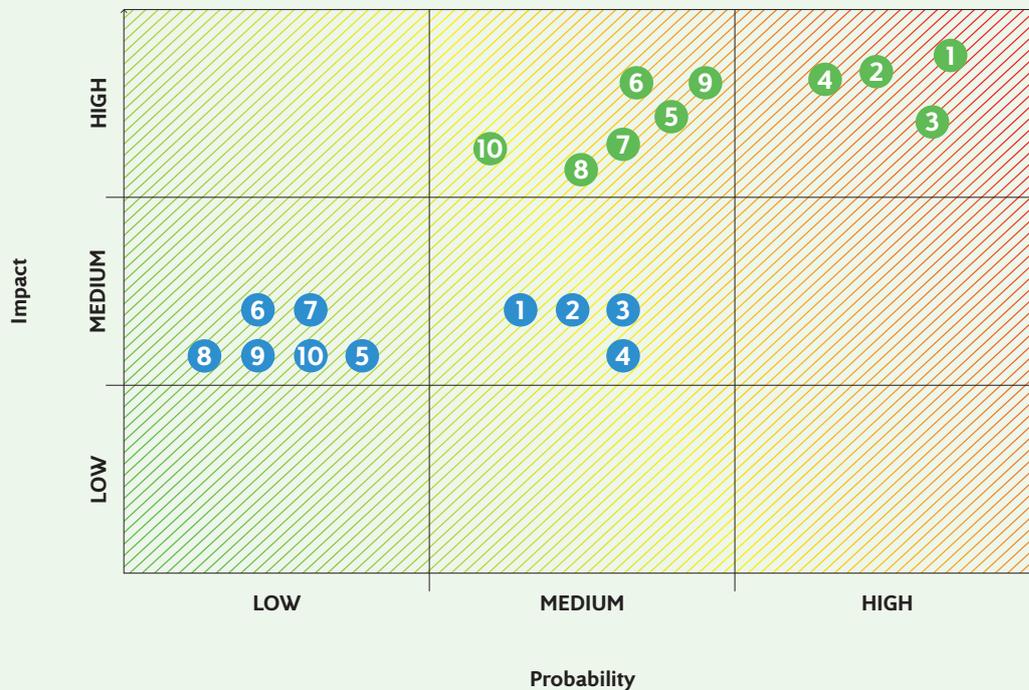


Our principal risks

Group's principal risks are analysed on a gross and net risk basis



- Gross basis
 - Net basis
- | | |
|------------------------|-------------------------------|
| 1. Work-winning | 6. New markets and services |
| 2. Contract management | 7. Ethics and compliance |
| 3. Pension liabilities | 8. Systems and cyber security |
| 4. Brexit | 9. Health and safety |
| 5. People | 10. Human Rights |

The occurrence of the above risks could have a significant impact on the Group's financial position and the simultaneous occurrence of multiple risks could compound the overall financial impact. It should also be noted that the Group is exposed to a much broader universe of potential risks which could impact its future financial performance. As part of its review the Board and Audit Committee consider other risks, which have a potentially significant impact on performance, but are not considered to be among the Group's principal risks due to their remoteness.



For more on our principal risks
See pages 33 to 37

1. Work-winning			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Failure to win and retain contracts on satisfactory terms and conditions in our existing and new target markets and geographies, due to changes in customer requirements, increase in competition or reduction in overall demand due to macro-economic factors e.g. impact of low oil prices or availability of finance.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> Financial strength Excellent people <p>Link to strategy</p> <ul style="list-style-type: none"> Winning high-quality contracts 	<ul style="list-style-type: none"> Total revenue growth Underlying operating margin Underlying earnings per share Cash conversion Work won and secured and probable orders Book to Bill ratio Net debt to EBITDA 	<ul style="list-style-type: none"> Regular analysis of our markets to ensure we understand the opportunities they offer Ongoing adoption of our rigorous and well-defined selectivity criteria that are designed to ensure that we take on contracts only where we understand and can manage the risks involved Listening to our customers to ensure we understand their needs and that we meet or exceed them Continually seeking to differentiate our offering through service quality, value for money and innovation Annual efficiency and cost reduction programmes to help us remain competitive Continued reinforcement of our strong Values-based culture to support our objective of being viewed as a trusted partner by our customers 	<p>▲ Increasing</p> <p>The Group secured £4.8 billion of new secured orders and probable orders during 2016. Future uncertainty relating to Brexit and the impact of low oil prices on some of our Middle East businesses could impact future volumes.</p>	
2. Contract management			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Ineffective operational, commercial and financial management of contracts.</p> <p>Link to business model output</p> <ul style="list-style-type: none"> Financial strength Leadership in Health and Safety First-class expertise Leadership in sustainability <p>Link to strategy</p> <ul style="list-style-type: none"> Winning high-quality contracts Delivering contracts safely, sustainably and to best-in-class standards 	<ul style="list-style-type: none"> Underlying operating margin Underlying earnings per share Cash conversion Net debt to EBITDA Net promoter score Lost Time Incident Frequency Rate 	<ul style="list-style-type: none"> Adoption of rigorous policies and processes for mobilisation, monitoring and management of contract performance Regular performance reviews undertaken at a number of levels within the business Independent peer reviews of contracts conducted by business units and contract health checks undertaken by internal audit Deployment of high-quality people in the delivery of our projects 	<p>▬ Unchanged</p> <p>During 2016, the Group has maintained its comprehensive approach to contract management and there has been no change in the nature of contracts being delivered by the Group.</p>	

