** inspecting selected contracts for key clauses; identifying relevant contractual mechanisms such as pain/gain shares, disallowed costs, liquidated damages and success fees and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements;

» **Site visits:** for certain higher risk or larger value contracts, attending in person site visits or holding video conference calls with sites, with the involvement of our own 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;

» **Use of our own specialists:** utilising our own Project specialists for a sample of contracts to assist with identifying the risks and opportunities associated with the contract and developing a range of possible contract out-turns and challenging the appropriateness of revenue recognised and provisions held in relation to these contracts; and

» **Assessing transparency:** considering the adequacy of the Group's disclosures relating to forecast total costs and variable consideration included in Note 2.27(a) around the nature of estimates and judgements involved in respect of these items.

Our findings:
We consider the amount of Construction Services revenue, contract assets, contract liabilities and contract provisions recognised to be acceptable (2021: acceptable).

2 Key audit matters: our assessment of risks of material misstatement continued

The risk | **Our response**

Recoverability of the parent Company's investment in subsidiaries
Investment in subsidiaries £1,733 million (2021: £1,726 million)

Risk vs 2021: ↔

Refer to Note 20.2 (Investments)

Low risk, high value
The carrying amount of the parent Company's investment in subsidiaries represents 47% 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.

In particular, we've spent more time on 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, and wider macro environment conditions of BBIHL;

» **Benchmarking assumptions:** challenging the assumptions used by the Company in the calculation of BBIHL's discount rates, including comparisons with external data sources;

» **Sensitivity analysis:** performing our own sensitivity analysis over BBIHL's value in use, including a reasonably possible reduction in assumed growth rates and operating margins to identify areas on which to focus our procedures, including the consideration of the possible impacts of future economic uncertainty; and

» **Tests of detail:** comparing the carrying amount of 100% of investments (2021: 100%) with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.

Our results:
We found the Company's conclusion that there is no impairment of its investment in subsidiaries to be acceptable (2021: 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 £20.0 million (2021: £20.0 million), determined with reference to a benchmark of Group revenue, of £7,629 million, of which it represents 0.26% (2021: benchmark of Group revenue, of £7,185m, of which it represented 0.28%).

We consider total revenue to be the most appropriate benchmark due to the focus on revenue by investors and the differing nature of the investments business (an asset-based business) compared to the contracting businesses (profit orientated entities). Whilst the contracting businesses are focused on profit measures, there has been significant volatility in recent years which has impacted the Group's profit before tax without any reduction in the scale of the contracting businesses. In setting our materiality, we have also given consideration to the Group's profit before tax normalised for a range of factors including contract write-downs.

Materiality for the parent Company financial statements as a whole was set at £18.0 million (2021: £18.0 million), determined with reference to a benchmark of Company total assets of £3,721 million (2021: £3,496 million), of which it represents 0.48% (2021: 0.50%).

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% (2021: 75%) of materiality for the financial statements as a whole, which equates to £15.0 million (2021: £15.0 million) for the Group and £13.5 million (2021: £13.5 million) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £1.0 million (2021: £1.0 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scoping and coverage
Of the Group's 14 (2021: 14) reporting components, we subjected 6 (2021: 6) to full scope audits for Group reporting purposes and 4 (2021: 4) to specified risk-focused audit procedures. The components for which we performed specified risk-focused procedures were not individually financially significant enough to require a full scope audit for Group reporting purposes but did present specific individual risks that needed to be addressed. For two components, the specified audit procedures were performed over revenue and other contract accounting related balances, including contracts asset and liabilities and any contract provisions. For one component, the specified audit procedures were performed over expenses and cash; for another component, the specified procedures were performed over cash.

3 Our application of materiality and an overview of the scope of our audit continued

Scoping and coverage continued

The components within the scope of our work accounted for 99% (2021: 98%) of Group revenue, 96% (2021: 94%) of Group profit before tax and 98% (2021: 97%) of Group total assets as illustrated below.

GROUP REVENUE

99%

- **Full scope audit 90% (2021: 88%)**
- **Specified risk-focused procedures 9% (2021: 10%)**
- **Out of scope 1% (2021: 2%)**

GROUP PROFIT BEFORE TAX

96%

- **Full scope audit 80% (2021: 71%)**
- **Specified risk-focused procedures 16% (2021: 23%)**
- **Out of scope 4% (2021: 6%)**

GROUP TOTAL ASSETS

98%

- **Full scope audit 71% (2021: 71%)**
- **Specified risk-focused procedures 28% (2021: 26%)**
- **Out of scope 1% (2021: 3%)**

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team set the component materialities, which ranged from £1.6 million to £12.0 million (2021: £0.2 million to £8 million), having regard to the mix of size and profile of the Group across the components. The work on 7 of the 10 operational components (2021: 7 of the 10 components) was performed by the component auditors and the rest, including the audit of the parent Company was performed by the Group audit team.

The Group audit team visited three (2021: two) overseas components. Due to ongoing COVID-19 restrictions the Group audit team was prevented from visiting the one component in Hong Kong. Instead, senior members of the Group audit team used video conferencing to oversee the component auditor's work, held discussions with component management and attended virtual site visits of contracts.

Video and telephone conference meetings were also held with all component auditors regularly, including those that were not physically visited. At these meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The scope of the audit work performed was predominantly substantive as we placed limited reliance upon the Group's internal controls over financial reporting.

The impact of climate change on our audit

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements.

The Group has set out in its Strategic Report its ambition to go beyond net zero Carbon by 2040 and as part of this have stated their commitment to meeting a target validated by the Science Based Targets initiative by 2030 and the United Nations Race to Zero Campaign, both of which cover Scope 1, Scope 2 and Scope 3 greenhouse gas emissions (GHGs).

Whilst the Group has set these targets, it does not believe that there is a material impact on the financial reporting judgements and estimates and as a result the valuations of the Group's assets and liabilities have not been significantly impacted by these risks as of 31 December 2022.

As a part of our audit, we have performed a risk assessment, including enquiries of management to understand how the impact of commitments made by the Group in respect of climate change, as well as the physical or transition risks of climate change, may affect the financial statements and our audit. We also held discussions with our own climate change professionals to challenge our risk assessment. There was no impact of this on our key audit matters.

Whilst the Group is still undertaking work to quantify and assess the potential impact of climate change in the business, based on the procedures we performed in inspecting and challenging the Group's plans for transitioning to net zero Scope 1 and Scope 2 GHGs, we did not identify any significant risk in this period of climate change having a material impact on the Group's critical accounting estimates. For contract accounting, as well as contract provisions, this is due to a range of factors including the shorter-term nature of this estimate (the majority of contracts will substantially complete within two years of the Balance Sheet date) and contract mechanisms in place which limit risk (e.g. either where risk remains with the customer or is passed to the supply chain). For other estimates this is due to a range of factors including the use of market-based estimates, and the nature of the estimate (retirement benefit obligations, retirement benefit assets, financial assets measured through OCI, employee and other provisions).

We have read the disclosure of climate-related information in the front half of the annual report and considered consistency with the financial statements and our audit knowledge. We have not been engaged to provide assurance over the accuracy of the climate risk disclosures in the Annual Report.

4 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period was a deterioration in contract profitability due to economic conditions, unforeseen operational challenges or commercial disputes, or a combination of these, leading to a sustained medium-term decline in profits, delays to planned disposals of PPP financial assets and delays to the start date of contracts leading to a reduction in revenue.

We also considered less predictable but realistic second order impacts, such as a unique one-off event including the financial consequences of a major health and safety breach.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- critically assessing assumptions in the base case and downside scenarios, particularly in relation to profit and its impact on forecast liquidity and covenant compliance, by comparing to historical trends, overlaying knowledge of the entity's plans based on approved budgets, as well as our knowledge of the entity and the sector in which it operates; and
- considering whether the going concern disclosure in Note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, and related sensitivities.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group 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 83 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of Directors, the Audit and Risk Committee, internal audit and compliance officers and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board and all relevant Committee minutes;
- considering remuneration incentive schemes (primarily the annual incentive plan) and performance targets for management and Directors, including underlying profit from operations targets for management remuneration;
- using analytical procedures to identify any unusual or unexpected relationships; and
- using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and the Company.

We communicated identified fraud risk factors throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to component audit teams of relevant fraud risks identified at the Group level and requests to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement to the Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue earned in the Construction Services segment 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 in the Construction Services segment, including the estimation of forecast costs and variable consideration, is set out in the Contract Accounting key audit matter disclosure in section 2 of this report.

However, on this audit we do not believe there is a fraud risk related to revenue recognition in the Support Services segment due to the size of its revenue and judgements relative to the Group, nor in the Infrastructure Investments segment based on the contractual nature of the segment's revenue with no significant judgement or estimation required in recognising revenue.

5 Fraud and breaches of laws and regulations – ability to detect continued

We did not identify any additional fraud risks.

We performed procedures including:

- identifying journal entries and other adjustments to test for all full scope components based on specific risk-based criteria and comparing the identified entries to supporting documentation. These included those posted with unusual account pairings; and
- assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditor teams to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company legislation), distributable profits legislation, pension legislation, and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, anti-fraud law and environmental law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit and Risk Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 97 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 97 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 the Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 170, 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.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

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

15 March 2023

GROUP INCOME STATEMENT

For the year ended 31 December 2022

	Notes	2022 Underlying items[1] £m	2022 Non-underlying items (Note 10) £m	2022 Total £m	2021 Underlying items[1] £m	2021 Non-underlying items (Note 10) £m	2021 Total £m
Revenue including share of joint ventures and associates		**8,931**	**–**	**8,931**	8,280	(17)	8,263
Share of revenue of joint ventures and associates	19.2	**(1,302)**	**–**	**(1,302)**	(1,078)	–	(1,078)
Group revenue	4	**7,629**	**–**	**7,629**	7,202	(17)	7,185
Cost of sales		**(7,202)**	**–**	**(7,202)**	(6,862)	(42)	(6,904)
Gross profit/(loss)		**427**	**–**	**427**	340	(59)	281
Gain on disposals of interests in investments	34.2/34.3	**–**	**–**	**–**	26	–	26
Amortisation of acquired intangible assets	15	**–**	**(6)**	**(6)**	–	(5)	(5)
Other net operating (expenses)/income		**(253)**	**2**	**(251)**	(226)	(36)	(262)
Group operating profit/(loss)		**174**	**(4)**	**170**	140	(100)	40
Share of results of joint ventures and associates excluding gain on disposals of interests in investments		**35**	**–**	**35**	48	–	48
Gain on disposals of interests in investments	34.2/34.3	**70**	**–**	**70**	9	–	9
Share of results of joint ventures and associates	19.2	**105**	**–**	**105**	57	–	57
Profit/(loss) from operations	6	**279**	**(4)**	**275**	197	(100)	97
Investment income	8	**50**	**–**	**50**	39	–	39
Finance costs	9	**(38)**	**–**	**(38)**	(49)	–	(49)
Profit/(loss) before taxation		**291**	**(4)**	**287**	187	(100)	87
Taxation	11	**(1)**	**1**	**–**	7	45	52
Profit/(loss) for the year		**290**	**(3)**	**287**	194	(55)	139
Attributable to							
Equity holders		**291**	**(3)**	**288**	195	(55)	140
Non-controlling interests		**(1)**	**–**	**(1)**	(1)	–	(1)
Profit/(loss) for the year		**290**	**(3)**	**287**	194	(55)	139

1 Before non-underlying items (Notes 2.10 and 10).

	Notes	2022 Pence	2021 Pence
Earnings per share			
– basic	12	**46.9**	21.3
– diluted	12	**46.3**	21.1
Dividends per share proposed for the year	13	**10.5**	9.0

Financial Statements

For the year ended 31 December 2022

Commentary on the Group income statement*

Total profit before taxation for 2022 was £287m (2021: £87m), which is inclusive of a non-underlying loss before tax of £4m (2021: £100m). The total profit after tax was £287m (2021: £139m).

Background
The Group income statement includes the majority of the Group's income and expenses for the year with the remainder being recorded within the Group statement of comprehensive income. The Group's income statement is presented showing the Group's underlying and non-underlying results separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The income statement shows the revenue and results of continuing operations. There were no discontinued operations in either year.

Revenue
Revenue from operations including non-underlying items and the Group's share of joint ventures and associates increased by 8% to £8,931m from £8,263m in 2021 primarily due to foreign currency movements in the year. The Group's revenue in Support Services decreased by 7% following the exit from the gas and water sector.

Share of results of joint ventures and associates
Joint ventures and associates are those entities over which the Group exercises joint control or has significant influence and whose results are generally incorporated using the equity method whereby the Group's share of the post-tax results of joint ventures and associates is included in the Group's operating profit.

The Group's underlying profit generated from its share of joint ventures and associates increased in part due to disposals of Infrastructure Investments assets. The Group disposed of five assets (Regard at Med Center, Aspire at Discovery Park, Preserve at Southwind, Preserve at Bartlett and Waterchase Apartments) within its share of joint ventures and associates resulting in an underlying gain of £70m. Refer to Note 34.2.

Underlying profit from operations
The underlying profit from operations for the year increased to £279m (2021: £197m), primarily due to the improved profitability in Construction Services. Within the Construction Services underlying profit of £149m (2021: £79m), the significant improvement arose from the return to profitability in UK Construction following write-downs on private sector property projects in central London in 2021, with the increases in US Construction and Gammon supported by exchange rate movements. Support Services underlying profit from operations was lower at £83m (2021: £102m), however its 8.4% profit from operations margin exceeded the 6-8% margin target range set by the Group in 2021. At Infrastructure Investments, underlying profit increased to £81m (2021: £49m) due to higher gains on investment disposals.

Non-underlying items
Non-underlying items in 2022 comprised the amortisation of acquired intangible assets of £6m (2021: £5m) and a provision release relating to a previous disposal amounting to £2m (2021: £7m).

Within non-underlying tax there was a £1m credit (2021: £45m).

Net finance income
Net finance income of £12m in the year represents an increase from £10m finance cost in 2021. The increase was primarily driven by higher interest income on cash deposits of £8m (2021: £nil) and a higher net pension finance income of £5m (2021: £1m). There was also a decrease in impairments recognised on the Group's subordinated debt and accrued interest receivable from joint ventures and associates from £14m in 2021 to £2m in 2022. Refer to Notes 8 and 9.

Taxation
The Group's underlying profit before tax from subsidiaries of £186m (2021: £130m) resulted in an underlying tax charge of £1m (2021: £7m credit). This comprised a £57m charge on underlying profits and a £56m credit relating to the recognition of additional UK tax losses.

Earnings per share
Basic earnings per share were 46.9p (2021: 21.3p). Underlying basic earnings per share were 47.5p (2021: 29.7p).

* The commentary forms part of the Chief Financial Officer's review on pages 80 to 83 and does not form part of the financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 Group £m	2022 Share of joint ventures and associates £m	2022 Total £m	2021 Group £m	2021 Share of joint ventures and associates £m	2021 Total £m
Profit for the year		**182**	**105**	**287**	82	57	139
Other comprehensive income/(loss) for the year							
Items which will not subsequently be reclassified to the income statement							
Actuarial (losses)/gains on retirement benefit assets/liabilities	32.1	**(52)**	**1**	**(51)**	98	7	105
Tax on above	32.1	**20**	**–**	**20**	(22)	(1)	(23)
		(32)	**1**	**(31)**	76	6	82
Items which will subsequently be reclassified to the income statement							
Currency translation differences	32.1	**32**	**23**	**55**	2	(1)	1
Fair value revaluations – PPP financial assets	32.1	**(3)**	**(124)**	**(127)**	(3)	(6)	(9)
– cash flow hedges	32.1	**3**	**29**	**32**	8	(6)	2
– investments in mutual funds measured at fair value through OCI	32.1	**(5)**	**–**	**(5)**	3	–	3
Recycling of revaluation reserves to the income statement on disposal^	34.2/34.3	**–**	**(3)**	**(3)**	(3)	(7)	(10)
Tax on above	32.1	**(1)**	**25**	**24**	(2)	(2)	(4)
		26	**(50)**	**(24)**	5	(22)	(17)
Total other comprehensive (loss)/income for the year		**(6)**	**(49)**	**(55)**	81	(16)	65
Total comprehensive income for the year	32.1	**176**	**56**	**232**	163	41	204
Attributable to							
Equity holders				**233**			205
Non-controlling interests				**(1)**			(1)
Total comprehensive income for the year	32.1			**232**			204

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

Commentary on Group statement of comprehensive income*

Total comprehensive income for 2022 was £232m comprising a total profit after tax of £287m and other comprehensive loss after tax of £55m.

Background

The Group statement of comprehensive income is presented on a total Group basis. Other comprehensive income (OCI) is categorised into items which will affect the profit and loss of the Group in subsequent periods when the gain or loss is realised and those which will not be recycled into the income statement.

Items which will not subsequently be reclassified to the income statement

Actuarial movements on retirement benefit assets/liabilities are increases or decreases in the present value of the pension balances because of:

» differences between the previous actuarial assumptions and what has actually occurred; or

» changes in actuarial assumptions used to value the obligations.

Actuarial losses for the Group including joint ventures and associates totalled £51m in 2022 compared to a £105m gain in 2021. Refer to Note 30.

Items which will subsequently be reclassified to the income statement

Currency translation differences

The Group operates in a number of countries with different local currencies. Currency translation differences arise on translation of the balance sheet and results from the local functional currency into the Group's presentational currency, sterling.

Fair value revaluations – PPP financial assets

Assets constructed by PPP concession companies are classified principally as financial assets measured at fair value through OCI. In the operational phase fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related fair value movements recognised in OCI. During the year, gilt rates have increased resulting in fair value losses including joint ventures and associates of £127m being taken through OCI (2021: £9m).

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, SONIA movements resulted in fair value gains on the interest rate swaps of £3m (2021: gains of £8m) within the Group's subsidiaries and £29m (2021: losses of £6m) within the Group's joint ventures being recognised in OCI.

Recycling of revaluation reserves to the income statement on disposal

Fair value gains and losses and currency translation differences recognised in OCI are transferred to the income statement upon disposal of the asset. £3m of gains (2021: £10m) were recycled to the income statement from OCI and included in the gain on disposal.

There is no associated tax on the amounts recycled to the income statement.

* The commentary forms part of the Chief Financial Officer's review on pages 80 to 83 and does not form part of the financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Notes	Called-up share capital £m	Share premium account £m	Capital redemption reserve £m	Share of joint ventures' and associates' reserves (Note 19.6) £m	Other reserves[µ] (Note 32.1) £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2021		345	176	1	65	137	612	9	1,345
Total comprehensive income/(loss) for the year	32.1	–	–	–	41	5	159	(1)	204
Ordinary dividends	13	–	–	–	–	–	(29)	–	(29)
Joint ventures' and associates' dividends	19.1	–	–	–	(68)	–	68	–	–
Non-controlling interests' dividends		–	–	–	–	–	–	(1)	(1)
Purchase of treasury shares	31.1	–	–	–	–	–	(151)	–	(151)
Movements relating to share-based payments		–	–	–	–	2	6	–	8
Reserve transfers relating to joint ventures and associates	19.6	–	–	–	34	–	(34)	–	–
At 31 December 2021		345	176	1	72	144	631	7	1,376
Total comprehensive income/(loss) for the year	32.1	–	–	–	**56**	**25**	**152**	**(1)**	**232**
Ordinary dividends	13	–	–	–	–	–	**(58)**	–	**(58)**
Joint ventures' and associates' dividends	19.1	–	–	–	**(148)**	–	**148**	–	–
Non-controlling interests' dividends		–	–	–	–	–	–	**(1)**	**(1)**
Purchase of treasury shares	31.1	–	–	–	–	–	**(151)**	–	**(151)**
Cancellation of ordinary shares	31.1	**(51)**	–	**51**	–	–	–	–	–
Movements relating to share-based payments+		–	–	–	–	**1**	**(16)**	–	**(15)**
At 31 December 2022		**294**	**176**	**52**	**(20)**	**170**	**706**	**5**	**1,383**

µ Other reserves include £22m of special reserve (2021: £22m).

+ Movements relating to share-based payments include £2m tax credit (2021: £nil) recognised directly within retained profits.

Commentary on Group statement of changes in equity*

Total equity was £1,383m at 31 December 2022.

Background

The Group statement of changes in equity includes the total comprehensive income/(loss) attributable to equity holders of the Company and non-controlling interests and also discloses transactions which have been recognised directly in equity and not through the income statement.

Dividends

The Board is recommending a final dividend of 7.0p. Dividends paid in the year comprised £37m for the final 2021 dividend (6.0p) and £21m for the interim 2022 dividend (3.5p).

Joint ventures' and associates' dividends

Dividends of £148m (2021: £68m) were received in the year from joint ventures and associates (JVA), resulting in a transfer of this amount between JVA reserves and Group retained profits.

Purchase of treasury shares

In 2022 the Company commenced the second phase of its share buyback programme, which completed on 15 December 2022. The Company purchased 52.0m (2021: 50.3m) shares for a total consideration of £150m (2021: £150m) and held these in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m (2021: £1m), utilised £151m (2021: £151m) of the Company's distributable profits.

Cancellation of ordinary shares

On 7 June 2022 and 20 December 2022, the Company cancelled 50.3m treasury shares and 52.0m treasury shares purchased as part of the 2021 and 2022 share buyback programmes respectively. This led to a decrease in called-up share capital of £51m (2021: £nil) and a corresponding increase in the capital redemption reserve.

Reserves

Other reserves comprise: hedging reserves £(4)m (2021: £(5)m); PPP financial assets revaluation reserve £1m (2021: £4m); currency translation reserve £132m (2021: £100m); special reserve £22m (2021: £22m); and other reserves £19m (2021: £23m).

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Notes	Called-up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves (Note 32.2)[Δ] £m	Retained profits £m	Total £m
At 1 January 2021		345	176	1	123	771	1,416
Total comprehensive income for the year	32.2	–	–	–	–	83	83
Ordinary dividends	13	–	–	–	–	(29)	(29)
Purchase of treasury shares	31.1	–	–	–	–	(151)	(151)
Movements relating to share-based payments		–	–	–	5	2	7
At 31 December 2021		345	176	1	128	676	1,326
Total comprehensive income for the year	32.2	–	–	–	–	**175**	**175**
Ordinary dividends	13	–	–	–	–	**(58)**	**(58)**
Purchase of treasury shares	31.1	–	–	–	–	**(151)**	**(151)**
Cancellation of ordinary shares	31.1	**(51)**	–	**51**	–	–	–
Movements relating to share-based payments+		–	–	–	**8**	**(24)**	**(16)**
At 31 December 2022		**294**	**176**	**52**	**136**	**618**	**1,276**

Δ Other reserves include £22m of special reserve (2021: £22m).

+ Movements relating to share-based payments include £1m tax credit (2021: £nil) recognised directly within retained profits.

* The commentary forms part of the Chief Financial Officer's review on pages 80 to 83 and does not form part of the financial statements.

BALANCE SHEETS

At 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Non-current assets					
Intangible assets – goodwill	14	**876**	817	**–**	–
– other	15	**292**	296	**–**	–
Property, plant and equipment	16	**104**	98	**–**	–
Right-of-use assets	17	**127**	125	**–**	–
Investment properties	18	**27**	29	**–**	–
Investments in joint ventures and associates	19	**426**	503	**–**	–
Investments	20	**40**	35	**1,733**	1,726
PPP financial assets	21	**26**	30	**–**	–
Trade and other receivables	24	**286**	249	**2**	2
Retirement benefit assets	30	**262**	321	**–**	–
Deferred tax assets	29	**176**	120	**2**	–
		2,642	2,623	**1,737**	1,728
Current assets					
Inventories	22	**114**	104	**–**	–
Contract assets	23	**300**	214	**–**	–
Trade and other receivables	24	**881**	865	**1,560**	1,422
Cash and cash equivalents – infrastructure investments	27	**19**	17	**–**	–
– other	27	**1,160**	1,016	**424**	345
Current tax receivable		**6**	7	**–**	1
Derivative financial instruments	40	**1**	–	**–**	–
		2,481	2,223	**1,984**	1,768
Total assets		**5,123**	4,846	**3,721**	3,496
Current liabilities					
Contract liabilities	23	**(663)**	(669)	**–**	–
Trade and other payables	25	**(1,595)**	(1,458)	**(2,052)**	(1,958)
Provisions	26	**(204)**	(174)	**–**	–
Borrowings – non-recourse loans	27	**(30)**	(5)	**–**	–
– other	27	**(173)**	(34)	**(218)**	(17)
Lease liabilities	28	**(49)**	(44)	**–**	–
Current tax payable		**(8)**	(14)	**–**	–
Derivative financial instruments	40	**–**	(1)	**–**	–
		(2,722)	(2,399)	**(2,270)**	(1,975)
Non-current liabilities					
Contract liabilities	23	**(2)**	(9)	**–**	–
Trade and other payables	25	**(141)**	(117)	**(3)**	(3)
Provisions	26	**(197)**	(205)	**–**	–
Borrowings – non-recourse loans	27	**(231)**	(255)	**–**	–
– other	27	**(172)**	(192)	**(172)**	(192)
Lease liabilities	28	**(83)**	(85)	**–**	–
Retirement benefit liabilities	30	**(39)**	(90)	**–**	–
Deferred tax liabilities	29	**(152)**	(115)	**–**	–
Derivative financial instruments	40	**(1)**	(3)	**–**	–
		(1,018)	(1,071)	**(175)**	(195)
Total liabilities		**(3,740)**	(3,470)	**(2,445)**	(2,170)
Net assets		**1,383**	1,376	**1,276**	1,326
Equity					
Called-up share capital	31	**294**	345	**294**	345
Share premium account	32	**176**	176	**176**	176
Capital redemption reserve	32	**52**	1	**52**	1
Share of joint ventures' and associates' reserves	32	**(20)**	72	**–**	–
Other reserves	32	**170**	144	**136**	128
Retained profits	32	**706**	631	**618**	676
Equity attributable to equity holders of the Parent		**1,378**	1,369	**1,276**	1,326
Non-controlling interests	32	**5**	7	**–**	–
Total equity		**1,383**	1,376	**1,276**	1,326

On behalf of the Board

Leo Quinn
Director

Philip Harrison
Director

15 March 2023

At 31 December 2022

Commentary on the Group balance sheet*

Total assets of £5.1bn were 6% higher than last year and total liabilities of £3.7bn increased by 8%. Net assets remained consistent at £1.4bn primarily driven by an increase in profit for the year and other comprehensive income of £232m partially offset by ordinary dividends and share buybacks.

Background

The Group's balance sheet shows the Group's assets and liabilities as at 31 December 2022 in accordance with IAS 1 Presentation of Financial Statements.

Goodwill

The goodwill on the Group's balance sheet at 31 December 2022 increased to £876m (2021: £817m), solely due to foreign currency movements.

Investments in joint ventures and associates

Investments in joint ventures and associates have decreased by £77m to £426m. The decrease was primarily driven by dividends in the year of £148m.

Working capital

Net movements in working capital are discussed in the statement of cash flows commentary on page 186.

Borrowings

Borrowings excluding non-recourse loans

The Group has a committed sustainability linked 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. This facility was undrawn at 31 December 2022.

In December 2022, the Group agreed an additional committed bilateral bank facility of £30m. The facility is a sustainability linked loan on the same terms as the main £375m facility. This facility was also undrawn as at 31 December 2022. Refer to Note 27.1 for further information.

In June 2022 the Group raised US$158m of debt in the form of new US private placement (USPP) notes on terms and conditions materially the same as the existing USPP notes. This new funding was used towards the repayment of the US$209m of USPP notes which matured in March 2023.

Non-recourse loans

In addition, the Group has non-recourse facilities in companies engaged in certain infrastructure concession projects.

At 31 December 2022, the Group's share of these non-recourse net borrowings amounted to £1,490m (2021: £1,471m), comprising £1,248m (2021: £1,228m) in relation to joint ventures and associates as disclosed in Note 19.2 and £242m (2021: £243m) 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 £223m (2021: £231m) representing net surpluses in the Group's pension schemes, as measured on an IAS 19 basis. The movement in pension surplus in the year is primarily due to actuarial losses of £52m (2021: £98m gains) partially offset by ongoing deficit funding of £41m (2021: £39m).

Any surplus of deficit contributions would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the schemes have been settled.

