Notes to the Financial Statements

IAS 8 disclosure requirements complied with by Balfour Beatty:

- known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the financial statements of an entity in the period of initial application [IAS8.30]

1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on page 21 and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 January 2015.

The financial statements have been prepared under the historical cost convention, except as described under Note 2.26. The functional and presentational currency of the Company and the presentational currency of the Group is sterling.

2 Principal accounting policies

2.1 Accounting standards

Adoption of new and revised standards

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

- Amendments to the following standards:
  - IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions
  - Improvements to IFRSs (2010–2012)
  - Improvements to IFRSs (2011–2013).

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

Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 December 2015:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendments to the following standards:
  - IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  - IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
  - IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
  - IAS 1 Disclosure Initiative
  - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
  - IAS 16 and IAS 41: Agricultural: Bearer Plants
  - IAS 27 Equity Method in Separate Financial Statements
  - Improvements to IFRSs (2012–2014).

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

In anticipation of IFRS 15, the Group will carry out a systematic review of all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date.

The requirements of IFRS 9 in issue as at 31 December 2015 are being assessed and might result in the Group's PPP financial assets being reclassified from 'available-for-sale', which is a category that no longer exists under the new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. Assuming the Group adopts the fair value through profit or loss option, movements in the fair value of PPP financial assets will no longer be recognised in other comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves being transferred to retained earnings. The effect within the Group's reserves would be a transfer of £58m from PPP financial asset reserves to retained earnings. The effect within the share of joint ventures' and associates' reserves would be a transfer of £282m from PPP financial asset reserves to retained earnings.

The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

2.2 Basis of consolidation

The Group financial statements include the results of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates, drawn up to 31 December each year.

a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are consolidated from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition.

The interest of non-controlling equity holders is stated at the non-controlling equity holders' proportion of the fair value of the assets and liabilities recognised.