Our principal risks continued

3. Pension liabilities			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Management of our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> Financial strength Excellent people <p>Link to strategy</p> <ul style="list-style-type: none"> Developing and attracting excellent people and capabilities 	<ul style="list-style-type: none"> Underlying earnings per share Net debt to EBITDA 	<ul style="list-style-type: none"> The Group's main defined benefit pension schemes have been closed to new members and to future accrual for current members A single Trustee has been created for the Group's main defined benefit schemes to facilitate a consistent approach to investment strategy and risk management The Group's main pension schemes have entered into a longevity swap which hedges the financial risks of future increases in the longevity of 9,000 pensioners in these schemes Regular review of our pensions management and investment policies to ensure that employee and company contributions, together with scheme benefits, remain appropriate Rigorous assessment of pensions implications relating to new contract bids and all business acquisitions and disposals to ensure they are manageable 	<p>Increasing</p> <p>The group's net pension deficit has increased during the year primarily due to a reduction in the AA bond yield following the referendum vote to leave the European Union.</p> <p>We continue to closely monitor the position of our pension schemes on a regular basis.</p>	
4. Brexit			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Impacts arising from a potential lack of access to the pool of European labour and financing provided by the European Investment Bank as a result of the UK leaving the European Union.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> Financial strength Excellent people <p>Link to strategy</p> <ul style="list-style-type: none"> Developing and attracting excellent people and capabilities Winning high-quality contracts 	<ul style="list-style-type: none"> Total revenue growth Underlying operating margin Underlying earnings per share Cash conversion Work won and secured and probable orders Book to Bill ratio Net debt to EBITDA 	<ul style="list-style-type: none"> Brexit steering group formed to monitor and manage impacts arising from the UK's exit from the EU Aim to ensure that our existing non-British European staff and operatives are able to obtain British residency or indefinite leave to remain in the UK Continue to work with the Confederation of British Industry in its efforts to ensure that the needs of UK businesses are appropriately considered as part of the Brexit negotiations Continue to work towards highlighting the importance of the UK Government retaining its 16 per cent shareholding in the European Investment Bank which is an important source of financing for PPP projects Monitor and develop existing contacts with local communities to identify and recruit local employees who could potentially assist in filling any skills gap accentuated by any restrictions to the pool of European labour and continue to focus on our apprenticeship programme 	<p>Increasing</p> <p>Brexit has created more uncertainty for the UK economy as a whole, and although we have not seen any significant direct impact so far, we continue to monitor developments and develop our mitigation plan for the various potential scenarios.</p>	

5. People			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Ability to attract, develop and retain excellent people to support existing business requirements and our future growth plans.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> – Excellent people – First-class expertise <p>Link to strategy</p> <ul style="list-style-type: none"> – Developing and attracting excellent people and capabilities 	<ul style="list-style-type: none"> – Underlying operating margin – Underlying earnings per share – Cash conversion – Work won and secured and probable orders – Net debt to EBITDA – Employee engagement score 	<ul style="list-style-type: none"> – Continue to focus on leadership, people development and employee engagement programmes that encourage and support all of our people to achieve their full potential – Graduate recruitment, structured development and succession programmes to address our requirement for talented people – Geographical and sector mobility promoted amongst the existing work force – Regular review of employee remuneration in the context of market practices – Maintain strong recruitment processes across the UK labour market 	<p>Unchanged</p> <p>Competition for people in our markets has remained broadly unchanged in 2016. However, depending on the future labour market arrangements the UK agrees with the European Union, this risk could increase significantly in future years.</p>	
6. New markets and services			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Effective management of risks associated with operating in overseas markets, potential entry into new territories and new services through our recent bolt-on acquisitions in Canada.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> – Financial strength <p>Link to strategy</p> <ul style="list-style-type: none"> – Winning high-quality contracts 	<ul style="list-style-type: none"> – Total revenue growth – Underlying operating margin – Underlying earnings per share – Cash conversion – Work won and secured and probable orders – Book to Bill ratio – Net debt to EBITDA 	<ul style="list-style-type: none"> – Expansion of our activities into new territories and pursuit of any merger and acquisition activity continues to be closely managed by the Major Projects Committee – Rigorous due diligence procedures in place to address financial, operational, legal and compliance/ethical risks associated with our entry into new services or markets – Expansion into new markets and services usually restricted to adjacencies and existing areas of expertise 	<p>Unchanged</p> <p>Our recent bolt-on acquisitions are continuing to perform in line with our expectations.</p> <p>We continue to explore a number of opportunities to extend the scope of our PPP activities into additional overseas territories.</p>	