Other

In addition to the liabilities on the balance sheet, in the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities, commonly referred to as bonds. These bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. They are customary or mandatory in many of the markets in which the Group operates. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from the Company. As at 31 December 2022, contract bonds in issue by financial institutions covered £4.3bn (2021: £3.8bn) of the contract commitments of the Group.

Equity commitments

During 2022, the Group invested £30m (2021: £19m) 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 £83m from 2023 onwards, inclusive of £55m expected for projects at preferred bidder stage. £10m of this is expected to be invested in 2023, as disclosed in Note 41(f).

* The commentary forms part of the Chief Financial Officer's review on pages 80 to 83 and does not form part of the financial statements.

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Cash from operations	33.1	**185**	354
Income taxes paid		**(17)**	(1)
Net cash from operating activities		**168**	353
Cash flows from investing activities			
Dividends received from:			
– joint ventures and associates – infrastructure investments	19.5	**114**	30
– joint ventures and associates – other	19.5	**34**	38
– other investments	20	**4**	–
Interest received – infrastructure investments – joint ventures	19.5	**10**	8
Interest received – infrastructure investments – subsidiaries		**7**	2
Acquisition of businesses	34.1	**(3)**	(3)
Purchases of:			
– intangible assets – infrastructure investments	15	**(1)**	(1)
– intangible assets – other	15	**–**	(1)
– property, plant and equipment	16	**(31)**	(35)
– other investments	20	**(7)**	–
Investments in and long-term loans to joint ventures and associates	19.5	**(29)**	(15)
Return of equity from joint ventures and associates	19.5	**34**	4
PPP financial assets cash expenditure	21	**(2)**	(3)
PPP financial assets cash receipts	21	**5**	10
Disposals of:			
– investments in joint ventures – infrastructure investments	19.5	**–**	50
– investments in joint ventures – other	19.5	**1**	1
– subsidiaries net of cash disposed, separation and transaction costs – infrastructure investments	34.3.2	**–**	16
– property, plant and equipment – other		**8**	10
– other investments	20	**2**	5
Net cash from investing activities		**146**	116
Cash flows used in financing activities			
Purchase of ordinary shares	32.3	**(25)**	–
Purchase of treasury shares	31.1	**(151)**	(151)
Proceeds from new loans relating to:			
– infrastructure investments assets	33.3	**8**	8
– other	33.3	**130**	–
Repayments of loans relating to infrastructure investments assets	33.3	**(7)**	(6)
Repayment of lease liabilities	28	**(52)**	(53)
Ordinary dividends paid	13	**(58)**	(29)
Other dividends paid – non-controlling interest		**(1)**	(1)
Interest paid – infrastructure investments		**(9)**	(11)
Interest paid – other		**(24)**	(23)
Net cash used in financing activities		**(189)**	(266)
Net increase in cash and cash equivalents		**125**	203
Effects of exchange rate changes		**55**	4
Cash and cash equivalents at beginning of year		**999**	792
Cash and cash equivalents at end of year	33.2	**1,179**	999

For the year ended 31 December 2022

Commentary on the Group statement of cash flows*

Cash and cash equivalents increased during the year to £1,179m. The Group generated cash from operating activities in the year of £168m compared to £353m 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 £185m (2021: £354m) comprised a profit from operations of £275m (2021: £97m) and a working capital outflow of £54m (2021: £269m inflow) and includes the following significant adjustment items: share of results of joint ventures and associates £105m (2021: £57m); depreciation and amortisation charges £111m (2021: £109m); and pension payments including deficit funding of £43m (2021: £42m).

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.

Changes in the Group's working capital position during the year resulted in a cash outflow of £54m (2021:£269m inflow). This reduction in the negative working capital position was a net result of several movements including outflows relating to the private sector property projects in central London and the US military housing DoJ resolution and inflows relating to major infrastructure projects in the UK.

Cash flows from investing activities
The Group received dividends of £148m (2021: £68m) from joint ventures and associates during the year.

The Group continued its programme for the disposal of infrastructure investment assets and disposed of five assets within its investment in joint ventures and associates, Regard at Med Center, Aspire at Discovery Park, Preserve at Southwind, Preserve at Bartlett and Waterchase Apartments. Proceeds amounted to £12m, £50m, £4m, £13m and £14m respectively which are included within dividends received and return of equity from joint ventures and associates.

The Group continued to invest in its joint ventures and associates, contributing £29m (2021: £15m) in the year.

Cash flows from financing activities
On 15 December 2022 the Company completed the share buyback programme resulting in 52.0m (2021: 50.3m) shares purchased for a total consideration of £151m (2021: £151m), including associated fees and stamp duty amounting to £1m (2021: £1m).

At 31 December 2022 the Group had US$259m of the US private placement (USPP) notes issued in 2013 still outstanding. In June 2022 the Group raised US$158m of debt in the form of new USPP notes on terms and conditions materially the same as the existing USPP notes. This new funding was used towards the repayment of the US$209m of USPP notes which matured in March 2023.

The Group has total committed bank facilities of £405m, including the newly signed additional committed bilateral bank facility of £30m. Under the terms of these sustainability linked facilities, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score. These facilities were undrawn at 31 December 2022.

Interest payments amounted to £33m (2021: £34m) during the year, of which £9m (2021: £11m) related to infrastructure investments, £15m (2021: £10m) related to the USPP, £6m (2021: £6m) related to the interest paid on lease liabilities and £3m (2021: £7m) related to other finance charges.

* The commentary forms part of the Chief Financial Officer's review on pages 80 to 83 and does not form part of the financial statements.

1 Basis of accounting

Going concern

The Directors consider it reasonable to assume that the Group has adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the financial statements.

The key financial risk factors for the Group remain largely unchanged. 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 89 to 96.

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 2022, 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 of 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 of each of the Group's operations. The Directors have also considered the strength of the Group's order book which amounted to £17.4bn at 31 December 2022 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.

At 31 December 2022, the Group's only debt, other than non-recourse borrowings ring-fenced within certain concession companies, comprised US private placement (USPP) notes. Of the USPP notes issued in 2013, US$209m matured in March 2023 and the remaining US$50m will mature in March 2025. The Group raised US$158m in June 2022 through the issue of new USPP notes which will mature in tranches in 2027, 2029 and 2032. In December 2022, the Group secured a new £30m bilateral committed bank facility which remained undrawn at 31 December 2022 and expires in December 2024 with an extension option for a further three years subject to certain specific conditions. In March 2023, the funds raised through the new PPP notes and the new bilateral bank facility were utilised towards repayment of the US$209m USPP notes.

The Group's £375m committed sustainability linked bank facility, which was undrawn throughout the year ended 31 December 2022, remains fully available to the Group until October 2024.

The Directors have stress-tested the Group's base case projections of both cash and profit against key sensitivities which could materialise as a result of adverse changes in the economic environment including a deterioration in commercial or operational conditions. The Group has sensitised its projections against severe but plausible downside scenarios which include:

- elimination of a portion of unsecured work assumed within the Group's base case projections and a delay of three months for any awarded but not yet contracted work;
- a deterioration of contract judgements and restriction of a portion of the Group's margins; and
- delay in the disposal of Investments assets by 12 months.

In the severe but plausible downside scenarios modelled, the Group continues to retain sufficient headroom on liquidity throughout the going concern period. Through these downside scenarios, the Group is still expected to be in a net cash position and to remain within its banking covenants through the going concern assessment period.

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

Consideration of climate change

In preparing the financial statements, the Directors have considered the impact of climate change, particularly in the context of the risks identified in the TCFD disclosure on pages 98 to 105. There has been no material impact identified on the financial reporting judgements and estimates. In particular, the Directors considered the impact of climate change in respect of the following areas:

- contract judgements made on the Group's Construction Services and Support Services contracts;
- going concern and viability of the Group over the next three years;
- cash flow forecasts used in the impairment assessments of non-current assets including the Group's intangible assets such as customer contracts and goodwill;
- cash flow forecasts used in the impairment assessments of the Group's infrastructure investments assets;
- carrying value and useful economic lives of property, plant and equipment; and
- the valuation of assets held within the Group's pension schemes.

As current legislation stands, there is currently no medium-term impact expected from climate change due to the contractual mechanisms and insurance arrangements in place. The Directors are however aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

Basis of preparation

The annual financial statements have been prepared in accordance with UK-adopted International Accounting Standards and in conformity with the requirements of the Companies Act 2006 (the Act).

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 and have been prepared in accordance with UK-adopted international accounting standards, including FRS 101 Reduced Disclosure Framework.

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 2022:

- Amendments to the following standards:
  - IAS 16 Property, Plant and Equipment
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
  - IFRS 3 Business Combinations
  - Annual Improvements 2018 - 2020

These amended standards did not have a material effect on the Group.

2 Principal accounting policies continued

2.1 Accounting standards continued

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the UK or were not yet effective in the UK at 31 December 2022:

- IFRS 17 Insurance Contracts
- Amendments to the following standards:
  - IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
  - IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
  - IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
  - IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
  - IFRS 16 Leases: Lease Liability in a Sale and Leaseback
  - IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

The Directors do not expect the standards above to have a material effect on the Group and have chosen not to adopt any of the above standards and interpretations earlier than required.

2.2 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are consolidated from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling equity holders is stated at the non-controlling equity holders' proportion of the fair value of the assets and liabilities recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less direct costs of the transaction; and (ii) the previous carrying amount of the assets (including goodwill) less liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained earnings).

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

b) Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its individual assets and obligations for its individual liabilities.

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control or joint control.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The equity return from the military housing joint ventures of the Group is contractually limited to a maximum level of return, beyond which the Group does not share in any further return. Therefore the Group's investment in these projects is recognised at initial equity investment plus the value of the Group's accrued preferred return from the underlying projects.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture or associate entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the income statement in the period of acquisition.

Investments in joint ventures and associates are initially carried in the balance sheet at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

c) Joint operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

The results of a small number of joint operations are drawn up to a date other than 31 December, typically in the last two weeks of December. Adjustments are made for any significant transactions between such date and 31 December.

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.

2 Principal accounting policies continued

2.3 Foreign currencies continued

In order to hedge its exposure to certain foreign exchange risks, the Group may enter into forward foreign exchange contracts. Refer to Note 2.26(b) for details of the Group's accounting policies in respect of such derivative financial instruments.

2.4 Revenue recognition

The Group recognises revenue when it transfers control over a product or service to its customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Where consideration is not specified within the contract and is therefore subject to variability, the Group estimates the amount of consideration to be received from its customer. The consideration recognised is the amount which is highly probable not to result in a significant reversal in future periods.

Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

The Group's activities are wide ranging, and as such, depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Group will account for revenue over time and at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

Revenue is recognised as follows:

- revenue from construction and services activities is recognised over time and the Group uses the input method to measure progress of delivery;
- revenue from manufacturing activities is recognised at a point in time when title has passed to the customer; and
- dividend income in the Parent Company is recognised when the equity holders' right to receive payment is established.

2.5 Construction and services contracts

When the outcome of individual contracts can be estimated reliably, contract revenue is recognised by reference to the measure of progress at the reporting date using the input method. Costs are recognised as incurred and revenue is recognised on the basis of the proportion of total costs at the reporting date to the estimated total costs of the contract.

Estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. The estimated final out-turns on contracts are continuously reviewed, and in certain limited cases, recoveries from insurers are assessed, and adjustments made where necessary.

No margin is recognised until the outcome of the contract can be estimated with reasonable certainty. Provision is made for all known or expected losses on individual contracts once such losses are foreseen.

Revenue in respect of variations to contracts and incentive payments is recognised when there is an enforceable right to payment and it is highly probable it will be agreed by the customer. Variable consideration is assessed on a contract by contract basis according to the facts, circumstances and terms of each project and only recognised to the extent that it is highly probable not to significantly reverse in the future. Revenue in respect of claims is recognised only if it is highly probable not to reverse in future periods. Profit for the year includes the benefit of claims settled in the year to the extent not previously recognised on contracts completed in previous years.

2.6 Segmental reporting

The Group considers its Board of Directors to be the chief operating decision maker and therefore the segmental disclosures provided in Note 5 are aligned with the monthly reports provided to the Board of Directors. The Group's reporting segments are based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into three reportable segments which reflect the nature of the services provided by the Group. A description of each reportable segment is provided in Note 5. Further information on the business activities of each reportable segment is set out on pages 194 to 195.

Operating segments are aggregated on the basis of the nature of the services provided and the manner in which returns are earned by the Group. Further information on the nature of services provided within each segment is included in Note 4.

Working capital is the balance sheet measure reported to the chief operating decision maker. The profitability measure used to assess the performance of the Group is underlying profit from operations.

Segment results represent the contribution of the different segments after the allocation of attributable corporate overheads. Transactions between segments are conducted at arm's-length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable. Non-recourse net borrowings are directly attributable to Infrastructure Investments and therefore not included within Corporate activities.

Major customers are defined as customers contributing more than 10% of the Group's external revenue.

2.7 Pre-contract bid costs and recoveries

Pre-contract costs are expensed as incurred until preferred bidder status is awarded at which point further costs are capitalised as there is a high probability that the Group would be able to recover these costs. Amounts subsequently recovered in respect of pre-contract costs that have been written off before preferred bidder status was awarded are recognised in full in the income statement when they are received in cash.

2.8 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

2.9 Investment income and finance costs

Interest income is accrued on a time basis using the effective interest method by reference to the principal outstanding and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method. Finance costs also include interest cost on the discount unwind of lease liabilities and impairment of loans to joint ventures and associates and accrued interest thereon.

2.10 Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be presented separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Such items will not affect the absolute amount of the results for the period and the trend of results. The Group's underlying results exclude non-underlying items.

2 Principal accounting policies continued

2.10 Non-underlying items continued

Non-underlying items include:

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

These are examples, however, from time to time it may be appropriate to disclose further items as non-underlying items in order to highlight the underlying performance of the Group. Refer to Note 10.

2.11 Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also accounted for within equity. Current tax is based on the profit for the year.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Management is closely monitoring the impact of the Organisation for Economic Co-operation and Development's (OECD) Pillar Two model rules to introduce a global minimum tax rate of 15% to address the tax concerns about uneven profit distribution and tax contributions of large multinational corporations. The Pillar Two top-up tax solution is expected to be enacted in 2023 in the UK with application from 1 January 2024. In December 2021 the OECD released a draft legislative framework that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. At the date when these financial statements were authorised for issue, none of the jurisdictions in which the Group operates had enacted or substantively enacted tax legislation related to the Pillar Two top-up tax solution. Management is closely monitoring the progress of the legislative process in each jurisdiction the Group operates in. The Group does not operate in any jurisdiction where the statutory tax rate is 15% or below.

2.12 Intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiaries and other businesses, joint ventures and associates and represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written off or discount arising on acquisition credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

b) Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation charges in respect of software and Infrastructure Investments intangibles are included in underlying items.

c) Research and development

Internally generated intangible assets developed by the Group are recognised only if all the following conditions are met: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

2.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure associated with bringing the asset to its operating location and condition.

2.14 Investment properties

The Group classifies land and buildings which it holds to generate capital appreciation and/or to earn rental income as investment properties. The Group has chosen to state its investment properties at cost less accumulated depreciation and impairment losses. The Group depreciates its investment properties over 25 years. Land is not depreciated.

2.15 Leasing

As a lessee, the Group assesses whether a contract is, or contains, a lease at the inception of a contract. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess if a lease exists, the Group assesses whether: (i) the contract involves the use of an identified asset; (ii) the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the lease term; and (iii) the Group has the right to direct the use of the asset. In order to determine if the contract involves the use of an identified asset, the Group exercises judgement to assess if the supplier has a substantive substitution right over the asset. An asset is not identified if it has been determined that the supplier has substantive substitution rights.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated over the lease term. The lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group has elected to apply the practical expedient which allows the Group to use a single discount rate for a portfolio of leases with similar characteristics.

2 Principal accounting policies continued

2.15 Leasing continued

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of less than 12 months and leases of low value assets. Instead, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.16 Impairment of assets

Assets that have an indefinite useful life (such as goodwill arising on acquisitions) are reviewed at least annually for impairment. Other intangible assets, property, plant and equipment and right-of-use assets are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash-generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

2.17 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments in mutual funds are measured at fair value. Gains and losses arising from changes in the fair value of these investments are recognised in equity, until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Investments that are held until they reach maturity are measured at amortised cost.

Investments in subsidiaries are recognised and held at cost and subsequently tested for impairment on an annual basis. Where an impairment is identified, a provision for impairment is recorded against the carrying value of the investment.

2.18 Government grants

Government grants are recognised when there is a reasonable assurance that the Group will be able to comply with the conditions attached to the grant and that the grant will be received. Grants are recognised in the income statement on a systematic basis as a deduction from the related category of cost in the periods in which the expenses are recognised.

2.19 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost includes an appropriate proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.20 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts and expected credit losses.

2.21 Trade payables

Trade payables are not interest bearing and are stated at cost.

2.22 Provisions

Provisions for insurance liabilities retained in the Group's captive insurance arrangements, legal claims, defects and warranties, environmental restoration, onerous leases, and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability.

Provisions are recognised when: (i) the Group has a present legal or constructive obligation as a result of a past event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount of the obligation can be estimated reliably.

2.23 Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Premiums payable on settlement or redemption and direct issue costs are included in the carrying amount of the instrument and are charged to the income statement on an accruals basis using the effective interest method together with the interest payable.

2.24 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution retirement and other long-term employee benefit schemes, the largest of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit pension schemes, the cost of providing benefits recognised in the income statement and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligations, determined by discounting the estimated future cash flows using the market yield on a high-quality corporate bond, less the fair value of the scheme assets. Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the income statement as they fall due.

Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

2.25 Share-based payments

Employee services received in exchange for the grant of equity-settled and cash-settled awards are charged to the income statement on a straight-line basis over the vesting period, based on the fair values of the awards at the date of grant.

The credits in respect of the amounts charged are included within separate reserves in equity until such time as the awards are exercised, when the shares are transferred or cash payments made to employees.

2.26 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Classification of financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2 Principal accounting policies continued

2.26 Financial instruments continued

b) Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 40.

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative transaction is entered into and are subsequently re-measured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (OCI). Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded in the balance sheet at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the balance sheet are recognised in the income statement as they arise.

c) PPP concession companies
Assets constructed by PPP concession companies are classified principally as financial assets measured at fair value through OCI.

In the construction phase, income is recognised by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, income is recognised by allocating a proportion of total cash receivable over the life of the project to service costs by means of a deemed rate of return on those costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method, giving rise to interest income.

Due to the nature of the contractual arrangements, the projected cash flows can be estimated with a high degree of certainty.

In the construction phase, the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin to the construction costs representing the fair value of construction services performed. In the operational phase, fair value is determined by discounting the future cash flows allocated to the financial asset using discount rates based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in OCI. Amounts originally recognised in OCI are transferred to the income statement upon disposal of the asset.

2.27 Judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may differ from these judgements, estimates and assumptions.

The judgements, estimates and assumptions that have the most significant effect on the carrying value of assets and liabilities of the Group as at 31 December 2022 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. On cost reimbursable contracts there are also estimates required on the level of disallowable costs which requires an assessment of whether costs are recoverable under the terms of the contract and therefore should be recognised as income. Judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. The Group continues to regularly assess these judgements and estimates.

As at 31 December 2022, the Group's contract assets, contract liabilities and contract provisions amounted to £300m, £665m and £335m 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 2022 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 £52m to a loss of £(24)m. The Directors have assessed the range of reasonably possible outcomes on these limited number of contracts based on facts and circumstances that were present and known at the balance sheet date. As with any contract applying long-term contract accounting, these contracts are also affected by a variety of uncertainties that depend on future events, and so often need to be revised as contracts progress.

2 Principal accounting policies continued

2.27 Judgements and key sources of estimation uncertainty continued

b) Non-underlying items (judgement)
Non-underlying items are items of financial performance which the Group believes should be presented separately on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying items or non-underlying items requires judgement. A total non-underlying loss after tax of £3m (2021: £55m) was charged to the income statement for the year ended 31 December 2022. Refer to Note 10.

c) Financial assets measured at fair value through OCI (judgement and estimate)
At 31 December 2022, £1,270m (2021: £1,325m) 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 4.6% to 10.0% (2021: 1.8% to 7.2%), 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 £127m loss was taken to other comprehensive income in 2022 (2021: £9m loss) and a cumulative fair value gain of £178m had arisen on these financial assets as a result of market-related movements in the fair value of these financial assets at 31 December 2022 (2021: £305m gain).

d) 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 2022 and could require a material adjustment to the carrying amounts of assets and liabilities in the next financial year. As disclosed in Note 26, the majority of the Group's provision balance relates to contract provisions, which include loss provisions, defect and warranty provisions, where estimates are made around forecast costs and judgements are made on timing and whether it is probable there will be an outflow of future economic benefit. Contract loss provisions may also include estimates around variable consideration as disclosed in Note 2.27(a). However, due to the level of uncertainty, combination of variables and timing across a large portfolio of complex contracts at different stages of their contract life, it is impracticable to provide a quantitative analysis of the aggregated judgements that are applied at a portfolio level.

To the extent that the sensitivities disclosed in Note 2.27(a) affect a loss-making contract, this will have an impact on the Group's provisions in the next financial year.

e) 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 2022, the net retirement benefit assets recognised on the Group's balance sheet were £223m (2021: £231m). 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 2022, the Group recognised net actuarial losses of £51m (2021: £105m gains) in OCI, including its share of the actuarial gains and losses arising in joint ventures and associates.

Judgement is applied when assessing the recognition of the pension surplus. Any surplus of deficit contributions to the Balfour Beatty Pension Fund (BBPF) and the Railways Pension Scheme (RPS) would be recoverable by way of a refund as, according to the relevant trust deed and rules documents, the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the BBPF and RPS have been settled.

3 Exchange rates

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

Average rates

£1 buys	2022	2021	Change
US$	**1.24**	1.37	(9.5)%
HK$	**9.72**	10.69	(9.1)%

Closing rates

£1 buys	2022	2021	Change
US$	**1.20**	1.35	(11.1)%
HK$	**9.39**	10.52	(10.7)%

4 Revenue

4.1 Nature of services provided

4.1.1 Construction Services

The Group's Construction Services segment encompasses activities in relation to the physical construction of assets provided to public and private customers. Revenue generated in this segment is measured over time as control passes to the customer as the asset is constructed. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's end of job forecast (the input method). Payment terms are based on a schedule of value that is set out in the contract and fairly reflect the timing and performance of service delivery. Contracts with customers are typically accounted for as one performance obligation (PO).

Types of assets	Typical contract length	Nature, timing of satisfaction of performance obligations and significant payment terms
Buildings	12 to 36 months	The Group constructs buildings which include commercial, healthcare, education, retail and residential assets. As part of its construction services, the Group provides a range of services including design and/or build, mechanical and electrical engineering, shell and core and/or fit-out and interior refurbishment. The Group's customers in this area are a mix of private and public entities. The contract length depends on the complexity and scale of the building and contracts entered into for these services are typically fixed price. In most instances, the contract with the customer is assessed to only contain one PO as the services provided by the Group, including those where the Group is also providing design services, are highly interrelated. However, for certain types of contracts, services relating to fit-out and interior refurbishment may sometimes be assessed as a separate PO.
Infrastructure	1 to 3 months for small-scale infrastructure works 24 to 60 months for large-scale complex construction	The Group provides construction services for three main types of infrastructure assets: highways, railways and other large-scale infrastructure assets such as waste, water and energy plants. Highways represent the Group's activities in constructing motorways in the UK, US and Hong Kong. This includes activities such as design and construction of roads, widening of existing motorways or converting existing motorways. The main customers are government bodies. Railway construction services include design and managing the construction of railway systems delivering major multi-disciplinary projects, track work, electrification and power supply. The Group serves both public and private railways including high-speed passenger railways, freight and mixed traffic routes, dense commuter networks, metros and light rail. Other infrastructure assets include construction, design and build services on large-scale complex assets predominantly servicing the waste, water and energy sectors. Contracts entered into relating to these infrastructure assets can take the form of fixed-price, cost-plus or target-cost contracts with shared pain/gain mechanisms. Contract lengths vary according to the size and complexity of the asset build and can range from a few months for small-scale infrastructure works to four to five years for large-scale complex construction works. In most cases, the contract itself represents a single PO where only the design and construction elements are contracted. In some instances, the contract with the customer will include maintenance of the constructed asset. The Group assesses the maintenance element as a separate PO and revenue from this PO is recognised in the Support Services segment. Refer to Note 4.1.2.

4.1.2 Support Services

The Group's work in this segment supports existing assets through maintaining, upgrading and managing services across utilities and infrastructure assets. Revenue generated in this segment is measured over time as control passes to the customer as and when services are provided. Progress is measured by reference to the cost incurred on the contract to date compared to the contract's end of job forecast (the input method). Payments are structured as milestone payments set out in the respective contracts.

Types of assets	Nature, timing of satisfaction of performance obligations and significant payment terms
Utilities	Within the Group's services contracts, the Group provides support services to various types of utility assets. For contracts servicing power transmission and distribution assets, the Group constructs and maintains electricity networks, including replacement or new build of overhead lines, underground cabling, cable tunnels and offshore wind farm maintenance. Contracts entered into are normally fixed-price and contract lengths can vary from 12 to 36 months, and up to 20 years for offshore wind farm maintenance contracts. Each contract is normally assessed to contain one PO. However, where a contract contains both a construction phase and a maintenance phase, these are assessed to contain two separate POs. For contracts servicing utility assets, the Group provides services such as renewal, upgrade and expansion of underground main pipelines for assets within the gas network. Within the water network, services include clean and waste water mains renewal and repair, metering and treatment facilities. Contracts are typically delivered through framework agreements which are normally granted on a regulatory cycle period of five years for water contracts and eight years for gas contracts. Individual instructions delivered under the framework agreements can vary in size and duration but usually last between one to six weeks for smaller projects or up to one to two years for major projects. Each instruction is accounted for as a separate PO. Payments are normally set according to a schedule of rates or are cost reimbursable and may include a pain/gain element.
Infrastructure	The Group provides maintenance, asset and network management and design services in respect of highways, railways and other publicly available assets. The customer in this area of the Group is mainly government bodies. Types of contract include a fixed schedule of rates, fixed-price, target-cost arrangements and cost-plus. Contract terms range from 1 to 25 years. Where contracts include a lifecycle element, this is accounted for as a separate PO and recognised when the work is delivered.

4 Revenue continued

4.1 Nature of services provided continued

4.1.3 Infrastructure Investments

The Group invests directly in a variety of assets, predominantly consisting of infrastructure assets where there are opportunities to manage the asset upon completion of construction. The Group also invests in real estate type assets, in particular private residential and student accommodation assets. Revenue generated in this segment is from the provision of construction, maintenance and management services and also from the recognition of rental income. The Group's strategy is to hold these assets until optimal values are achieved through disposal of mature assets.

Types of services	Nature, timing of satisfaction of performance obligations and significant payment terms
Service concessions	The Group operates a UK and US portfolio of service concession assets comprising 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 2022

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	2,761	3,650	1,071	7,482
	Group revenue	2,761	3,645	3	6,409
Support Services	Revenue including share of joint ventures and associates	982	–	7	989
	Group revenue	982	–	6	988
Infrastructure Investments	Revenue including share of joint ventures and associates	151	304	5	460
	Group revenue	53	179	–	232
Total revenue	**Revenue including share of joint ventures and associates**	**3,894**	**3,954**	**1,083**	**8,931**
	Group revenue	**3,796**	**3,824**	**9**	**7,629**

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	3,878	2,960	639	5	7,482
	Group revenue	3,387	2,401	616	5	6,409
Support Services	Revenue including share of joint ventures and associates	5	625	349	10	989
	Group revenue	5	625	348	10	988
Infrastructure Investments	Revenue including share of joint ventures and associates	291+	154	15	–	460
	Group revenue	229+	3	–	–	232
Total revenue	**Revenue including share of joint ventures and associates**	**4,174**	**3,739**	**1,003**	**15**	**8,931**
	Group revenue	**3,621**	**3,029**	**964**	**15**	**7,629**

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	7,475	984	430	8,889
At a point in time	7	5	30	42
Revenue including share of joint ventures and associates	**7,482**	**989**	**460**	**8,931**
Over time	6,402	983	202	7,587
At a point in time	7	5	30	42
Group revenue	**6,409**	**988**	**232**	**7,629**

+ Includes rental income of £49m including share of joint ventures and associates or £16m excluding share of joint ventures and associates.

