Operational risk management – A key process

Rigorous risk management is critical to the attainment of our strategic objectives and it continues to remain a key part of our business model.

The Board is responsible for determining the Group's risk appetite in pursuit of its strategic objectives and for maintaining a robust system of risk management (including regular reviews of principal risks) to mitigate any potential impacts associated with these risks.

Our risk management process
The Group has a long-established process and methodology for the identification, quantification, monitoring and management of the principal risks associated with its operations. The Group Head of Risk is responsible for advising on strategic risk issues and for the maintenance of a consistent approach to risk management across the Group. Each of our business units has appointed a Business Group Risk Manager who is a member of the Group Risk Forum, which meets on a quarterly basis and is chaired by the

Our risk management framework
The Group's policy is to ensure that all risks are identified, evaluated and an appropriate response determined prior to any commitment being made to any other party. This policy is supported by clear guidance on process and procedures, risks that are unacceptable to the Group and practical guidance for the management of risk at all levels throughout the business. The diagram below sets out an overview of our risk management framework.

Board
Responsible for setting risk appetite and overall management and review of risks.

Board Sub-committees
Responsible for overseeing the development and implementation of policies relevant to their areas of scope, identification of emerging risks and for monitoring the ongoing effectiveness of our procedures.

Business Integrity Committee
Management of ethics and compliance risks associated with our operations.

Sustainability Committee
Management of sustainability issues relating to our operations.

Audit Committee
Oversees effectiveness of internal controls and risk management on behalf of the Board.

Major Projects Committee
Reviews and approves submission of bids for major projects, capital expenditure and mergers and acquisitions.

Corporate oversight and direction

Chief Executive's Leadership Team
Reviews the Group's operating and financial performance, including key risk developments on a monthly basis, with key issues reported to the Board. Emerging risks, including those associated with major contracts, are also covered during regular performance review meetings by the Executive Directors.

Group Risk Management
The Group Head of Risk chairs the Group Risk forum on a quarterly basis and reports key risks to the Board. The Group Head of Risk also undertakes a six-monthly review of the effectiveness of the Group's internal controls and risk management procedures and reports findings to the Audit Committee for its review.

Other Functional Heads
The Group Health & Safety Director, Chief Information Officer, Chief Sustainability Officer and the Group Compliance Manager are responsible for the development and implementation of the detailed policies and procedures relevant to their areas of responsibility and for the monitoring of ongoing compliance with these policies and procedures by our business units.

Operations

Business Unit
Business Unit Managing Directors and their senior management teams are responsible for embedding the Group's policies and procedures into our day-to-day activities and for reporting performance against these on a regular basis.

Independent peer reviews
Independent peer reviews of contracts are conducted by experienced colleagues from other parts of the business with outputs reported to the Audit Committee.

Operational risk management
Operational risks are monitored and managed through local performance reviews and project risk and opportunity registers.

Assurance
Assurance is provided by internal audit, external audit and through our participation in various external benchmarking initiatives organised by external bodies, e.g. Business in the Community and Investing in Integrity.

Group Head of Risk. Business Unit Managing Directors are responsible for the day-to-day management of risks relating to their businesses and for the regular reporting of these to the Group Head of Risk.

In order to ensure that risk management is addressed at the front end of our operations individual projects are required to appoint Project Risk Managers who are responsible for escalating risk issues to Business Unit Risk Managers. The Group Head of Risk identifies the Group's principal risks based on the output from strategic risk lists submitted by the business units; these risks are then reviewed by the key functional heads and by the risk forum as a further check prior to their submission to the Board for approval. The Group's assessment of principal risks is taken into account in the development of internal audit plans and as part of its evaluation of any new strategic initiatives.

The potential impact arising from each risk is assessed by taking into account the potential cost and the likelihood associated with the crystallisation of each risk. Assessment of cost takes into account both the potential financial and reputational costs. Business Units are required to assess the gross impact associated with each risk and then identify potential mitigation measures, which are taken into account before arriving at a net impact assessment. Both the gross and the net impact assessment relating to each risk is reported to the Group Head of Risk. Assessments of impact and likelihood for each risk are categorised into high, medium and low based on standard definitions, which are applied across the Group.

During 2015, the Board reviewed the Group's principal risks and the Audit Committee reviewed the effectiveness of its internal control in February and August and risk management systems in August. In addition, the Group's principal risks were reviewed by the Board in February 2016. These reviews included an assessment of the Group's overall appetite for risk relative to its current assessment of the likelihood and impacts associated with its principal risks. The Board also monitors the level of risk taken on individual major projects using a model known as the Risk Management Matrix. Following their reviews, the Board and the Audit Committee concluded that the level of risk associated with the Group's principal risks is currently consistent with the Group's overall appetite in relation to these risks. The 'heat map' opposite sets out the positioning of our principal risks by impact and likelihood both before any mitigation measures are taken into account and after the impacts of mitigation measures are taken into account.

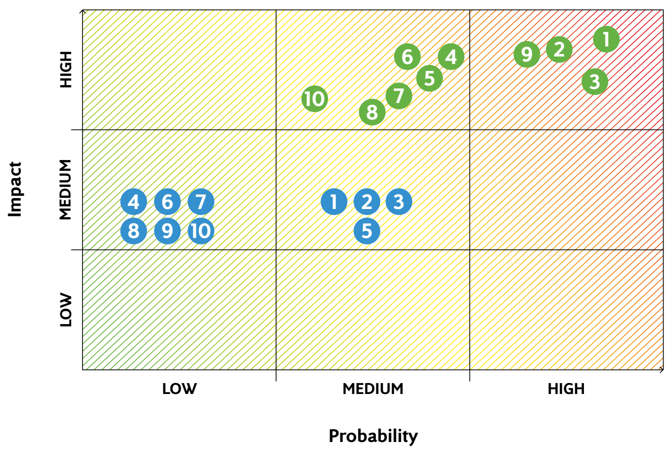
Viability statement
In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a longer period than the 12 months required under provision C1.3 of the Code in relation to the adoption of the going concern basis. The Board conducted this review for a period of three years, which was selected for the following reasons:

- The Group's strategic business plan covers a three-year period.
- The construction programmes associated with a majority of the Group's more significant projects often do not exceed a period of more than three years.
- Given its business model and the nature of its markets, the degree of confidence that can be placed on the Group's future revenues diminishes significantly for periods beyond the next three years.

The three-year business plan includes information in relation to the Group's revenues, profits, cash flows, dividends, net debt, and other key financial and non-financial metrics. The business plan includes a level of cover to provide against trading risks and the resulting metrics are subject to sensitivity analysis to illustrate the impact of future deviations in the Group's liquidity position. In addition, the outputs from this plan are tested against the potential impacts from the Group's key strategic risks both individually and in unison.

Based on the results of this analysis, the Directors believe that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

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



● Gross basis ● Net basis

1. Work-winning
2. Contract management
3. Pension liabilities
4. People
5. New markets and services
6. Ethics and compliance
7. Systems and cyber security
8. Health and safety
9. Low oil prices
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. Further details on the Group's principal risks are set out on pages 28 to 31.