Our principal risks continued

7. Ethics and compliance			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Maintenance of high standards of ethics and compliance in respect of managing contracts and meeting regulatory requirements.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> Financial strength Excellent people Leadership in sustainability <p>Link to strategy</p> <ul style="list-style-type: none"> Developing and attracting excellent people and capabilities 	<ul style="list-style-type: none"> Total revenue growth Underlying operating margin Underlying earnings per share Cash conversion Work won and secured and probable orders Net debt to EBITDA Employee engagement score 	<ul style="list-style-type: none"> Clear policies and procedures in respect of ethics, integrity, regulatory requirements and contract management Mandatory training programmes in place to ensure that our people understand these requirements and our policies Policies and practices benchmarked through our work with the Institute of Business Ethics; the Group holds the Investing in Integrity Charter Mark which was obtained in 2014 Anonymous whistleblowing arrangements publicised and promoted amongst employees Group Compliance Office established and overseen by the Business Integrity Committee 	<p>Unchanged</p> <p>During 2016, we continued to reinforce the importance the Group places on its adoption of the highest standards of ethics and compliance through our ongoing training and awareness programmes.</p>	
8. Systems and cyber security			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Information security breach leading to a lack of availability of systems and or loss of confidential data belonging to the Group or its customers.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> Financial strength Excellent people <p>Link to strategy</p> <ul style="list-style-type: none"> Delivering contracts safely, sustainably and to best-in-class standards 	<ul style="list-style-type: none"> Total revenue growth Underlying operating margin Underlying earnings per share Cash conversion Work won and secured and probable orders Net debt to EBITDA Net promoter score Employee engagement score 	<ul style="list-style-type: none"> The Group's policies and procedures are overseen by a dedicated information security manager International standards applied in the management of information security, with ISO 27001 achieved during 2015 Deployment of encryption software on laptops and removable devices, prioritising staff working on sensitive contracts Software and hardware reviewed continuously with upgrades applied where appropriate Arrangements independently reviewed by internal and external audit 	<p>Increasing</p> <p>This risk has continued to increase as the level and sophistication of cyber security threats continues to rise. In response, we continue to review and improve our systems to ensure that our arrangements are in line with industry standards and emerging best practice.</p>	

9. Health and safety			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Ineffective management of health and safety issues leads to serious injury to or death of an employee and or damage to client property.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> Leadership in Health and Safety Financial strength Leadership in sustainability Excellent people <p>Link to strategy</p> <ul style="list-style-type: none"> Delivering contracts safely, sustainably and to best-in-class standards 	<ul style="list-style-type: none"> Total revenue growth Underlying operating margin Underlying earnings per share Cash conversion Work won and secured and probable orders Net debt to EBITDA Net promoter score Employee engagement score Lost Time Incident Frequency Rate 	<ul style="list-style-type: none"> Ongoing focus on Board-led commitment to achieve zero accidents Directors and senior managers lead by example and are trained to NEBOSH standards Visible management commitment with Directors' Safety Tours, Safety Audits and Safety Action Groups Safety management systems conform to OHSAS 18001 Extensive mandatory employee training programmes Employee engagement through 'Don't Walk By' programme, which enables everyone in the business to report for immediate action anything they believe to be unsafe Adoption of rigorous risk assessment and management processes supported by robust business continuity plans 	<p>Unchanged</p> <p>There has been no change in the nature of the Group's activities during 2016 and we remain focused on delivering continuous improvement in our performance to achieve our objective of leading our sector in Health and Safety and Sustainability.</p>	
10. Human rights			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p>Ineffective management practices leading to human rights violations by the Group, its suppliers or partners.</p> <p>Link to business model outputs</p> <ul style="list-style-type: none"> Financial strength Excellent people Leadership in sustainability <p>Link to strategy</p> <ul style="list-style-type: none"> Delivering contracts safely, sustainably and to best-in-class standards 	<ul style="list-style-type: none"> Total revenue growth Underlying operating margin Underlying earnings per share Cash conversion Work won and secured and probable orders Net debt to EBITDA Net promoter score Employee engagement score 	<ul style="list-style-type: none"> Group and local human resources teams are responsible for ensuring our policies and practices are effective, in line with local markets, and compliant with national and international legislation Group compliance office responsible for ongoing risk assessment and development of plans to address any emerging issues Dedicated steering group focused on addressing any issues which may arise from the recent introduction of the Modern Slavery Act 2015 Due diligence undertaken on supply chain and other partners prior to commencement of any business activity with the Group 	<p>Unchanged</p> <p>During 2016 we have continued to provide ongoing training and awareness programmes aimed at ensuring full compliance on the Modern Slavery Act 2015.</p>	