4 Revenue continued

4.2 Disaggregation of revenue continued

For the year ended 31 December 2021

Revenue by primary geographical markets		United Kingdom £m	United States £m	Rest of world £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	2,589	3,341	816	6,746
	Group revenue	2,589	3,324	7	5,920
Support Services	Revenue including share of joint ventures and associates	1,039	–	27	1,066
	Group revenue	1,039	–	7	1,046
Infrastructure Investments	Revenue including share of joint ventures and associates	165	295	8	468
	Group revenue	55	181	–	236
Total revenue	**Revenue including share of joint ventures and associates**	3,793	3,636	851	8,280
	Group revenue	3,683	3,505	14	7,202

Revenue by types of assets serviced		Buildings £m	Infrastructure £m	Utilities £m	Other £m	Total £m
Construction Services	Revenue including share of joint ventures and associates	3,725	2,380	630	11	6,746
	Group revenue	3,391	1,907	611	11	5,920
Support Services	Revenue including share of joint ventures and associates	–	578	469	19	1,066
	Group revenue	–	578	449	19	1,046
Infrastructure Investments	Revenue including share of joint ventures and associates	319+	132	15	2	468
	Group revenue	232+	3	–	1	236
Total revenue	**Revenue including share of joint ventures and associates**	4,044	3,090	1,114	32	8,280
	Group revenue	3,623	2,488	1,060	31	7,202

Timing of revenue recognition	Construction Services £m	Support Services £m	Infrastructure Investments £m	Total £m
Over time	6,745	1,064	436	8,245
At a point in time	1	2	32	35
Revenue including share of joint ventures and associates	6,746	1,066	468	8,280
Over time	5,919	1,044	204	7,167
At a point in time	1	2	32	35
Group revenue	5,920	1,046	236	7,202

\+ Includes rental income of £38m including share of joint ventures and associates or £12m excluding share of joint ventures and associates.

4.3 Transaction price allocated to the remaining performance obligations (excluding joint ventures and associates)

	2023 £m	2024 £m	2025 onwards £m	Total £m
Construction Services	5,498	3,470	2,724	11,692
Support Services	668	405	1,325	2,398
Infrastructure Investments	104	41	1,864	2,009
Total transaction price allocated to remaining performance obligations	**6,270**	**3,916**	**5,913**	**16,099**

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earned by the Group for distinct goods and services which the Group has promised to deliver to its customers. These include promises which are partially satisfied at the period end or those which are unsatisfied but which the Group has committed to providing. In deriving this transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future.

The transaction price above does not include any estimated revenue to be earned on framework contracts for which a firm order or instruction has not been received from the customer.

5 Segment analysis

Reportable segments of the Group:

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

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

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

5.1 Total Group

Income statement – performance by activity	Construction Services 2022 £m	Support Services 2022 £m	Infrastructure Investments 2022 £m	Corporate activities 2022 £m	Total 2022 £m
Revenue including share of joint ventures and associates	7,482	989	460	–	8,931
Share of revenue of joint ventures and associates	(1,073)	(1)	(228)	–	(1,302)
Group revenue	6,409	988	232	–	7,629
Group operating profit/(loss)[1]	129	83	(4)	(34)	174
Share of results of joint ventures and associates	20	–	85	–	105
Profit/(loss) from operations[1]	149	83	81	(34)	279
Non-underlying items:					
– amortisation of acquired intangible assets	(1)	–	(5)	–	(6)
– other net operating income	2	–	–	–	2
	1	–	(5)	–	(4)
Profit/(loss) from operations	150	83	76	(34)	275
Investment income					50
Finance costs					(38)
Profit before taxation					287

1 Before non-underlying items (Notes 2.10 and 10).

Income statement – performance by activity	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Revenue including share of joint ventures and associates[1]	6,746	1,066	468	–	8,280
Share of revenue of joint ventures and associates	(826)	(20)	(232)	–	(1,078)
Group revenue[1]	5,920	1,046	236	–	7,202
Group operating profit/(loss)[1]	47	101	25	(33)	140
Share of results of joint ventures and associates	32	1	24	–	57
Profit/(loss) from operations[1]	79	102	49	(33)	197
Non-underlying items:					
– amortisation of acquired intangible assets	–	–	(5)	–	(5)
– settlement charge following resolution with DoJ	–	–	(41)	–	(41)
– provision recognised for rectification works to be carried out on a development in London	(42)	–	–	–	(42)
– other net operating expenses	(7)	(5)	–	–	(12)
	(49)	(5)	(46)	–	(100)
Profit/(loss) from operations	30	97	3	(33)	97
Investment income					39
Finance costs					(49)
Profit before taxation					87

1 Before non-underlying items (Notes 2.10 and 10).

Assets and liabilities by activity	Construction Services 2022 £m	Support Services 2022 £m	Infrastructure Investments 2022 £m	Corporate activities 2022 £m	Total 2022 £m
Contract assets	209	62	29	–	300
Contract liabilities – current	(550)	(112)	(1)	–	(663)
Inventories	50	32	32	–	114
Trade and other receivables – current	730	91	37	23	881
Trade and other payables – current	(1,374)	(171)	(44)	(6)	(1,595)
Provisions – current	(179)	(3)	(8)	(14)	(204)
Working capital*	(1,114)	(101)	45	3	(1,167)
Total assets	2,342	443	940	1,398	5,123
Total liabilities	(2,421)	(378)	(347)	(594)	(3,740)
Net assets	(79)	65	593	804	1,383

* Includes non-operating items and current working capital.

5 Segment analysis continued

5.1 Total Group continued

Assets and liabilities by activity	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Contract assets	132	60	22	–	214
Contract liabilities – current	(565)	(102)	(2)	–	(669)
Inventories	49	27	28	–	104
Trade and other receivables – current	706	109	31	19	865
Trade and other payables – current	(1,172)	(190)	(87)	(9)	(1,458)
Provisions – current	(149)	(4)	(7)	(14)	(174)
Working capital*	(999)	(100)	(15)	(4)	(1,118)
Total assets	2,158	497	997	1,194	4,846
Total liabilities	(2,237)	(390)	(399)	(444)	(3,470)
Net assets	(79)	107	598	750	1,376

* Includes non-operating items and current working capital.

Other information	**Construction Services 2022 £m**	**Support Services 2022 £m**	**Infrastructure Investments 2022 £m**	**Corporate activities 2022 £m**	**Total 2022 £m**
Capital expenditure on property, plant and equipment (Note 16)	**13**	**15**	**–**	**3**	**31**
Capital expenditure on intangible assets (Note 15)	**–**	**–**	**1**	**–**	**1**
Depreciation (Note 16, Note 17 and Note 18)	**30**	**41**	**2**	**10**	**83**
Gain on disposals of interests in investments within joint ventures and associates (Note 34.2)	**–**	**–**	**70**	**–**	**70**

Other information	Construction Services 2021 £m	Support Services 2021 £m	Infrastructure Investments 2021 £m	Corporate activities 2021 £m	Total 2021 £m
Capital expenditure on property, plant and equipment (Note 16)	21	12	–	2	35
Capital expenditure on intangible assets (Note 15)	–	–	1	1	2
Depreciation (Note 16, Note 17 and Note 18)	30	37	2	10	79
Gain on disposals of interests in investments (Note 34.2)	–	–	26	–	26
Gain on disposals of interests in investments within joint ventures and associates (Note 34.2)	–	–	9	–	9

Performance by geographic destination	**United Kingdom 2022 £m**	**United States 2022 £m**	**Rest of world 2022 £m**	**Total 2022 £m**
Revenue including share of joint ventures and associates	**3,894**	**3,954**	**1,083**	**8,931**
Share of revenue of joint ventures and associates	**(98)**	**(130)**	**(1,074)**	**(1,302)**
Group revenue	**3,796**	**3,824**	**9**	**7,629**

Performance by geographic destination	United Kingdom 2021 £m	United States 2021 £m	Rest of world 2021 £m	Total 2021 £m
Revenue including share of joint ventures and associates[1]	3,793	3,636	851	8,280
Share of revenue of joint ventures and associates	(110)	(131)	(837)	(1,078)
Group revenue[1]	3,683	3,505	14	7,202

1 Before non-underlying items (Notes 2.10 and 10).

Major customers

Included in Group revenue are revenues of £1,903m (2021: £1,288m) from the US Government and £2,670m (2021: £2,374m) from the UK Government, which are the Group's two largest customers, through multiple central and regional bodies. These revenues are included in the results across all three reported segments.

5 Segment analysis continued

5.2 Infrastructure Investments

	Group 2022 £m	Share of joint ventures and associates (Note 19.2)+ 2022 £m	Total 2022 £m	Group 2021 £m	Share of joint ventures and associates (Note 19.2)+ 2021 £m	Total 2021 £m
Underlying profit/(loss) from operations[1]						
UK^	**3**	**1**	**4**	6	1	7
North America	**18**	**14**	**32**	15	14	29
Gain on disposals of interests in investments (Note 34.2/34.3)	**–**	**70**	**70**	26	9	35
	21	**85**	**106**	47	24	71
Bidding costs and overheads	**(25)**	**–**	**(25)**	(22)	–	(22)
	(4)	**85**	**81**	25	24	49
Net assets/(liabilities)						
UK^	**384**	**140**	**524**	370	220	590
North America	**124**	**187**	**311**	61	190	251
	508	**327**	**835**	431	410	841
Non-recourse borrowings net of associated cash and cash equivalents (Note 27)	**(242)**	**–**	**(242)**	(243)	–	(243)
Total Infrastructure Investments net assets	**266**	**327**	**593**	188	410	598

+ The Group's share of the results of joint ventures and associates is disclosed net of investment income, finance costs and taxation.

^ Including Ireland.

1 Before non-underlying items (Notes 2.10 and 10).

6 Profit/(loss) from operations

6.1 Profit/(loss) from operations is stated after charging/(crediting)

	2022 £m	2021 £m
Depreciation of property, plant and equipment	**27**	24
Depreciation of right-of-use assets	**54**	54
Depreciation of investment properties	**2**	1
Amortisation of other intangible assets	**13**	18
Amortisation of contract fulfilment assets	**15**	12
Net (credit) of trade receivables impairment provision	**–**	(9)
Impairment of property, plant and equipment	**–**	2
Profit on disposal of property, plant and equipment	**(4)**	(4)
Government grant income	**(6)**	(4)
Cost of inventory recognised as an expense	**154**	178
Auditor's remuneration	**5**	4

6.2 Analysis of auditor's remuneration

	2022 £m	2021 £m
Services as auditor to the Company	**0.7**	0.6
Services as auditor to Group subsidiaries	**3.4**	2.9
Total audit fees	**4.1**	3.5
Audit-related assurance fees	**0.8**	0.5
Other assurance fees	**–**	–
Total non-audit fees	**0.8**	0.5
Total fees in relation to audit and other services	**4.9**	4.0

7 Employee costs

7.1 Group

Employee costs during the year	2022 £m	2021 £m
Wages and salaries	**1,259**	1,187
Redundancy costs	**4**	10
Social security costs	**98**	87
Pension costs (Note 30)	**63**	60
Share-based payments (Note 35)	**20**	12
	1,444	1,356

Average number of Group employees	2022 Number	2021 Number
Construction Services	**12,233**	12,857
Support Services	**3,794**	3,564
Infrastructure Investments	**1,546**	1,614
Corporate	**145**	122
	17,718	18,157

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 142 to 167.

7.2 Company

The Company did not have any employees and did not incur any employee costs in the year (2021: £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

	2022 £m	2021 £m
Subordinated debt interest receivable	**27**	23
Interest receivable on PPP financial assets (Note 21)	**2**	5
Fair value gain on investment asset	**6**	9
Interest received on bank deposits	**8**	–
Other interest receivable and similar income	**2**	1
Net finance income on pension scheme assets and obligations (Note 30.2)	**5**	1
	50	39

9 Finance costs

		2022 £m	2021 £m
Non-recourse borrowings	– bank loans and overdrafts	**9**	11
US private placement	– finance cost	**15**	10
Interest on lease liabilities (Note 28)		**6**	6
Other interest payable	– committed facilities	**2**	2
	– letter of credit fees	**2**	2
	– other finance charges	**2**	4
Impairment of joint ventures and associates	– loans	**–**	4
	– accrued interest	**2**	10
		38	49

The impairment of loans to joint ventures and associates of £nil (2021: £4m) and accrued interest receivable of £2m (2021: £10m) relate to expected credit loss assessments performed. All of these impairments relate to subordinated debt and accrued interest receivable from joint ventures and associates held within the Infrastructure Investments segment.

10 Non-underlying items

		2022 £m	2021 £m
Items (charged against)/credited to profit			
10.1	Amortisation of acquired intangible assets	**(6)**	(5)
10.2	Other non-underlying items:		
	– release of indemnity provisions relating to sale of Heery International Inc.	**2**	6
	– grant income repaid in relation to UK Job Retention Scheme	**–**	(19)
	– settlement charge following resolution with DoJ in relation to handling of work orders within Balfour Beatty Communities	**–**	(41)
	– provision recognised for rectification works to be carried out on a development in London	**–**	(42)
	– release of accrual relating to sale of Parsons Brinckerhoff	**–**	1
	Total other non-underlying items	**2**	(95)
Charged against profit before taxation		**(4)**	(100)
10.3	Tax credit/(charge):		
	– impact of tax rate change on deferred tax assets previously recognised through non-underlying	**2**	18
	– tax on other items above	**(1)**	–
	– recognition of deferred tax assets in the UK	**–**	11
	– tax on grant income repaid in relation to UK Job Retention Scheme	**–**	4
	– tax on DoJ settlement charge	**–**	4
	– tax on rectification works provision	**–**	8
	Total tax credit	**1**	45
Charged against profit for the year		**(3)**	(55)

10.1 The amortisation of acquired intangible assets comprises: customer contracts £5m (2021: £4m); and customer relationships £1m (2021: £1m).

The charge was recognised in the following segments: Construction Services £1m (2021: £nil); and Infrastructure Investments £5m (2021: £5m).

10.2.1 On 27 October 2017, the Group disposed of its 100% interest in Heery International Inc (Heery). As part of the gain on disposal recorded, the Group recognised indemnity provisions relating to several projects which were indemnified by the Group as part of the sale. This estimate was subject to final ongoing negotiations with various clients. Following completion of these projects, a final reassessment of this provision was conducted resulting in a £2m release (2021: £6m).

The credit has been recognised in the Construction Services segment.

10.2.2 In 2020, the Group recognised grant income of £19m in respect of the UK Government's Job Retention Scheme (JRS), which was presented within non-underlying items to avoid distorting the underlying performance of the Group. The Group subsequently repaid this income in 2021 and, in line with the treatment adopted at 31 December 2020, the Group presented its voluntary refund of the grant income within non-underlying items in 2021.

The amounts were recognised in the following segments: Construction Services £13m; Support Services £5m; and Corporate £1m.

10.2.3 In December 2021, the Group through its subsidiary Balfour Beatty Communities (BBC), reached a resolution with the US Department of Justice (DoJ) following the completion of its investigation into specific performance incentive fees improperly claimed by BBC between 2013 and 2019 related to maintenance work at certain US military housing installations. As part of the resolution, BBC agreed to pay a settlement totalling US$65.4m. These costs were recorded within non-underlying items, net of provisions already held in the previous year. The Group presented this within non-underlying items due to the size and nature of this charge.

This charge was recognised in the Infrastructure Investments segment.

10.2.4 In 2021, the Group recognised a provision of £42m in relation to rectification works to be carried out on a development in London which was constructed by the Group between 2013 and 2016. The rectification work will include the replacement of stone panels affixed to the façade of the development to meet performance requirements. The provision was calculated in line with a methodology based on an independent expert's assessment of the rectification and included an estimate of costs associated with any potential consequential disruption to the development as a result of these rectification works. The provision did not include potential recoveries from third parties. The Group presented this within non-underlying items due to the size of the defect provision.

This charge was recognised in the Construction Services segment.

10.2.5 The Group established an accrual in relation to separation costs incurred as part of the Group's sale of Parsons Brinckerhoff in October 2014. In 2021, the Group released £1m of this accrual following completion of works relating to this sale.

This credit was recognised in Corporate activities.

10.3.1 There is an additional deferred tax credit of £2m to revalue deferred tax assets previously recognised through non-underlying items due to a corporation tax rate change enacted in the UK (2021: £18m).

10.3.2 The remaining non-underlying items recognised in the Group's operating profit gave rise to a tax charge of £1m which was recognised mainly on the amortisation of acquired intangible assets (2021: £nil).

10.3.3 In 2021 the Group recognised £11m net movement on deferred tax assets for tax losses in non-underlying items following the recognition of actuarial gains and losses in the Group's pension schemes.

10 Non-underlying items continued

10.3.4 As explained in Note 10.2.2, a non-underlying charge of £19m was recognised in 2021 in relation to grant income repaid under the UK Government's JRS. This expense gave rise to a tax credit of £4m.

10.3.5 As explained in Note 10.2.3, a non-underlying charge of £41m was recognised in 2021 in relation to the resolution with the DoJ. This expense gave rise to a tax credit of £4m.

10.3.6 As explained in Note 10.2.4, a non-underlying charge of £42m was recognised in 2021 in relation to the rectification works to be carried out on a development in London. This expense gave rise to a tax credit of £8m.

11 Income taxes

11.1 Income tax charge/(credit)

	Underlying items[1] 2022 £m	**Non-underlying items (Note 10) 2022 £m**	**Total 2022 £m**	Total 2021 £m
Total UK tax	**(33)**	**(2)**	**(35)**	(67)
Total non-UK tax	**34**	**1**	**35**	15
Total tax charge/(credit)[x]	**1**	**(1)**	**–**	(52)
UK current tax				
– current tax	**2**	**–**	**2**	–
– adjustments in respect of previous periods	**–**	**–**	**–**	(5)
	2	**–**	**2**	(5)
Non-UK current tax				
– current tax	**32**	**(14)**	**18**	6
– adjustments in respect of previous periods	**(3)**	**–**	**(3)**	(1)
	29	**(14)**	**15**	5
Total current tax	**31**	**(14)**	**17**	–
UK deferred tax				
– origination and reversal of temporary differences	**(20)**	**(2)**	**(22)**	(27)
– UK corporation tax rate change	**(13)**	**–**	**(13)**	(35)
– adjustments in respect of previous periods	**(2)**	**–**	**(2)**	–
	(35)	**(2)**	**(37)**	(62)
Non-UK deferred tax				
– origination and reversal of temporary differences	**4**	**13**	**17**	10
– adjustments in respect of previous periods	**1**	**2**	**3**	–
	5	**15**	**20**	10
Total deferred tax	**(30)**	**13**	**(17)**	(52)
Total tax charge/(credit)[x]	**1**	**(1)**	**–**	(52)

x Excluding joint ventures and associates.

1 Before non-underlying items (Notes 2.10 and 10).

The Group has recognised a £1m tax credit (2021: £45m) within non-underlying items in the year. Refer to Notes 10.3.1 to 10.3.6.

The Group tax charge/(credit) excludes amounts for joint ventures and associates (refer to Note 19.2), except where tax is levied at the Group level.

In addition to the Group tax charge/(credit), tax of £44m has been credited (2021: £27m charged) directly to other comprehensive income, comprising: a tax credit of £19m for subsidiaries (2021: £24m charge); and a tax credit in respect of joint ventures and associates of £25m (2021: £3m charge). Tax credit of £2m (2021: £nil) has been recognised directly in equity relating to share-based payments. Refer to Note 32.1.

11 Income taxes continued

11.2 Income tax charge/(credit) reconciliation

	2022 £m	2021 £m
Profit before taxation including share of results from joint ventures and associates	**287**	87
Less: share of results of joint ventures and associates	**(105)**	(57)
Profit before taxation	**182**	30
Add: non-underlying items charged excluding share of joint ventures and associates	**4**	100
Underlying profit before taxation for subsidiaries[1]	**186**	130
Tax on underlying profit before taxation at standard UK corporation tax rate of 19% (2021: 19%)	**35**	25
Adjusted for the effects of:		
Expenses not deductible for tax purposes and other permanent items	**2**	4
Benefit of tax incentives	**(1)**	(2)
Tax levied at Group level on share of joint ventures' and associates' profits[#]	**13**	5
Recognition of losses not previously recognised[*]	**(43)**	(26)
Effect of tax rates in non-UK jurisdictions	**12**	6
Recognition of UK deferred tax at 25%[&]	**(12)**	(17)
Adjustments in respect of previous periods	**(5)**	(2)
Total tax charge/(credit) on underlying profit	**1**	(7)
Add: tax credit in non-underlying items (Note 10.3)	**(1)**	(45)
Total tax credit on profit from operations	**–**	(52)

These are mainly in connection with US joint ventures and associates where tax is levied at the Group level rather than within the share of joint ventures and associates.

* Additional UK tax losses of £224m were recognised in 2022 (2021: £197m, of which £60m were recognised in non-underlying items).

1 Before non-underlying items (Notes 2.10 and 10).

& The UK corporation tax rate will increase from 19% to 25% from 1 April 2023 and therefore the new deferred tax assets and liabilities are remeasured at 25%. This includes £13m credit (2021: £8m) in connection with the recognition of UK tax losses.

12 Earnings per share

Earnings

	Basic 2022 £m	Diluted 2022 £m	Basic 2021 £m	Diluted 2021 £m
Earnings	**288**	**288**	140	140
Amortisation of acquired intangible assets – including tax charge of £1m (2021: £1m credit)	**7**	**7**	4	4
Other non-underlying items – including tax credit of £2m (2021: £44m)	**(4)**	**(4)**	51	51
Underlying earnings	**291**	**291**	195	195

	Basic 2022 m	Diluted 2022 m	Basic 2021 m	Diluted 2021 m
Weighted average number of ordinary shares	**612**	**620**	657	664

The basic earnings per ordinary share is calculated by dividing the profit for the year attributable to equity holders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares and shares held in the Employee Share Ownership Trust.

The diluted earnings per ordinary share uses an adjusted weighted average number of shares and includes shares that are potentially outstanding in relation to the equity-settled share-based payment arrangements detailed in Note 35 of the Annual Report and Accounts.

Potential dilutive effect of ordinary shares issuable under equity-settled share-based payment arrangements is 8m (2021: 7m).

Earnings per share

	Basic 2022 Pence	Diluted 2022 Pence	Basic 2021 Pence	Diluted 2021 Pence
Earnings per ordinary share	**46.9**	**46.3**	21.3	21.1
Amortisation of acquired intangible assets after tax	**1.2**	**1.1**	0.6	0.6
Other non-underlying items after tax	**(0.6)**	**(0.6)**	7.8	7.7
Underlying earnings per ordinary share	**47.5**	**46.8**	29.7	29.4

13 Dividends

	Per share 2022 Pence	Amount 2022 £m	Per share 2021 Pence	Amount 2021 £m
Proposed dividends for the year				
Interim – current year	**3.5**	**21**	3.0	19
Final – current year	**7.0**	**40**	6.0	37
	10.5	**61**	9.0	56
Recognised dividends for the year				
Final – prior year		**37**		10
Interim – current year		**21**		19
		58		29

Subject to approval at the Annual General Meeting on 12 May 2023, the final 2022 dividend will be paid on 5 July 2023 to holders on the register on 19 May 2023 by direct credit or, where no mandate has been given, by cheque posted by 5 July 2023. The ordinary shares will be quoted ex-dividend on 18 May 2023. The last date for Dividend Reinvestment Plan (DRIP) elections will be 14 June 2023.

14 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2021	1,036	(225)	811
Currency translation differences	(1)	7	6
At 31 December 2021	1,035	(218)	817
Currency translation differences	**71**	**(12)**	**59**
At 31 December 2022	**1,106**	**(230)**	**876**

Carrying amounts of goodwill by segment

	2022			2021		
	United Kingdom £m	**United States £m**	**Total £m**	United Kingdom £m	United States £m	Total £m
Construction Services	**260**	**488**	**748**	260	435	695
Support Services	**73**	**–**	**73**	73	–	73
Infrastructure Investments	**–**	**55**	**55**	–	49	49
Group	**333**	**543**	**876**	333	484	817

Carrying amounts of goodwill by cash-generating unit

	2022		2021	
	£m	**Pre-tax discount rate %**	£m	Pre-tax discount rate %
UK Regional and Engineering Services	**248**	**9.1**	248	9.2
Balfour Beatty Construction Group Inc	**464**	**9.3**	414	9.3
Rail UK	**68**	**9.3**	68	9.3
Balfour Beatty Investments US	**55**	**11.1**	49	9.4
Other	**41**	**9.3**	38	10.2
Group total	**876**		817	

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 2023 to 2025. 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.

14 Intangible assets – goodwill continued

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 in line with the duration of the contracts disclosed in Note 41(e). 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.

	2022			2021		
	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**	**0.8**	**3.1**	2.3	0.5	2.8
Balfour Beatty Construction Group Inc	**2.2**	**0.7**	**2.9**	2.0	0.8	2.8
Rail UK	**2.3**	**0.8**	**3.1**	2.3	0.5	2.8
Balfour Beatty Investments US	**2.2**	**0.7**	**2.9**	2.0	0.8	2.8
Other	**2.3**	**0.8**	**3.1**	2.2	0.6	2.8

Sensitivities

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

A reasonable possible change in key assumptions would not give rise to an impairment in any of the Group's CGUs.

15 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Infrastructure Investments intangibles £m	Software and other £m	Total £m
Cost						
At 1 January 2021	216	48	3	235	132	634
Currency translation differences	2	1	–	–	–	3
Additions	–	–	–	1	1	2
Removal of fully amortised intangible asset	–	–	–	–	(6)	(6)
At 31 December 2021	218	49	3	236	127	633
Currency translation differences	**26**	**6**	**–**	**–**	**2**	**34**
Additions	**–**	**–**	**–**	**1**	**–**	**1**
At 31 December 2022	**244**	**55**	**3**	**237**	**129**	**668**
Accumulated amortisation						
At 1 January 2021	(158)	(40)	(3)	(4)	(117)	(322)
Currency translation differences	(2)	(1)	–	–	–	(3)
Charge for the year	(4)	(1)	–	(4)	(9)	(18)
Removal of fully amortised intangible asset	–	–	–	–	6	6
At 31 December 2021	(164)	(42)	(3)	(8)	(120)	(337)
Currency translation differences	**(20)**	**(5)**	**–**	**–**	**(1)**	**(26)**
Charge for the year	**(5)**	**(1)**	**–**	**(5)**	**(2)**	**(13)**
At 31 December 2022	**(189)**	**(48)**	**(3)**	**(13)**	**(123)**	**(376)**
Carrying amount						
At 31 December 2022	**55**	**7**	**–**	**224**	**6**	**292**
At 31 December 2021	54	7	–	228	7	296

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. The Group has completed its IFRIC 12 assets at the University of Sussex, incurring a spend of £1m (2021: £1m) in the year. The Infrastructure Investments intangible assets are amortised on a straight-line basis over the life of the projects, which is 50 years.

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to 10 years for customer relationships, three to seven years for software, and up to five years for brand names, except for customer contracts and relationships relating to Balfour Beatty Investments North America which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships of up to 50 years.

Other intangible assets are amortised over periods up to 10 years.

16 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation				
At 1 January 2021	65	261	6	332
Currency translation differences	–	2	–	2
Additions	2	31	2	35
Removal of fully depreciated assets/assets scrapped	–	(4)	–	(4)
Disposals	(2)	(38)	–	(40)
At 31 December 2021	65	252	8	325
Currency translation differences	**2**	**9**	**–**	**11**
Transfers	**–**	**7**	**(7)**	**–**
Additions	**–**	**31**	**–**	**31**
Removal of fully depreciated assets/assets scrapped	**(10)**	**(5)**	**–**	**(15)**
Disposals	**–**	**(17)**	**–**	**(17)**
At 31 December 2022	**57**	**277**	**1**	**335**
Accumulated depreciation				
At 1 January 2021	(45)	(194)	–	(239)
Charge for the year	(5)	(19)	–	(24)
Impairment charge	(1)	(1)	–	(2)
Removal of fully depreciated assets/assets scrapped	–	4	–	4
Disposals	2	32	–	34
At 31 December 2021	(49)	(178)	–	(227)
Currency translation differences	**–**	**(5)**	**–**	**(5)**
Charge for the year	**(4)**	**(23)**	**–**	**(27)**
Removal of fully depreciated assets/assets scrapped	**10**	**5**	**–**	**15**
Disposals	**–**	**13**	**–**	**13**
At 31 December 2022	**(43)**	**(188)**	**–**	**(231)**
Carrying amount				
At 31 December 2022	**14**	**89**	**1**	**104**
At 31 December 2021	16	74	8	98

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 2021	79	40	78	197
Additions	16	18	27	61
Removal of fully depreciated assets/assets scrapped	(3)	(12)	(7)	(22)
Disposals	(6)	(2)	(6)	(14)
At 31 December 2021	86	44	92	222
Currency translation differences	**6**	**–**	**–**	**6**
Additions	**19**	**13**	**24**	**56**
Removal of fully depreciated assets/assets scrapped	**(11)**	**(10)**	**(6)**	**(27)**
Disposals	**(5)**	**(1)**	**(4)**	**(10)**
At 31 December 2022	**95**	**46**	**106**	**247**
Accumulated depreciation				
At 1 January 2021	(24)	(18)	(34)	(76)
Charge for the year	(17)	(14)	(23)	(54)
Removal of fully depreciated assets/assets scrapped	3	12	7	22
Disposals	4	1	6	11
At 31 December 2021	(34)	(19)	(44)	(97)
Currency translation differences	**(2)**	**(1)**	**–**	**(3)**
Charge for the year	**(18)**	**(11)**	**(25)**	**(54)**
Removal of fully depreciated assets/assets scrapped	**11**	**10**	**6**	**27**
Disposals	**3**	**1**	**3**	**7**
At 31 December 2022	**(40)**	**(20)**	**(60)**	**(120)**
Carrying amount				
At 31 December 2022	**55**	**26**	**46**	**127**
At 31 December 2021	52	25	48	125

18 Investment properties

	Cost £m	Accumulated depreciation £m	Carrying amount £m
At 1 January 2021	35	(5)	30
Depreciation charge for the year	–	(1)	(1)
At 31 December 2021	35	(6)	29
Depreciation charge for the year	–	**(2)**	**(2)**
At 31 December 2022	**35**	**(8)**	**27**

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 £23m (2021: £26m), which is secured through a floating charge over the property.

Once a property is ready for use, the Group ceases capitalisation of interest cost and commences depreciation on the property, on a straight-line basis over 25 years.

The fair value of the Group's investment properties at 31 December 2022 approximates the carrying value. The Group generated £4m (2021: £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 2021	396	158	554
Currency translation differences	(1)	–	(1)
Income recognised	57	–	57
Fair value revaluation of PPP financial assets (Note 32.1)	(6)	–	(6)
Fair value revaluation of cash flow hedges (Note 32.1)	(6)	–	(6)
Actuarial movements on retirement benefit assets/liabilities (Note 32.1)	7	–	7
Tax on items taken directly to other comprehensive income (Note 32.1)	(3)	–	(3)
Dividends	(68)	–	(68)
Additions	18	–	18
Disposal of interest in BC Children's and BC Women's Hospitals (Note 34.3.1)	(17)	–	(17)
Disposal of interest in Aberdeen Western Peripheral Route (Note 34.3.4)	(3)	(18)	(21)
Return of equity	(4)	–	(4)
Loans repaid	–	(3)	(3)
Reclassification between net assets and loans	26	(26)	–
Impairment of loans to joint ventures and associates (Note 9)	–	(4)	(4)
At 31 December 2021	396	107	503
Currency translation differences	**28**	–	**28**
Income recognised	**105**	–	**105**
Fair value revaluation of PPP financial assets (Note 32.1)	**(124)**	–	**(124)**
Fair value revaluation of cash flow hedges (Note 32.1)	**29**	–	**29**
Actuarial movements on retirement benefit assets/liabilities (Note 32.1)	**1**	–	**1**
Tax on items taken directly to other comprehensive income (Note 32.1)	**25**	–	**25**
Dividends	**(148)**	–	**(148)**
Additions	**30**	–	**30**
Return of equity	**(34)**	–	**(34)**
Loans repaid	–	**(1)**	**(1)**
Distribution in excess of earnings recognised directly in income statement	**2**	–	**2**
Reclassify negative investment to provisions (Note 26)	**10**	–	**10**
At 31 December 2022	**320**	**106**	**426**

^ Loans include subordinated debt receivable from joint ventures and associates within the Infrastructure Investments segment.

The principal joint ventures and associates are shown in Note 41.

The amount of the Group's share of borrowings of joint ventures and associates which was supported by the Group and the Company was £nil (2021: £nil).

The non-recourse borrowings of joint venture and associate entities relating to infrastructure concessions projects are repayable over periods extending up to 2048. The non-recourse borrowings arise under facilities taken out by project-specific joint venture and associate concession companies. The borrowings of each concession company are secured by a combination of fixed and floating charges over that concession company's interests in its project's assets and revenues and the shares in the concession company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

As disclosed in Note 41(f), the Group has committed to provide its share of further equity funding of joint ventures and associates in Infrastructure Investments' projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction is complete. As is customary in such projects, banking covenants restrict the payment of dividends and other distributions.

19 Investments in joint ventures and associates continued

19.2 Share of results and net assets of joint ventures and associates

Income statement	Construction Services 2022 £m	Support Services 2022 £m	Infrastructure Investments UK^ 2022 £m	Infrastructure Investments North America 2022 £m	Infrastructure Investments Total 2022 £m	Total 2022 £m
Revenue	1,073	1	99	129	228	1,302
Operating profit excluding gain on disposals of interests in investments	24	–	(3)	21	18	42
Gain on disposals of interests in investments	–	–	–	70	70	70
Operating profit	24	–	(3)	91	88	112
Investment income	3	–	72	13	85	88
Finance costs	(1)	–	(66)	(20)	(86)	(87)
Profit before taxation	26	–	3	84	87	113
Taxation	(6)	–	(2)	–	(2)	(8)
Profit after taxation	20	–	1	84	85	105
Balance sheet						
Non-current assets						
Intangible assets – goodwill	33	–	–	–	–	33
– Infrastructure Investments intangible	–	–	40	–	40	40
– other	–	–	13	–	13	13
Property, plant and equipment	33	–	–	–	–	33
Investment properties	–	–	–	257	257	257
Investments in joint ventures and associates	5	–	–	–	–	5
Money market funds	–	–	–	26	26	26
PPP financial assets	–	–	984	260	1,244	1,244
Military housing projects	–	–	–	119	119	119
Other non-current assets	106	–	27	13	40	146
Current assets						
Cash and cash equivalents	385	–	150	26	176	561
Other current assets	275	–	46	5	51	326
Total assets	837	–	1,260	706	1,966	2,803
Current liabilities						
Borrowings – non-recourse	(89)	–	(37)	–	(37)	(126)
Other current liabilities	(579)	–	(124)	(12)	(136)	(715)
Non-current liabilities						
Borrowings – non-recourse	–	–	(885)	(502)	(1,387)	(1,387)
Other non-current liabilities	(80)	–	(180)	(5)	(185)	(265)
Total liabilities	(748)	–	(1,226)	(519)	(1,745)	(2,493)
Net assets	89	–	34	187	221	310
Reclassify negative investment to provisions (Note 26)	10	–	–	–	–	10
Loans to joint ventures and associates	–	–	106	–	106	106
Total investment in joint ventures and associates	99	–	140	187	327	426

^ Including Ireland.

The Group's investment in military housing joint ventures' and associates' projects is recognised at its remaining equity investment plus the value of the Group's accrued returns from the underlying projects. The military housing joint ventures and associates have total non-recourse net borrowings of £2,249m (2021: £2,126m). 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 2022, the unrecognised cumulative net fair value charges to other comprehensive income amounted to £56m (2021: £21m).

19 Investments in joint ventures and associates continued

19.2 Share of results and net assets of joint ventures and associates continued

			Infrastructure Investments			
Income statement	Construction Services 2021 £m	Support Services 2021 £m	UK^ 2021 £m	North America 2021 £m	Total 2021 £m	Total 2021 £m
Revenue	826	20	113	119	232	1,078
Operating profit excluding gain on disposals of interests in investments	37	1	–	19	19	57
Gain on disposals of interests in investments	–	–	–	9	9	9
Operating profit	37	1	–	28	28	66
Investment income	1	–	76	12	88	89
Finance costs	(1)	–	(73)	(17)	(90)	(91)
Profit before taxation	37	1	3	23	26	64
Taxation	(5)	–	(2)	–	(2)	(7)
Profit after taxation	32	1	1	23	24	57
Balance sheet						
Non-current assets						
Intangible assets – goodwill	30	–	–	–	–	30
– Infrastructure Investments intangible	–	–	41	–	41	41
– other	–	–	13	–	13	13
Property, plant and equipment	31	–	–	–	–	31
Investment properties	–	–	–	265	265	265
Investments in joint ventures and associates	3	–	–	–	–	3
Money market funds	–	–	–	81	81	81
PPP financial assets	–	–	1,123	172	1,295	1,295
Military housing projects	–	–	–	106	106	106
Other non-current assets	70	–	15	7	22	92
Current assets						
Cash and cash equivalents	308	–	143	24	167	475
Other current assets	223	–	56	2	58	281
Total assets	665	–	1,391	657	2,048	2,713
Current liabilities						
Borrowings – non-recourse	(51)	–	(36)	–	(36)	(87)
Other current liabilities	(467)	–	(120)	(10)	(130)	(597)
Non-current liabilities						
Borrowings – non-recourse	–	–	(909)	(450)	(1,359)	(1,359)
Other non-current liabilities	(54)	–	(213)	(7)	(220)	(274)
Total liabilities	(572)	–	(1,278)	(467)	(1,745)	(2,317)
Net assets	93	–	113	190	303	396
Loans to joint ventures and associates	–	–	107	–	107	107
Total investment in joint ventures and associates	93	–	220	190	410	503

^ Including Ireland.

19.3 Aggregate information of joint ventures and associates

	Joint ventures 2022 £m	**Associates 2022 £m**	**Total 2022 £m**
The Group's share of profit from operations	**89**	**16**	**105**
Aggregate carrying amount of the Group's interest	**300**	**126**	**426**

	Joint ventures 2021 £m	Associates 2021 £m	Total 2021 £m
The Group's share of profit from operations	48	9	57
Aggregate carrying amount of the Group's interest	390	113	503

19 Investments in joint ventures and associates continued

19.4 Details of material joint ventures

	Gammon China Ltd		Connect Plus (M25) Ltd	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Proportion of the Group's ownership interest in the joint venture	**50%**	50%	**15%**	15%
Income statement				
Revenue	**2,135**	1,618	**270**	146
Underlying operating profit	**72**	72	**9**	12
Investment income	**6**	2	**140**	137
Finance costs	**(3)**	(2)	**(101)**	(104)
Income tax charge	**(12)**	(13)	**(9)**	(16)
Profit	**63**	59	**39**	29
Total other comprehensive income/(loss)	**2**	13	**(274)**	(85)
Total comprehensive income/(loss) (100%)	**65**	72	**(235)**	(56)
Group's share of total comprehensive income/(loss)	**33**	36	**(35)**	(8)
Dividends received by the Group during the year	**33**	32	**6**	5
Balance sheet				
Non-current assets	**289**	210	**1,667**	2,047
Current assets				
Cash and cash equivalents	**743**	594	**133**	140
Other current assets	**541**	416	**65**	60
	1,284	1,010	**198**	200
Current liabilities				
Trade and other payables	**(914)**	(699)	**(56)**	(57)
Provisions	**(48)**	(50)	**–**	–
Borrowings – non-recourse	**(179)**	(103)	**(19)**	(19)
Other current liabilities	**(142)**	(142)	**(5)**	(1)
	(1,283)	(994)	**(80)**	(77)
Non-current liabilities				
Trade and other payables	**(94)**	(55)	**–**	–
Provisions	**(28)**	(25)	**–**	–
Borrowings – non-recourse	**–**	–	**(1,167)**	(1,193)
Other non-current liabilities (including shareholder loans)	**(37)**	(29)	**(421)**	(506)
	(159)	(109)	**(1,588)**	(1,699)
Net assets (100%)	**131**	117	**197**	471

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:

	Gammon China Ltd 2022 £m	Gammon China Ltd 2021 £m	Connect Plus (M25) Ltd 2022 £m	Connect Plus (M25) Ltd 2021 £m
Net assets of joint venture (100%)	**131**	117	**197**	471
Group's share of net assets	**66**	59	**30**	71
Add: Group's interest in shareholder loans	**–**	–	**27**	27
Goodwill	**33**	30	**–**	–
Carrying amount of the Group's interest in the joint venture	**99**	89	**57**	98

19 Investments in joint ventures and associates continued

19.5 Cash flow from/(to) joint ventures and associates

Cash flows from investing activities	Infrastructure Investments UK^ 2022 £m	Infrastructure Investments North America 2022 £m	Other 2022 £m	Total 2022 £m	Infrastructure Investments UK^ 2021 £m	Infrastructure Investments North America 2021 £m	Other 2021 £m	Total 2021 £m
Dividends from joint ventures and associates	**11**	**103**x	**34**	**148**	5	25+	38	68
Subordinated debt interest received	**10**	**–**	**–**	**10**	8	–	–	8
Investments in and loans to joint ventures and associates	**(7)**	**(22)**	**–**	**(29)**	2	(17)	–	(15)
Equity	**(8)**	**(22)**	**–**	**(30)**	(1)	(17)	–	(18)
Subordinated debt repaid	**1**	**–**	**–**	**1**	3	–	–	3
Return of equity from joint ventures and associates	**–**	**34**x	**–**	**34**	–	4+	–	4
Disposal of investments in joint ventures	**–**	**–**	**1**	**1**	30	20	1	51
Net cash flow from joint ventures and associates	**14**	**115**	**35**	**164**	45	32	39	116

^ Including Ireland.

x In 2022, dividends and return of equity from joint ventures and associates included £59m and £34m respectively of proceeds generated from the disposal of Infrastructure Investments assets, of which £12m, £50m, £4m, £13m and £14m respectively of proceeds generated from the disposal of Regard at Med Center, Aspire at Discovery Park, Preserve at Southwind, Preserve at Bartlett and Waterchase Apartments.

+ In 2021, dividends and return of equity from joint ventures and associates included £8m and £4m respectively of proceeds generated from the disposal of Infrastructure Investments assets, of which £8m and £4m respectively of proceeds generated from the disposal of Riverchase Landing and Zephyr Ridge.

19.6 Share of reserves of joint ventures and associates

	Accumulated (loss)/profit £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total (Note 32.1) £m
At 1 January 2021	(21)	(55)	102	39	65
Currency translation differences	–	–	–	(1)	(1)
Income recognised	57	–	–	–	57
Fair value revaluation of PPP financial assets	–	–	(6)	–	(6)
Fair value revaluation of cash flow hedges	–	(6)	–	–	(6)
Actuarial movements on retirement benefit assets/liabilities	7	–	–	–	7
Tax on items taken directly to other comprehensive income	(1)	6	(8)	–	(3)
Dividends	(68)	–	–	–	(68)
Reserve transfers relating to joint ventures and associates	34	–	–	–	34
Recycling of revaluation reserves to the income statement on disposal	–	1	(8)	–	(7)
At 31 December 2021	8	(54)	80	38	72
Currency translation differences	**–**	**–**	**–**	**23**	**23**
Income recognised	**105**	**–**	**–**	**–**	**105**
Fair value revaluation of PPP financial assets	**–**	**–**	**(124)**	**–**	**(124)**
Fair value revaluation of cash flow hedges	**–**	**29**	**–**	**–**	**29**
Actuarial movements on retirement benefit assets/liabilities	**1**	**–**	**–**	**–**	**1**
Tax on items taken directly to other comprehensive income	**–**	**(5)**	**30**	**–**	**25**
Dividends	**(148)**	**–**	**–**	**–**	**(148)**
Recycling of revaluation reserves to the income statement on disposal	**–**	**–**	**–**	**(3)**	**(3)**
At 31 December 2022	**(34)**	**(30)**	**(14)**	**58**	**(20)**

20 Investments

20.1 Group

	Corporate bonds £m	Investments in mutual funds £m	Other £m	Total £m
At 1 January 2021	5	21	–	26
Currency translation differences	–	1	–	1
Fair value gains	–	3	9	12
Interest accrued	–	1	–	1
Maturities	(3)	–	–	(3)
Benefits paid	–	(2)	–	(2)
At 31 December 2021	2	24	9	35
Currency translation differences	–	**2**	–	**2**
Additions	–	–	**7**	**7**
Fair value (losses)/gains	–	**(5)**	**6**	**1**
Interest accrued	–	**1**	–	**1**
Benefits paid	–	**(2)**	–	**(2)**
Dividends	–	–	**(4)**	**(4)**
At 31 December 2022	**2**	**20**	**18**	**40**

The corporate bonds are held by the Group's captive insurance company, Delphian Insurance Company Ltd, and comprise fixed rate bonds or treasury stock with an average yield to maturity of 2.88% (2021: 2.60%) and weighted average life of 0.53 years (2021: 1.3 years). The fair value of the bonds is £2m (2021: £2m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2022 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 £20m (2021: £24m), determined by the market price of the funds at the reporting date.

Other investments relate to the Group's interest in two Limited Partnerships (LPs) incorporated in Bermuda. The principal activity of the two LPs is to receive carry interest from a fund. Carry interest refers to a performance fee payable once the performance of the fund exceeds agreed hurdles. During the year, the Group recognised a fair value gain in relation to its carry interest of £6m (2021: £9m). The fund has a maturity date of 2023 with an option to extend by two years. All gains will be realised by the final maturity date. Dividends of £4m (2021: £nil) were received in the year.

Included in other investments is also £7m (2021: £nil) of cash held in term deposits that have a maturity date of more than three months.

20.2 Company

	2022 £m	2021 £m
Investment in subsidiaries	**1,759**	1,752
Provisions	**(26)**	(26)
	1,733	1,726

The increase of investment in subsidiaries of £7m 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 2021	26	129	155
Income recognised in the income statement:			
– interest income (Note 8)	1	4	5
Losses recognised in the statement of comprehensive income:			
– fair value movements	(2)	(1)	(3)
Other movements:			
– cash expenditure	2	1	3
– cash received	(4)	(6)	(10)
Disposal of Woodland View Hospital (Notes 34.3.4 and 34.3.7)	–	(55)	(55)
Disposal of North West Fire & Rescue (Notes 34.3.3 and 34.3.7)	–	(65)	(65)
At 31 December 2021	23	7	30
Income recognised in the income statement:			
– interest income (Note 8)	**2**	–	**2**
Losses recognised in the statement of comprehensive income:			
– fair value movements	**(3)**	–	**(3)**
Other movements:			
– cash expenditure	**2**	–	**2**
– cash received	**(3)**	**(2)**	**(5)**
At 31 December 2022	**21**	**5**	**26**

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 2022 or 2021.

22 Inventories

	2022 £m	2021 £m
Raw materials and consumables	**81**	74
Development and housing land and work in progress	**32**	29
Finished goods and goods for resale	**1**	1
	114	104

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.

23.1 Contract assets	£m
At 1 January 2021	288
Transfers from contract assets recognised at the beginning of the year to receivables	(257)
Increase related to services provided in the year	200
Reclassified from contract provisions (Note 26)	(7)
Impairments on contract assets recognised at the beginning of the year	(10)
At 31 December 2021	214
Currency translation differences	**6**
Transfers from contract assets recognised at the beginning of the year to receivables	**(196)**
Increase related to services provided in the year	**304**
Reclassified from contract provisions (Note 26)	**(1)**
Reclassified from contract liabilities (Note 23.2)	**(21)**
Impairments on contract assets recognised at the beginning of the year	**(6)**
At 31 December 2022	**300**

23.2 Contract liabilities	£m
At 1 January 2021	(526)
Currency translation differences	(4)
Revenue recognised against contract liabilities at the beginning of the year	477
Increase due to cash received, excluding amounts recognised as revenue during the year	(625)
At 31 December 2021	(678)
Currency translation differences	**(39)**
Revenue recognised against contract liabilities at the beginning of the year	**578**
Increase due to cash received, excluding amounts recognised as revenue during the year	**(547)**
Reclassified to contract assets (Note 23.1)	**21**
At 31 December 2022	**(665)**

The amount of revenue recognised in the year from performance obligations satisfied (or partially satisfied) in previous periods amounted to £12m (2021: £48m).

24 Trade and other receivables

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Current				
Trade receivables	**526**	518	**–**	–
Less: provision for impairment of trade receivables	**(3)**	(3)	**–**	–
	523	515	**–**	–
Due from subsidiaries	**–**	–	**1,560**	1,421
Due from joint ventures and associates	**16**	15	**–**	–
Due from joint operation partners	**6**	12	**–**	–
Contract fulfilment assets	**13**	12	**–**	–
Contract retentions receivable	**194**	215	**–**	–
Accrued income	**15**	13	**–**	–
Prepayments	**56**	42	**–**	–
Due on disposals	**–**	1	**–**	–
Other receivables	**58**	40	**–**	1
	881	865	**1,560**	1,422
Non-current				
Due from joint ventures and associates	**86**	73	**1**	1
Contract fulfilment assets	**31**	32	**–**	–
Contract retentions receivable	**166**	142	**–**	–
Other receivables	**3**	2	**1**	1
	286	249	**2**	2
Total trade and other receivables	**1,167**	1,114	**1,562**	1,424
Comprising				
Financial assets (Note 40)	**1,111**	1,072	**1,562**	1,424
Non-financial assets – prepayments	**56**	42	**–**	–
	1,167	1,114	**1,562**	1,424

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 2022 £m	Group 2021 £m	Group 2022 £m	Group 2021 £m
Up to three months	**–**	–	**37**	20
Three to six months	**–**	–	**8**	19
Six to nine months	**1**	–	**4**	6
Nine to 12 months	**–**	–	**3**	3
More than 12 months	**2**	3	**29**	41
	3	3	**81**	89

At 31 December 2022, trade receivables of £81m (2021: £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 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Current				
Trade and other payables+#	**605**	546	**–**	–
Accruals	**741**	611	**6**	5
Contract retentions payable#	**175**	202	**–**	–
VAT, payroll taxes and social security	**74**	96	**–**	–
Due to subsidiaries	**–**	–	**2,046**	1,953
Due on acquisitions	**–**	3	**–**	–
	1,595	1,458	**2,052**	1,958
Non-current				
Trade and other payables#	**–**	5	**–**	–
Accruals	**10**	10	**–**	–
Contract retentions payable#	**122**	92	**–**	–
Due to joint ventures and associates	**9**	10	**3**	3
	141	117	**3**	3
Total trade and other payables	**1,736**	1,575	**2,055**	1,961
Comprising				
Financial liabilities (Note 40)	**1,638**	1,463	**2,055**	1,961
Non-financial liabilities:				
– accruals not at amortised cost	**24**	16	**–**	–
– VAT, payroll taxes and social security	**74**	96	**–**	–
	1,736	1,575	**2,055**	1,961

+ 2021 figure includes the cost of settlement relating to the DoJ resolution. This was settled in full in January 2022. Refer to Note 10.2.3.

Re-presented to show contract retentions payable separately from trade and other payables.

Maturity profile of the Group's non-current financial liabilities at 31 December

	Accruals 2022 £m	Due to joint ventures and associates 2022 £m	Contract retentions payable 2022 £m	Total 2022 £m
Due within one to two years	**4**	**1**	**70**	**75**
Due within two to five years	**6**	**4**	**52**	**62**
Due after more than five years	**–**	**4**	**–**	**4**
	10	**9**	**122**	**141**

	Trade and other payables 2021 £m	Accruals 2021 £m	Due to joint ventures and associates 2021 £m	Contract retentions payable 2021 £m	Total 2021 £m
Due within one to two years	5	5	–	41	51
Due within two to five years	–	5	4	51	60
Due after more than five years	–	–	6	–	6
	5	10	10	92	117

The Directors consider that the carrying values of current and non-current trade and other payables and contract retentions payable approximate their fair values. The fair value of non-current trade and other payables and contract retentions payable 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 2021	279	46	25	350
Currency translation differences	(1)	–	–	(1)
Reclassified from accruals	3	–	–	3
Charged/(credited) to the income statement:				
– additional provisions	158	11	4	173
– unused amounts reversed	(35)	(8)	(4)	(47)
Utilised during the year	(76)	(13)	(3)	(92)
Reclassified to contract assets (Note 23)	(7)	–	–	(7)
At 31 December 2021	321	36	22	379
Currency translation differences	**9**	**–**	**1**	**10**
Reclassified from accruals	**–**	**–**	**1**	**1**
Charged/(credited) to the income statement:				
– additional provisions	**134**	**6**	**2**	**142**
– unused amounts reversed	**(48)**	**(2)**	**–**	**(50)**
Utilised during the year	**(80)**	**(7)**	**(3)**	**(90)**
Reclassified to contract assets (Note 23)	**(1)**	**–**	**–**	**(1)**
Reclassified negative investment in Group's investments in joint ventures and associates (Note 19.2)	**–**	**–**	**10**	**10**
At 31 December 2022	**335**	**33**	**33**	**401**

	Contract provisions 2022 £m	**Employee provisions 2022 £m**	**Other provisions 2022 £m**	**Total 2022 £m**	Contract provisions 2021 £m	Employee provisions 2021 £m	Other provisions 2021 £m	Total 2021 £m
Due within one year	**174**	**7**	**23**	**204**	160	7	7	174
Due within one to two years	**77**	**7**	**3**	**87**	76	12	7	95
Due within two to five years	**53**	**10**	**4**	**67**	64	8	4	76
Due after more than five years	**31**	**9**	**3**	**43**	21	9	4	34
	335	**33**	**33**	**401**	321	36	22	379

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 £64m (2021: £56m) as follows: Contract provisions £44m (2021: £34m); Employee provisions £16m (2021: £18m); and Other, mainly motor, provisions £4m (2021: £4m).

27 Cash and cash equivalents and borrowings

27.1 Group

	Current 2022 £m	Non-current 2022 £m	Total 2022 £m	Current 2021 £m	Non-current 2021 £m	Total 2021 £m
Unsecured borrowings at amortised cost						
– Bank overdrafts	–	–	–	(34)	–	(34)
– US private placement (Note 27.2)	**(173)**	**(172)**	**(345)**	–	(192)	(192)
	(173)	**(172)**	**(345)**	(34)	(192)	(226)
Cash and deposits at amortised cost	**828**	–	**828**	766	–	766
Term deposits at amortised cost	**332**	–	**332**	250	–	250
Cash and cash equivalents (excluding infrastructure concessions)	**1,160**	–	**1,160**	1,016	–	1,016
	987	**(172)**	**815**	982	(192)	790
Non-recourse infrastructure concessions project finance loans at amortised cost with final maturity between 2023 and 2072	**(30)**	**(231)**	**(261)**	(5)	(255)	(260)
Infrastructure concessions cash and cash equivalents	**19**	–	**19**	17	–	17
	(11)	**(231)**	**(242)**	12	(255)	(243)
Net cash/(borrowings)	**976**	**(403)**	**573**	994	(447)	547

Bank overdrafts arise due to timings of the Group's BACS payment in the UK. In line with the Group's accounting policy, payments are recorded against cash and cash equivalents when BACS payments are initiated, rather than when they are settled which is typically two working days later. In the intervening period between initiation and settlement, as part of the Group's cash management strategy, cash would be placed in overnight money market deposits and would later be released to be utilised against these BACS payments when settlement occurs. As there is no legal right of offset between funds held with different counterparties, the overdrafts arising as a result of the initiation of the BACS payment are shown within borrowings on the Group's balance sheet.

The loans relating to project finance arise under non-recourse facilities taken out by project-specific subsidiary companies. The loans of each company are secured by a combination of fixed and floating charges over that company's interests in its project's assets and revenues and the shares in the company held by its immediate parent company. A significant part of these loans has been swapped into fixed rate debt by the use of interest rate swaps.

Term deposits are held on a short-term basis and are readily accessible to the Group at any time with insignificant break costs.

Included in cash and cash equivalents is restricted cash of £3m (2021: £10m) held by the Group's self-insurance company, Delphian Insurance Company Ltd, which is subject to Isle of Man insurance solvency regulations.

Cash and cash equivalents also include: £194m (2021: £249m) within construction project bank accounts which is used for project specific expenditure; £253m (2021: £261m) in relation to the Group's share of cash held by joint operations which is used for expenditure within the joint operation projects; and £19m (2021: £17m) relating to maintenance and other reserve accounts in the Infrastructure Investments subsidiaries.

Maturity profile of the Group's borrowings at 31 December

	Non-recourse project finance 2022 £m	Other borrowings 2022 £m	Total 2022 £m	Non-recourse project finance 2021 £m	Other borrowings 2021 £m	Total 2021 £m
Due on demand or within one year	**(30)**	**(173)**	**(203)**	(5)	(34)	(39)
Due within one to two years	**(8)**	–	**(8)**	(32)	(155)	(187)
Due within two to five years	**(25)**	**(70)**	**(95)**	(23)	(37)	(60)
Due after more than five years	**(198)**	**(102)**	**(300)**	(200)	–	(200)
	(261)	**(345)**	**(606)**	(260)	(226)	(486)

The carrying values of the Group's borrowings are equal to the fair values at the reporting date. The fair values are determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

Undrawn Group committed borrowing facilities at 31 December in respect of which all conditions precedent were satisfied

	Non-recourse project finance 2022 £m	Other borrowings 2022 £m	Total 2022 £m	Non-recourse project finance 2021 £m	Other borrowings 2021 £m	Total 2021 £m
Expiring in one year or less	–	–	–	–	–	–
Expiring in more than one year but not more than two years	–	**405**	**405**	–	–	–
Expiring in more than two years	–	–	–	–	375	375
	–	**405**	**405**	–	375	375

27 Cash and cash equivalents and borrowings continued

27.1 Group continued

In October 2021, the Group agreed to the conversion of its £375m revolving credit facility to a sustainability linked loan (SLL), extending the maturity to October 2024. Under the terms of the loan, the Group is incentivised to deliver annual measurable performance improvement in three key areas: carbon emissions, social value generation, and an independent Environmental, Social and Governance (ESG) rating score. This facility was undrawn at 31 December 2022.

In December 2022 the Group entered into a new £30m bilateral revolving credit facility on terms similar to the Group's core £375m SLL. This new facility expires in December 2024 with an extension option for a further three years subject to certain specific provisions. This new facility was also undrawn at 31 December 2022.

27.2 US private placement

In March 2013, the Group raised US$350m (£231m) of borrowings through a US private placement (USPP) 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 2022, US$259m (£215m) remain with an average coupon of 5.2% and a remaining average maturity of 0.6 years.

In June 2022 the Group raised US$158m (£130m) of debt in the form of new USPP notes on terms and conditions materially the same as the existing USPP notes. The new debt comprises US$35m of notes maturing in June 2027 at a fixed coupon of 6.31%, US$80m of notes maturing in June 2029 at a fixed coupon of 6.39% and US$43m of notes maturing in June 2032 at a fixed coupon of 6.45% with an average coupon of 6.4% per annum and an average maturity of 7.4 years. Following the year end, the new funding was used towards the repayment of the US$209m of USPP notes which matured in March 2023.

27.3 Company

	Current 2022 £m	**Non-current 2022 £m**	**Total 2022 £m**	Current 2021 £m	Non-current 2021 £m	Total 2021 £m
Cash	**95**	**–**	**95**	96	–	96
Term deposits	**329**	**–**	**329**	249	–	249
Bank overdrafts	**(45)**	**–**	**(45)**	(17)	–	(17)
US private placement (Note 27.2)	**(173)**	**(172)**	**(345)**	–	(192)	(192)
Net cash/(borrowings)	**206**	**(172)**	**34**	328	(192)	136

28 Lease liabilities

28.1 Movements

	Land and buildings £m	Plant and equipment £m	Motor vehicles £m	Total £m
At 1 January 2021	58	22	45	125
Additions	16	18	27	61
Payments made for lease liabilities+	(20)	(15)	(24)	(59)
Disposals	(2)	(1)	(1)	(4)
Interest on lease liabilities	3	1	2	6
At 31 December 2021	55	25	49	129
Currency translation differences	**4**	**–**	**–**	**4**
Additions	**17**	**13**	**24**	**54**
Payments made for lease liabilities+	**(19)**	**(12)**	**(27)**	**(58)**
Disposals	**(2)**	**–**	**(1)**	**(3)**
Interest on lease liabilities	**3**	**1**	**2**	**6**
At 31 December 2022	**58**	**27**	**47**	**132**

+ Payments made for lease liabilities include an interest element of £6m (2021: £6m).

28.2 Maturity analysis – contractual undiscounted cash flows

	Land and buildings 2022 £m	**Plant and equipment 2022 £m**	**Motor vehicles 2022 £m**	**Total 2022 £m**	Land and buildings 2021 £m	Plant and equipment 2021 £m	Motor vehicles 2021 £m	Total 2021 £m
Due within one year	**16**	**9**	**24**	**49**	14	9	21	44
Due within one to two years	**11**	**7**	**14**	**32**	11	6	16	33
Due within two to five years	**20**	**10**	**11**	**41**	20	10	14	44
Due after more than five years	**13**	**4**	**–**	**17**	19	3	–	22
Total undiscounted cash flows	**60**	**30**	**49**	**139**	64	28	51	143

28.3 Amounts recognised in the income statement

	2022 £m	2021 £m
Interest on lease liabilities	**6**	6
Expenses relating to short-term leases	**121**	120

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 2022 £m	Group 2021 £m
Deferred tax assets	**176**	120
Deferred tax liabilities	**(152)**	(115)
	24	5

Movement for the year in the net deferred tax position

	Group £m
At 1 January 2021	(24)
Currency translation differences	(1)
Credited to income statement	52
Charged to other comprehensive income	(24)
Research and development tax credits	1
Disposal of North West Fire & Rescue (Notes 34.3.3 and 34.3.7)	1
At 31 December 2021	5
Currency translation differences	**(17)**
Credited to income statement	**17**
Credited to other comprehensive income	**19**
Credited to equity	**2**
Research and development tax credits	**(2)**
At 31 December 2022	**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	Fair value adjustments £m	Derivatives £m	Other GAAP differences £m	Research and development credits £m	Total £m
At 1 January 2021	19	(33)	96	4	40	(81)	7	(80)	4	(24)
Currency translation differences	–	–	–	–	1	(1)	–	(1)	–	(1)
Credited/(charged) to income statement	16	(13)	54	1	9	(9)	–	(6)	–	52
Charged to other comprehensive income	–	(23)	–	–	–	(1)	–	–	–	(24)
Research and development tax credits	–	–	–	–	–	–	–	–	1	1
Disposal of North West Fire & Rescue (Notes 34.3.3 and 34.3.7)	–	–	–	–	–	7	(6)	–	–	1
At 31 December 2021	35	(69)	150	5	50	(85)	1	(87)	5	5
Currency translation differences	**(1)**	–	**1**	–	**6**	**(12)**	–	**(11)**	–	**(17)**
Transfers	–	–	–	–	–	**(1)**	–	**1**	–	–
Credited/(charged) to income statement	**(8)**	**(11)**	**48**	–	**(5)**	**(6)**	–	**(1)**	–	**17**
Credited/(charged) to other comprehensive income	–	**20**	–	–	–	–	**(1)**	–	–	**19**
Credited to equity	–	–	–	**2**	–	–	–	–	–	**2**
Research and development tax credits	–	–	–	–	–	–	–	–	**(2)**	**(2)**
At 31 December 2022	**26**	**(60)**	**199**	**7**	**51**	**(104)**	–	**(98)**	**3**	**24**

29 Deferred tax continued

29.1 Group continued

Net deferred tax position continued

At the balance sheet date, the Group had unused trading tax losses of £1,193m (2021: £1,207m) available for offset against future profits, of which £835m (2021: £846m) arose in the UK, £8m (2021: £29m) in the US and £350m (2021: £332m) in other jurisdictions.

A deferred tax asset has been recognised in respect of £794m (2021: £615m) of such losses, of which £789m (2021: £588m) have been recognised in the UK, £5m (2021: £27m) in the US, and £nil (2021: £nil) in other jurisdictions. In considering the amount of deferred tax asset to be recognised for UK tax losses, the potential use of those losses based on the latest current and forecast business performance was assessed, and losses were recognised where it is probable that they will be utilised.

No deferred tax asset has been recognised in respect of the losses of £399m (2021: £592m) where it is considered that it is not probable that they will be utilised due to restrictions in use and unpredictability of future profitability.

Of the Group's tax losses, £3m (2021: £10m) will expire within within 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years. Other losses will be carried forward indefinitely.

In addition to the losses referred to above, at 31 December 2022 the Group had UK capital losses available to carry forward of £1.4bn (2021: £1.4bn). No deferred tax assets have been recognised in respect of these losses as there are no capital profits forecast against which these losses can be utilised.

The Group also had temporary differences relating to retirement benefits on which a deferred tax asset has not been recognised of £nil (2021: £22m).

Deferred tax liabilities on fair value adjustments of £104m relate to temporary differences arising on goodwill and intangibles. Deferred tax liabilities on other GAAP differences of £98m relate to temporary differences on joint ventures.

At the reporting date, undistributed reserves of non-UK subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised were £665m (2021: £513m) in respect of subsidiaries and £45m (2021: £40m) 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 (2021: £nil).

	Unrelieved trading losses £m	Share-based payments £m	Total deferred tax assets £m
At 1 January 2021	–	–	–
Credited/(charged) to income statement	–	–	–
At 31 December 2021	–	–	–
Credited to income statement	1	–	1
Credited to equity	–	1	1
At 31 December 2022	**1**	**1**	**2**

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.

30 Retirement benefit assets and liabilities continued

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 for defined benefit schemes 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 BBPF's defined benefit section is exposed to a number of liability related risks, namely changes in gilt yields, inflation and the longevity of the scheme's members.

With respect to interest rate and inflation risks, the trustee seeks to mitigate the majority of these risks through its liability hedging portfolio. This is a segregated portfolio of hedging assets which includes physical gilts, gilt repurchase agreements and interest rate and inflation swaps. The current objective of the portfolio is to hedge around 90% of the impact that changes in interest rates and inflation can have on the funding position.

During the gilt yield crisis, the BBPF's Fiduciary Manager was closely monitoring the collateral being held within the liability hedging portfolio. As gilt yields rose, action was proactively taken to ensure that throughout the crisis, the scheme held sufficient collateral to support its liability hedging programme.

The BBPF's Investment Committee was closely involved in overseeing the actions being taken to manage the hedging strategy. It agreed, as a precautionary measure, to slightly reduce the target level of hedging in order to improve the scheme's resilience in case of a further material increase in yields. In response to the increased volatility in gilt yields in Autumn 2022 the Company agreed a short-term liquidity facility with the BBPF of £100m which expired undrawn in December 2022.

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 2022, the BBPF received distributions of £2m from the SLP (2021: £2m).

Balfour Beatty and the trustees of the Balfour Beatty Pension Fund (BBPF) have reconfirmed their commitment to a journey plan approach to managing the BBPF whereby the BBPF is aiming to reach self-sufficiency by 2027. The Company and the trustees have agreed the principles of the 31 March 2022 formal valuation. Under these principles, Balfour Beatty will pay deficit contributions to the BBPF of £24m in 2023, £24m in 2024 and £6m in 2025. The Company and the trustees expect to take further steps over the coming months to reduce the investment risk in the scheme and the Company has agreed that additional amounts will become payable at £2m per month from March 2025 if the BBPF's performance is materially different from that expected. The next formal triennial funding valuation is due with effect from 31 March 2025.

As a result of an acceleration mechanism agreed previously between the Group and the trustees, the Group made deficit contributions to the BBPF of £35m in 2022.

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

30 Retirement benefit assets and liabilities continued

30.1 Introduction continued

Railways Pension Scheme

The RPS is a shared cost scheme. The legal responsibility of the Group in the RPS is approximately 60% of the scheme's assets and liabilities based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing.

The assumed cost of providing future service benefits is split between the Group and the members in the ratio 60:40.

Because of a declining population of active members, it has become less likely that the Group's costs of meeting any deficits would be capped in line with its strict legal obligation of 60% as members might only be able to afford to fund a small proportion of the scheme deficit. It has therefore been assumed that the Group will be responsible for 100% of any deficit and the balance sheet assets and obligations disclosed, therefore, are equal to 100% of the total scheme assets and obligations.

The RPS invests in a range of pooled investment funds intended to generate a combination of capital growth and income and, as determined by the trustee, taking account of the characteristics of the obligations and the trustee's attitude to risk. The majority of the RPS's assets that are intended to generate additional returns, over the rate at which the obligations are expected to grow, are invested in a single pooled growth fund. This fund is invested in a wide range of asset classes and the fund manager RPMI has the discretion to vary the asset allocation to reflect its views on the relative attractiveness of different asset classes at any time. The remaining assets in the RPS are principally fixed and index-linked bonds.

The formal triennial funding valuation of the RPS as at 31 December 2019 was completed in December 2021, with the Group agreeing to continue to make fixed deficit contributions of £6m per annum which should reduce the deficit to zero by 2025. This agreement constitutes a MFR under IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The Group has not recognised any liabilities in relation to this MFR as any surplus of deficit contributions to the RPS would be recoverable by way of a refund and the Group has the unconditional right to the surplus and controls the run-off of the benefit obligations once all other obligations of the RPS have been settled.

Other schemes

Other schemes comprise unfunded post-retirement benefit obligations in Europe, the majority of which are closed to new entrants, and deferred compensation schemes in North America, where an element of employees' compensation is deferred and invested in investments in mutual funds (as disclosed in Note 20.1) in a trust, the assets of which are for the ultimate benefit of the employees but are available to the Group's creditors in the event of insolvency.

The Group also participates in The Plumbing & Mechanical Services Industry Pension Scheme (Plumbers Scheme), which is an industry-wide non-associated multi-employer defined benefit scheme. As the Plumbers Scheme does not segregate assets and liabilities between the different participating employers, the Group's only obligation to the Plumbers Scheme is to pay the contributions requested by the scheme trustees as they fall due. In accordance with IAS 19, this obligation has been accounted for on a defined contribution basis and the relevant employer contributions have been charged to the income statement.

Membership of the principal schemes

	Balfour Beatty Pension Fund 2022			**Railways Pension Scheme 2022**			Balfour Beatty Pension Fund 2021			Railways Pension Scheme 2021		
	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**	**1**	**12**	**92**	**33**	**16**	1	2	16	103	53	20
– deferred pensioners	**9,261**	**952**	**18**	**1,006**	**97**	**16**	9,712	1,824	21	1,066	149	19
– pensioners, widow(er)s and dependants	**16,946**	**1,511**	**9**	**1,874**	**170**	**10**	17,225	1,892	11	1,841	235	13
Defined contribution	**15,382**	**–**	**–**	**–**	**–**	**–**	14,670	–	–	–	–	–
Total	**41,590**	**2,464**	**12**	**2,972**	**300**	**12**	41,608	3,718	16	3,010	437	16

* The significant increase in discount rate over the year, which has been driven by a corresponding rise in corporate bond yields over this period, has led to a reduction in average duration of the BBPF and the RPS.

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 2022 %	**Railways Pension Scheme 2022 %**	Balfour Beatty Pension Fund 2021 %	Railways Pension Scheme 2021 %
Discount rate	**4.95**	**4.95**	1.90	1.90
Inflation rate – RPI	**3.35**	**3.35**	3.40	3.40
– CPI	**2.75**	**2.90**	2.80	3.00
Future increases in pensionable salary	**2.75**	**2.90**	2.80	3.00
Rate of increase in pensions in payment (or such other rate as is guaranteed)	**3.10**	**2.95**	3.10	3.05

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

On 23 November 2022, the BBPF entered into a £1.7bn longevity swap to hedge the liabilities of the majority of its pensioner population against unexpected increases in life expectancy. The swap will form part of the BBPF's investment portfolio and provide income in the event that pensions are paid out for longer than expected. The BBPF trustees chose Zurich Assurance Ltd to act as an insurance intermediary between the BBPF and SCOR SE as the reinsurer. The fair value of the swap has been included as part of the BBPF's fair value of plan assets.

At 31 December 2022, the swap was valued at £nil fair value as it was considered to remain at fair market value for both parties over the limited period from 23 November 2022 to 31 December 2022.

The mortality assumptions adopted for the BBPF and RPS for 2022 are unchanged from 2021, with the Group continuing to set future improvements in line with the Continuous Mortality Investigation (CMI) 2019 core projection model due to the uncertainty presented with COVID-19. The Group will update these assumptions following the completion of the BBPF's 31 March 2022 triennial valuation.

BBPF life expectancies

	2022 Average life expectancy at 65 years of age		2021 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**21.7**	**23.4**	21.6	23.3
Members not yet in receipt of a pension (current age 50)	**22.6**	**24.3**	22.5	24.3

RPS life expectancies

	2022 Average life expectancy at 65 years of age		2021 Average life expectancy at 65 years of age	
	Male	**Female**	Male	Female
Members in receipt of a pension	**20.7**	**22.7**	20.6	22.6
Members not yet in receipt of a pension (current age 50)	**21.6**	**23.7**	21.6	23.6

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 £628m (2021: £668m) have been excluded from the tables on pages 225 to 226. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

	Balfour Beatty Pension Fund 2022 £m	**Railways Pension Scheme 2022 £m**	**Other schemes 2022 £m**	**Total 2022 £m**	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Other schemes 2021 £m	Total 2021 £m
Group								
Current service cost	**(2)**	**(2)**	**(1)**	**(5)**	(2)	(2)	(1)	(5)
Defined contribution charge	**(52)**	**–**	**(6)**	**(58)**	(49)	–	(6)	(55)
Included in employee costs (Note 7)	**(54)**	**(2)**	**(7)**	**(63)**	(51)	(2)	(7)	(60)
Interest income	**75**	**7**	**–**	**82**	57	5	–	62
Interest cost	**(69)**	**(8)**	**–**	**(77)**	(54)	(6)	(1)	(61)
Net finance income/(cost) (Note 8)	**6**	**(1)**	**–**	**5**	3	(1)	(1)	1
Total charged to income statement	**(48)**	**(3)**	**(7)**	**(58)**	(48)	(3)	(8)	(59)

Amounts recognised in the statement of comprehensive income

	Balfour Beatty Pension Fund 2022 £m	**Railways Pension Scheme 2022 £m**	**Other schemes 2022 £m**	**Total 2022 £m**	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Other schemes 2021 £m	Total 2021 £m
Actuarial movements on pension scheme obligations	**1,178**	**131**	**7**	**1,316**	17	(2)	(4)	11
Actuarial movements on pension scheme assets	**(1,314)**	**(54)**	**–**	**(1,368)**	53	34	–	87
Total actuarial movements recognised in the statement of comprehensive income (Note 32.1)	**(136)**	**77**	**7**	**(52)**	70	32	(4)	98
Cumulative actuarial movements recognised in the statement of comprehensive income	**(181)**	**24**	**(22)**	**(179)**	(45)	(53)	(29)	(127)

The actual return on plan assets was a loss of £1,286m (2021: £149m gain).

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

Amounts recognised in the Balance Sheet

	Balfour Beatty Pension Fund 2022 £m	Railways Pension Scheme 2022 £m	Other schemes[†] 2022 £m	Total 2022 £m	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Other schemes[†] 2021 £m	Total 2021 £m
Present value of obligations	**(2,464)**	**(300)**	**(39)**	**(2,803)**	(3,718)	(437)	(46)	(4,201)
Fair value of plan assets	**2,689**	**337**	**–**	**3,026**	4,039	393	–	4,432
Asset/(liabilities) in the balance sheet	**225**	**37**	**(39)**	**223**	321	(44)	(46)	231

† Investments in mutual funds of £20m (2021: £24m) are held to satisfy the Group's deferred compensation obligations (Note 20.1).

The defined benefit obligations comprise £39m (2021: £46m) arising from wholly unfunded plans and £2,764m (2021: £4,155m) arising from plans that are wholly or partly funded.

Movement in the present value of obligations

	Balfour Beatty Pension Fund 2022 £m	Railways Pension Scheme 2022 £m	Other schemes 2022 £m	Total 2022 £m	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Other schemes 2021 £m	Total 2021 £m
At 1 January	**(3,718)**	**(437)**	**(46)**	**(4,201)**	(3,828)	(443)	(46)	(4,317)
Currency translation differences	**–**	**–**	**(3)**	**(3)**	–	–	2	2
Current service cost	**(2)**	**(2)**	**(1)**	**(5)**	(2)	(2)	(1)	(5)
Interest cost	**(69)**	**(8)**	**–**	**(77)**	(54)	(6)	(1)	(61)
Actuarial movements from reassessing the difference between RPI and CPI	**–**	**2**	**–**	**2**	(7)	(3)	–	(10)
Other financial actuarial movements	**1,157**	**129**	**7**	**1,293**	23	1	(4)	20
Experience gains	**21**	**–**	**–**	**21**	1	–	–	1
Total actuarial movements	**1,178**	**131**	**7**	**1,316**	17	(2)	(4)	11
Benefits paid	**147**	**16**	**4**	**167**	149	16	4	169
At 31 December	**(2,464)**	**(300)**	**(39)**	**(2,803)**	(3,718)	(437)	(46)	(4,201)

Movement in the fair value of plan assets

	Balfour Beatty Pension Fund 2022 £m	Railways Pension Scheme 2022 £m	Total 2022 £m	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme 2021 £m	Total 2021 £m
At 1 January	**4,039**	**393**	**4,432**	4,043	363	4,406
Interest income	**75**	**7**	**82**	57	5	62
Actuarial movements	**(1,314)**	**(54)**	**(1,368)**	53	34	87
Contributions from employer						
– regular funding	**1**	**1**	**2**	2	1	3
– ongoing deficit funding	**35**	**6**	**41**	33	6	39
Benefits paid	**(147)**	**(16)**	**(163)**	(149)	(16)	(165)
At 31 December	**2,689**	**337**	**3,026**	4,039	393	4,432

There was an extremely significant increase in corporate bond yields in 2022 that led to a corresponding increase in the IAS 19 discount rate (an increase from 1.9% as at 31 December 2021 to 4.95% as at 31 December 2022). The increase in discount rate led to a reduction in the present value of obligations of approximately 35%, when compared to those implied by the discount rate as at 31 December 2021, and was the primary driver of the financial actuarial movements in 2022. This movement was slightly offset by changes due to inflation.

The changes in market conditions over the year have also led to a significant reduction in assets in 2022, with this change primarily being driven by the hedging strategy in place.

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

Fair value of the assets held by the schemes at 31 December

	Balfour Beatty Pension Fund 2022 £m	Railways Pension Scheme† 2022 £m	Total 2022 £m	Balfour Beatty Pension Fund 2021 £m	Railways Pension Scheme† 2021 £m	Total 2021 £m
Return-seeking	**748**	**140**	**888**	1,112	209	1,321
– Developed nation equities•	**197**	**–**	**197**	383	–	383
– Emerging market equities	**30**	**–**	**30**	62	–	62
– Hedge funds&•	**395**	**–**	**395**	392	–	392
– Return-seeking growth pooled funds	**–**	**140**	**140**	–	209	209
– Other return-seeking assets•	**126**	**–**	**126**	275	–	275
Liability-matching bond-type assets	**1,423**	**197**	**1,620**	2,280	184	2,464
– Corporate bonds	**298**	**–**	**298**	488	–	488
– Fixed interest gilts^	**665**	**–**	**665**	640	–	640
– Index-linked gilts^	**604**	**–**	**604**	1,103	–	1,103
– Currency hedging	**28**	**–**	**28**	2	–	2
– Liability-matching pooled funds	**–**	**197**	**197**	–	184	184
– Interest and inflation rate swaps	**(172)**	**–**	**(172)**	47	–	47
Property	**98**	**–**	**98**	183	–	183
Secure income assets	**186**	**–**	**186**	213	–	213
Protection strategies	**–**	**–**	**–**	–	–	–
Cash and other	**234**	**–**	**234**	251	–	251
Total	**2,689**	**337**	**3,026**	4,039	393	4,432

† The amounts represent 100% of the scheme's assets.

^ Of the assets above, £1,269m (2021: £1,743m) 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.

& £103m of these assets have been valued based on September 2022 valuations, adjusted for cash movements that have occurred in the last quarter of the year, due to December 2022 valuations not being available as at the reporting date. The Directors consider these values to be a fair approximation of these assets at 31 December 2022.

• Level 3 assets include hedge funds, £87m of developed nation equities and £54m of other return-seeking assets. Fair value of these assets have been derived based on valuations received from investment managers.

Estimated contributions expected to be paid to the Group's principal defined benefit schemes during 2023

	Balfour Beatty Pension Fund 2023 £m	Railways Pension Scheme 2023 £m	Total 2023 £m
Regular funding	**2**	**1**	**3**
Ongoing deficit funding+	**23**	**6**	**29**
Total contributions	**25**	**7**	**32**
Estimated BBPF running costs to be funded from deficit contributions*	**(4)**	**–**	**(4)**
Estimated total cash contributions	**21**	**7**	**28**

* The running costs of the BBPF are funded from deficit contributions as per the BBPF schedule of contributions.

+ The ongoing deficit contributions presented above for the BBPF in 2023 are in line with the funding agreement agreed in 2023.

The sensitivity analysis below has been determined based on reasonably possible changes in assumptions occurring at the end of the reporting period. In each case the relevant change in assumption occurs in isolation from potential changes in other assumptions. In practice more than one variable is likely to change at the same time. The sensitivities have been calculated using the projected unit credit method.

30 Retirement benefit assets and liabilities continued

30.2 IAS 19 accounting valuations continued

Sensitivity of the Group's retirement benefit obligations at 31 December 2022 to different actuarial assumptions

	Sensitivity to increase in assumption			Sensitivity to decrease in assumption		
Assumptions	Percentage points/years	(Decrease)/ increase in obligations %	(Decrease)/ increase in obligations £m	Percentage points/years	Increase/ (decrease) in obligations %	Increase/ (decrease) in obligations £m
Discount rate	**0.1%**	**(1.2)%**	**(32.6)**	**(0.1)%**	**1.2%**	**33.3**
Market expectation of RPI inflation	**0.1%**	**0.8%**	**20.8**	**(0.1)%**	**(0.9)%**	**(23.5)**
Salary growth	**0.1%**	**0.0%**	**0.1**	**(0.1)%**	**0.0%**	**(0.1)**
Discount rate	**1.0%**	**(10.8)%**	**(299.4)**	**(1.0)%**	**13.3%**	**367.2**
Market expectation of RPI inflation	**1.0%**	**7.7%**	**213.6**	**(1.0)%**	**(7.5)%**	**(206.6)**
Salary growth	**1.0%**	**0.0%**	**0.8**	**(1.0)%**	**0.0%**	**(0.8)**
Life expectancy	**1 year**	**3.9%**	**108**	**(1 year)**	**(4.0)%**	**(110)**

Sensitivity of the Group's retirement benefit assets at 31 December 2022 to changes in market conditions

	Percentage points	(Decrease)/ increase in assets %	(Decrease)/ increase in assets £m
Increase in interest rates	**0.1%**	**(1.1)%**	**(32.1)**
Increase in market expectation of RPI inflation	**0.1%**	**0.7%**	**21.0**
Increase in interest rates	**1.0%**	**(10.5)%**	**(317.9)**
Increase in market expectation of RPI inflation	**1.0%**	**7.1%**	**213.7**

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. Whilst the BBPF has entered into the longevity hedge, the operational setup of the swap is still ongoing, therefore a sensitivity of the impact of changes in life expectancy on the value of the swap cannot be provided at this time.

Year end historical information for the Group's retirement defined benefit schemes

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Present value of obligations	**(2,803)**	(4,201)	(4,317)	(3,959)	(3,742)
Fair value of assets	**3,026**	4,432	4,406	4,092	3,796
Surplus	**223**	231	89	133	54
Experience adjustment for obligations	**21**	1	5	(53)	(4)
Experience adjustment for assets	**(1,368)**	87	392	329	(117)
Total deficit funding	**41**	39	15	30	27

30.3 Latest formal triennial funding valuations

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m
Date of last formal triennial funding valuation	31/03/2019	31/12/2019
Scheme deficit		
Market value of assets	4,136	354
Present value of obligations	(4,228)	(380)
Deficit in defined benefit scheme	(92)	(26)
Funding level	97.8%	93.2%

31 Share capital

	2022		2021	
	Million	**£m**	Million	£m
Called-up share capital in issue	**588**	**294**	690	345

All issued ordinary shares are fully paid. Ordinary shares have a nominal value of £0.50 each and 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.

In 2022 the Company commenced the second phase of its share buyback programme, which completed on 15 December 2022. The Company purchased 52.0m (2021: 50.3m) shares for a total consideration of £150m (2021: £150m) and held these shares in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m (2021: £1m), utilised £151m (2021: £151m) of the Company's distributable profits.

On 7 June 2022 and 20 December 2022, the Company cancelled the 50.3m treasury shares and 52.0m treasury shares purchased through the 2021 and 2022 phases of its share buyback programme respectively. These cancellations resulted in decreases in called-up share capital in issue totalling £51m (2021: £nil) and corresponding increases in the capital redemption reserve.

32 Movements in equity

32.1 Group

	Called-up share capital 2022 £m	Share premium account 2022 £m	Capital redemption reserve 2022 £m	Share of joint ventures' and associates' reserves (Note 19.6) 2022 £m	Other reserves: Hedging reserves 2022 £m	Other reserves: PPP financial assets 2022 £m	Other reserves: Currency translation reserve 2022 £m	Other reserves: Other[µ] 2022 £m	Retained profits 2022 £m	Non-controlling interests 2022 £m	Total 2022 £m
At 1 January 2022	345	176	1	72	(5)	4	100	45	631	7	1,376
Profit/(loss) for the year	–	–	–	105	–	–	–	–	183	(1)	287
Currency translation differences	–	–	–	23	–	–	32	–	–	–	55
Actuarial movements on retirement benefit assets/liabilities	–	–	–	1	–	–	–	–	(52)	–	(51)
Fair value revaluations											
– PPP financial assets	–	–	–	(124)	–	(3)	–	–	–	–	(127)
– cash flow hedges	–	–	–	29	3	–	–	–	–	–	32
– investments in mutual funds measured at fair value through OCI	–	–	–	–	–	–	–	(5)	–	–	(5)
Recycling of revaluation reserves to the income statement on disposal[@]	–	–	–	(3)	–	–	–	–	–	–	(3)
Tax on items recognised in other comprehensive income	–	–	–	25	(2)	–	–	–	21	–	44
Total comprehensive income/(loss) for the year	–	–	–	56	1	(3)	32	(5)	152	(1)	232
Ordinary dividends	–	–	–	–	–	–	–	–	(58)	–	(58)
Joint ventures' and associates' dividends	–	–	–	(148)	–	–	–	–	148	–	–
Non-controlling interests' dividends	–	–	–	–	–	–	–	–	–	(1)	(1)
Purchase of treasury shares	–	–	–	–	–	–	–	–	(151)	–	(151)
Cancellation of ordinary shares	(51)	–	51	–	–	–	–	–	–	–	–
Movements relating to share-based payments[+]	–	–	–	–	–	–	–	1	(16)	–	(15)
At 31 December 2022	**294**	**176**	**52**	**(20)**	**(4)**	**1**	**132**	**41**	**706**	**5**	**1,383**

µ Other reserves include £22m of special reserve.

\+ Movements relating to share-based payments include £2m tax credit (2021: £nil) recognised directly within retained profits.

	Called-up share capital 2021 £m	Share premium account 2021 £m	Capital redemption reserve 2021 £m	Share of joint ventures' and associates' reserves (Note 19.6) 2021 £m	Other reserves: Hedging reserves 2021 £m	Other reserves: PPP financial assets 2021 £m	Other reserves: Currency translation reserve 2021 £m	Other reserves: Other[µ] 2021 £m	Retained profits 2021 £m	Non-controlling interests 2021 £m	Total 2021 £m
At 1 January 2021	345	176	1	65	(32)	30	98	41	612	9	1,345
Profit/(loss) for the year	–	–	–	57	–	–	–	–	83	(1)	139
Currency translation differences	–	–	–	(1)	–	–	2	–	–	–	1
Actuarial movements on retirement benefit assets/liabilities	–	–	–	7	–	–	–	–	98	–	105
Fair value revaluations											
– PPP financial assets	–	–	–	(6)	–	(3)	–	–	–	–	(9)
– cash flow hedges	–	–	–	(6)	8	–	–	–	–	–	2
– investments in mutual funds measured at fair value through OCI	–	–	–	–	–	–	–	3	–	–	3
Recycling of revaluation reserves to the income statement on disposal[@]	–	–	–	(7)	19	(22)	–	–	–	–	(10)
Tax on items recognised in other comprehensive income	–	–	–	(3)	–	(1)	–	(1)	(22)	–	(27)
Total comprehensive income/(loss) for the year	–	–	–	41	27	(26)	2	2	159	(1)	204
Ordinary dividends	–	–	–	–	–	–	–	–	(29)	–	(29)
Joint ventures' and associates' dividends	–	–	–	(68)	–	–	–	–	68	–	–
Non-controlling interests' dividends	–	–	–	–	–	–	–	–	–	(1)	(1)
Purchase of treasury shares	–	–	–	–	–	–	–	–	(151)	–	(151)
Movements relating to share-based payments	–	–	–	–	–	–	–	2	6	–	8
Reserve transfers relating to joint ventures and associates	–	–	–	34	–	–	–	–	(34)	–	–
At 31 December 2021	345	176	1	72	(5)	4	100	45	631	7	1,376

µ Other reserves include £22m of special reserve.

@ 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	Capital redemption reserve £m	Other reserves: Special reserve £m	Other reserves: Other £m	Retained profits £m	Total £m
At 1 January 2021	345	176	1	22	101	771	1,416
Profit for the year	–	–	–	–	–	80	80
Currency translation differences	–	–	–	–	–	3	3
Total comprehensive profit for the year	–	–	–	–	–	83	83
Ordinary dividends	–	–	–	–	–	(29)	(29)
Purchase of treasury shares	–	–	–	–	–	(151)	(151)
Movements relating to share-based payments	–	–	–	–	5	2	7
At 31 December 2021	345	176	1	22	106	676	1,326
Profit for the year	–	–	–	–	–	**178**	**178**
Currency translation differences	–	–	–	–	–	**(3)**	**(3)**
Total comprehensive profit for the year	–	–	–	–	–	**175**	**175**
Ordinary dividends	–	–	–	–	–	**(58)**	**(58)**
Purchase of treasury shares	–	–	–	–	–	**(151)**	**(151)**
Cancellation of ordinary shares	**(51)**	–	**51**	–	–	–	–
Movements relating to share-based payments*	–	–	–	–	**8**	**(24)**	**(16)**
At 31 December 2022	**294**	**176**	**52**	**22**	**114**	**618**	**1,276**

* Movements relating to share-based payments include £1m tax credit (2021: £nil) recognised directly within retained profits.

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 2022 of £178m (2021: £80m profit).

During the year, £151m of the Company's distributable profits were utilised for the purchase of shares into treasury (2021: £151m) and 102.3m treasury shares were cancelled. See Note 31.

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 2022 (2021: £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 Deferred Bonus Plan and the Restricted Share Plan. In 2022, 9.8m (2021: nil) shares were purchased at a cost of £25m (2021: £nil). The market value of the 7.5m (2021: 1.2m) shares held by the trust at 31 December 2022 was £25.3m (2021: £3.1m). The carrying value of these shares is £19.8m (2021: £3.0m).

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 2022, 1.7m shares were transferred to participants in relation to the April 2019 awards under the Performance Share Plan (2021: 0.9m shares were transferred to participants in relation to the March 2018 awards under the Performance Share Plan), 0.6m shares were transferred to participants in relation to awards under the Deferred Bonus Plan (2021: 0.8m shares) and 1.2m shares were transferred to participants in relation to awards under the Restricted Share Plan (2021: 1.0m).

The trustees have waived the rights to dividends on shares held by the trust. Participants in the schemes receive an award of shares to represent the dividends which would have been payable on the shares since the date of grant.

Other reserves in the Group and Company include £8.8m (2021: £8.2m) relating to unvested Performance Share Plan awards, £3.8m (2021: £3.8m) relating to unvested Restricted Share Plan awards and £2.7m (2021: £2.5m) 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] 2022 £m	Non-underlying items 2022 £m	2022 £m	2021 £m
Profit from operations		**279**	**(4)**	**275**	97
Share of results of joint ventures and associates	19	**(105)**	**–**	**(105)**	(57)
Depreciation of property, plant and equipment	16	**27**	**–**	**27**	24
Depreciation of right-of-use assets	17	**54**	**–**	**54**	54
Depreciation of investment properties	18	**2**	**–**	**2**	1
Amortisation of other intangible assets	15	**7**	**6**	**13**	18
Amortisation of contract fulfilment assets		**15**	**–**	**15**	12
Pension deficit payments, including regular funding	30.2	**(43)**	**–**	**(43)**	(42)
Movements relating to equity-settled share-based payments		**9**	**–**	**9**	7
Gain on disposal of interests in investments	34.3	**–**	**–**	**–**	(26)
Profit on disposal of property, plant and equipment		**(4)**	**–**	**(4)**	(4)
Other non-cash items		**(4)**	**–**	**(4)**	1
Operating cash flows before movements in working capital		**237**	**2**	**239**	85
(Increase)/decrease in operating working capital				**(54)**	269
Inventories				**(6)**	11
Contract assets				**(78)**	74
Trade and other receivables				**34**	(34)
Contract liabilities				**(59)**	147
Trade and other payables				**57**	43
Provisions				**(2)**	28
Cash from operations				**185**	354

1 Before non-underlying items (Notes 2.10 and 10).

33.2 Cash and cash equivalents

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Cash and deposits	**828**	766	**95**	96
Term deposits	**332**	250	**329**	249
Cash balances within infrastructure concessions	**19**	17	**–**	–
Bank overdrafts	**–**	(34)	**(45)**	(17)
	1,179	999	**379**	328

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	Bank overdrafts £m	Total £m
At 1 January 2021	(339)	(189)	–	(528)
Currency translation differences	–	(3)	–	(3)
Proceeds of loans	(8)	–	(34)	(42)
Repayments of loans	6	–	–	6
Disposal of Woodland View Hospital (Notes 34.3.2 and 34.3.7)	41	–	–	41
Disposal of North West Fire & Rescue (Notes 34.3.3 and 34.3.7)	40	–	–	40
At 31 December 2021	(260)	(192)	(34)	(486)
Currency translation differences	–	**(23)**	–	**(23)**
Proceeds of loans	**(8)**	**(130)**	–	**(138)**
Repayments of loans	**7**	**–**	**34**	**41**
At 31 December 2022	**(261)**	**(345)**	**–**	**(606)**

In June 2022 the Group raised US$158m (£130m) of debt in the form of new US private placement (USPP) notes on terms and conditions materially the same as the existing USPP notes. The new debt comprises US$35m of notes maturing in June 2027 at a fixed coupon of 6.31%, US$80m of notes maturing in June 2029 at a fixed coupon of 6.39% and US$43m of notes maturing in June 2032 at a fixed coupon of 6.45%. Following the year end, the new funding was used towards the repayment of the US$209m of USPP notes which matured in March 2023.

34 Acquisitions and disposals

34.1 Current and prior year acquisitions

There were no material acquisitions in 2022.

Deferred consideration paid during 2022 in respect of acquisitions completed in earlier years was £3m (2021: £3m). This related to the Group's acquisition of Centex Construction in 2007.

34.2 Current year disposals

During the year, the Group disposed of several Infrastructure Investments assets as detailed below.

The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates.

Notes	Disposal date	Entity/asset	Structure of sale	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Underlying gain £m
34.2.1	30 June 2022	Regard at Med Center (formerly City Lake)^	Asset sale	n/a	12	(5)	1	8
34.2.2	11 August 2022	Aspire at Discovery Park^	Asset sale	n/a	50	(12)	2	40
34.2.3	23 August 2022	Preserve at Southwind^	Asset sale	n/a	4	(1)	–	3
34.2.4	23 August 2022	Preserve at Bartlett^	Asset sale	n/a	13	(4)	–	9
34.2.5	2 November 2022	Waterchase Apartments^	Asset sale	n/a	14	(4)	–	10
					93	**(26)**	**3**	**70**

^ Disposal of asset within a joint venture entity.

34.2.1 On 30 June 2022, the Group disposed of its Regard at Med Center multifamily property asset located in Houston, Texas, and received total cash consideration of £12m. The asset disposal resulted in an underlying 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.

34.2.2 On 11 August 2022, the Group disposed of its Aspire at Discovery Park on-campus accommodation at Purdue University in West Lafayette, Indiana, and received total cash consideration of £50m. The asset disposal resulted in an underlying gain of £40m being recognised in the Group's share of joint ventures and associates, including a gain of £2m in respect of foreign currency translation reserves recycled to the income statement on disposal.

34.2.3 On 23 August 2022, the Group disposed of its Preserve at Southwind multifamily property asset located in Memphis, Tennessee, and received total cash consideration of £4m. The asset disposal resulted in an underlying gain of £3m being recognised in the Group's share of joint ventures and associates.

34.2.4 On 23 August 2022, the Group disposed of its Preserve at Bartlett multifamily property asset located in Bartlett, Tennessee, and received total cash consideration of £13m. The asset disposal resulted in an underlying gain of £9m being recognised in the Group's share of joint ventures and associates.

34.2.5 On 2 November 2022, the Group disposed of its Waterchase Apartments multifamily property asset located in Largo, Florida, and received total cash consideration of £14m. The asset disposal resulted in an underlying gain of £10m being recognised in the Group's share of joint ventures and associates.

In addition to the disposals above, the Group received a further £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

34.3 Prior year disposals

During 2021, the Group disposed of several Infrastructure Investments assets as detailed below.

The gain recognised from the disposal of assets that were held within joint venture entities of the Group is recognised within the Group's share of results of joint ventures and associates.

Notes	Disposal date	Entity/asset	Structure of sale	Percentage disposed %	Cash consideration £m	Net assets disposed £m	Amount recycled from reserves £m	Underlying gain £m
34.3.1	2 June 2021	BC Children's and BC Women's Hospitals#	Equity interest sale	70%	20	(17)	4	7
34.3.2	6 July 2021	Woodland View Hospital+	Equity interest sale	100%	8	(5)	–	3
34.3.3	6 July 2021	North West Fire & Rescue+	Equity interest sale	100%	11	(9)	3	5
34.3.4	6 August 2021	Aberdeen Western Peripheral Route#	Equity interest sale	33.3%	29	(21)	3	11
34.3.5	26 October 2021	Riverchase Landing^	Asset sale	n/a	3	(1)	–	2
34.3.6	12 November 2021	Zephyr Ridge^	Asset sale	n/a	9	(2)	–	7
					80	(55)	10	35
	Add: Proceeds received in relation to deferred consideration on the sale of Consort Healthcare (Fife) Holdings Ltd				1			
	Disposal proceeds per the Directors' valuation				81			

Disposal of joint venture.

+ Disposal of subsidiary.

^ Disposal of asset within a joint venture entity.

34 Acquisitions and disposals continued

34.3 Prior year disposals continued

34.3.1 On 2 June 2021, the Group disposed of its entire 70% interest in Affinity Partnerships (the BC Children's and BC Women's Hospitals concession located in Vancouver, Canada) for a cash consideration of £20m. The disposal resulted in a net gain of £7m being recognised in underlying operating profit, including a gain of £4m in respect of PPP financial asset reserves recycled to the income statement on disposal.

34.3.2 On 6 July 2021, the Group disposed of its entire 100% interest in Woodland View Project Co Ltd for a cash consideration of £8m. The disposal resulted in a net gain of £3m being recognised in underlying operating profit, including a gain of £8m in respect of PPP financial asset reserves and a loss of £8m in respect of hedging reserves recycled to the income statement on disposal. The disposal included cash disposed of £2m.

34.3.3 On 6 July 2021, the Group disposed of its entire 100% interest in Balfour Beatty Fire and Rescue NW Ltd for a cash consideration of £11m. The disposal resulted in a net gain of £5m being recognised in underlying operating profit, including a gain of £14m in respect of PPP financial asset reserves and a loss of £11m in respect of hedging reserves recycled to the income statement on disposal. The disposal included cash disposed of £1m.

34.3.4 On 6 August 2021, the Group disposed of its entire 33.3% interest in Aberdeen Roads Holdings Ltd (Aberdeen Western Peripheral Route) for a cash consideration of £29m. The disposal resulted in a net gain of £11m being recognised in underlying operating profit, including a gain of £4m in respect of PPP financial asset reserves and a loss of £1m in respect of hedging reserves recycled to the income statement on disposal.

34.3.5 On 26 October 2021, the Group disposed of its Riverchase Landing multifamily property asset located in Hoover, Alabama, for a total cash consideration of £3m. The asset disposal resulted in an underlying gain of £2m being recognised in the Group's share of joint ventures and associates.

34.3.6 On 12 November 2021, the Group disposed of its Zephyr Ridge multifamily property asset located in Zephyrhills, Florida, for a total cash consideration of £9m. The asset disposal resulted in an underlying gain of £7m being recognised in the Group's share of joint ventures and associates.

In addition to the disposals above, the Group received a further £1m of deferred consideration in relation to the disposal of its Middle Eastern joint ventures in 2017. This deferred consideration was included in the Group's assessment of the gain on disposal recognised in 2017.

The Group also received £1m of deferred consideration in relation to the disposal of its entire 50% interest in Consort Healthcare (Fife) Holdings Ltd which took place in 2018. This deferred consideration was received as part of the earn-out agreement that was entered into with the buyer as part of the disposal and was included in the Group's assessment of the additional gain on disposal recognised in 2019.

34.3.7 Subsidiaries net assets disposed

Net assets disposed	Note	Woodland View Project Co Ltd £m	Balfour Beatty Fire and Rescue NW Ltd £m	Total £m
PPP financial assets	21	55	65	120
Borrowings – non-recourse	33.3	(41)	(40)	(81)
Deferred tax	29.1	–	(1)	(1)
Derivative financial instruments		(10)	(14)	(24)
Net working capital		(1)	(2)	(3)
Cash		2	1	3
		5	9	14
Cash consideration		(8)	(11)	(19)
Amounts recycled from reserves		–	(3)	(3)
Gain on disposal		(3)	(5)	(8)
Net cash flow effect				
Total consideration		8	11	19
Cash and cash equivalents disposed		(2)	(1)	(3)
Net cash consideration		6	10	16

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 £9m (2021: £7m). 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 £11m (2021: £5m).

35 Share-based payments continued

Movements in share plans

Equity-settled share-based payment awards

2022 number of awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	**9,333,341**	**1,979,385**	**3,747,665**
Granted during the year	**3,624,249**	**947,192**	**1,305,184**
Awards in lieu of dividends	**–**	**77,559**	**176,669**
Forfeited during the year	**(1,612,041)**	**(82,787)**	**(443,791)**
Exercised during the year	**(1,728,704)**	**(619,434)**	**(1,184,801)**
Outstanding at 31 December	**9,616,845**	**2,301,915**	**3,600,926**
Exercisable at 31 December	**–**	**–**	**–**
Weighted average remaining contractual life (years)	**1.3**	**1.3**	**1.6**
Weighted average share price at the date of exercise for awards exercised in the year	**262.2**	**256.6**	**242.2**

2021 number of awards	PSP conditional awards	DBP conditional awards	RSP conditional awards
Outstanding at 1 January	9,558,563	2,309,364	3,541,092
Granted during the year	3,007,343	419,895	1,552,832
Awards in lieu of dividends	–	33,175	57,799
Forfeited during the year	(2,331,778)	(34,789)	(369,349)
Exercised during the year	(900,787)	(748,260)	(1,034,709)
Outstanding at 31 December	9,333,341	1,979,385	3,747,665
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.2	1.2	1.5
Weighted average share price at the date of exercise for awards exercised in the year	301.0	298.6	291.6

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 2022 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
1 April 2022	PSP award	**3,624,249**	**256.8**	**33.09%**	**3.0**	**1.40**	**183.0**

For the 66.7% of the PSP awards granted in 2022 subject to non-market conditions and for the DBP and RSP awards granted in 2022, the fair value of the awards is the closing share price on the date of grant.

Cash-settled share-based payment awards

2022 number of awards	SPSP conditional awards	SDBP conditional awards	SRSP conditional awards
Outstanding at 1 January	**8,538,863**	**1,255,815**	**1,480,557**
Granted during the year	**2,750,733**	**605,746**	**499,350**
Awards in lieu of dividends	**–**	**53,384**	**35,299**
Forfeited during the year	**(1,314,076)**	**–**	**(216,919)**
Exercised during the year	**(1,591,987)**	**(316,009)**	**(451,462)**
Outstanding at 31 December	**8,383,533**	**1,598,936**	**1,346,825**
Exercisable at 31 December	**–**	**–**	**–**
Weighted average remaining contractual life (years)	**1.1**	**1.2**	**1.6**
Weighted average share price at the date of exercise for awards exercised in the year	**263.0**	**259.5**	**260.6**

As at 31 December 2022, the Group's liability in respect of outstanding cash-settled share-based payment awards amounted to £21m (2021: £13m). This liability has been recorded within accruals.

2021 number of awards	SPSP conditional awards	SDBP conditional awards	SRSP conditional awards
Outstanding at 1 January	8,876,597	1,067,030	1,348,282
Granted during the year	2,195,668	307,707	426,377
Awards in lieu of dividends	–	15,171	16,861
Forfeited during the year	(1,724,113)	(52,950)	(20,373)
Exercised during the year	(809,289)	(81,143)	(290,590)
Outstanding at 31 December	8,538,863	1,255,815	1,480,557
Exercisable at 31 December	–	–	–
Weighted average remaining contractual life (years)	1.1	1.2	1.4
Weighted average share price at the date of exercise for awards exercised in the year	301.5	298.0	320.2

36 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the financial statements amounted to £5m (2021: £nil) in the Group and £nil (2021: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt in Infrastructure Investments projects which have reached financial close. Refer to Note 41(f).

37 Contingent liabilities

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

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

38 Related party transactions

Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £447m (2021: £325m). 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. Each company was a related party as it was controlled, jointly controlled or under significant influence by a Director of Balfour Beatty plc.

	2022 £m	2021 £m
HMC Architects		
Purchase of services	**3**	2
Amount owed to related parties	**1**	–
Severfield plc		
Purchase of goods and services	**1**	–
Site Assist Software Limited		
Purchase of services	**1**	–

All transactions with these related parties were conducted on normal commercial terms, equivalent to those conducted with external parties. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of amounts owed by related parties.

Compensation of key management personnel of the Company

	2022 £m	2021 £m
Short-term benefits	**3.273**	3.000
Share-based payments	**1.634**	1.750
	4.907	4.750

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 142 to 167.

39 Events after the reporting date

On 3 March 2023, the Group repaid the third tranche of its 2013 US private placement notes amounting to US$209m (£173m). US$50m of these notes remain outstanding and will mature in March 2025.

In the period from 1 January 2023 to 13 March 2023 (the latest practicable date prior to the date of this annual report and accounts), the Company purchased 12.7m ordinary shares, which are held in treasury with no voting rights, for a total consideration of £46m (including stamp duty and fees).

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 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. 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 2021.

In 2022 the Company commenced the second phase of its share buyback programme, which completed on 15 December 2022. The Company purchased 52.0m (2021: 50.3m) shares for a total consideration of £150m (2021: £150m) and held these in treasury with no voting rights. The purchase of these shares, together with associated fees and stamp duty amounting to £1m (2021: £1m), utilised £151m (2021: £151m) of the Company's distributable profits.

On 7 June 2022 and 20 December 2022, the Company cancelled the 50.3m treasury shares and 52.0m treasury shares purchased through the 2021 and 2022 phases of its share buyback programme respectively. These cancellations resulted in decreases in called-up share capital in issue totalling £51m (2021: £nil) and corresponding increases in the capital redemption reserve.

Categories of financial instruments

	Loans and receivables at amortised cost, cash and deposits 2022 £m	**Financial liabilities at amortised cost 2022 £m**	**Financial assets at fair value through OCI 2022 £m**	**Financial assets at amortised cost 2022 £m**	**Financial assets at fair value through P&L 2022 £m**	**Derivatives 2022 £m**	Loans and receivables at amortised cost, cash and deposits 2021 £m	Financial liabilities at amortised cost 2021 £m	Financial assets at fair value through OCI 2021 £m	Financial assets at amortised cost 2021 £m	Financial assets at fair value through P&L 2021 £m	Derivatives 2021 £m
Financial assets												
Fixed rate bonds and treasury stock	–	–	–	**2**	–	–	–	–	–	2	–	–
Mutual funds	–	–	**20**	–	–	–	–	–	24	–	–	–
Other investment assets	–	–	–	**7**	**11**	–	–	–	–	–	9	–
PPP financial assets	–	–	**26**	–	–	–	–	–	30	–	–	–
Cash and deposits	**1,179**	–	–	–	–	–	1,033	–	–	–	–	–
Trade and other receivables	**1,111**	–	–	–	–	–	1,072	–	–	–	–	–
Derivatives	–	–	–	–	–	**1**	–	–	–	–	–	–
Total	**2,290**	–	**46**	**9**	**11**	**1**	2,105	–	54	2	9	–
Financial liabilities												
Bank overdrafts	–	–	–	–	–	–	(34)	–	–	–	–	–
Trade and other payables	–	**(1,638)**	–	–	–	–	–	(1,463)	–	–	–	–
Unsecured borrowings	–	**(345)**	–	–	–	–	–	(192)	–	–	–	–
Infrastructure concessions non-recourse term loans	–	**(261)**	–	–	–	–	–	(260)	–	–	–	–
Derivatives	–	–	–	–	–	**(1)**	–	–	–	–	–	(4)
Total	–	**(2,244)**	–	–	–	**(1)**	(34)	(1,915)	–	–	–	(4)
Net	**2,290**	**(2,244)**	**46**	**9**	**11**	–	2,071	(1,915)	54	2	9	(4)
Current year comprehensive income/(loss) excluding share of joint ventures and associates	**35**	**(30)**	**(6)**	–	**6**	**3**	33	(29)	(17)	–	9	27

40 Financial instruments continued

Derivatives

	Financial assets/(liabilities)			Financial (liabilities)/assets		
	Current 2022 £m	Non-current 2022 £m	Total 2022 £m	Current 2021 £m	Non-current 2021 £m	Total 2021 £m
Fuel hedges						
Held for trading at fair value through income statement	1	–	1	–	–	–
Interest rate swaps						
Designated as cash flow hedges	–	(1)	(1)	(1)	(3)	(4)
	1	(1)	–	(1)	(3)	(4)

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 2022 £m	Other borrowings 2022 £m	Other financial liabilities 2022 £m	Total non-derivative financial liabilities 2022 £m	Discount 2022 £m	Carrying value 2022 £m
Due on demand or within one year	(32)	(173)	(1,503)	(1,708)	2	(1,706)
Due within one to two years	(8)	–	(68)	(76)	–	(76)
Due within two to five years	(26)	(70)	(62)	(158)	1	(157)
Due after more than five years	(385)	(102)	(5)	(492)	187	(305)
	(451)	(345)	(1,638)	(2,434)	190	(2,244)
Discount	190	–	–	190		
Carrying value	(261)	(345)	(1,638)	(2,244)		

	Non-recourse project finance 2021 £m	Other borrowings 2021 £m	Other financial liabilities 2021 £m	Total non-derivative financial liabilities 2021 £m	Discount 2021 £m	Carrying value 2021 £m
Due on demand or within one year	(6)	–	(1,354)	(1,360)	1	(1,359)
Due within one to two years	(33)	(155)	(44)	(232)	1	(231)
Due within two to five years	(24)	(37)	(59)	(120)	1	(119)
Due after more than five years	(393)	–	(6)	(399)	193	(206)
	(456)	(192)	(1,463)	(2,111)	196	(1,915)
Discount	196	–	–	196		
Carrying value	(260)	(192)	(1,463)	(1,915)		

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 2022 £m	Receivable 2022 £m	Net payable 2022 £m	Payable 2021 £m	Receivable 2021 £m	Net payable 2021 £m
Due on demand or within one year	(11)	11	–	(26)	25	(1)
Due within one to two years	(5)	5	–	(2)	1	(1)
Due within two to five years	–	–	–	(6)	4	(2)
Due after more than five years	–	–	–	(1)	–	(1)
Total	(16)	16	–	(35)	30	(5)

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 business units 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 business unit; 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 2021.

(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 business units 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 business units to cover 100% of foreign exchange risk above materiality levels determined by the Chief Financial Officer.

As at 31 December 2022, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £16m (2021: £31m) receivable and £16m (2021: £31m) payable with related cash flows expected to occur within three years (2021: three years). The foreign exchange gains or losses resulting from fair valuing these unhedged foreign exchange contracts will affect the income statement throughout the same periods.

The Group has not designated any forward exchange contracts as cash flow hedges in 2021 and 2022.

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 June 2022 the Group raised US$158m of debt in the form of new US private placement (USPP) notes on terms and conditions materially the same as the existing USPP notes raised in 2013, of which US$259m remained outstanding at 31 December 2022. The USPP notes are designated as a net investment hedge against changes in the value of the Group's US net assets due to exchange movements. The Group reassessed the US$417m hedge at 31 December 2022 and concluded that the hedge continued to be effective. Exchange movements in the year totalled £23m (2021: £3m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a £16m decrease (2021: £9m)/£18m increase (2021: £10m) 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 policy since 2021.

(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 2022 and 2021, 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 2022 totalled £17m (2021: £17m) with maturities that match the maturity of the underlying borrowings of 9 years.

At 31 December 2022, the fixed interest rate was 5.1% (2021: 5.1%) and the principal floating rates are LIBOR plus a fixed margin. In 2022, the Group replaced LIBOR with SONIA plus a credit adjustment spread. No material impact arose from this transition.

A 50 basis point increase/decrease in the interest rate on floating rate borrowings for interest rate swaps would lead to a £nil increase (2021: £1m)/£nil decrease (2021: £1m) 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 £6m decrease (2021: £5m)/£6m increase (2021: £5m) in the Group's net finance cost.

40 Financial instruments continued

Financial risk factors continued

(a) Market risk continued

(iii) Price risk management
The Group's principal price risk exposure arises in its Infrastructure Investments concessions. At the commencement of the concession, an element of the unitary payment by the customer is indexed to offset the effect of inflation on the concession's costs. The Group is exposed to price risk to the extent that inflation differs from the index used.

(b) Credit risk
Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and deposits, derivative financial instruments, loans provided to joint ventures and associates and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions set by the Board for the Group.

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 2022 and 31 December 2021, 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 for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables, credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer. As such, the Group does not expect material credit losses to occur on balances owed to the Group by its public or regulated customers. This is in line with the Group's experience in the past of recovering balances owed by these customers.

The Group is exposed to credit risk on loans provided to joint ventures and associates and accrued interest on those loans, as the repayment of these amounts is contingent on the performance of the underlying concession or operation. In the Infrastructure Investments segment the concessions are typically financed by a combination of non-recourse external borrowings and subordinated loans provided by the joint venture partners. The Group assesses any expected credit losses on its loans provided to joint ventures and associates by comparing the carrying value of the relevant investment in joint venture or associate balance (which includes the loans provided and any accrued interest) to future cash flows expected to be received from the joint venture or associate, discounted where appropriate.

The maximum exposure to credit risk in respect of the above at the reporting date is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

There has been no material change to the Group's exposure to credit risks and there has been no change in how the Group manages those risks since 2021.

(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 236.

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 2021.

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 2022 or 2021.

Level 1 – The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

The Group holds investments in mutual funds measured at fair value through OCI which are traded in active markets and valued at the closing market price at the reporting date.

Level 2 – The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising yield curves at the reporting date and taking into account own credit risk. Own credit risk for Infrastructure Investments' swaps is not material and is calculated using the following credit valuation adjustment (CVA) calculation: loss given default multiplied by exposure multiplied by probability of default.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts. Own credit risk for the other derivative liabilities is not material and is calculated by applying a relevant credit default swap (CDS) rate obtained from a third party.

Level 3 – The fair value is based on unobservable inputs.

The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin by reference to the construction margin on non-PPP projects reflecting the construction risks retained by the construction contractor, and fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets, with market-related movements in fair value recognised in other comprehensive income and other movements recognised in the income statement. Amounts originally recognised in other comprehensive income are transferred to the income statement upon disposal of the asset.

A change in the discount rate would have a significant effect on the value of the asset and a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £1m decrease (2021: £1m)/£1m increase (2021: £1m) in the fair value of the assets taken through equity. Refer to Note 21 for a reconciliation of the movement from the opening balance to the closing balance.

40 Financial instruments continued

Financial risk factors continued

(c) Liquidity risk continued

Fair value estimation continued

For PPP financial assets held in joint ventures and associates, a change in the discount rate by a 50 basis point increase/decrease, which represents management's assessment of a reasonably possible change in the risk-adjusted discount rate, would lead to a £28m decrease (2021: £40m)/£29m increase (2021: £43m) in the fair value of the assets taken through equity within the share of joint ventures' and associates' reserves.

	2022				2021			
Financial instruments at fair value	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments in mutual fund financial assets	**20**	**–**	**–**	**20**	24	–	–	24
PPP financial assets	**–**	**–**	**26**	**26**	–	–	30	30
Other investment assets	**–**	**–**	**11**	**11**	–	–	9	9
Financial assets – fuel hedges	**–**	**1**	**–**	**1**	–	–	–	–
Total assets measured at fair value	**20**	**1**	**37**	**58**	24	–	39	63
Financial liabilities – infrastructure concessions interest rate swaps	**–**	**(1)**	**–**	**(1)**	–	(4)	–	(4)
Total liabilities measured at fair value	**–**	**(1)**	**–**	**(1)**	–	(4)	–	(4)

41 Principal subsidiaries, joint ventures and associates

(a) Principal subsidiaries

	Country of incorporation or registration
Construction and support services	
Balfour Beatty Group Ltd	
Balfour Beatty Construction Group Inc	US
Balfour Beatty Infrastructure Inc	US
Infrastructure Investments	
Balfour Beatty Communities LLC	US
Balfour Beatty Infrastructure Investments Ltd*	
Balfour Beatty Investments Inc	US
Balfour Beatty Campus Solutions LLC	US
Balfour Beatty Investments, LP	Canada
Balfour Beatty Communities, LP	Canada
Other	
Balfour Beatty Holdings Inc.	US

(b) Principal joint ventures and associates

	Country of incorporation or registration	Ownership interest %
Construction and support services		
Gammon China Ltd	Hong Kong	50.0
Infrastructure Investments (Note 41)		
Connect Plus (M25) Ltd		15.0

(c) Principal joint operations

The Group carries out a number of its larger contracts in joint arrangements with other contractors so as to share resources and risk. The principal joint projects in progress during the year are shown below.

	Country of incorporation or registration	Ownership interest %
M25 Maintenance		52.5
M4 Junction 3–12		60.0
HS2 – Area North		50.0
Central Rail Systems Alliance		80.0
Old Oak Common		42.0
Skanska/Balfour Beatty	US	50.0
Driscoll/Balfour Beatty	US	35.0
Greenline Extension	US	25.0
LAX Integrated Express Solutions	US	30.0
LBJ East	US	45.0

Notes

(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.

(ii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales and the principal operations of each company are conducted in the country of incorporation.

* Indicates held directly by Balfour Beatty plc.

A full list of the Group's related undertakings is included in Note 43.

41 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK

Roads

Balfour Beatty is a promoter, developer and investor in 12 road and street lighting projects to construct new roads, to upgrade and maintain existing roads and to replace and maintain street lighting. The principal contract is the project agreement with the governmental highway authority. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Connect M1-A1 Ltd	30km road	290	20%	JV	March 1996	30	1999
Connect A50 Ltd	57km road	42	25%	JV	May 1996	30	1998
Connect A30/A35 Ltd	102km road	127	20%	JV	July 1996	30	2000
Connect M77/GSO plc (ii)	25km road	167	85%	JV	May 2003	32	2005
Connect Roads Sunderland Ltd	Streetlighting	27	20%	JV	August 2003	25	2008
Connect Roads South Tyneside Ltd	Streetlighting	28	20%	JV	December 2005	25	2010
Connect Roads Derby Ltd	Streetlighting	36	100%	Subsidiary	April 2007	25	2012
Connect Plus (M25) Ltd	J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	1,309	15%	JV	May 2009	30	2012
Connect CNDR Ltd	Carlisle Northern Development Route	176	25%	JV	July 2009	30	2012
Connect Roads Coventry Ltd	Streetlighting	56	20%	JV	August 2010	25	2015
Connect Roads Cambridgeshire Ltd	Streetlighting	51	20%	JV	April 2011	25	2016
Connect Roads Northamptonshire Ltd	Streetlighting	64	20%	JV	August 2011	25	2016

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Connect M77/GSO plc which is registered, and conducts their principal operations, in Scotland.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

Healthcare

Balfour Beatty is a promoter, developer and investor in two healthcare projects to build hospital accommodation and to provide certain non-medical facilities management services over the concession period. The principal contract for Birmingham is the project agreement between the concession company and the NHS Trust and for the Irish primary care centres, the project agreement is with the Irish Government. All assets transfer to the customer at the end of the concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	553	40%	JV	June 2006	40	2011
Healthcare Centres PPP Ltd	Primary health care centres	158	40%	JV	May 2016	26	2019

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Healthcare Centres PPP Ltd which is registered, and conducts its principal operations, in Ireland.

Student accommodation

Balfour Beatty is a promoter, developer and investor in four student accommodation projects. On Holyrood, Sussex and Aberystwyth, the principal agreement is between the concession company and the university and the assets transfer to the customer at the end of the concession. On Glasgow Residences the building is owned outright by Balfour Beatty and rooms are 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) LLP	Glasgow	40	100%	Subsidiary	April 2016	n/a	2017
East Slope Residencies Student Accommodation LLP	Sussex	218	80%	Subsidiary	March 2017	50	2020

Note

(i) Registered in England and Wales and the principal operations of each company are in England and Wales, except Holyrood Student Accommodation SPV Ltd and Glasgow Residences (Kennedy Street) LLP which are registered, and conduct their principal operations, in Scotland.

41 Principal subsidiaries, joint ventures and associates continued

(d) Balfour Beatty Investments UK continued

Other concessions

Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency to maintain a shingle bank sea defence in East Sussex. UBB Waste (Gloucestershire) Ltd has a contract with the local authority to design, build and operate a sustainable waste treatment facility. Thanet involves the operation of transmission assets for the 300MW offshore wind farm project located off the Kent coast. Gwynt y Môr involves the operation of transmission assets for the 576MW offshore wind farm in the Irish Sea. Humber involves the operation of transmission assets for the 219MW offshore wind farm in the North Sea. Thanet, Gwynt y Môr and Humber operate and maintain the transmission assets under the terms of perpetual licences granted by Ofgem which contain the right to be paid a revenue stream over a 20-year period on an availability basis. Welland Bio Power involves the design, construction, financing, operation and maintenance of a 10.4MW waste wood gasifier located at Pebble Hall Farm, Thredingworth. The East Wick and Sweetwater development is a London Legacy Development Corporation project, being carried out in phases, which will result in the creation of two communities, East Wick and Sweetwater, at the Queen Elizabeth Olympic Park in London. With the exception of the Welland Bio Power plant and the Eastwick and Sweetwater project, all assets transfer to the customer at the end of the relevant concession.

Concession company (i)	Project	Total debt and equity funding £m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Pevensey Coastal Defence Ltd	Sea defences	3	25%	JV	July 2000	25	n/a
East Wick and Sweetwater Projects (Phase 1) Ltd	Property development	99	50%	JV	January 2019	3	2021
UBB Waste (Gloucestershire) Ltd	Waste processing plant	223	49.5%	Associate	January 2016	25	2019
Thanet OFTO Ltd	Offshore transmission	197	20%	JV	December 2014	20	n/a
Gwynt y Môr OFTO plc (ii)	Offshore transmission	256	60%	JV	February 2015	20	n/a
Welland Bio Power Ltd	Waste wood gasifier	17	29.2%	JV	March 2015	n/a	2018
Humber Gateway OFTO Ltd	Offshore transmission	187	20%	JV	September 2016	20	n/a

Notes

(i) Registered in England and Wales and the principal operations of each company are in England and Wales.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors consider that the Group does not control this company and it has been accounted for as a joint venture.

(e) Balfour Beatty Investments North America

Military housing

Summary Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 55 US Government military bases which includes 55 military family housing communities and one unaccompanied personnel housing community that are expected to contain approximately 43,000 housing units once development, construction and renovation are complete.

The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), seven projects with the United States Department of the Air Force (Air Force) and two projects with the United States Department of the Navy (Navy). In addition, there is one unaccompanied personnel housing (UPH) project with the Army at Fort Stewart.

Contractual arrangements The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. With respect to Army and Navy projects, the Government becomes a member or partner of the project entity (Project LLC); the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, however it contributes a commitment to provide a Government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC. On each project, the Project LLC enters into a ground lease with the Government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management, renovation, and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, could potentially extend for up to an additional 25 years. The 50-year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the Government.

Preferred returns The projects will typically receive, to the extent that adequate funds are available, an annual minimum preferred return. On most existing projects, this annual minimum preferred return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project.

41 Principal subsidiaries, joint ventures and associates continued

Military housing continued

(e) Balfour Beatty Investments North America continued

Allocation of remaining operating cash flow Operating cash flow remaining after the annual minimum preferred return is paid is shared between Balfour Beatty Communities and the reinvestment account held by the project for the benefit of the Government. On most of the existing projects, the total amount that Balfour Beatty Communities is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these caps have ranged between approximately 9% to 18% depending on the particular project and the type of return (annual modified rates of return or cash-on-cash). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capped return generally will include the annual minimum preferred return. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military service.

Return of equity Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the applicable military service.

Military concession company (i)	Projects	Total project funding US$m	Financial close	Duration years	Construction completion
Military family housing					
Fort Carson Family Housing LLC	Army base	176	November 2003	46	2004
– Fort Carson expansion		130	November 2006	43	2010
– Fort Carson GTA expansion		99	April 2010	39	2013
– Fort Carson GTA II expansion		68	June 2015	34	2018
Stewart Hunter Housing LLC	Two Army bases	374	November 2003	50	2012
Fort Hamilton Housing LLC	Army base	61	June 2004	50	2009
Fort Detrick/Walter Reed Army Medical Center Housing LLC	Two Army bases	112	July 2004	50	2008
Northeast Housing LLC	Seven Navy bases	496	November 2004	50	2010
Fort Eustis/Fort Story Housing LLC	Two Army bases	175	March 2005	50	2011
– Fort Eustis expansion		8	July 2010	45	2011
– Fort Eustis – Marseilles Village		26	March 2013	42	2015
Fort Bliss/White Sands Missile Range Housing LP	Two Army bases	427	July 2005	50	2011
– Fort Bliss expansion		46	December 2009	46	2011
– Fort Bliss GTA expansion phase I		156	July 2011	44	2014
– Fort Bliss GTA expansion phase II		146	November 2012	43	2016
Fort Gordon Housing LLC	Army base	109	May 2006	50	2012
Carlisle/Picatinny Family Housing LP	Two Army bases	84	July 2006	50	2011
– Carlisle Heritage Heights phase II		21	October 2012	44	2014
AETC Housing LP	Four Air Force bases	359	February 2007	50	2012
Southeast Housing LLC	11 Navy bases	558	November 2007	50	2013
Vandenberg Housing LP	Air Force base	155	November 2007	50	2012
Leonard Wood Family Communities LLC	Army base	231	Acquired June 2008	47	2014
AMC West Housing LP	Three Air Force bases	428	July 2008	50	2015
West Point Housing LLC	Army base	220	August 2008	50	2016
Fort Jackson Housing LLC	Army base	181	October 2008	50	2013
Lackland Family Housing LLC	Air Force base	105	Acquired December 2008	50	2013
Western Group Housing LP	Four Air Force bases	328	March 2012	50	2017
Northern Group Housing LLC	Six Air Force bases	427	August 2013	50	2019
ACC Group Housing LLC	Two Air Force bases	56	June 2014	50	2018
Military unaccompanied personnel housing					
Stewart Hunter Housing LLC		36	January 2008	50	2010

Note

(i) Registered in the US and the principal operations of each project are conducted in the US.

The Group evaluated each of its interests in the military housing projects to determine if the entities should be consolidated. This analysis included, but was not limited to, identifying the activities that most significantly impact an entity's economic performance, which party or parties control those activities and the risks associated with these entities. Decision-making power over key facets of the contracts was evaluated when determining which party or parties had control over the activities that most significantly impacted a project's economics. Based on this review, the Directors consider that the Group does not have the power to direct these activities and does not have control and therefore the Group does not consolidate the military housing projects and accounts for these projects as investments in associates.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Aviation

Summary Balfour Beatty is a developer, operator and investor in an automated people mover at Los Angeles International 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 airport authority. All assets transfer to the authority at the end of the concession.

Concession company	Project	Total project funding US$m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
LAX Integrated Express Solutions LLC (i)	LINXS	2,649	27%	JV	June 2018	30	2024

Note

(i) Registered in the US and the principal operations of the project are conducted in the US.

Residential investments

Summary Balfour Beatty is a developer, operator and investor in nine multifamily residential projects.

Contractual arrangements Balfour Beatty has formed joint ventures to acquire residential apartment buildings for nine multifamily residential projects. For all residential projects, the joint ventures entered into agreements with Balfour Beatty Communities LLC to perform the operations and renovation work.

Residential investments (i)	Total project funding US$m	Shareholding	Method of accounting	Financial close	Renovation completion
Carolina Cove (Wilmington) Owner LLC (North Carolina)	48	50%	JV	December 2017	2022
Lexington (Ridgeland) Owner, LLC (Jackson, Mississippi)	27	50%	JV	August 2018	2025
Landings (Jacksonville) Owner, LLC (Florida)	48	50%	JV	August 2019	2025
Retreat at Schillinger (Mobile) Owner, LLC (Alabama)	33	50%	JV	December 2019	2026
Paces Brook (Columbia) Owner, LLC (South Carolina)	27	50%	JV	December 2019	2026
Chenal Pointe (Little Rock) Owner, LLC (Arkansas)	34	50%	JV	October 2020	2027
Moretti (Homewood) Owner, LLC (Alabama)	33	50%	JV	December 2020	2027
San Mateo (Kissimmee) Owner, LLC (Florida)	81	50%	JV	August 2021	2027
View SA LLC (San Antonio, Texas)(ii)	76	87%	JV	June 2022	2025

Notes

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) Due to the shareholders'/partnership agreement between Balfour Beatty and the other shareholder/partner requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this undertaking, the Directors consider that the Group does not control this undertaking and it has been accounted for as a joint venture.

41 Principal subsidiaries, joint ventures and associates continued

(e) Balfour Beatty Investments North America continued

Student accommodation

Summary Balfour Beatty is also a developer and owner of five student accommodation projects.

Contractual arrangements The principal contracts in the student accommodation projects are the ground leases, development leases and operating agreements with the state universities setting out the obligations for the construction, operation and maintenance of the student accommodation including lifecycle replacement during the concession period.

Concession company (i)	Total project funding US$m	Shareholding	Method of accounting	Financial close	Duration years	Construction completion
Northside Campus Partners LP (Texas Dallas)	54	10%	JV	March 2015	61	2016
Northside Campus Partners 2, LP (Texas Dallas)	67	10%	JV	February 2017	61	2018
Northside Campus Partners 3, LP (Texas Dallas) (ii)	36	70%	JV	June 2019	61	2020
Northside Campus Partners 4, LP (Texas Dallas) (ii)	70	65%	JV	December 2019	61	2021
Swiftsure Housing Partners, LLC (Vanderbilt)	153	23%	JV	April 2021	45	2023

Notes

(i) Registered in the US and the principal operations of each project are conducted in the US.

(ii) Due to the shareholders'/partnership agreement between Balfour Beatty and the other shareholder/partner requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this undertaking, the Directors consider that the Group does not control this undertaking and it has been accounted for as a joint venture.

(f) Balfour Beatty Investments UK and North America

Total future committed equity and debt funding for Infrastructure Investments' project companies

Concessions	2023 £m	2024 £m	2025 £m	2026 onwards £m	Total £m
UK					
Student accommodation	–	–	–	50	50
Other concessions	5	–	–	–	5
	5	–	–	50	55
North America					
Aviation	–	23	–	–	23
Multifamily housing	2	–	–	–	2
Student accommodation	3	–	–	–	3
	5	23	–	–	28
	10	23	–	50	83
Projects at financial close	5	23	–	–	28
Projects at preferred bidder stage	5	–	–	50	55
Total	10	23	–	50	83

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 2022

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 2022 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 2022 and are wholly owned and consolidated into the Group's results, except where indicated.

Subsidiary undertakings incorporated in the United Kingdom

Entity	Principal activity
Q14 Quorum Business Park, Benton Lane, Newcastle upon Tyne NE12 8BU	
Aberystwyth Student Accommodation Ltd	Infrastructure Concession
Balfour Beatty Infrastructure Investments Ltd [i]	Investment Holding Company
Balfour Beatty Infrastructure Partners Member Ltd	Investment Holding Company
Balfour Beatty Infrastructure Projects Investments Ltd	Investment Holding Company
Balfour Beatty Investments Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty OFTO Holdings Ltd	Investment Holding Company
Balfour Beatty Rail Corporate Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty WorkSmart Ltd	Agent of Balfour Beatty Group Ltd
BBI Holdings Australia Ltd	Investment Holding Company
BBPF LLP [iii]	Investment Partnership
Connect Roads Derby Holdings Ltd	Investment Holding Company
Connect Roads Derby Ltd	Infrastructure Concession
Connect Roads Infrastructure Investments Ltd	Investment Holding Company
Consort Healthcare Infrastructure Investments Ltd	Investment Holding Company
East Slope Residencies Facilities Management Ltd	Infrastructure Concession
East Slope Residencies Holdings Ltd	Investment Holding Company
East Slope Residencies Partner Ltd	Infrastructure Concession
East Slope Residencies plc [ii]	Infrastructure Concession
East Slope Residencies Student Accommodation LLP [ii] [iii]	Infrastructure Concession
Education Investments Holdings Ltd	Investment Holding Company
Initial GP1 Ltd	Investment Holding Company
Manchester Residences (New Cross) Ltd	Infrastructure Concession
South Cambridgeshire Investments Holdings Ltd	Investment Holding Company
West Stratford Developments Ltd [iv]	Investment Holding Company
5 Churchill Place, Canary Wharf, London E14 5HU	
Avatar Ltd	Dormant
Balfour Beatty Build Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Building Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty CE Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Civils Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Const Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction (SW) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Northern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Engineering Services (HY) Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Group Employment Ltd	Employer For UK Workforce
Balfour Beatty Group Ltd	Construction & Support Services
Balfour Beatty Homes Ltd	Agent of Manring Homes Ltd
Balfour Beatty International Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Investment Holdings Ltd [i]	Investment Holding Company
Balfour Beatty Management Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Nominees Ltd	Nominee Company
Balfour Beatty Overseas Investments Ltd	Investment Holding Company
Balfour Beatty Overseas Ltd	Investment Holding Company
Balfour Beatty Property Ltd [i]	Agent of Balfour Beatty plc
Balfour Beatty Rail Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Projects Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Technologies Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Track Systems Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Refurbishment Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Utility Solutions Ltd	Agent of Balfour Beatty Group Ltd
Balfour Kilpatrick Ltd	Dormant
BB Indonesia Ltd	Support Services
Balvac Ltd	Agent of Balfour Beatty Group Ltd
Bical Construction Ltd	Agent of Balfour Beatty Group Ltd
Bignell & Associates Ltd	Agent of Balfour Beatty Group Ltd
Birse Group Ltd	Investment Holding Company
Birse Metro Ltd	Dormant
Bnoms Ltd [i]	Nominee Company

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2022 continued

Subsidiary undertakings incorporated in the United Kingdom

Entity	Principal activity
BPH Equipment Ltd	Agent of Balfour Beatty Group Ltd
Cowlin Group Ltd	Dormant
Devonshire House Dormant Three Limited	Dormant
Guinea Investments Ltd	Investment Holding Company
Haden Building Services Ltd	Dormant
Haden Young Ltd (i)	Dormant
Hall & Tawse Western Ltd	Dormant
Laser Rail Ltd	Agent of Balfour Beatty Group Ltd
Lounsdale Electric Ltd	Dormant
Manring Homes Ltd (i)	Property Investment
Multibuild (Construction & Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Office Projects (Interiors) Ltd	Agent of Balfour Beatty Group Ltd
Omnicom Engineering Ltd	Dormant
Raynesway Construction Ltd	Agent of Balfour Beatty Group Ltd
Strata Construction Ltd	Dormant
Hereford Steel Works, Holmer Road, Hereford HR4 9SW	
Painter Brothers Ltd	Agent of Balfour Beatty Group Ltd
Kings Business Park, Kings Drive, Prescot, Merseyside L34 1PJ	
Balfour Beatty Pension Trust Ltd (i)	Pension Fund Trustee
C/O Mc Griggors LLP, Arnott House, 12–16 Bridge Street, Belfast BT1 1LS, Northern Ireland	
Balfour Kilpatrick Northern Ireland Ltd	Dormant
The Curve Building, Axis Business Park, Hurricane Way, Langley, Berkshire SL3 8AG	
Balfour Beatty Ground Engineering Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Infrastructure Services Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Living Places Ltd	Agent of Balfour Beatty Group Ltd
Sunderland Streetlighting Ltd	Agent of Balfour Beatty Group Ltd
Testing and Analysis Ltd	Agent of Balfour Beatty Group Ltd
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ	
Balfour Beatty Construction Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Construction Scottish & Southern Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Kilpatrick Limited	Agent of Balfour Beatty Group Ltd
Balfour Beatty Rail Residuary Ltd	Agent of Balfour Beatty Group Ltd
Balfour Beatty Regional Civil Engineering Ltd	Agent of Balfour Beatty Group Ltd
BBPFS LP (iii)	Investment Partnership
Glasgow Residences (Kennedy Street) Holdings Ltd	Investment Holding Company
Glasgow Residences (Kennedy Street) LLP (iii)	Infrastructure Concession
Glasgow Residences (Kennedy Street) SPV Ltd	Infrastructure Concession
Hall & Tawse Ltd	Dormant
Initial Founder Partner GP1 Ltd	Investment Holding Company
Midmill Business Park, Tumulus Way, Kintore, Aberdeenshire AB51 0TG	
Balfour Beatty Engineering Services (CL) Ltd	Agent of Balfour Beatty Group Ltd
C/O Mazars, Tower Bridge House, St Katharine's Way, London E1W 1DD	
Balfour Beatty Power Construction Ltd	Dormant
Birse Construction Ltd	Investment Holding Company – In Liquidation
Edgar Allen Engineering Ltd	Dormant – In Liquidation
Mansell Maintenance Limited	Dormant – In Liquidation
Mansell plc	Investment Holding Company – In Liquidation
West Service Road, Raynesway, Derby DE21 7BG	
Balfour Beatty Plant & Fleet Services Ltd	Agent of Balfour Beatty Group Ltd
C/O Mazars LLP, 100 Queen Street, Glasgow G1 3DN Scotland	
Balfour Beatty Engineering Services (LEL) Ltd	Dormant – In Liquidation
Lumina Building, 40 Ainslie Road, Hillington Park, Glasgow G52 4RU	
Shaw-Petrie Limited	Dormant
42-44 Clarendon Road, Watford, Hertfordshire WD17 1DR	
Barlow & Young, Limited	Dormant
Haden International Ltd	Dormant
Fourth Floor, 130 Wilton Road, London SW1V 1LQ	
00158345 Ltd	Dormant
01198171 Ltd	Dormant
BICC Dormant One Limited	Dormant
Devonshire House Dormant One Limited	Dormant
Third Floor Devonshire House, Mayfair Place, London W1X 5FH	
BICC Thermoheat Limited	Dormant

Notes

(i) Held directly by Balfour Beatty plc.

(ii) 80% owned.

(iii) Partnership interests held.

(iv) 31 March year end.

Subsidiary undertakings incorporated outside the United Kingdom

Entity	Principal activity
Australia	
Allens Corporate Services Pty Limited, Level 33, 101 Collins Street, Melbourne, Victoria, 3000	
Balfour Beatty Australian Limited Partnership (ii)	Holding company
Allens, Level 5, Deutsche Bank Place, 126-130 Phillip Street NSW 2000, Australia	
Balfour Beatty Australia Pty Ltd	Construction & Support Services
Bahamas	
The Alexander Corporate Group Limited, One Millars Court, P.O. Box N-7117, Nassau	
Balfour Beatty Bahamas Ltd	Dormant
Canada	
Borden Ladner Gervais LLP, 22 Adelaide Street West, Suite 3400, Toronto, ON, M5H 4E3	
BB Group Canada Inc	Investment Holding Company

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2022 continued

Subsidiary undertakings incorporated outside the United Kingdom continued

Entity	Principal activity
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg, MB, R3C 4K5	
Balfour Beatty Communities GP, Inc	Infrastructure Investment
Balfour Beatty Communities, LP [ii]	Infrastructure Investment
Balfour Beatty Construction, LP [ii]	Construction Services
Balfour Beatty Construction GP, Inc	Construction Services
Balfour Beatty Investments GP, Inc	Infrastructure Investment
Balfour Beatty Investments, LP [ii]	Infrastructure Investment
BB NIH GP, Inc	Infrastructure Investment
Germany	
Garmischer Strasse 35, 81373 Munich	
Balfour Beatty Rail GmbH	Construction Services, Dormant
BICC Holdings GmbH	Investment Holding Company, Dormant
Schreck-Mieves GmbH	Dormant
Hong Kong	
5/F, Manulife Place348 Kwun Tong Road Kowloon Hong Kong	
Balfour Beatty Hong Kong Ltd	Construction & 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
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 - In Liquidation
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

Entity	Principal activity
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
Balfour Beatty Investments, Inc	Investment Company
Balfour Beatty Management Inc	Business Services
Balfour Beatty/Benham Military Communities LLC [v]	Infrastructure Investment
Balfour Beatty/PHELPS Military Communities LLC [iv]	Infrastructure Investment
Balfour Beatty Military Housing Development LLC	Infrastructure Investment
Balfour Beatty Military Housing Investments LLC	Investment Holding Company
Balfour Beatty Military Housing Management LLC	Infrastructure Investment
Balfour Beatty – Worthgroup, LLC	Construction Services
BBC AF Housing Construction LLC	Infrastructure Investment
BBC AF Management/Development LLC	Infrastructure Investment
BBC Independent Member I, Inc	Infrastructure Investment
BBC Independent Member II, Inc	Infrastructure Investment
BBC Military Housing – ACC Group, LLC	Infrastructure Investment
BBC Military Housing – AETC General Partner LLC [iii]	Infrastructure Investment
BBC Military Housing – AETC Limited Partner LLC [iii]	Infrastructure Investment
BBC Military Housing – AMC General Partner LLC	Infrastructure Investment
BBC Military Housing – AMC Limited Partner LLC	Infrastructure Investment
BBC Military Housing – Bliss/WSMR General Partner LLC	Infrastructure Investment
BBC Military Housing – Bliss/WSMR Limited Partner LLC	Infrastructure Investment
BBC Military Housing – Carlisle/ Picatinny General Partner LLC	Infrastructure Investment
BBC Military Housing – Carlisle/ Picatinny Limited Partner LLC	Infrastructure Investment
BBC Military Housing – FDWR LLC [v]	Infrastructure Investment
BBC Military Housing – Fort Carson LLC	Infrastructure Investment
BBC Military Housing – Fort Gordon LLC	Infrastructure Investment
BBC Military Housing – Fort Hamilton LLC	Infrastructure Investment
BBC Military Housing – Fort Jackson LLC	Infrastructure Investment
BBC Military Housing – Hampton Roads LLC	Infrastructure Investment
BBC Military Housing – Lackland LLC	Infrastructure Investment
BBC Military Housing – Leonard Wood LLC	Infrastructure Investment
BBC Military Housing – Navy Northeast LLC [v]	Infrastructure Investment
BBC Military Housing – Navy Southeast LLC	Infrastructure Investment

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2022 continued

Subsidiary undertakings incorporated outside the United Kingdom continued

Entity	Principal activity
BBC Military Housing – Northern Group, LLC	Infrastructure Investment
BBC Military Housing – Stewart Hunter LLC	Infrastructure Investment
BBC Military Housing – Vandenberg General Partner LLC (v)	Infrastructure Investment
BBC Military Housing – Vandenberg Limited Partner LLC (v)	Infrastructure Investment
BBC Military Housing – West Point LLC	Infrastructure Investment
BBC Military Housing – Western General Partner, LLC	Infrastructure Investment
BBC Military Housing – Western Limited Partner, LLC	Infrastructure Investment
BBC Multifamily Holdings, LLC	Infrastructure Investment
BBCS – Northside Campus LLC	Infrastructure Investment
BBCS Development, LLC	Infrastructure Investment
BICC Cables Corporation	Business Services
Corporation Service Company, 300 Deschutes Way SW, Suite 304, Tumwater WA 98501	
Howard S. Wright Construction Co	Construction Services
HSW, Inc	Construction Services
CSC – Nevada, C/O CSC Services of Nevada, Inc., 502 East John Street Carson City, Nevada 89706	
Balfour Beatty-Golden Construction Company	Construction Services
Balfour Beatty Construction Company, Inc	Construction Services
Balfour Beatty Construction Group, Inc	Construction Services

Notes

(i) Held directly by Balfour Beatty plc.

(ii) Partnership interests held.

(iii) 80% interest held.

(iv) 89% interest held.

(v) 90% interest held.

Joint ventures incorporated in the United Kingdom

Entity	% held by the Group	Principal activity
Q14 Quorum Business Park, Benton Lane, Newcastle Upon Tyne, England, England, NE12 8BU		
BBDE Orbital Holdings, LLP (iii) (v)	37.5	Investment Holding Company
Connect A30/A35 Holdings Ltd (iv)	20	Investment Holding Company
Connect A30/A35 Ltd (iv)	20	Infrastructure Concession
Connect A50 Ltd (iv)	25	Infrastructure Concession
Connect CNDR Holdings Ltd (iv)	25	Investment Holding Company
Connect CNDR Intermediate Ltd (iv)	25	Infrastructure Concession
Connect CNDR Ltd (iv)	25	Infrastructure Concession
Connect M1-A1 Holdings Ltd (i) (iv)	20	Investment Holding Company
Connect M1-A1 Ltd (iv)	20	Infrastructure Concession
Connect M77/GSO Holdings Ltd (ii) (iv)	85	Investment Holding Company
Connect M77/GSO plc (ii) (iv)	85	Infrastructure Concession
Connect Roads Cambridgeshire Holdings Ltd	20	Investment Holding Company
Connect Roads Cambridgeshire Intermediate Ltd	20	Infrastructure Concession
Connect Roads Cambridgeshire Ltd	20	Infrastructure Concession
Connect Roads Coventry Holdings Ltd	20	Investment Holding Company
Connect Roads Coventry Intermediate Ltd	20	Infrastructure Concession
Connect Roads Coventry Ltd	20	Infrastructure Concession
Connect Roads Ltd (iv)	25	Investment Holding Company
Connect Roads Northamptonshire Holdings Ltd	20	Investment Holding Company
Connect Roads Northamptonshire Intermediate Ltd	20	Infrastructure Concession
Connect Roads Northamptonshire Ltd	20	Infrastructure Concession
Connect Roads South Tyneside Holdings Ltd	20	Investment Holding Company
Connect Roads South Tyneside Ltd	20	Infrastructure Concession
Connect Roads Sunderland Holdings Ltd	20	Investment Holding Company
Connect Roads Sunderland Ltd	20	Infrastructure Concession
East Wick and Sweetwater Projects (Holdings) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 1) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 2) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 3) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 4) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 5) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 7A) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Projects (Phase 7) Ltd (iv)	50	Infrastructure Concession
East Wick and Sweetwater Finance (Holdings) Ltd (iv)	50	Investment Holding Company
East Wick and Sweetwater Projects (Finance) Ltd (iv)	50	Infrastructure Concession
Gwynt y Mor OFTO Holdings Ltd (ii) (iv)	60	Investment Holding Company
Gwynt y Mor OFTO Intermediate Ltd (ii) (iv)	60	Infrastructure Concession
Gwynt y Mor OFTO plc (ii) (iv)	60	Infrastructure Concession
Humber Gateway OFTO Holdings Ltd (iv)	20	Investment Holding Company
Humber Gateway OFTO Intermediate Ltd (iv)	20	Infrastructure Concession
Humber Gateway OFTO Ltd (iv)	20	Infrastructure Concession
South Cambridgeshire Projects LLP (v)	50	Infrastructure Concession
Thanet OFTO Holdco Ltd (iv)	20	Investment Holding Company
Thanet OFTO Intermediate Ltd (iv)	20	Infrastructure Concession
Thanet OFTO Ltd (iv)	20	Infrastructure Concession

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2022 continued

Joint ventures incorporated in the United Kingdom continued

Entity	% held by the Group	Principal activity
Blythe House, Blythe Park, Cresswell, Stoke on Trent, Staffordshire ST11 9RD		
Tyseley Bio Power Ltd	37.5	Investment Holding Company
Connect Plus House, St Albans Road, South Mimms, Hertfordshire EN6 3NP		
Connect Plus (M25) Holdings Ltd[iii][iv]	15	Investment Holding Company
Connect Plus (M25) Intermediate Ltd[iii][iv]	15	Infrastructure Concession
Connect Plus (M25) Issuer plc[iii][iv]	15	Infrastructure Concession
Connect Plus (M25) Ltd[iii][iv]	15	Infrastructure Concession
Maxim 7, Maxim Office Park, Parklands Avenue, Eurocentral, Holytown ML1 4WQ		
Holyrood Holdings Ltd	20	Investment Holding Company
Holyrood Student Accommodation Holdings Ltd	20	Infrastructure Concession
Holyrood Student Accommodation Intermediate Ltd	20	Infrastructure Concession
Holyrood Student Accommodation plc	20	Infrastructure Concession
Holyrood Student Accommodation SPV Ltd	20	Infrastructure Concession
Westminster House, Crompton Way, Segensworth West, Fareham, Hampshire PO15 5SS		
Pevensey Coastal Defence Ltd	25	Infrastructure Concession
C/O Pario Ltd, 18 Riversway Business Village, Navigation Way, Preston PR2 2YP		
Consort Healthcare (Birmingham) Funding plc	40	Infrastructure Concession
Consort Healthcare (Birmingham) Holdings Ltd	40	Investment Holding Company
Consort Healthcare (Birmingham) Intermediate Ltd	40	Infrastructure Concession
Consort Healthcare (Birmingham) Ltd	40	Infrastructure Concession
9 Amberside House Wood Lane, Paradise Industrial Estate, Hemel Hempstead, Hertfordshire, England HP2 4TP		
Pebblehall Bio Power Ltd	29.2	Investment Holding Company
Welland Bio Power Ltd	29.2	Infrastructure Concession

Notes

(i) Held directly by Balfour Beatty plc.

(ii) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted as a joint venture.

(iii) The Group owned a 37.5% partnership interest in BBDE Orbital Holdings LLP at 31 December 2022. Connect Plus (M25) Holdings Ltd and its subsidiaries are 40% owned by BBDE Orbital Holdings LLP.

(iv) 31 March year end.

(v) Partnership interests held.

Joint ventures incorporated outside the United Kingdom

Entity	% held by the Group	Principal activity
Bermuda		
Conyers Dill & Pearman Limited, Clarendon House, 2 Church Street, Hamilton HM 11		
CP Bay Carry A LP	20	Infrastructure Concession
CP Bay Carry B LP	20	Infrastructure Concession
British Virgin Islands		
Vistra Corporate Services Centre, Wickhams Cay II Road Town, Tortola VG1110		
Gammon Asia Ltd	50	Management Company
Gammon Construction Holdings Ltd	50	Investment Holding Company
Canada		
Taylor McCaffrey LLP, 900-400 St. Mary Avenue, Winnipeg, MB, R3C 4K5		
CWH Facilities Management,LP[iv]	50	Infrastructure Investment
CWH FM GP Inc	50	Infrastructure Investment
CWH Design – Build GP[iv]	50	Construction Services
China		
Hong Kong Avenida da Praia Grande, n°429, 25° andar D, em Macau		
BBE&M (Macau) Ltd	50	Electrical and Mechanical Contracting
Gammon Building Construction (Macau) Ltd	50	Building Construction
No. 457, Shatian Section, Ganggang Avenue, Shatian Town, Dongguan City, Guangdong Province		
Dongguan Pristine Metal Works Ltd	50	Manufacturing Services
25th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong		
Sanfield-Gammon Construction JV Company Ltd	25	Construction Services
22/F, Tower 1, The Quayside, 77 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong		
AsiaBuild Ltd	50	Dormant
Balfour Beatty E&M Ltd	50	Dormant
Digital G Ltd	50	Technology and Innovation

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2022 continued

Joint ventures incorporated outside the United Kingdom continued

Entity	% held by the Group	Principal activity
Entasis Ltd	50	General Contractor
Gammon Building Construction Ltd	50	Building Construction
Gammon Capital Ltd	50	Dormant
Gammon Capital Management Ltd	50	Dormant
Gammon China Ltd	50	Investment Holding Company
Gammon Concrete Services Ltd	50	Dormant
Gammon Construction (China) Ltd	50	Building Construction
Gammon Construction (Vietnam) Holdings Ltd	50	Construction and Project Management
Gammon Construction Consultants (Shenzhen) Ltd	50	Support Services
Gammon Construction Ltd [(iii)]	50	Engineering and Construction
Gammon E&M Ltd	50	Engineering Services
Gammon Engineering & Construction Company Ltd	50	Engineering and Construction
Gammon Engineering Ltd	50	Dormant
Gammon Finance Ltd	50	Finance and Investment
Gammon Interiors Ltd	50	Dormant
Gammon Management Services Ltd	50	Construction Management Services
Gammon Plant Ltd	50	Plant and Equipment Hire and Maintenance
Gold Tactics Investment Ltd	50	Dormant
Into G Ltd	50	Interior Fit-Out and Contracting
Lambeth Associates Ltd	50	Management and Consultancy Services
Pristine Metal Works Ltd	50	Investment Holding Company
Ireland		
3 Dublin Landings, North Wall Quay, Dublin 1, D01 C4E0		
Balfour Beatty CLG Ltd	50	Support Services
C/O Pario SPV Management Limited, Suite 54, Morrison Chambers, 32 Nassau St, Dublin 2, D02 AP29		
Healthcare Centres PPP Holdings Ltd	40	Investment Holding Company
Healthcare Centres PPP Ltd	40	Infrastructure Concession
Malaysia		
c/Level 33, Menara 1MK. Kompleks 1 Mont' Kiara, 1 Jalan Kiara, Mont' Kiara, 50480 Kuala Lumpur		
Balfour Beatty Rail Sdn Bhd [(ii)]	70	Construction Services – In Liquidation
Unit B-9-7, Level 9, Capital 2, Oasis Square, No.2 Jalan PJU 1A/7A, Ara Damansara, 47301 Petaling Jaya, Selangor, Malaysia		
Gammon Sdn Bhd	50	Dormant
Pesaka Gammon Construction Sdn Bhd	15	Dormant
Philippines		
G/F Makati Stock Exchange, Ayala Avenue, Makati City, Metro Manila, Philippines		
Gammon Philippines, Inc.	20	General Construction
MG Construction Ventures Holdings, Inc.	16.65	Property Investment
Singapore		
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 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 (Thailand) Ltd	24.5	Dormant
23rd Floor, Times Square Building, 246 Sukhumvit Road, Klongtoey Sub-District, Klongtoey District, Bangkok 10110, Thailand		
Gammon Construction (Thailand) Ltd	24.5	Dormant
Thai Gammon Ltd	24.5	Dormant
United States		
Corporation Service Company 1201 Hays Street, Tallahassee FL 32301		
C-BB Management, LLC	50	Infrastructure Investment
C-BBC Development, LLC	50	Infrastructure Investment
Corporation Service Company, d/b/a CSC-Lawyers, Incorporating Service Company, 211 E. 7th Street, Suite 620, Austin TX 78701-3218		
Northside Campus Partners, LP [(iv)]	10	Infrastructure Concession
Northside Campus Partners 2,LP [(iv)]	10	Infrastructure Investment
Northside Campus Partners 3, LP [(i)(iv)]	70	Infrastructure Concession
Northside Campus Partners 4, LP [(i)(iv)]	65	Infrastructure Concession
Northside Campus General Partner, LLC	50	Infrastructure Concession
Corporation Service Company, 251 Little Falls Drive, Wilmington DE19808		
BBC – ApexOne Carolina Cove, LLC	50	Infrastructure Investment
BBC – ApexOne Chenal Pointe, LLC	50	Infrastructure Investment

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2022 continued

Joint ventures incorporated outside the United Kingdom continued

Entity	% held by the Group	Principal activity
BBC – ApexOne City Lake, LLC	50	Infrastructure Investment
BBC – ApexOne Landings, LLC	50	Infrastructure Investment
BBC – ApexOne Lexington, LLC	50	Infrastructure Investment
BBC – ApexOne Moretti, LLC	50	Infrastructure Investment
BBC – ApexOne Paces Brook, LLC	50	Infrastructure Investment
BBC – ApexOne Retreat, LLC	50	Infrastructure Investment
BBC – ApexOne Riverchase Landing, LLC	50	Infrastructure Investment
BBC – ApexOne San Mateo, LLC	50	Infrastructure Investment
BBC – ApexOne Southwind, LLC	50	Infrastructure Investment
BBC – ApexOne Waterchase, LLC	50	Infrastructure Investment
BBC – ApexOne Wolfchase, LLC	50	Infrastructure Investment
BBC – ApexOne Zephyr Ridge, LLC	50	Infrastructure Investment
BBC Army Integrated, LLC	10	Infrastructure Investment
Carolina Cove (Wilmington) Owner, LLC	50	Infrastructure Investment
Chenal Pointe (Little Rock) Owner, LLC	50	Infrastructure Investment
City Lake (Houston) Owner, LLC	50	Infrastructure Investment
LAX Integrated Express Solutions Holdco, LLC	27	Infrastructure Concession
LAX Integrated Express Solutions, LLC	27	Infrastructure Concession
Landings (Jacksonville) Owner, LLC	50	Infrastructure Investment
Lexington (Ridgeland) Owner, LLC	50	Infrastructure Investment
Moretti (Homewood) Owner, LLC	50	Infrastructure Investment
Northside Campus Limited Partner, LLC	10	Infrastructure Concession
Paces Brook (Columbia) Owner, LLC	50	Infrastructure Investment
Retreat at Schillinger (Mobile) Owner, LLC	50	Infrastructure Investment
Riverchase Landing (Hoover) Owner, LLC	7.5	Infrastructure Investment
San Mateo (Kissimmee) Owner, LLC	50	Infrastructure Investment
Southwind (Memphis) Owner, LLC	20	Infrastructure Investment
Southwind (Memphis) Holdings, LLC	20	Infrastructure Investment
Swiftsure Housing Partners, LLC	23	Infrastructure Concession
T-BBA Riverchase Holdings, LLC	7.5	Infrastructure Investment
View SA Holding Company LP (i)(iv)	87	Infrastructure Investment
View SA LLC (i)	87	Infrastructure Investment
Waterchase (Largo) Owner, LLC	50	Infrastructure Investment
Wolfchase (Bartlett) Owner, LLC	50	Infrastructure Investment
Zephyr Ridge (Zephyrhills) Owner, LLC	50	Infrastructure Investment
Registered Agent Solutions, Inc. 9 E Loockerman Street, Suite 311 Dover DE 19901		
United Campus Partners, LLC	50	Infrastructure Investment
Vietnam		
5th Floor, Gemadept Tower, 2Bis-4-6 Le Thanh Ton Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam		
Gammon Construction Vietnam Co. Ltd	50	Building Construction and Management Services

Notes

(i) Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of the company, the Directors consider that the Group does not control the company and it has been accounted for as a joint venture.

(ii) The Group holds a 70% interest in Balfour Beatty Rail Sdn Bhd, which holds a 60% interest in Balfour Beatty Ansaldo Systems JV Sdn Bhd. Due to the shareholders' agreement between Balfour Beatty and the other shareholders requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of these companies, the Directors consider that the Group does not control these companies and they have been accounted for as joint ventures.

(iii) Preference shares and/or deferred shares also held.

(iv) Partnership interest held.

43 Details of related undertakings of Balfour Beatty plc as at 31 December 2022 continued

Associated undertakings incorporated in and outside the United Kingdom

Entity	% held by the Group	Principal activity
United Kingdom		
Ashford House, Grenadier Road, Exeter EX1 3LH		
UBB Waste (Essex) Ltd	30	Dormant
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
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)		Infrastructure Concession
AMC West Housing LP (i)(ii)	100	Infrastructure Concession
Balfour Beatty-Walsh Housing, LLC	67	Infrastructure Concession
Carlisle/Picatinny Family Housing LP (ii)	10	Infrastructure Concession
FDWR Parent LLC	10	Infrastructure Concession
Fort Bliss/White Sands Missile Range Housing LP (ii)	10	Infrastructure Concession
Fort Carson Family Housing LLC	10	Infrastructure Concession
Fort Detrick/Walter Reed Army Medical Center Housing LLC	100	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	10	Infrastructure Concession
Northern Group Housing, LLC (i)	100	Infrastructure Concession
Southeast Housing LLC	100	Infrastructure Concession
Stewart Hunter Housing LLC	10	Infrastructure Concession LIQUIDATED
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.

UNAUDITED GROUP FIVE-YEAR SUMMARY

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Income					
Revenue including share of joint ventures and associates	**8,931**	8,263	8,593	8,411	7,814
Share of revenue of joint ventures and associates	**(1,302)**	(1,078)	(1,273)	(1,098)	(1,180)
Group revenue	**7,629**	7,185	7,320	7,313	6,634
Underlying profit from operations	**279**	197	51	221	205
Underlying net finance income/(costs)	**12**	(10)	(15)	(21)	(24)
Underlying profit before taxation	**291**	187	36	200	181
Amortisation of acquired intangible assets	**(6)**	(5)	(6)	(6)	(8)
Other non-underlying items	**2**	(95)	18	(56)	(50)
Profit before taxation	**287**	87	48	138	123
Taxation	**–**	52	(18)	(5)	12
Profit for the year	**287**	139	30	133	135
Profit for the year attributable to equity holders	**288**	140	30	130	135
(Loss)/profit for the year attributable to non-controlling interests	**(1)**	(1)	–	3	–
Profit for the year	**287**	139	30	133	135
Capital employed					
Equity holders' equity	**1,378**	1,369	1,336	1,368	1,231
Liability component of preference shares	**–**	–	–	110	106
Net non-recourse borrowings – infrastructure concessions	**242**	243	317	302	309
Net cash – other	**(815)**	(790)	(581)	(512)	(337)
	805	822	1,072	1,268	1,309

	2022 Pence	2021 Pence	2020 Pence	2019 Pence	2018 Pence
Statistics					
Underlying earnings per ordinary share*	**47.5**	29.7	3.7	26.7	26.3
Basic earnings per ordinary share	**46.9**	21.3	4.4	19.0	19.7
Diluted earnings per ordinary share	**46.3**	21.1	4.4	18.8	19.5
Proposed dividends per ordinary share	**10.5**	9.0	1.5	2.1	4.8
Underlying profit from operations before net finance income/(costs) including share of joint ventures and associates as a percentage of revenue including share of joint ventures and associates	**3.1%**	2.4%	0.6%	2.6%	2.6%

Note

* Underlying earnings per ordinary share have been disclosed to give a clearer understanding of the Group's underlying trading performance.

2023 Financial calendar

12 May	Annual General Meeting
5 July*	Final 2022 dividend payable
16 August*	2023 half year results announcement
4 December*	Interim 2023 dividend payable
14 December*	Trading update

* Dates are subject to change

Registrar

Balfour Beatty's share register is maintained by Equiniti, the Company's Registrar. All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Equiniti, clearly stating your registered address and, if available, your shareholder reference number.

Please write to:

Equiniti, Aspect House, Spencer Road, Lancing Business Park, Lancing, West Sussex BN99 6DA

Telephone: +44 (0) 371 384 2703. 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 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

You can visit www.shareview.co.uk 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 Equiniti customer support centre and request a replacement certificate. Equiniti 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 counter signature fee (the counter signature fee 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). Equiniti can provide a dividend mandate form. A Dividend Reinvestment Plan (DRIP) is offered which allows holders of 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. shareview.co.uk.

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, Equiniti using the contact details above.

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, sustainability and health and safety. 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 Shareview 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 to access the online proxy voting facility; and download and print shareholder forms. Shareview is easy to use. Please visit www.shareview.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 they are from by calling the firm using the contact number listed on the FCA Register. If there are no contact details on the FCA Register or you are told that they are out of date, or if you have any other doubts, call the FCA Consumer Helpline on 0800 111 6768.

» If you are approached about a share scam, please visit the FCA's ScamSmart website at www.fca.org.uk/scamsmart where you can access information about the various types of scam, including share and boiler room fraud, see the FCA's Warning List and reports on firms about whom consumers have expressed concerns. Alternatively, you can call the FCA Consumer Helpline (see above). If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong.

» You should also report any approach to Action Fraud, which is the UK's national fraud reporting centre, at www.actionfraud.police.uk, or by calling 0300 123 2040.

American Depository Receipts (ADRs)

An American Depository Receipt (ADR) is a negotiable instrument issued by a depositary bank that evidences ownership of shares in a corporation organised outside the US. Each ADR represents a specific number of underlying 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 US Dollars and are subject to the trading and settlement procedures of the market in which they trade.

Balfour Beatty's ADR programme details

Symbol: BAFYY

ADR: Ordinary Share Ratio: 1:2

CUSIP: 05845R306

ADR ISIN: US05845R3066

Underlying ISIN: GB0000961622

Depositary Bank: JP Morgan Chase Bank N.A.

Country: United Kingdom

Balfour Beatty's ADR Depositary Bank is JP Morgan Chase N.A. For all ADR-related enquiries, investors can contact JP Morgan via telephone, in writing or email as follows:

Telephone:

Toll free within the United States at: 1-800-990-1135 or locally at 651-306-4383.

JP Morgan representatives are available from 7.00am to 7.00pm Central Time, Monday to Friday.

In writing:

Mail

JP Morgan Shareholder Services
P.O Box 64504
St. Paul, Minnesota 55164-0504

Overnight Mail

JP Morgan Chase Bank N.A.
1110 Centre Pointe Curve, Suite 101
Mendota Heights MN 55120-4100

Contact Online

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 Registrar 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 and sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £43m has been given to more than 3,000 charities. The relevant share transfer form may be obtained from the Registrar. For more information visit www.sharegift.org.

Share dealing services

In addition to share dealing services provided by UK banks and brokers, Equiniti provide a telephone and online share dealing service for UK resident shareholders. To use this service, telephone 023456 037037 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.equiniti.com. Equiniti Limited is authorised and regulated by the Financial Conduct Authority.

London Stock Exchange Codes

The London Stock Exchange Daily Official List (SEDOL) code is: 0096162.

The London Stock Exchange ticker code is: BBY.

Capital gains tax (CGT)

For CGT purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009 and assumes that all rights have been taken up.

Consolidated tax vouchers

Balfour Beatty issues a consolidated tax voucher annually to all shareholders who have their dividends paid direct to their bank accounts. If you would prefer to receive a tax voucher at each dividend payment date rather than annually, please contact the Registrar. A copy of the consolidated tax voucher may be downloaded from the Share Portal at www.shareview.co.uk.

Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the address shown below or by email to info@balfourbeatty.com.

Balfour Beatty plc Registered Office: 5 Churchill Place, Canary Wharf, London E14 5HU.

Registered in England and Wales, registered number 395826

Forward-looking statements

This report, including information included or incorporated by reference in it, may include statements that are or may be forward-looking statements, beliefs or opinions, including statements with respect to Balfour Beatty's business, financial condition and results of operations. All statements other than statements of historical facts included in this document may be forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", estimates", "projects", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by Balfour Beatty in good faith based on the information available to it at the date of this report and reflect the beliefs and expectations of Balfour Beatty. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in UK and US Government policies, spending and procurement methodologies, failure in Balfour Beatty's health, safety or environmental policies and those factors set out under Principal Risks on pages 89 to 96 of this report.

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

Find out more about our investor relations at: www.balfourbeatty.com/investors

Online annual report
For a summary of our Annual Report and Accounts 2022 visit:

ar22.balfourbeatty.com

SCAN TO VIEW THE ONLINE SUMMARY REPORT

Investor website
For more information about investor relations visit:

balfourbeatty.com/investors

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Balfour Beatty plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Symbol Matt Plus, an FSC® certified material. This document was printed by Park Communications using its environmental print technology, which minimises the impact of printing on the environment. Vegetable-based inks have been used and 99% of dry waste is diverted from landfill. The printer is a CarbonNeutral® company. Both the printer and the paper mill are registered to ISO 14001.

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